

1 800 CONTACTS INC  
Form DEF 14A  
April 26, 2004

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**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**1-800 CONTACTS, INC.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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**1-800 CONTACTS, INC.**  
**66 E. Wadsworth Park Drive, 3<sup>rd</sup> Floor**  
**Draper, Utah 84020**  
**Telephone: (801) 924-9800**

April 28, 2004

Dear Stockholder:

You are cordially invited to attend our 2004 Annual Meeting of Stockholders, which will be held on Friday, May 21, 2004, at 10:00 a.m. (Mountain time) at our executive offices, 66 E. Wadsworth Park Drive, Draper, Utah 84020. With this letter, we have enclosed a copy of our 2003 Annual Report for the fiscal year ended January 3, 2004, notice of annual meeting of stockholders, proxy statement and proxy card. These materials provide further information concerning the annual meeting. If you would like another copy of the 2003 Annual Report, please contact Robert G. Hunter, Vice President of Finance and Treasurer, and you will be sent one.

At this year's annual meeting, the agenda includes the election of certain directors, an amendment to our Amended and Restated 1998 Incentive Stock Option Plan and a proposal to ratify the appointment of our independent auditors. The Board of Directors recommends that you vote FOR election of the slate of nominees for directors, FOR the amendment to the Amended and Restated 1998 Incentive Stock Option Plan and FOR ratification of appointment of the independent auditors. We will also report on current business conditions and our recent developments. Members of the Board of Directors and our executive officers will be present to discuss the affairs of 1-800 CONTACTS and to answer any questions you may have.

It is important that your shares be represented and voted at the annual meeting, regardless of the size of your holdings. Accordingly, please complete, sign and date the enclosed proxy card and return it promptly in the enclosed envelope to ensure your shares will be represented. If you do attend the annual meeting, you may, of course, withdraw your proxy should you wish to vote in person.

We look forward to seeing you at the annual meeting.

Sincerely,

Jonathan C. Coon  
President and Chief Executive Officer

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1-800 CONTACTS, INC.  
66 E. Wadsworth Park Drive Draper, Utah 84020 Telephone: (801) 924-9800

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
May 21, 2004  
10:00 a.m. Mountain Time

The 2004 Annual Meeting of Stockholders of 1-800 CONTACTS, INC. will be held on Friday, May 21, 2004, at 10:00 a.m. (Mountain time), at our executive offices, 66 E. Wadsworth Park Drive, Draper, Utah 84020. The annual meeting is being held for the following purposes:

1. To elect three Class III Directors to serve until the annual meeting of stockholders in 2007 and until their successors are duly elected and qualified or until their earlier removal or resignation (the Board of Directors recommends a vote FOR the nominees named in the attached proxy statement proposal);
2. To approve an amendment and restatement of our Amended and Restated 1998 Incentive Stock Option Plan (the Board of Directors recommends a vote FOR this proposal);
3. To ratify the appointment of KPMG LLP as the independent auditors of 1-800 CONTACTS, INC. for the fiscal year ending January 1, 2005 (the Board of Directors recommends a vote FOR this proposal); and
4. To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

These items are fully discussed in the following pages, which are made part of this notice. Only stockholders of record at the close of business on April 16, 2004 will be entitled to vote at the annual meeting.

Enclosed with this Notice of Annual Meeting of Stockholders is a proxy statement, related proxy card with a return envelope and our 2003 Annual Report for our fiscal year ended January 3, 2004. The 2003 Annual Report contains financial and other information that is not incorporated into the proxy statement and is not deemed to be a part of the proxy soliciting material.

By Order of the Board of Directors

R. Joe Zeidner  
*Secretary*

April 28, 2004

EVEN IF YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE PROMPTLY COMPLETE, SIGN, DATE AND MAIL THE ENCLOSED PROXY CARD. A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES. STOCKHOLDERS WHO ATTEND THE ANNUAL MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON IF THEY SO DESIRE.

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1-800 CONTACTS, INC.  
66 E. Wadsworth Park Drive  
Draper, Utah 84020  
Telephone: (801) 924-9800

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**QUESTIONS AND ANSWERS ABOUT VOTING**

**Q:**  
**Why did you send me this proxy statement?**

**A:**  
This proxy statement is being sent to you because 1-800 CONTACTS' Board of Directors is soliciting your proxy to vote at the 2004 Annual Meeting of Stockholders. This proxy statement summarizes the information you need to know to vote on an informed basis on the matters to be voted on at the annual meeting. Stockholders of record as of the close of business on April 16, 2004 are entitled to vote. This proxy statement is being sent on or about April 28, 2004 to those persons who are entitled to vote at the annual meeting.

**Q:**  
**How many votes do I have?**

**A:**  
Each share of 1-800 CONTACTS' common stock that you own entitles you to one vote.

**Q:**  
**How do I vote?**

**A:**  
You can vote on matters presented at the annual meeting in two ways:

1. You can vote by filling out, signing and dating your proxy card and returning it in the enclosed envelope, OR
2. You can attend the annual meeting and vote in person.

**Q:**  
**How do I vote by proxy?**

**A:**  
If you properly fill out your proxy card and send it to us in time to vote, your shares will be voted as you have directed. If you do not specify a choice on your proxy card, the shares represented by your proxy card will be voted for the election of all nominees and for the ratification of the appointment of KPMG LLP as 1-800 CONTACTS' independent auditors for the 2004 fiscal year.

Whether or not you plan to attend the annual meeting, we urge you to complete, sign, date and return your proxy card in the enclosed envelope. Returning the proxy card will not affect your right to attend the annual meeting and vote in person.

**Q:**  
**How do I vote in person?**

**A:**  
If you attend the annual meeting, we will give you a ballot when you arrive.

**Q:**  
**If my shares are held in "street name" by my broker, will my broker vote my shares for me?**

**A:**  
Your broker will vote your shares only if you provide instructions on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares.

**Q:**  
**Can I change my vote or revoke my proxy after I have mailed my proxy card?**

**A:**

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You can change your vote at any time before your proxy is voted at the annual meeting. You can do this in one of three ways. First, you can send a written notice to the Corporate Secretary of 1-800 CONTACTS at our headquarters stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. Third, you can attend the annual meeting and vote in person. Simply attending a meeting, however, will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow the directions you received from your broker to change your vote.

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**Q: Will there be any matters voted upon at the annual meeting other than those specified in the Notice of Annual Meeting?**

**A:** 1-800 CONTACTS' management does not know of any matters other than those discussed in this proxy statement that will be presented at the annual meeting. If other matters are properly brought before the meeting and 1-800 CONTACTS does not have notice of these matters a reasonable time prior to the annual meeting, all proxies will be voted in accordance with the recommendations of 1-800 CONTACTS' management.

**Q: How are votes counted?**

**A:** Stockholders of record of 1-800 CONTACTS' common stock as of the close of business on April 16, 2004 are entitled to vote at the annual meeting. As of April 16, 2004, there were 13,130,417 shares of common stock outstanding. The presence in person or by proxy of a majority of the outstanding shares of common stock will constitute a quorum for the transaction of business. Each share of common stock is entitled to one vote on each matter to come before the annual meeting.

Under Delaware law, if you have returned a valid proxy or attend the meeting in person, but abstain from voting, your stock will nevertheless be treated as present and entitled to vote. Your stock therefore will be counted in determining the existence of a quorum and, even though you have abstained from voting, will have the effect of a vote against any matter requiring the affirmative vote of a majority of the shares present and entitled to vote at the annual meeting, such as the ratification of the appointment of KPMG LLP as 1-800 CONTACTS' independent auditors for the 2004 fiscal year.

Under Delaware law, broker "non-votes" are also counted for purposes of determining whether a quorum is present, but are not counted in determining whether a matter requiring a majority of the shares present and entitled to vote has been approved or whether a plurality of the vote of the shares present and entitled to vote has been cast.

**Q: How are proxies being solicited and who pays for the solicitation of proxies?**

**A:** Initially, 1-800 CONTACTS will solicit proxies by mail. 1-800 CONTACTS' directors, officers and employees may also solicit proxies in person or by telephone without additional compensation. 1-800 CONTACTS will pay all expenses of solicitation of proxies.



**PROXY STATEMENT**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the "Board") of 1-800 CONTACTS, INC., a Delaware corporation ("1-800 CONTACTS" or the "Company"), of proxies for use in voting at the Annual Meeting of Stockholders scheduled to be held on May 21, 2004 and at any postponement or adjournment thereof. This Proxy Statement and the related proxy card are being mailed to holders of the common stock of 1-800 CONTACTS, commencing on or about April 28, 2004. References in this Proxy Statement to "we," "our" or "us" refer to 1-800 CONTACTS, unless otherwise noted.

**Voting and Revocability of Proxies**

When proxies are properly dated, executed and returned, the shares they represent will be voted as directed by the stockholder on all matters properly coming before the annual meeting.

Where specific choices are not indicated on a valid proxy, the shares represented by such proxies received will be voted:

1. FOR the nominees for directors named in this Proxy Statement;
2. FOR the approval of the amendment and restatement of our Amended and Restated 1998 Incentive Stock Option Plan; and
3. FOR the ratification of the appointment of KPMG LLP as independent auditors in accordance with the best judgment of the persons named in the enclosed proxy, or their substitutes.

In addition, if other matters come before the annual meeting, the persons named in the accompanying form of proxy will vote in accordance with their best judgment with respect to such matters.

Returning your completed proxy will not prevent you from voting in person at the annual meeting should you be present and desire to do so. In addition, the proxy may be revoked at any time prior to its exercise either by giving written notice to the Secretary of the Company prior to the annual meeting or by submission of a later-dated proxy.

At the annual meeting, inspectors of election shall determine the presence of a quorum and shall tabulate the results of the stockholders' voting. The presence of a quorum is required to transact the business proposed to be transacted at the annual meeting. The presence in person or by proxy of holders of a majority of the outstanding shares of common stock entitled to vote will constitute the necessary quorum for any business to be transacted at the annual meeting. In accordance with the General Corporation Law of the State of Delaware (the "DGCL"), properly executed proxies marked "abstain" as well as proxies held in street name by brokers that are not voted on all proposals to come before the annual meeting ("broker non-votes"), will be considered "present" for the purposes of determining whether a quorum has been achieved at the annual meeting.

The three nominees for director receiving the greatest number of votes cast at the annual meeting in person or by proxy shall be elected. Consequently, any shares of common stock present in person or by proxy at the annual meeting but not voted for any reason have no impact in the election of directors, except to the extent that the failure to vote for an individual may result in another individual receiving a larger number of votes. All other matters to be considered at the annual meeting require the favorable vote of a majority of the shares entitled to vote at the meeting either in person or by proxy. Stockholders have no right to cumulative voting as to any matter, including the election of directors. If any proposal at the annual meeting must receive a specific percentage of favorable votes for approval, abstentions in respect of such proposal are treated as present and entitled to vote under the DGCL and therefore have the effect of a vote against such proposal. Broker non-votes in respect

to any proposal are not counted for purposes of determining whether such proposal has received the requisite approval under the DGCL.

**Record Date and Share Ownership**

Only stockholders of record of the common stock on the books of the Company at the close of business on April 16, 2004 will be entitled to vote at the annual meeting. On that date, we had 13,130,417 shares of common stock outstanding. A list of our stockholders will be open to the examination of any stockholders, for any purpose germane to the meeting, at our headquarters for a period of ten (10) days prior to the meeting. Each share of common stock entitles the holder thereof to one vote on all matters submitted to stockholders.

