OPTICARE HEALTH SYSTEMS INC
Form 10-Q
May 15, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

OR

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

COMMISSION FILE NUMBER 1-15223

OPTICARE HEALTH SYSTEMS, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	76-0453392
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

87 GRANDVIEW AVENUE, WATERBURY, CONNECTICUT	06708
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code:

(203) 596-2236

Indicate by check X whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

The number of shares outstanding of the registrant's Common Stock, par value $.001 per share, at May 1, 2002 was 12,783,192 shares.

INDEX TO FORM 10-Q

OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	MARCH 31, 2002
	(Unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 3,035
Accounts receivable, net	8,452
Inventories	3,166
Deferred income taxes, current	2,700
Other current assets	1,035
TOTAL CURRENT ASSETS	18,388
Property and equipment, net	5,824
Intangible assets, net	7,962

Goodwill, net	20,577
Deferred income taxes, non-current	1,800
Other assets	4,436
TOTAL ASSETS	$ 58,987
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 6,671
Accrued expenses	7,776
Current portion of long-term debt	1,744
Other current liabilities	1,384
TOTAL CURRENT LIABILITIES	17,575
Long-term debt, less current portion	22,518
Other liabilities	1,100
TOTAL NON-CURRENT LIABILITIES	23,618
Series B 12.5% voting, mandatorily redeemable , cumulative, convertible preferred stock, $0.001 par value, 3,500,000 shares authorized, 3,204,959 shares issued and outstanding	4,487
STOCKHOLDERS' EQUITY:	
Series A Convertible Preferred Stock, $.001 par value, 550,000 shares authorized; no shares outstanding at March 31, 2002; 418,803 shares outstanding at December 31, 2001.	-
Common Stock, $0.001 par value; 75,000,000 shares authorized; 12,783,192 and 12,815,092 shares outstanding at March 31, 2002 and December 31, 2001, respectively.	13
Additional paid-in-capital	61,949
Accumulated deficit	(48,655)
TOTAL STOCKHOLDERS' EQUITY	13,307
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 58,987

See notes to condensed consolidated financial statements

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OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2002	2001

NET REVENUES:		
Managed care	$ 7,368	$ 7,703
Product sales	14,147	14,936
Other services	7,231	6,943
Total net revenues	28,746	29,582
OPERATING EXPENSES:		
Medical claims expense	5,753	6,188
Cost of product sales	9,084	9,487
Cost of services	3,576	3,610
Selling, general and administrative	9,285	9,245
Depreciation	645	673
Amortization	116	337
Interest	719	851
Total operating expenses	29,178	30,391
LOSS BEFORE EXTRAORDINARY ITEM AND INCOME TAXES	(432)	(809
Income tax benefit	(175)	
LOSS BEFORE EXTRAORDINARY ITEM	(257)	(809
Extraordinary Item - Gain on early extinguishment of debt, net of income taxes of $3,475	5,314	-
NET INCOME (LOSS)	$ 5,057	$ (809
EARNINGS PER SHARE--BASIC AND DILUTED:		
Loss before extraordinary item	$ (0.03)	$ (0.06
Extraordinary item	$ 0.42	$ -
Net income (loss)	$ 0.39	$ (0.06

See notes to condensed consolidated financial statements

OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN THOUSANDS)
(UNAUDITED)

	FOR THE THREE MONTHS MARCH 31,	
	2002	2

OPERATING ACTIVITIES:		
Net income (loss)	$ 5,057	$
Less: Extraordinary item -gain from early extinguishment of debt	(5,314)	
Net income (loss) before extraordinary item	(257)	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	645	
Amortization	116	
Deferred taxes	(175)	
Changes in operating assets and liabilities		
Accounts receivable	(629)	
Inventory	(120)	
Other assets	(1,736)	
Accounts payable and accrued expenses	967	
Other liabilities	121	
Net cash provided by (used in) operating activities	(1,068)	
INVESTING ACTIVITIES:		
Purchases of notes receivable	(1,350)	
Purchase of equipment	(177)	
Net cash used in investing activities	(1,527)	
FINANCING ACTIVITIES:		
Proceeds from long-term debt	23,278	
Proceeds from issuance of preferred stock	4,000	
Principal payments on long-term debt	(24,216)	
Net cash provided by financing activities	3,062	
Increase (decrease) in cash and cash equivalents	467	
Cash and cash equivalents at beginning of period	2,568	
Cash and cash equivalents at end of period	$ 3,035	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 125	$
Cash paid (received) for income taxes	$ --	$

See notes to condensed consolidated financial statements

OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of OptiCare Health Systems, Inc., a Delaware corporation, and subsidiaries (the "Company") for the three months ended March 31, 2002 and 2001 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934 and are unaudited. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2001 was derived from the Company's audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Certain prior period amounts have been reclassified to conform to the current period presentation.

2. CAPITAL RESTRUCTURING

On January 25, 2002, the Company closed a series of transactions which resulted in a major restructuring of its debt, equity and voting capital stock (the "Capital Restructuring Transactions"). The Capital Restructuring Transactions included, among other things, the following:

Palisade Concentrated Equity Partnership, L.P., a fund manager and stockholder of the Company, purchased, for $3,600 in cash, 2,571,429 shares of the Company's Series B 12.5% Voting Cumulative Convertible Participating Preferred Stock, par value $.001 per share and Linda Yimoyines, wife of Dr. Yimoyines, purchased for a $400 cash payment 285,714 shares of Series B Preferred Stock. Each share of Series B Preferred Stock is immediately convertible into ten shares of common stock and has the voting power equivalent to ten shares of common stock; accrues cumulative dividends at an annual rate of 12.5%; must be redeemed in full by the Company on December 31, 2008; and with respect to dividends, redemption rights, and rights on liquidation, winding up, corporate reorganization and dissolution, ranks senior to the Company's common stock.

Bank Austria Creditanstalt Corporate Finance, Inc., which was, until January 25, 2002, the Company's senior secured lender, forgave approximately $10,000 of debt and accrued interest due to it and sold the loans and other obligations of the Company which Bank Austria then held, including security agreements, pledges of stock by certain of the Company's subsidiaries and guarantees of loans and other obligations, to CapitalSource Finance LLC, an asset-based lender specializing in the health care industry.

CapitalSource, as lender, and the Company, as borrower, amended and restated the terms of the indebtedness acquired by CapitalSource from Bank Austria by entering into an Amended and Restated Revolving Credit, Term Loan and Security Agreement, referred to as the Loan and Security Agreement or Credit Facility.

Palisade made a subordinated loan to the Company of $13,900, and Linda Yimoyines, wife of Dean J. Yimoyines, M.D., Chairman of the Board, Chief Executive Officer and President of the Company, made a subordinated loan to the Company of $100 which loans are evidenced by senior subordinated secured notes. These notes are subordinate to the Company's indebtedness to its senior lender, CapitalSource, and are secured by second-priority security interests in substantially all of the Company's assets (the first-priority security interest is held by CapitalSource).

In connection with providing the $13,900 subordinated loan to the Company, Palisade received warrants to