**PROPOSAL NO. 1 ELECTION OF DIRECTORS**

The Board is currently comprised of eight directors, six of whom are "independent", as defined in Rule 4200(a)(15) of the National Association of Securities Dealers, Inc. (NASD) listing standards. The Board is currently divided into three classes and the term of each class expires in a different year. At the annual meeting, three directors are to be elected as members of Class III to serve until the annual meeting in 2007 and until their successors are elected and qualified or until their earlier removal or resignation. The Board has nominated three nominees set forth below, each of whom has agreed to serve as a director if elected and each of whom has been nominated by the Governance and Nominating Committee. Each nominee currently serves as a director of 1-800 CONTACTS. In the event any nominee is unable or unwilling to serve as a director at the time of the annual meeting (which events are not anticipated), the persons named on the enclosed proxy card may substitute another person as a nominee or may add or reduce the number of nominees to such extent as they shall deem advisable.

Subject to rights of holders of any series of preferred stock to fill newly created directorships or vacancies, any newly created directorships resulting from an increase in the authorized number of directors or any vacancies on the Board resulting from death, resignation, disqualification or removal for cause shall be filled by a vote of majority of the total number of independent directors then in office, in accordance with the Governance and Nominating Committee Charter.

Information regarding our director nominees and our directors not subject to reelection at the annual meeting is set forth below:

Name	Age	Position
Jonathan C. Coon	34	Chief Executive Officer and Director
Thomas H. Boggs, Jr.(3)	63	Director
E. Dean Butler(1)(3)	59	Director
Bradley T. Knight(1)(2)	45	Director
John F. Nichols	43	Vice President, Trade Relations and Director
Jason S. Subotky(1)(2)	33	Director
Garth T. Vincent(3)	42	Director
Stephen A. Yacktman(2)	34	Director

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

(3) Member of the Governance and Nominating Committee.

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There are no family relationships between or among any of our directors or executive officers. Stock ownership information is shown under the heading "Security Ownership of Certain Beneficial Owners and Management" and is based upon information furnished by the respective individuals.

### **Class III Directors Director Nominees**

*Jonathan C. Coon* is a co-founder of 1-800 CONTACTS and currently serves as Chief Executive Officer and a director. Mr. Coon received his Bachelor's Degree from Brigham Young University in 1994. Mr. Coon has ten years of experience in the contact lens distribution industry.

*Bradley T. Knight* has served as a director of 1-800 CONTACTS since August 2000. Mr. Knight retired from Flextronics International Ltd. in April 2002. Mr. Knight served from January 1994 to April 2002 as the General Manager and Vice President of Operations of Flextronics International Ltd., responsible for developing and managing a manufacturing facility in Mexico. Prior to this, Mr. Knight spent approximately two years as a General Manager for Flextronics in various locations, including Texas and Malaysia, and served as a Director of Manufacturing for Metcal, Inc.

*Jason S. Subotky* has served as a director of 1-800 CONTACTS since March 2000. Mr. Subotky is currently a portfolio manager at Yacktman Asset Management Co., an investment advisory company, where he has been employed since 2001. Prior to joining Yacktman Asset Management Co., he was a general partner of Peterschmidt Ventures, a private investment firm, from 1999 to 2001. From 1994 to 1999, Mr. Subotky was a Vice President of Goldman Sachs & Co., an investment banking firm. Mr. Subotky holds a Bachelor's Degree from the University of Southern California and an MBA from Brigham Young University.

### **Class I Directors**

*Thomas H. Boggs, Jr.* has served as a director of 1-800 CONTACTS since December 2002. Mr. Boggs has been a member of the law firm of Patton Boggs since 1966. Mr. Boggs' legal practice extends into healthcare, insurance, tax issues and international trade.

*John F. Nichols* is a co-founder of 1-800 CONTACTS and currently serves as Vice President, Trade Relations and a director. Prior to his current position, Mr. Nichols served as Vice President, Sales until March 2003. Mr. Nichols served as Vice President, Operations until November 1999. Mr. Nichols is a certified optician in the State of California and was the owner of the Discount Lens Club from 1991 until February 1995. Mr. Nichols worked with Bausch & Lomb as a Senior Sales Representative from 1989 to 1991.

*Garth T. Vincent* has served as a director of 1-800 CONTACTS since July 2003. Mr. Vincent is a partner in the law firm of Munger, Tolles & Olson LLP. Mr. Vincent's legal practice consists principally of complex business litigation.

The terms of Messrs. Boggs, Nichols and Vincent expire at the 2005 Annual Meeting.

### **Class II Directors**

*E. Dean Butler* has served as a director of 1-800 CONTACTS since January 1998. Mr. Butler currently serves as Chairman of Sight Resource Corporation, a U.S. company which operates 116 optical retail stores, mostly in the Northeast. In addition, Mr. Butler is an owner of and director of Vision Express Philippines, an operator of optical superstores in the Philippines, Guam and Singapore. In 1988, Mr. Butler founded Vision Express in Europe, which merged with the French retail group, GPS, to form Grand Vision in late 1997. In 1983, Mr. Butler founded LensCrafters and served as its Chief Executive Officer until 1988. Prior to 1983, Mr. Butler was employed by Procter & Gamble in various marketing positions since 1969.

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*Stephen A. Yacktman* has served as a director of 1-800 CONTACTS since February 1996. Mr. Yacktman is currently a Vice President at Yacktman Asset Management Co., an investment advisory company, where he has been employed since 1993. Mr. Yacktman's responsibilities include portfolio management, stock analysis and trading. Mr. Yacktman holds a Bachelor's Degree in economics and an MBA from Brigham Young University.

The terms of Messrs. Butler and Yacktman expire at the 2006 Annual Meeting.

### **Director Compensation**

We pay non-employee directors the greater of an annual retainer of \$20,000 or \$2,000 for each full board meeting attended and \$1,000 for each committee meeting attended. We also compensate our non-employee directors through annual option grants with exercise prices equal to or greater than the fair market value of the common stock on the grant date. In February 2003, we granted to each of Messrs. Butler, Yacktman, Subotky and Knight options to purchase 950 shares of common stock with an exercise price of \$27.50 per share. In June 2003, we granted to Mr. Vincent options to purchase 20,000 shares of common stock with an exercise price of \$27.50 per share. All options to purchase shares of common stock granted during 2003 vest in four equal installments beginning on the first anniversary of their grant date. We also reimburse all directors for reasonable expenses incurred in attending Board and committee meetings.

### **About the Board and its Committees**

*Meetings of the Board and its Committees.* The Board held ten meetings during fiscal 2003. The Board currently has three standing committees: the Audit Committee, the Compensation Committee and the Governance and Nominating Committee. Each director is expected to attend each meeting of the Board and those committees on which he serves. In addition to meetings, the Board and its committees review and act upon matters through written consent procedures. Each of the directors attended 75% or more of the total number of meetings of the Board and those committees on which he served during the last fiscal year.

*The Audit Committee.* The Audit Committee makes recommendations to the Board regarding the selection of the independent auditors and reviews the independence of such auditors, pre-approves the scope of the annual audit and other activities of the independent auditors, pre-approves the audit fee payable to the independent auditors and reviews such audit results. KPMG LLP presently serves as the independent auditor of 1-800 CONTACTS. The Board adopted and approved an amended and restated charter for the Audit Committee on October 27, 2003. The Audit Committee is currently comprised of Messrs. Yacktman (Chairman), Subotky and Knight. The Board has determined that Mr. Yacktman is an "audit committee financial expert" as defined in Item 401(k) of Regulation S-K. All of the members of the Audit Committee are independent directors, as defined in Rule 4200(a)(15) of the NASD listing standards. The Audit Committee met on four occasions in fiscal 2003.

*The Compensation Committee.* The Compensation Committee makes recommendations to the Board relating to the compensation arrangements of all of our executive officers and any awards to be made under our stock incentive plan. The Board adopted and approved an amended and restated charter for the Compensation Committee on October 27, 2003. The Compensation Committee is currently comprised of Messrs. Subotky (Chairman), Knight and Butler. All of the members of the Compensation Committee are independent directors, as defined in Rule 4200(a)(15) of the NASD listing standards. The Compensation Committee met on two occasions in fiscal 2003.

*The Governance and Nominating Committee.* The Board adopted and approved the Governance and Nominating Committee Charter on October 27, 2003, a copy of which is attached to this proxy statement as Appendix A. The Governance and Nominating Committee makes recommendations to the

Board candidates for election to the Board, evaluates the overall effectiveness of the Board and reviews and considers developments in corporate governance and makes recommendations to the Board regarding various corporate governance principles and procedures. The Governance and Nominating Committee also considers nominees proposed by the stockholders. To recommend a prospective nominee to the Governance and Nominating Committee, stockholders should submit the candidate's name and qualifications to the Corporate Secretary of the Company at its principal executive offices. The Governance and Nominating Committee is currently comprised of Messrs. Vincent (Chairman), Boggs and Butler. All of the members of the Governance and Nominating Committee are independent directors, as defined in Rule 4200(a)(15) of the NASD listing standards. The Governance and Nominating Committee met on one occasion in fiscal 2003.

*Company Code of Ethics.* The Board has adopted a Code of Ethics that applies to the Company's directors, officers and employees. The Code of Ethics will be made available, without charge, upon written request made to the Corporate Secretary of the Company at its principal executive offices. We have also filed a copy of the Code of Ethics with the SEC as an exhibit to our 2003 Annual Report.

#### **Recommendation of the Board**

**THE BOARD RECOMMENDS A VOTE *FOR* THE ELECTION OF THE NOMINEES NAMED ABOVE.**

#### **PROPOSAL NO. 2 APPROVAL OF AMENDMENT AND RESTATEMENT OF 1998 INCENTIVE STOCK OPTION PLAN**

The Board has approved an amendment and restatement of the Amended and Restated 1998 Incentive Stock Option Plan (the "Incentive Plan"). The amendment increases the number of shares of common stock that may be issued under the Incentive Plan from 1,240,000 to 1,590,000 and allows for the use of restricted stock grants under the Incentive Plan, in each case subject to stockholder approval (the "Plan Amendments"). The Plan Amendments are being proposed to allow the Company to continue providing competitive stock incentives that attract and retain key personnel, as permitted under the terms of the Incentive Plan. As of March 31, 2004, options to purchase an aggregate of 1,255,272 shares of common stock, at exercise prices ranging from \$5.4688 to \$43.7500 per share, were outstanding under the Incentive Plan.

The following is a summary of the principal features of the Incentive Plan, assuming approval of the Plan Amendments. The summary, however, does not purport to be a complete description of all provisions of the Incentive Plan. A copy of the Incentive Plan, reflecting the Plan Amendments, is attached to this proxy statement as Appendix B.

*General.* In February 1998, we established our Incentive Plan. Assuming approval of the Plan Amendments, a maximum of 1,590,000 shares of common stock, subject to adjustment, are authorized for the granting of stock options and restricted stock awards under the Incentive Plan. Options granted under the Incentive Plan may be either "incentive stock options," which qualify for special tax treatment under the Internal Revenue Code, or nonqualified stock options. The Incentive Plan is intended to comply with Rule 16b-3 of the Exchange Act.

*Eligibility.* All of our full-time, salaried, part-time and hourly employees and members of our Board are eligible to be granted options and restricted stock awards. Individuals who have rendered or are expected to render advisory or consulting services to us within a twelve-month period of the grant date, or to whom an offer of employment has been extended by the Company, are also eligible to receive options.

*Administration.* Our Incentive Plan is administered by the Compensation Committee. The Compensation Committee has full authority to interpret and construe any provision of our Incentive Plan. Decisions of the Compensation Committee are final and binding.

*Grant of Options and Restricted Stock Awards; Vesting.* The Compensation Committee may grant at any time to any eligible person an option entitling such person to purchase our common stock in such quantity or a restricted stock award, in each case, at such price, on such terms and subject to such conditions consistent with the provisions of our Incentive Plan as may be established by the Compensation Committee on or prior to the date of grant of such option or restricted stock award. The exact terms of the option or restricted stock award will be contained in an agreement between us and the person to whom such option or restricted stock award is granted. Eligible employees are not required to pay anything to receive options but are required to pay the aggregate par value of the restricted stock award. We will hold the stock certificates for any restricted stock awarded under the Incentive Plan in escrow during any period of restriction. The exercise price for incentive stock options must be no less than the fair market value of the common stock on the date of grant. The exercise price of nonqualified stock options is not subject to any limitation based on the then current market value of the common stock. Options granted prior to 2002 will expire not later than the tenth anniversary of the date of grant. Most options granted from 2002 through the present will expire not later than the fifth anniversary of the date of grant, while some of the options granted in 2002 will expire not later than the seventh anniversary of the date of the grant. An option holder will be able to exercise options from time to time, subject to vesting. All of the options granted under the Incentive Plan through fiscal 1999 vest in three equal installments beginning on the first anniversary of the grant date and have an exercise price equal to the fair market value of the common stock on the grant date. Generally, options granted subsequent to fiscal 1999 under the Incentive Plan vest in four equal installments beginning on the first anniversary of the grant date and have an exercise price equal to or greater than the fair market value of the common stock on the grant date. Each grant of restricted stock made under the Incentive Plan shall specify the applicable restrictions on such grant (including vesting restrictions), the duration of such restrictions and the time or times at which such restrictions will lapse. Options will vest immediately upon death or disability of a participant and upon certain change of control events. Upon termination for cause or after 30 days of termination for any other reason, the unvested portion of the options shall be forfeited. In the event that a grantee of restricted stock ceases to be a director, officer or employee of, or otherwise performing services for, us or any of our subsidiaries, for any reason, all unvested shares of restricted stock shall be forfeited. Subject to the above conditions, the exercise price, duration of the options and vesting provisions of the options and the restricted stock will be set by the Compensation Committee in its discretion.

*Adjustments.* In order to prevent dilution or enlargement of the rights of grantees, the Board shall appropriately and proportionately adjust the number, price and kind of shares subject to outstanding options and unvested restricted stock or lapse of restrictions and those available for subsequent grant to reflect any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other similar change in our capitalization. The Board may also make any appropriate adjustment to reflect any spin-off, spin-out or other distribution of assets to stockholders or any acquisition of stock or assets or other similar change. The Compensation Committee shall determine the amount of the adjustment to be made in each such case, but no adjustment approved by the Compensation Committee shall be effective until and unless it is approved by the Board. In the event of any reorganization, reclassification, consolidation, merger or sale of all or substantially all of our assets, which is effected in such a way that holders of common stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for such common stock, the Board may substitute the per share amount of such stock, securities or assets for shares upon any subsequent exercise of any option or lapse of restrictions on any shares of restricted stock, as the case may be.

*Limitations.* The aggregate number of shares underlying options or shares of restricted stock granted to any eligible person during any calendar year may not exceed 50,000. No Incentive Stock Option may be granted under our Incentive Plan which is exercisable more than ten years after its grant date. No person may be granted Incentive Stock Options if the value of the shares subject to those options which first become exercisable in any given calendar year (and the value of the shares subject to any other Incentive Stock Options issued to such person under our Incentive Stock Option Plan which first become exercisable in such year) exceeds \$100,000. Any Incentive Stock Options issued in excess of the \$100,000 limit will be treated as options that are not Incentive Stock Options. Incentive Stock Options will be taken into account in the order in which they were granted.

*Termination.* The Board may terminate our Incentive Plan at any time; provided that the Board must obtain the consent of the holder of any option or restricted stock prior to termination if such termination materially and adversely affects the rights of such holder of such options or restricted stock. No option or shares of restricted stock shall be granted under our Incentive Plan after the termination of our Incentive Plan, but the termination of our Incentive Plan shall not have any other effect. Any option outstanding at the time of the termination of our Incentive Plan may be exercised after termination of our Option Plan at any time prior to the expiration date of such option to the same extent such option would have been exercisable had our Incentive Plan not terminated.

#### **New Incentive Plan Benefits**

Benefits to be received by our executive officers, directors and employees as a result of the proposed amendment and restatement of the Incentive Plan are not determinable, since the amount of restricted stock grants is discretionary.

#### **Recommendation of the Board**

**THE BOARD RECOMMENDS A VOTE FOR THE AMENDMENT AND RESTATEMENT OF THE AMENDED AND RESTATED 1998 INCENTIVE STOCK OPTION PLAN.**

#### **PROPOSAL NO. 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

The Board has appointed KPMG LLP as independent auditors to audit the Company's financial statements for the fiscal year ending January 1, 2005. On May 15, 2002, the Board, upon recommendation of the Audit Committee, dismissed Arthur Andersen LLP ("Andersen") as the Company's independent auditors and engaged KPMG LLP to serve as the independent auditor for the year ended December 28, 2002.

During the interim period through May 15, 2002, there were no disagreements between the Company and Andersen on any matter of accounting principles and practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to Andersen's satisfaction, would have caused Andersen to make reference to the subject matter of the disagreement in connection with its report on the Company's consolidated financial statements for such period. During the interim period through May 15, 2002, there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K. Andersen furnished the Company with a letter addressed to the Securities and Exchange Commission confirming that it agreed with the above statements made by the Company. A copy of the letter, dated May 15, 2002, was filed as Exhibit 16.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 16, 2002.

Stockholder ratification of the selection of KPMG LLP as our independent auditors is not required by our by-laws or other applicable legal requirement. However, the Board is submitting the selection of KPMG LLP to the stockholders for ratification as a matter of good corporate practice. It is expected that a representative of KPMG LLP will be present at the annual meeting, with the opportunity to make a statement if he so desires, and will be available to answer appropriate questions.

Approval of the proposal to ratify the appointment of KPMG LLP requires the affirmative vote of a majority of the shares present and entitled to vote at the annual meeting.

**Principal Accountant Fees and Services**

For fiscal years 2002 and 2003, the following fees were billed to the Company for the indicated services:

	<u>2002</u>	<u>2003</u>
Audit Fees	\$ 394,000	\$ 410,000
Audit-Related Fees	57,000	59,000
Tax Fees	47,000	133,000
All Other Fees		
<b>Total Independent Accountants Fees</b>	<b>\$ 498,000</b>	<b>\$ 602,000</b>

Arthur Andersen LLP performed audit services for the Company during the first quarter of 2002 (as discussed more fully above), and the fees related to those services are included in the totals reported for fiscal 2002.

*Audit Fees.* Consist of fees billed for professional services rendered for the audit of our consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by KPMG LLP in connection with statutory and regulatory filings or engagements.

*Audit-Related Fees.* Consist of fees billed for services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." These services include employee benefit plan audits and due diligence in connection with acquisitions, attest services that are not required by statute or regulation, and accounting consultations on proposed transactions.

*Tax Fees.* Consist of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance, customs and duties, mergers and acquisitions, and international tax planning.

*All Other Fees.* Consist of fees for products and services other than the services reported above.

**Policy on Audit Committee Pre-Approval and Permissible Non-Audit Services of Independent Auditors**

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Preapproval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors, in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

**Recommendation of the Board**

**THE BOARD RECOMMENDS A VOTE FOR THE RATIFICATION OF KPMG LLP AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING JANUARY 1, 2005.**



## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Except as otherwise noted, the following table sets forth certain information with respect to the beneficial ownership of the common stock as of March 31, 2004 by (1) each of the executive officers named in the Summary Compensation Table; (2) each of our directors and director nominees; (3) all directors and executive officers as a group; and (4) each person or entity known to us to be the beneficial owner of more than five percent of the outstanding shares of common stock. All information with respect to beneficial ownership has been furnished to us by the respective director, director nominee, executive officer or five percent beneficial owner, as the case may be. Unless otherwise indicated, each person or entity named below has sole voting and investment power with respect to the number of shares set forth opposite his or its name.

Beneficial ownership of the common stock listed in the table has been determined in accordance with the applicable rules and regulations promulgated under the Exchange Act.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
<b>Executive Officers and Directors:</b>		
Jonathan C. Coon(1)(2)	3,120,005	23.8%
Brian W. Bethers(1)(3)	21,250	*
Kevin K. McCallum(4)	95,944	*
John F. Nichols(1)(5)	1,130,983	8.6%
Thomas H. Boggs, Jr.(6)	5,000	*
E. Dean Butler(7)	117,193	*
Bradley T. Knight(8)	27,442	*
Jason S. Subotky(9)	47,732	*
Stephen A. Yacktman(10)	192,150	1.5%
Graham D. Mullis(11)	5,000	*
Garth T. Vincent(12)	5,000	*
R. Joe Zeidner(13)	34,644	*
All Directors and executive officers as a group (12 persons)	4,845,799	36.9%
<b>5% Stockholders:</b>		
David Gilbert(14)	900,000	6.9%
David Katzman(15)	900,000	6.9%
Richard C. Perry(16)	1,240,000	9.4%
Donald A. Yacktman(17)	1,105,000	8.4%
Perry Corp.(18)	1,240,000	9.4%
Wellington Management Company, LLP(19)	1,337,200	10.1%

\*

Represents less than one percent.

(1)

The address of such person is the executive offices of 1-800 CONTACTS.

(2)

As of March 31, 2004, includes: (i) direct beneficial ownership of 2,794,523 shares, (ii) indirect beneficial ownership of 98,300 shares held by Mr. Coon as custodian under the Uniform Gift to Minors Act, or UGMA, for and on behalf of Hannah K. Coon, (iii) indirect beneficial ownership of 98,300 shares held by Mr. Coon as custodian under UGMA for and on behalf of Abigail I. Coon, (iv) indirect beneficial ownership of 105,257 shares held by Mr. Coon as custodian under UGMA for and on behalf of Samuel Coon, and (v) 23,625 shares that can be acquired through currently exercisable options.

(3)

Consists entirely of shares that will be able to be acquired in the future through the exercise of currently unvested stock options.

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- (4) Includes: (i) indirect beneficial ownership of 1,300 shares held by Mr. McCallum's children and (ii) 94,644 shares that can be acquired through currently exercisable options.
- (5) As of March 31, 2004, includes: (i) direct beneficial ownership of 1,105,630 shares, (ii) direct beneficial ownership of 1,728 shares held by Mr. Nichols as custodian under the Uniform UGMA for and on behalf of Micah Matthew Howard, and (iii) 23,625 shares that can be acquired through currently exercisable options.
- (6) Consists entirely of shares that can be acquired through currently exercisable options.
- (7) Consists entirely of shares that can be acquired through currently exercisable options.
- (8) Includes: (i) direct beneficial ownership of 1000 shares; (ii) 19,942 shares that can be acquired through currently exercisable options; and (iii) 5,000 shares that will be able to be acquired in the future through the exercise of currently unvested stock options. Mr. Knight may be deemed to share voting and dispositive power with respect to 1,500 shares held by his wife.
- (9) Includes: (i) direct beneficial ownership of 45,290 shares and (ii) 2,442 shares that can be acquired through currently exercisable options.
- (10) Includes: (i) direct beneficial ownership of 179,534 shares; (ii) indirect beneficial ownership of 2,600 shares held by Mr. Yacktman as custodian under the UGMA for and on behalf of Stephen A. V. Yacktman; (iii) indirect beneficial ownership of 1,800 shares held by Mr. Yacktman as custodian under the UGMA for and on behalf of Jonathan R. Yacktman; (iv) indirect beneficial ownership of 1,000 shares held by Mr. Yacktman as custodian under the UGMA for and on behalf of Thomas W. Yacktman; and (v) 8,708 shares that can be acquired through currently exercisable options. Mr. Yacktman may be deemed to share voting and dispositive power with respect to 500 shares held by his wife. The address of such person is c/o Yacktman Asset Management Co., 303 West Madison Street, Chicago, Illinois 60606.
- (11) Consists entirely of shares that can be acquired through currently exercisable options.
- (12) Consists entirely of shares that will be able to be acquired in the future through the exercise of currently unvested stock options.
- (13) Includes: (i) 29,644 shares that can be acquired through currently exercisable options; and (ii) 5,000 shares that will be able to be acquired in the future through the exercise of currently unvested stock options.
- (14) Pursuant to a Schedule 13D/A filed with the SEC on March 1, 2004, Mr. Gilbert reported that in his capacity as a co-manager of Camelot Ventures/CJ L.L.C. (dba Lens 1<sup>st</sup>) and Lens Express LLC, he may be deemed to beneficially own 725,000 and 175,000 shares respectively held by record by these entities. The address for Mr. Gilbert is 20555 Victor Parkway, Livonia, Michigan 48152.
- (15) Pursuant to a Schedule 13D/A filed with the SEC on March 1, 2004, Mr. Katzman reported that in his capacity as a co-manager of Camelot Ventures/CJ L.L.C. (dba Lens 1<sup>st</sup>) and Lens Express LLC, he may be deemed to beneficially own 725,000 and 175,000 shares respectively held by record by these entities. The address for Mr. Katzman is 100 Galleria Officentre, Suite 419, Southfield, Michigan 48034.
- (16) Pursuant to a Schedule 13G/A filed with the SEC on February 17, 2004, Mr. Perry reported that as the President and sole stockholder of Perry Corp. he may be deemed to beneficially own 1,2400,000 shares held by record by Perry Corp. The address for Mr. Perry is 599 Lexington Avenue, New York, New York 10022.

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- (17) Pursuant to a Schedule 13D/A filed with the SEC on February 12, 2004, Mr. Yacktman reported the sole power to vote or to direct the vote of 330,000 shares, and the sole power to dispose or to direct the disposition of 305,000 shares. In addition, Mr. Yacktman, in his capacity as trustee of the Aronold Trust, reported the sole power to vote or to direct the vote of 10,000 shares, and the sole power to dispose or to direct the disposition of 10,000 shares. By virtue of his relationship with Carolyn Z. Yacktman (his spouse), Mr. Yacktman reported that he may be deemed to share voting and dispositive power with respect to the 780,000 shares held by the Yacktman Family Trust (the "Yacktman Trust") and the 10,000 shares held by her as custodian of her dependent son. Carolyn Z. Yacktman serves as a trustee of the Yacktman Trust. Mr. Yacktman disclaims beneficial ownership of any of the shares of common stock beneficially owned by Mrs. Yacktman. The address for Mr. Yacktman is c/o Yacktman Asset Management Co., 1110 Lake Cook Road, Suite 385 Buffalo Grove, Illinois 60089 and the address for the Trust is c/o Citicorp Trust South Dakota, 701 East 60th Street North, Sioux Falls, South Dakota 57117.
- (18) Pursuant to a Schedule 13G/A filed with the SEC on February 17, 2004, Perry Corp. reported the sole power to vote and to dispose or direct the disposition of 1,240,000 shares. The address for Perry Corp. is 599 Lexington Avenue, New York, New York 10022.
- (19) Pursuant to a Schedule 13G/A filed with the SEC on March 10, 2004, Wellington Management Company, LLP reported that in its capacity as an advisor, it may be deemed to beneficially own 1,337,200 shares held of record by its clients. The address for Wellington Management Company, LLP is 75 State Street, Boston, Massachusetts 02109.

## EXECUTIVE COMPENSATION AND OTHER MATTERS

## General

Our executive officers are elected by and serve at the discretion of the Board. Each of our executive officers has entered into an employment agreement with us. See "Employment Agreements." The following table sets forth information concerning the compensation earned for the last three fiscal years by our chief executive officer and our other executive officers whose total annual salary and bonus were more than \$100,000 in our last fiscal year (collectively, the "Named Executives").

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards		
		Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options	All Other Compensation
Jonathan C. Coon Chief Executive Officer	2003	\$ 196,217	\$ 18,096	\$ 20,272(a)		1,700	\$ 13,238(b)
	2002	189,583	25,639	24,850(a)		3,200	11,907(c)
	2001	174,375	21,250	34,208(a)		4,000	10,990(d)
Brian W. Bethers(e) President and Chief Financial Officer	2003	107,452	84,623(f)	106,233(g)		85,00	3,366(b)
John F. Nichols Vice President, Trade Relations	2003	196,217	18,096		(h)	1,700	8,745(b)
	2002	189,583	18,136		(h)	3,200	7,972(c)
	2001	174,375	21,250		(h)	4,000	7,519(d)
Kevin K. McCallum Senior Vice President, Marketing and Sales	2003	188,603	38,263		(h)	1,778	13,155(b)
	2002	177,364	17,906		(h)	2,400	11,878(c)
	2001	160,719	21,650		(h)	4,000	10,745(d)
Graham D. Mullis (i) President of 1-800 CONTACTS International	2003	313,861	24,248		(h)		30,329(b)
	2002	23,402	140,411		(h)	20,000	
	2001						
R. Joe Zeidner Vice President, Legal Affairs and General Counsel	2003	161,733	183,450		(h)	7,317(j)	1,778
	2002	152,192	54,737		(h)		22,400
	2001	127,717	12,600		(h)		4,000

(a)

For 2003 and 2002, includes a \$6,000 car allowance for Mr. Coon and also includes \$12,000 for the cost of domestic services paid by the Company on behalf of Mr. Coon plus the related taxes owed by Mr. Coon on the perquisite. For 2001, includes \$6,000 for a car allowance for Mr. Coon and also includes \$23,526 for the cost of domestic services paid by the Company on behalf of Mr. Coon plus the related taxes owed by Mr. Coon on the perquisite.

(b)

Reflects payments made by the Company on behalf of the Named Executives in 2003 as follows: \$6,846, \$3,160, \$2,353, \$6,780, \$2,868 and \$6,780 for health insurance for Mr. Coon, Mr. Bethers, Mr. Nichols, Mr. McCallum, Mr. Mullis and Mr. Zeidner, respectively; \$192, \$102, \$192, \$184, \$1,938 and \$158 for term life insurance for Mr. Coon, Mr. Bethers, Mr. Nichols, Mr. McCallum, Mr. Mullis and Mr. Zeidner, respectively; \$199, \$105, \$199, \$191, \$5,122 and \$164 for long term disability insurance for Mr. Coon, Mr. Bethers, Mr. Nichols, Mr. McCallum, Mr. Mullis and Mr. Zeidner, respectively; \$6,000 each for Company contributions to the 401(k) plan of Mr. Coon, Mr. Nichols and Mr. McCallum's 401(k) plan; \$4,500 for Company contributions to Mr. Zeidner's



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401(k) plan; and \$20,401 for Company contributions to Mr. Mullis' approved personal pension plan nominated by Mr. Mullis.

- (c) Reflects payments made by the Company on behalf of the Named Executives in 2002 as follows: \$6,003, \$2,070, \$6,003 and \$6,003 for health insurance for Mr. Coon, Mr. Nichols, Mr. McCallum and Mr. Zeidner respectively; \$202, \$199, \$189 and \$163 for term life insurance for Mr. Coon, Mr. Nichols, Mr. McCallum and Mr. Zeidner respectively; \$261, \$261, \$244 and \$210 for long term disability insurance for Mr. Coon, Mr. Nichols, Mr. McCallum and Mr. Zeidner respectively; \$5,442 each for Company contributions to the 401(k) plan of Mr. Coon and Mr. Nichols and Mr. McCallum's 401(k) plan; and \$4,550 for Company contributions to Mr. Zeidner's 401(k) plan.
- (d) Reflects payments made by the Company on behalf of the Named Executives in 2001 as follows: \$5,293, \$1,825, \$5,293 and \$5,293 for health insurance for Mr. Coon, Mr. Nichols, Mr. McCallum and Mr. Zeidner respectively; \$191, \$188, \$177 and \$141 for term life insurance for Mr. Coon, Mr. Nichols, Mr. McCallum and Mr. Zeidner respectively; \$256, \$256, \$236 and \$188 for long term disability insurance for Mr. Coon, Mr. Nichols, Mr. McCallum and Mr. Zeidner respectively; \$5,250 each for Company contributions to the 401(k) plan of Mr. Coon and Mr. Nichols; \$5,039 for Company contributions to Mr. McCallum's 401(k) plan; and \$2,325 for Company contributions to Mr. Zeidner's 401(k) plan.
- (e) Mr. Bethers joined us in July 2003.
- (f) Includes a \$35,000 relocation bonus.
- (g) Includes a \$100,000 reimbursement of relocation expenses incurred by Mr. Bethers.
- (h) None of the perquisites and other benefits paid exceeded the lesser of \$50,000 or 10% of the total annual salary and bonus received by such Named Executives.
- (i) Mr. Mullis joined us in December 2002.
- (j) Grant subject to shareholder approval of Plan Amendments.

### Option Grants in Last Fiscal Year

The following table sets forth information regarding stock options granted to the Named Executives during our last fiscal year:

	Number of Securities Underlying Options Granted (#)(a)	% of Total Options Granted in Fiscal Year	Exercise or Base Price (\$/Share)	Market Price on Date of Grant(b)	Expiration Date(c)	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(d)	
						5%(\$)	10%(\$)
Jonathan C. Coon	1,700	0.6%	\$ 27.50	\$ 19.10	2/20/2008	\$ 12,916	\$ 28,541
Brian W. Bethers	85,000	28%	27.50	23.99	7/9/2008	645,808	1,427,067
John F. Nichols	1,700	0.6%	27.50	19.10	2/20/2008	12,916	28,541
Kevin K. McCallum	1,778	0.6%	27.50	19.10	2/20/2008	13,509	29,851
Graham D. Mullis							
R. Joe Zeidner	1,778	0.6%	27.50	19.10	2/20/2008	13,509	29,851

- (a) Options vest in four equal annual installments beginning on the first anniversary of the date of grant..
- (b)

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Market price was determined based on the last reported sale price of the common stock as reported by the Nasdaq National Market.

- (c) Unless otherwise noted, options will expire the earlier of 30 days after the date of termination or February 20, 2008.

(d)

Potential realizable values are based on assumed annual rates of return specified by the SEC. Actual gains, if any, on stock option exercises depend on future performance of the Company's common stock and overall market conditions. At an annual rate of appreciation of 5% per year for the option term, the price of the common stock would be approximately \$35.10 per share. At an annual rate of appreciation of 10% per year for the option term, the price of the common stock would be approximately \$44.29 per share.

### Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

The following table sets forth information on options exercised in fiscal 2003 by the Named Executives and the value of such officers' options at the end of fiscal 2003:

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options at Fiscal Year-End \$(a)	
			Unexercisable	Exercisable	Unexercisable	Exercisable
Jonathan C. Coon			8,125	19,375	\$ 36,351	\$ 204,436
Brian W. Bethers			85,000			
John F. Nichols			8,125	19,375	36,351	204,436
Kevin K. McCallum			28,078	70,100	174,132	478,044
Graham D. Mullis			15,000	5,000		
R. Joe Zeidner			25,578	22,600	151,632	50,544

(a)

Based upon a fair market value of the common stock at January 2, 2004 of \$21.00 per share.

### Employment Agreements

Effective February 9, 2002, we entered into employment agreements with each of Messrs. Coon and Nichols (each, an "Employment Agreement") to replace existing agreements that were scheduled to expire. The Employment Agreements each have an initial term of four years, with a one year automatic extension, and provide that Mr. Coon will serve as our President and Chief Executive Officer and Mr. Nichols will serve as our Vice President of Sales. (Mr. Nichols' title has since been changed to Vice President of Trade Relations). Pursuant to their respective Employment Agreements, Messrs. Coon and Nichols receive: (1) an annual base salary equal to at least \$190,909 each, (2) an annual bonus of up to 10% of their annual base salary (upon the Company's achieving certain operating targets) and (3) certain fringe benefits. If their employment is terminated for any reason prior to the termination of such agreements other than for Cause (as defined therein) or their resignation, each will be entitled to receive his base salary and health and disability benefits for 12 months following such termination in addition to 50% of his bonus for the year in which their employment was terminated if the termination is during the first six months of the year or 100% if such termination was during the last six months of the year.

We entered into an employment agreement with Mr. Bethers on July 9, 2003. Mr. Bethers' employment agreement has an initial term of four years, with a one year automatic extension, and provides that he will serve as Chief Financial Officer. Pursuant to his employment agreement, Mr. Bethers is entitled to receive: (1) annual base salary equal to at least \$225,000, (2) an annual bonus of up to \$168,750 and (3) certain fringe benefits. If his employment is terminated for any reason prior to the termination of his agreement other than for Cause (as defined therein) or his resignation, Mr. Bethers will be entitled to receive his base salary and health and disability benefits for 12 months following such termination in addition to 50% of his bonus for the year in which his employment was terminated if the termination is during the first six months of the year or 100% if such termination was during the last six months of the year. In February 2004, Mr. Bethers was promoted to serve as our President as well as the Chief Financial Officer.



We entered into an employment agreement with Mr. McCallum on March 13, 2000. Mr. McCallum's employment agreement has an initial term of four years, with a one year automatic extension, and provides that he will serve as Vice President, Marketing. In March 2003, Mr. McCallum was promoted to Senior Vice President of Marketing and Sales. Pursuant to his employment agreement, Mr. McCallum is entitled to receive: (1) annual base salary equal to at least \$150,000, (2) an annual bonus of up to \$25,000 and (3) certain fringe benefits. If his employment is terminated for any reason prior to the termination of his agreement other than for Cause (as defined therein) or his resignation, Mr. McCallum will be entitled to receive his base salary and health and disability benefits for 12 months following such termination in addition to 50% of his bonus for the year in which his employment was terminated if the termination is during the first six months of the year or 100% if such termination was during the last six months of the year.

We entered into an employment agreement with Mr. Mullis on December 1, 2002. Mr. Mullis' employment agreement provides that he will serve as the President of the Company's International Division. Pursuant to his employment agreement, Mr. Mullis is entitled to receive: (1) annual base salary equal to at least 175,000 GBP, (2) an annual bonus of up to 10% of his annual base salary (upon the Company's achieving certain operating targets) and (3) certain fringe benefits. If Mr. Mullis' employment is terminated for any reason prior to the termination of his agreement other than for Cause (as defined therein), or he resigns based on the Company's uncured material breach of the agreement, Mr. Mullis will be entitled to receive 85% of his base salary and health and disability benefits for 12 months following such termination in addition to 50% of his bonus for the year in which his employment was terminated if the termination is during the first six months of the year or 100% if such termination was during the last six months of the year. The employment agreement also provides that Mr. Mullis will not compete with the Company for a period of one year following his termination of employment with the Company and will not disclose any confidential information at any time without our prior written consent.

We entered into an employment agreement with Mr. Zeidner on September 6, 2000. Mr. Zeidner's employment agreement has an initial term of four years, with a one year automatic extension, and provides that he will serve as General Counsel. In March 2003, Mr. Zeidner was promoted to Vice President of Legal Affairs and Chief Legal Officer. Pursuant to his employment agreement, Mr. Zeidner is entitled to receive: (1) annual base salary equal to at least \$110,000, (2) an annual bonus of up to \$11,000 and (3) certain fringe benefits. If his employment is terminated for any reason prior to the termination of his agreement other than for Cause (as defined therein) or his resignation, Mr. Zeidner will be entitled to receive his base salary and health and disability benefits for 12 months following such termination in addition to 50% of his bonus for the year in which his employment was terminated if the termination is during the first six months of the year or 100% if such termination was during the last six months of the year.

Each of Messrs. Coon, Nichols, McCallum and Zeidner has entered into a Confidentiality and Non-Competition Agreement with the Company effective February 1, 2002, and Mr. Bethers has entered into a Confidentiality and Non-Competition Agreement with the Company effective July 9, 2003. Pursuant to the terms of these agreements, each of the above named executives agreed not to compete with the Company for a period of two years following his termination of employment with the Company and not to disclose any confidential information at any time without our prior written consent.

**Equity Compensation Plans**

The following table sets forth equity compensation plan information at the end of fiscal 2003:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,162,033	\$ 22.62	336,927
Equity compensation plans not approved by security holders	155,311	\$ 5.45	None
<b>Total</b>	<b>1,317,344</b>	<b>\$ 13.64</b>	<b>336,927</b>

Prior to the establishment of our Incentive Stock Option Plan, we issued nonqualified stock options to various key employees, a consultant and a director. As of March 31, 2004, options to purchase an aggregate of 145,311 shares of common stock, at exercise prices ranging from \$1.61 to \$5.50 per share, were outstanding. All of these options vest in three equal installments beginning on the first anniversary of the grant date and expire not later than the tenth anniversary of the grant date.

On July 9, 2003, we granted to Mr. Bethers options to purchase an aggregate of 85,000 shares of common stock. Because the Incentive Plan limits the aggregate number of shares underlying options granted to any eligible person during any calendar year to 50,000, 35,000 of the options granted to Mr. Bethers are deemed to be granted outside of the Incentive Plan. Notwithstanding that these options are deemed to be granted outside of the Incentive Plan, they are still subject to all the terms of the Incentive Plan.

**Report of the Compensation Committee on Executive Compensation**

*This Compensation Committee report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act or under the Exchange Act, except to the extent that we specifically incorporated this information by reference, and shall not otherwise be deemed filed under such Acts.*

The Compensation Committee is currently comprised of Messrs. Subotky, Butler and Knight. The Compensation Committee reviews the recommendations of the Chief Executive Officer on the compensation levels of all other officers, reviews and approves changes to the Company's compensation policies and practices and administers the Incentive Plan.

**Compensation Philosophy and Review**

The Company's general compensation philosophy serves three principal purposes:

1. to attract and retain qualified executives who will add to the Company's long-term success;
2. to link executive compensation to the achievement of the Company's operational and strategic objectives; and
3. to link executive compensation with each executive's performance, level of responsibility and overall contribution to the Company's success.



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In making recommendations to the full Board concerning adjustments to compensation levels, the Compensation Committee intends to consider the Company's financial condition and operational performance during the prior year. The Compensation Committee expects the Company's executive compensation program to consist of three principal components: (1) base salary; (2) annual bonus; and (3) long-term equity incentives. Set forth below is a discussion as to how the compensation for each of the Company's executive officers was determined for 2003:

*Base Salary.* In 2003, the Compensation Committee recommended to the Board, and the Board approved, an increase in the base salaries for Messrs. Coon, Nichols, McCallum and Zeidner. Mr. Bethers joined the Company in July 2003, and Mr. Mullis joined the Company in December 2002. The previous base salaries for such executives (other than Messrs. Bethers and Mullis) were established in 2002 when the Compensation Committee recommended to increase their salaries from the previous base salary set in 2001. See "Executive Compensation and Other Matters Employment Agreements." The total of base salary and bonus for each of these executive officers was increased in order to bring such compensation arrangements in line with market conditions and to reward such executives for their continued strong performance. Overall, Messrs. Coon, Nichols, McCallum and Zeidner received an increase in total cash compensation in 2003 of approximately 3.5%, 3.5%, 6.3% and 6.3%, respectively, as compared to 2002.

*Annual Bonus.* Under their respective employment agreements, Messrs. Coon, Bethers, Nichols, McCallum, Mullis and Zeidner are entitled to receive an annual bonus based on our achievement of certain targeted operating results, which are established at the beginning of each year by the full Board. The amount of bonus that such executive officer is eligible to earn is also established by the Board at the beginning of each year, which is subject to increase based on achievement beyond targeted levels. In general, the targeted operating results are determined based upon net sales and operating income. For the most part, executive officers achieved their individual performance objectives and were awarded bonuses accordingly.

*Long-Term Equity Incentives.* The long-term equity incentive currently utilized by the Committee is stock option grants. The Committee believes that stock option awards are an effective incentive for the Company management to create value for the Company's stockholders since the ultimate value of stock options bear direct relationship to the market price of the common stock. Executive officers are generally granted stock options on an annual basis. The overall level of options granted to the executive officers is based on an assessment of their impact on the Company's operating results. For 2003, the Committee recommended, and the full Board approved, the grant to the executive officers of options to purchase an aggregate of 91,956 shares of common stock, or 30.3% of the options granted in 2003 as part of the Company's annual option grant program. As of March 31, 2004, options to purchase an aggregate of 1,255,272 shares of common stock were outstanding under the Incentive Plan and options to purchase an aggregate of 145,311 shares of common stock were outstanding from options granted prior to the establishment of the Incentive Plan.

The foregoing report has been approved by all members of the Compensation Committee.

Jason S. Subotky  
(Chairman)  
E. Dean Butler  
Bradley T. Knight

### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee is currently comprised of Messrs. Subotky, Butler and Knight. No member of the Compensation Committee: (i) was, during our last fiscal year, an officer or employee of the Company or any of its subsidiaries; (ii) was formerly an officer of the Company or any of its subsidiaries; or (iii) had any relationship requiring disclosure under Item 404 of Regulation S-K.

### **Certain Relationships and Related Transactions**

Each of our directors and executive officers have indemnification agreements with 1-800 CONTACTS.

During fiscal year 2003, the law firm of Patton Boggs provided legal services to the Company. Mr. Boggs, a member of the Company's Board, is a partner of that law firm.

During fiscal year 2003, the law firm of Munger, Tolles & Olson provided legal services to the Company. Mr. Vincent, a member of the Company's Board, is a partner of that law firm.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our officers, directors and persons who beneficially own more than ten percent of our common stock to file reports of securities ownership and changes in such ownership with the Securities and Exchange Commission ("SEC"). Officers, directors and greater than ten percent beneficial owners also are required by rules promulgated by the SEC to furnish us with copies of all Section 16(a) forms they file.

We believe that during our last fiscal year, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with. Each of the Company's officers and directors were late in filing a Form 5 to report their respective option grants for 2003. The Company's officers and directors who became officers or directors during 2003 were late in filing a Form 3 to report their respective beneficial ownership of our common stock.

### **Corporate Governance**

The Company's policies and practices reflect corporate governance initiatives that are compliant with the listing requirements of Nasdaq and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

The Board has adopted clear corporate governance policies;

A majority of the board members are independent of the Company and its management;

All members of the key board committees the Audit Committee, the Compensation Committee, and the Nomination and Governance Committee are independent;

The independent members of the Board meet regularly without the presence of management;

We have a clear code of business conduct and corporate governance that is monitored by our legal department and is annually affirmed by our employees;

The charters of the Board committees clearly establish their respective roles and responsibilities;

The Audit Committee has procedures in place for the anonymous submission of employee complaints on accounting, internal controls, or auditing matters; we have adopted a code of ethics that applies to our principal executive officer and all members of our finance department, including the principal financial officer and principal accounting officer; and

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Our internal audit control function maintains critical oversight over the key areas of our business and financial processes and controls, and reports directly to the Audit Committee.

### **Report of the Audit Committee of the Board of Directors**

*This Audit Committee report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act or under the*

*Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not be deemed filed under the Acts.*

The Audit Committee is composed of three directors appointed by the Board, each of whom is independent under applicable NASD listing rules. The Audit Committee operates under a written charter adopted by the Board in fiscal 2001 and amended and restated in fiscal 2003. The Audit Committee recommends to the Board of Directors the selection of the Company's independent auditors.

Management is responsible for the Company's internal accounting and financial controls, the financial reporting process, and compliance with the Company's legal and ethics programs. The Company's independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuance of a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes and report its findings to the full Board.

In this context, the Audit Committee has met and held discussions separately, and jointly with each of management and the independent auditors. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The Audit Committee discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees".

In connection with new standards for independence of the Company's external auditors promulgated by the SEC, during the Company's 2003 fiscal year the Audit Committee considered in advance of the provision of any non-audit services by the Company's independent auditors whether the provision of such services is compatible with maintaining the independence of the Company's external auditors.

The Company's independent auditors also provided to the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees", and the Audit Committee discussed with the independent auditors their independence.

Based on the Audit Committee's discussion with management and the independent auditors, its review of the representations of management, and the report of the independent auditors, the Audit Committee recommended that the Board include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended January 3, 2004.

Stephen A. Yacktman  
(Chairman)  
Jason S. Subotky  
Bradley T. Knight

**PERFORMANCE GRAPH**

The following graph compares our cumulative total stockholder return since January 2, 1999 with the Russell 2000 Index and a peer group index comprised of other optical retail companies. The graph assumes that the value of the investment in the Company's common stock and each index was \$100.00 on January 2, 1999.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
**AMONG 1-800 CONTACTS, INC., THE RUSSELL 2000 INDEX AND A PEER GROUP**

\*

\$100 invested on 1/2/99 in stock or index including reinvestment of dividends. Fiscal year ending December 31.

	<b>Jan 2, 1999</b>	<b>Jan 1, 2000</b>	<b>Dec 30, 2000</b>	<b>Dec 29, 2001</b>	<b>Dec 28, 2002</b>	<b>Jan 3, 2004</b>
1-800 CONTACTS	\$ 100.00	\$ 150.35	\$ 318.06	\$ 140.00	\$ 301.67	\$ 233.33
Russell 2000 Index	\$ 100.00	\$ 121.26	\$ 117.59	\$ 121.78	\$ 96.08	\$ 142.12
Peer Group Index(1)	\$ 100.00	\$ 54.83	\$ 41.82	\$ 72.28	\$ 50.83	\$ 90.32

(1)

Our peer group is comprised of the following companies: Cole National Corporation and Emerging Vision, Inc. The total return for each member of our peer group has been weighed according to each member's stock market capitalization.





**SUBMISSION OF STOCKHOLDERS' PROPOSALS AND ADDITIONAL INFORMATION**

Proposals of stockholders intended to be eligible for inclusion in the Company's proxy statement and proxy card relating to the 2005 annual meeting of stockholders of 1-800 CONTACTS must be received by the Company on or before the close of business December 21, 2004. Such proposals should be submitted by certified mail, return receipt requested.

The by-laws provide that a stockholder wishing to present a nomination for election of a director or to bring any other matter before an annual meeting of stockholders must give written notice to the Company's Corporate Secretary not less than 60 days nor more than 90 days prior to the first anniversary of the previous year's annual meeting (provided that in the event that the date of the annual meeting is changed by more than 30 days from such anniversary date, notice by the stockholders must be received no later than the close of business on the tenth day of the public announcement of such meeting) and that such notice must meet certain other requirements, including, with respect to director nominees, it must include all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected). As a result, stockholders who intend to present a proposal at the 2005 annual meeting without inclusion of such proposal in the Company's proxy materials are required to provide notice of such proposal no later than March 22, 2005 (assuming the date of next year's annual meeting is not changed by more than 30 days). The Company's proxy related to the 2005 annual meeting will give discretionary voting authority to the proxy holders to vote with respect to any such proposal that is received by the Company after such date or any proposal received prior to that date if we advise stockholders in our 2005 proxy statement about the nature of the matter and how management intends to vote on such matter. Any stockholder interested in making such a nomination or proposal should request a copy of the provisions of the by-laws from the Secretary of the Company.

**We will furnish without charge to each person whose proxy is being solicited, upon written request of any such person, a copy of 1-800 CONTACTS' Annual Report on Form 10-K for the fiscal year ended January 3, 2004, as filed with the Commission, including the financial statements and schedules thereto. Requests for copies of such Annual Report on Form 10-K should be directed to Robert G. Hunter, Vice President of Finance and Treasurer, 1-800 CONTACTS, INC., 66 E. Wadsworth Park Drive, Draper, Utah 84020.**

**OTHER MATTERS**

We will bear the costs of soliciting proxies from our stockholders. In addition to the use of the mail, our directors, officers and employees may solicit proxies by personal interview, telephone or telegram. Such directors, officers and employees will not be additionally compensated for such solicitation, but may be reimbursed for out-of-pocket expenses incurred in connection therewith. Arrangements will also be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of common stock held of record by such persons, and we will reimburse such brokerage houses, custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred in connection therewith.

The directors know of no other matters which are likely to be brought before the annual meeting, but if any such matters properly come before the meeting the persons named in the enclosed proxy, or their substitutes, will vote the proxy in accordance with their best judgment.

By Order of the Board of Directors

R. Joe Zeidner  
*Secretary*

April 28, 2004

**IT IS IMPORTANT THAT THE PROXIES BE RETURNED PROMPTLY. EVEN IF YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE PROMPTLY COMPLETE, SIGN, DATE AND MAIL THE ENCLOSED PROXY CARD IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.**

**APPENDIX A**

**1-800 CONTACTS, INC.  
GOVERNANCE AND NOMINATING COMMITTEE CHARTER**

**Purpose**

The primary purposes of the Governance and Nominating Committee (the "Committee") of the Board of Directors (the "Board") of 1-800 Contacts, Inc. (the "Company") are to provide assistance to the Board, the Chairman and the CEO in the areas of membership selection, committee selection and rotation practices; evaluate the overall effectiveness of the Board; review and consider developments in corporate governance practices; and develop and recommend to the Board a set of effective corporate governance policies, procedures and principles applicable to the Company.

**Committee Membership**

The Committee will be composed of at least three (3) directors, each of who satisfy the definition of "independent" under the applicable rules and regulations of the Securities and Exchange Commission and the applicable listing standards of The Nasdaq Stock Market ("Nasdaq"). The Committee members will be appointed by the Board and may be removed by the Board in its discretion. The Committee shall have the authority to delegate any of its responsibilities to subcommittees as the Committee may deem appropriate, provided the subcommittees are composed entirely of independent directors.

**Meetings**

The Committee will meet a minimum of twice per year and more frequently as its members deem necessary to perform the Committee's responsibilities, assuring the taking of and publishing of minutes.

**Committee Responsibilities and Authority**

The Committee will make regular reports to the Board and will propose any necessary action to the Board. The Committee will review and reassess the adequacy of this charter annually and recommend any proposed changes to the Board for approval. The Committee will annually evaluate the Committee's own performance.

The Committee, to the extent it deems necessary or appropriate, will

identify individuals qualified to become members of the Board;

select, or recommend to the Board, director nominees to be presented for shareholder approval at the annual meeting;

select, or recommend to the Board, director nominees to fill vacancies on the Board as necessary;

make recommendations to the Board regarding the size and composition of the Board and develop and recommend to the Board criteria (such as, independence, experience relevant to the needs of the Company, leadership qualities, diversity and ability to represent the shareholders) for the selection of individuals to be considered as candidates for election to the Board;

develop and recommend to the Board for approval a set of corporate governance principles applicable to the Company and review such guidelines at least annually and recommend changes as necessary;



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oversee the evaluation of the Board and its committees, which may include developing and recommending an annual self-evaluation process;

oversee the evaluation of management and management succession plans; and

approve director nominations to be presented for shareholder approval at the annual meeting and to fill any vacancies.

The Committee will have the authority, to the extent it deems necessary or appropriate, to retain a search firm to be used to identify director candidates. The Committee shall have sole authority to retain and terminate any such search firm, including sole authority to approve the firm's fees and other retention terms. The Committee shall also have authority, to the extent it deems necessary or appropriate, to retain other advisors. The Company will provide for appropriate funding, as determined by the Committee, for payment of compensation to any search firm or other advisors employed by the Committee.

Adopted by the Board of Directors on October 27, 2003.

**APPENDIX B**

**1-800 CONTACTS, INC.  
2004 STOCK INCENTIVE PLAN**

**ARTICLE 1**

**IDENTIFICATION OF THE PLAN**

- 1.1. **TITLE.** The plan described herein shall be known as the 1-800 CONTACTS, INC. 2004 Stock Incentive Plan (the "Plan").
- 1.2. **PURPOSE.** The purpose of this Plan is to promote long-term growth and profitability of 1-800 CONTACTS, INC. (the "Company") and its Subsidiaries by (i) compensating certain directors, officers, employees of and certain other persons who perform services for the Company and its Subsidiaries for services rendered by such persons after the date of adoption of this Plan to the Company or any Subsidiary; (ii) providing certain directors, officers and employees of the Company and its Subsidiaries with significant additional incentive to promote the financial success of the Company; and (iii) providing an incentive which may be used to induce able persons to serve or remain on the Board of Directors of the Company or to enter into or remain in the employment of the Company or any Subsidiary. Grants of Incentive or Non-qualified Stock Options, Restricted Stock or a combination of the foregoing may be made under the Plan.
- 1.3. **EFFECTIVE DATE.** The Plan became effective upon its approval by the Board of Directors and the stockholders of the Company (the "Effective Date").
- 1.4. **DEFINED TERMS.** Certain capitalized terms used herein have the meanings as set forth in Section 12.1 of the Plan.

**ARTICLE 2**

**ADMINISTRATION OF THE PLAN**

- 2.1. **INITIAL ADMINISTRATION.** This Plan shall initially be administered by the Board of Directors. The Board of Directors shall delegate the administration of the Plan to a Compensation Committee (the "Committee") in the event that such a committee is established by the Board of Directors and is comprised of persons appointed by the Board of Directors of the Company in accordance with the provisions of Section 2.3. The Board shall exercise full power and authority regarding the administration of the Plan until such administration is delegated to the Committee. Unless the context otherwise requires, references herein to the Committee shall be deemed to refer to the Board of Directors until the administration of the Plan has been delegated to the Committee.
- 2.2. **COMMITTEE'S POWERS.** The Committee shall have full power and authority to prescribe, amend and rescind rules and procedures governing administration of this Plan. The Committee shall have full power and authority (i) to interpret the terms of this Plan, the terms of the Grants and the rules and procedures established by the Committee and (ii) to determine the meaning of or requirements imposed by or rights of any person under this Plan, any Grant or any rule or procedure established by the Committee. Each action of the Committee which is within the scope of the authority delegated to the Committee by this Plan or by the Board shall be binding on all persons.
- 2.3. **COMMITTEE MEMBERSHIP.** The Committee shall be composed of two or more members of the Board, each of whom is an "outside director," as defined in Section 162(m) of the Code, and a "Non-Employee Director," as defined in Securities and Exchange Commission Rule 16b-3, as





amended ("Rule 16b-3"), or any successor rules or government pronouncements. The Board shall have the power to determine the number of members which the Committee shall have and to change the number of membership positions on the Committee from time to time. The Board shall appoint all members of the Committee. The Board may from time to time appoint members to the Committee in substitution for, or in addition to, members previously appointed and may fill vacancies, however caused, on the Committee. Any member of the Committee may be removed from the Committee by the Board at any time with or without cause.

2.4.

**COMMITTEE PROCEDURES.** The Committee shall hold its meetings at such times and places as it may determine. The Committee may make such rules and regulations for the conduct of its business as it shall deem advisable. Unless the Board or the Committee expressly decides to the contrary, a majority of the members of the Committee shall constitute a quorum and any action taken by a majority of the Committee members in attendance at a meeting at which a quorum of Committee members are present shall be deemed an act of the Committee.

2.5.

**INDEMNIFICATION.** No member of the Committee shall be liable, in the absence of bad faith, for any act or omission with respect to his or her service on the Committee under this Plan. Service on the Committee shall constitute service as a director of the Company so that the members of the Committee shall be entitled to indemnification and reimbursement as directors of the Company for any action or any failure to act in connection with service on the Committee to the full extent provided for at any time in the Company's Certificate of Incorporation and By Laws, or in any insurance policy or other agreement intended for the benefit of the Company's directors.

### **ARTICLE 3**

#### **PERSONS ELIGIBLE TO RECEIVE GRANTS**

A person shall be eligible to receive a Grant under the Plan only if on the proposed Granting Date for such Grant such person is a full-time, salaried employee of, is currently serving as a member of the Board of Directors of, has rendered or is expected to render within a twelve-month period of the Granting Date advisory or consulting services to, or to whom an offer of employment has been extended by the Company or any Subsidiary. A person eligible to receive a Grant is herein called a "Grantee."

### **ARTICLE 4**

#### **GRANT OF COMMON STOCK**

4.1.

**POWER TO GRANT COMMON STOCK.** The Committee shall have the right and the power to grant at any time to any Grantee Options, Restricted Stock or a combination thereof (each a "Grant"), in such quantity, at such price, on such terms and subject to such conditions consistent with the provisions of this Plan as may be established by the Committee on or prior to the Granting Date for such Grant. In addition, the Board may approve a total amount of Shares for grant and then specifically authorize the Committee or senior management of the Company to make grants of the approved Shares to Grantees.

4.2.

**GRANTING DATE.** A Grant shall be deemed to have been made under this Plan on the date (the "Granting Date") which the Committee designates as the Granting Date at the time it approves such Grant, provided that the Committee may not designate a Granting Date with respect to any Grant which is earlier than the date on which the granting of such Grant is approved by the Committee.

## ARTICLE 5

### INCENTIVE AND NON-QUALIFIED OPTIONS

5.1.

**OPTION TERMS WHICH THE COMMITTEE MAY DETERMINE.** The Committee shall have the power to determine the Grantee to whom Options are granted, the number of Shares subject to each Option, the number of Options granted to each Grantee and the time at which each Option is granted. Except as otherwise expressly provided in this Plan, the Committee shall also have the power to determine, at the time of the grant of each Option, all terms and conditions governing the rights and obligations of the Grantee with respect to such Option. With respect to any Option, the Committee shall have the power to determine: (a) the purchase price per Share or the method by which the purchase price per Share will be determined; (b) the length of the period during which the Option may be exercised and any limitations on the number of Shares purchasable with the Option at any given time during such period; (c) the times at which the Option may be exercised; (d) any conditions precedent to be satisfied before the Option may be exercised, such as vesting period; (e) any restrictions on resale of any Shares purchased upon exercise of the Option; (f) the extent to which the Option may be transferable; and (g) whether the Option will constitute an Incentive Stock Option.

5.2

**INCENTIVE STOCK OPTIONS.** It is the Company's intent that Non-qualified Stock Options granted under the Plan not be classified as Incentive Stock Options, that Incentive Stock Options be consistent with and contain or be deemed to contain all provisions required under Section 422 of the Code and any successor thereto, and that any ambiguities in construction be interpreted in order to effectuate such intent. If an Incentive Stock Option granted under the Plan does not qualify as such for any reason, then to the extent of such non-qualification, the stock option represented thereby shall be regarded as a Non-qualified Stock Option duly granted under the Plan, provided that such stock option otherwise meets the Plan's requirements for Non-qualified Stock Options.

5.3.

**TERM LIMITATION.** No Incentive Stock Option may be granted under this Plan which is exercisable more than ten years after its Granting Date. This Section 5.3 shall not be deemed to limit the term which the Committee may specify for any Non-qualified Options granted under the Plan.

5.4.

**\$100,000 PER YEAR LIMIT ON INCENTIVE STOCK OPTIONS.** No Grantee may be granted Incentive Stock Options if the value of the Shares subject to those options which first become exercisable in any given calendar year (and the value of the Shares subject to any other Incentive Stock Options issued to the Grantee under the Plan or any other plan of the Company or its Subsidiaries which first become exercisable in such year) exceeds \$100,000. For this purpose, the value of Shares shall be determined on the Granting Date. Any Incentive Stock Options issued in excess of the \$100,000 limit shall be treated as Non-qualified Options. Incentive Stock Options shall be taken into account in the order in which they were granted.

## ARTICLE 6

### RESTRICTED STOCK

6.1

**RESTRICTED STOCK TERMS WHICH THE COMMITTEE MAY DETERMINE.** The Committee may at any time and from time to time grant Shares of Restricted Stock under the Plan to such Grantees and in such amounts as it determines. Each grant of Restricted Stock shall specify the applicable restrictions on such Shares, the duration of such restrictions and the time or times at which such restrictions shall lapse with respect to all or a specified number of Shares that are part of the grant.

- 6.2 **REQUIRED PAYMENT UPON GRANT.** The Grantee will be required to pay the Company the aggregate par value of any Shares of Restricted Stock (or such larger amount as the Board may determine to constitute capital under Section 154 of the Delaware General Corporation Law, as amended, and any successor thereto) within ten days of the date of grant, unless such Shares of Restricted Stock are treasury shares.
- 6.3 **ESCROW OF RESTRICTED STOCK AND STOCKHOLDER RIGHTS.** Unless otherwise determined by the Committee, certificates representing Shares of Restricted Stock granted under the Plan will be held in escrow by the Company on the Grantee's behalf during any period of restriction thereon and will bear an appropriate legend specifying the applicable restrictions thereon, and the Grantee will be required to execute a blank stock power therefore. Except as otherwise provided by the Committee, during such period of restriction the Grantee shall have all of the rights of a holder of Common Stock, including but not limited to the rights to receive dividends and to vote, and any stock or other securities received as a distribution with respect to such Grantee's Restricted Stock shall be subject to the same restrictions as then in effect for the Restricted Stock.
- 6.4 **FORFEITURE.** Except as otherwise provided by the Committee, at such time as a Grantee ceases to be a director, officer or employee of, or otherwise performing services for, the Company or its Subsidiaries for any other reason, all Shares of Restricted Stock granted to such participant on which the restrictions have not lapsed shall be immediately forfeited to the Company.

## **ARTICLE 7**

### **GRANT TERMS**

- 7.1. **AGREEMENT.** No Grantee shall have any rights under any Grant unless and until the Company and the Grantee have executed and delivered an agreement expressly making the Grant to such Grantee and containing provisions setting forth the terms of the Grant (either an "Option Agreement" or a "Restricted Stock Agreement", as the case may be). Unless otherwise provided by the Committee, the form of Stock Option Agreement, attached to this Plan as Exhibit A, or the form of Restricted Stock Agreement, attached to this Plan as Exhibit B, shall be used by the Committee in making Grants under the Plan.
- 7.2. **LIMITATION ON SHARES ISSUABLE TO ANY GRANTEE.** The aggregate number of Shares that may relate to Grants made to a Grantee during any calendar year (including those Options already exercised by the Grantee) shall not exceed 50,000 shares, as adjusted pursuant to Article 10 of this Plan.
- 7.3. **PLAN PROVISIONS CONTROL TERMS.** The terms of this Plan shall govern all Grants. In the event any provision of any Option Agreement or Restricted Stock Agreement conflicts with any term in this Plan as constituted on the Granting Date of such Grant, the term in this Plan as constituted on the Granting Date of the Grant shall control. Except as provided in Article 10, the terms of any Grant may not be changed after the Granting Date of such Grant without the express approval of the Company and the Grantee.
- 7.4. **TRANSFER OF GRANTS.** A Grant made pursuant to this Plan may be transferable as provided in the Option Agreement or Restricted Stock Agreement, as applicable. It shall be a condition precedent to any transfer of any Grant that the transferee executes and delivers an agreement acknowledging that such Grant has been acquired for investment and not for distribution and is and shall remain subject to this Plan and the applicable Option Agreement or Restricted Stock Agreement. The "Grantee" of any Grant shall mean (i) the initial grantee of such Grant or (ii) any permitted transferee.

7.5.

**NO RIGHT TO EMPLOYMENT CONFERRED.** Nothing in this Plan or (in the absence of an express provision to the contrary) in any Option Agreement or Restricted Stock Agreement (i) confers any right or obligation on any person to continue in the employ of the Company or any Subsidiary or (ii) affects or shall affect in any way any person's right or the right of the Company or any Subsidiary to terminate such person's employment with the Company or any Subsidiary at any time, for any reason, with or without cause.

## **ARTICLE 8**

### **REGULATORY COMPLIANCE**

8.1.

**TAXES.** The Company or any Subsidiary shall be entitled, if the Committee deems it necessary or desirable, to withhold from a Grantee's salary or other compensation (or to secure payment from the Grantee in lieu of withholding) all or any portion of any withholding or other tax due from the Company or any Subsidiary with respect to any Shares deliverable under such Grantee's Grant.

The Committee may (but need not) permit payment of such tax withholding by the Company's retention of Shares which would otherwise be transferred to the Grantee (i) upon exercise of an Option or (ii) upon grant or lapse of restrictions of Shares of Restricted Stock, as the case may be. In the event any Common Stock is retained by the Company to satisfy all or any part of the withholding, the part of the withholding deemed to have been satisfied by such Common Stock shall be equal to the product derived by multiplying the Per Share Market Value as of the date of (i) exercise of an Option or (ii) grant or lapse of restrictions of Restricted Stock, as the case may be, by the number of Shares retained by the Company. The number of Shares retained by the Company in satisfaction of withholding shall not be a number which, when multiplied by the Per Share Market Value as of the date of (i) exercise of an Option or (ii) grant or lapse of restrictions of Restricted Stock, as the case may be, would result in a product greater than the withholding amount. No fractional Shares shall be retained by the Company in satisfaction of withholding. Notwithstanding Article 9, unless the Board shall otherwise determine, for each Share retained by the Company in satisfaction of all or any part of the withholding amount, the aggregate number of Shares subject to this Plan shall be increased by one Share. The Company may defer delivery under a Grantee's Grant until indemnified to its satisfaction with respect to such withholding or other taxes.

8.2.

**SECURITIES LAW COMPLIANCE.** Each Grant shall be subject to the condition that an Option may not be exercised and the restrictions on Shares Restricted Stock may not lapse if and to the extent the Committee determines that the sale of securities upon exercise of the Option or lapse of the restrictions may violate the Securities Act or any other law or requirement of any governmental authority. The Company shall not be deemed by any reason of the making of any Grant to have any obligation to register the Shares subject to such Grant under the Securities Act or to maintain in effect any registration of such Shares which may be made at any time under the Securities Act. An Option shall not be exercisable and the restrictions shall not lapse if the Committee or the Board determines there is non-public information material to the decision of the Grantee to exercise such Option or trade such Restricted Stock which the Company cannot for any reason communicate to such Grantee.

## **ARTICLE 9**

### **SHARES SUBJECT TO THE PLAN**

Except as provided in Section 8.1 and Article 10, an aggregate of 1,590,000 Shares of Common Stock may be issued pursuant to or be subject to this Plan. The Common Stock issued under the Plan may be either authorized and unissued shares, shares reacquired and held in the treasury of the

Company, or both, all as from time to time determined by the Board. If any Grant under the Plan expires or terminates unexercised, becomes unexercisable or is forfeited as to any Shares, or is tendered or withheld as to any shares in payment of the exercise price of the Grant or the taxes payable with respect to the Grant, then such unpurchased, forfeited, tendered or withheld Shares shall thereafter be available for further Grants under the Plan. No fractional Shares will be eligible to be issued under the Plan.

In the event of a change in the Shares as presently constituted, which is limited to a change of all of its authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Shares within the meaning of the Plan.

## **ARTICLE 10**

### **ADJUSTMENTS TO REFLECT ORGANIC CHANGES**

The Board shall appropriately and proportionately adjust the number and kind of Shares subject to outstanding Grants, the price for which Shares may be purchased upon the exercise of outstanding Options or lapse of restrictions on outstanding Restricted Stock, as the case may be, and the number and kind of Shares available for Grants subsequently made under this Plan to reflect any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other change in the capitalization of the Company which the Board determines to be similar, in its substantive effect upon this Plan or the Grants, to any of the changes expressly indicated in this sentence. The Board may (but shall not be required to) make any appropriate adjustment to the number and kind of Shares subject to outstanding Grants, the price for which Shares may be purchased upon the exercise of outstanding Options or lapse of restrictions on outstanding Restricted Stock, as the case may be, and the number and kind of Shares available for Grants subsequently made under this Plan to reflect any spin-off, spin-out or other distribution of assets to stockholders or any acquisition of the Company's stock or assets or other change which the Board determines to be similar, in its substantive effect upon this Plan or the Grants, to any of the changes expressly indicated in this sentence. The Committee shall have the power to determine the amount of the adjustment to be made in each case described in the preceding two sentences, but no adjustment approved by the Committee shall be effective until and unless it is approved by the Board. In the event of any reorganization, reclassification, consolidation, merger or sale of all or substantially all of the Company's assets which is effected in such a way that holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock, the Board may (but shall not be required to) substitute the per share amount of such stock, securities or assets for Shares upon any subsequent exercise of any Option or lapse of restrictions on any Shares of Restricted Stock, as the case may be.

## **ARTICLE 11**

### **AMENDMENT AND TERMINATION OF THE PLAN**

- 11.1. AMENDMENT. Except as provided in the following two sentences, the Board shall have complete power and authority to amend this Plan at any time, and no approval by the Company's stockholders or by any other person, committee or other entity of any kind shall be required to make any amendment approved by the Board effective. So long as the Common Stock is eligible for trading on the Nasdaq National Market, the Board shall obtain stockholder approval for those amendments of the Plan required to be so approved pursuant to the By-laws of the National Association of Securities Dealers. The Board shall not, without the affirmative approval of the Company's stockholders, amend the Plan in any manner which would cause any outstanding Incentive Stock Options to no longer qualify as Incentive Stock Options. No termination or amendment of this Plan may, without the consent of the Grantee prior to

termination or the adoption of such amendment, materially and adversely affect the rights of such Grantee under such Grant.

- 11.2. TERMINATION. The Board shall have the right and the power to terminate this Plan at any time, provided that no Incentive Stock Options may be granted after the tenth anniversary of the adoption of this Plan. No Grant shall be made under this Plan after the termination of this Plan, but the termination of this Plan shall not have any other effect. Any Option outstanding at the time of the termination of this Plan may be exercised, and the restrictions on any Restricted Stock may lapse, after termination of this Plan at any time prior to the Expiration Date of such Grant to the same extent such Option would have been exercisable and such restriction would have lapsed had this Plan not terminated.

## ARTICLE 12

### DEFINITIONS AND OTHER PROVISIONS OF THE PLAN

- 12.1. DEFINITIONS. Each term defined in this Section 12.1 has the meaning indicated in this Section 12.1 whenever such term is used in this Plan:

"Board of Directors" and "Board" both mean the Board of Directors of the Company as constituted at the time the term is applied.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" has the meaning such term is given in Section 2.1 of this Plan.

"Common Stock" means the issued or issuable Common Stock, par value \$.01 per share, of the Company.

"Company" as applied as of any given time shall mean 1-800 CONTACTS, INC., a Delaware corporation, except that if prior to the given time any corporation or other entity has acquired all or a substantial part of the assets of the Company (as herein defined) and has agreed to assume the obligations of the Company under this Plan, or is the survivor in a merger or consolidation to which the Company was a party, such corporation or other entity shall be deemed to be the Company at the given time.

"Expiration Date" as applied to any Grant means the date specified in the Option Agreement or the Restricted Stock Agreement, as the case may be, between the Company and the Grantee as the expiration date of such Grant. If no expiration date is specified in the Option Agreement relating to any Option or the Restricted Stock Agreement relating to any grant of Restricted Stock, as the case may be, then the Expiration Date of such Grant shall be the day prior to the tenth anniversary of the Granting Date of such Grant. Notwithstanding the preceding sentences, if the person to whom any Incentive Stock Option is granted owns, on the Granting Date of such Incentive Stock Option, stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company (or of any parent or Subsidiary of the Company in existence on the Granting Date of such Incentive Stock Option), and if no expiration date is specified in the Option Agreement relating to such Incentive Stock Option, then the Expiration Date of such Incentive Stock Option shall be the day prior to the fifth anniversary of the Granting Date of such Incentive Stock Option.

"Grant" has the meaning such term is given in Sections 4.1 of this Plan.

"Grantee" has the meaning such term is given in Article 3 and Section 7.4 of this Plan.

"Granting Date" has the meaning such term is given in Section 4.2 of this Plan.

"Incentive Stock Option" means an incentive stock option, as defined in Code Section 422, which is granted pursuant to this Plan.

"Non-qualified Stock Option" means any Option other than an Incentive Stock Option.

"Option" means an option to purchase Common Stock which shall be granted by the Committee pursuant to the provisions of this Plan. The term "Option" includes both Incentive Stock Options and Non-qualified Stock Options.

"Option Agreement" has the meaning such term is given in Section 7.1 of this Plan.

"Per Share Market Value" on any given date shall be the fair market value of one Share as of the close of business on the given date determined in such manner as shall be prescribed in good faith by the Committee; provided, that as long as the Shares are traded on a national securities exchange or national automated quotation system (such as the Nasdaq National Market), the Per Share Market Value shall be the reported closing price of the Shares on such date.

"Plan" has the meaning such term is given in Section 1.1 of this Plan.

"Restricted Stock" means Common Stock subject to certain restrictions, including, but not limited to, time or employment-based vesting restrictions or objective, non-discretionary performance criteria.

"Restricted Stock Agreement" has the meaning such term is given in Section 7.1 of this Plan.

"Securities Act" at any given time shall consist of: (i) the Securities Act of 1933 as constituted at the given time; (ii) any other law or laws promulgated prior to the given time by the United States Government which are in effect at the given time and which regulate or govern any matters at any time regulated or governed by the Securities Act of 1933; (iii) all regulations, rules, registration forms and other governmental pronouncements issued under the laws specified in clauses (i) and (ii) of this sentence which are in effect at the given time; and (iv) all interpretations by any governmental agency or authority of the things specified in clause (i), (ii) or (iii) of this sentence which are in effect at the given time. Whenever any provision of this Plan requires that any action be taken in compliance with any provision of the Securities Act, such provision shall be deemed to require compliance with the Securities Act as constituted at the time such action takes place.

"Share" means a share of Common Stock.

"Subsidiary" means any corporation in which the Company owns, directly or indirectly, 50% or more of the total combined voting power of all classes of securities of such corporation.

12.2. HEADINGS. Section headings used in this Plan are for convenience only, do not constitute a part of this Plan and shall not be deemed to limit, characterize or affect in any way any provisions of this Plan. All provisions in this Plan shall be construed as if no headings had been used in this Plan.

12.3. SEVERABILITY.

(a) General. Whenever possible, each provision in this Plan and in every Grant at any time granted under this Plan shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Plan or any Grant at any time granted under this Plan is held to be prohibited by or invalid under applicable law, then (i) such provision shall be deemed amended to accomplish the objectives of the provision as originally written to the fullest extent permitted by law and (ii) all other provisions of this Plan and every Grant at any time granted under this Plan shall remain in full force and effect.

(b) Incentive Stock Options. Whenever possible, each provision in this Plan and in every Option at any time granted under this Plan which is evidenced by an Option Agreement which expressly states such Option is intended to constitute an Incentive Stock Option under Code Section 422 (an "intended ISO") shall be interpreted in such manner as to entitle such intended ISO to the tax treatment afforded by the Code to Options which do constitute

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Incentive Stock Options under Code Section 422, but if any provision of this Plan or any intended ISO at any time granted under this Plan is held to be contrary to the requirements necessary to entitle such intended ISO to the tax treatment afforded by the Code to Options which do constitute Incentive Stock Options under Code Section 422, then (i) such provision shall be deemed to have contained from the outset such language as shall be necessary to entitle such intended ISO to the tax treatment afforded by the Code to Options which do constitute Incentive Stock Options under Code Section 422, and (ii) all other provisions of this Plan and such intended ISO shall remain in full force and effect. If any Option Agreement covering an intended ISO granted under this Plan does not explicitly include any terms required to entitle such intended ISO to the tax treatment afforded by the Code to Options which do constitute Incentive Stock Options under Code Section 422, then all such terms shall be deemed implicit in the intention to afford such treatment to such Option and such Option shall be deemed to have been granted subject to all such terms.

- 12.4. **NO STRICT CONSTRUCTION.** No rule of strict construction shall be applied against the Company, the Committee or any other person in the interpretation of any of the terms of this Plan, any Grant or any rule or procedure established by the Committee.
- 12.5. **CHOICE OF LAW.** This Plan and all documents contemplated hereby, and all remedies in connection therewith and all questions or transactions relating thereto, shall be construed in accordance with and governed by the internal laws of the State of Delaware.
- 12.6. **TAX CONSEQUENCES.** Tax consequences from the purchase and sale of Shares may differ among Grantees under the Plan. Each Grantee should discuss specific tax questions regarding participation in the Plan with his or her own tax advisor.



**PLEASE DATE, SIGN AND MAIL YOUR  
PROXY CARD BACK AS SOON AS POSSIBLE!**

**ANNUAL MEETING OF STOCKHOLDERS  
1-800 CONTACTS, INC.**

**MAY 21, 2004**

**Please Detach and Mail in the Envelope Provided**

ý  
PLEASE MARK YOUR  
VOTES AS IN THIS  
EXAMPLE.

THIS PROXY WILL BE VOTED AS SPECIFIED, AND UNLESS OTHERWISE SPECIFIED, THIS PROXY WILL BE VOTED FOR THE ELECTION AS DIRECTORS OF ALL NOMINEES AND FOR PROPOSALS 2, 3 AND 4.

	FOR ALL	WITHHELD ALL		
1. ELECTION OF DIRECTORS.	<input type="radio"/>	<input type="radio"/>	NOMINEES:	Jonathan C. Coon Bradley T. Knight Jason S. Subotky

(TO WITHHOLD AUTHORITY TO VOTE FOR ANY NOMINEE WRITE THAT NOMINEE'S NAME IN THE SPACE PROVIDED BELOW.)

\_\_\_\_\_

	FOR	AGAINST	ABSTAIN
2. Proposal to approve an amendment to the Amended and Restated 1998 Incentive Stock Option Plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Proposal to ratify the selection of KPMG LLP as independent auditors for the fiscal year 2004.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. Upon or in connection with the transaction of such other business as may properly come before the meeting or any adjournment or postponement thereof.			

MARK HERE FOR ADDRESS CHANGE AND NOTE AT LEFT

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

Signature \_\_\_\_\_ Dated: \_\_\_\_\_, 2004

SIGNATURE IF HELD JOINTLY

**NOTE:**

Please sign exactly as name appears above. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership's name by authorized person.

\_\_\_\_\_

**1-800 CONTACTS, INC.  
PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE  
COMPANY FOR ANNUAL MEETING  
MAY 21, 2004**

The undersigned hereby constitutes and appoints Stephen A. Yacktman and Jonathan C. Coon, and each of them, his or her true and lawful agents and proxies with full power of substitution in each, to represent the undersigned at the Annual Meeting of Stockholders to be held at the executive offices of 1-800 CONTACTS, INC., 66 E. Wadsworth Park Drive, 3rd Floor, Draper, Utah 84020, on Friday, May 21, 2004, and at any adjournment or postponement thereof, on all matters coming before said meeting.

YOU ARE ENCOURAGED TO SPECIFY YOUR CHOICE BY MARKING THE APPROPRIATE BOX, SEE REVERSE SIDE, BUT YOU NEED NOT MARK ANY BOX IF YOU WISH TO VOTE IN ACCORDANCE WITH THE BOARD OF DIRECTORS' RECOMMENDATIONS. THE PROXIES CANNOT VOTE YOUR SHARES UNLESS YOU SIGN AND RETURN THIS CARD.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

SEE REVERSE  
SIDE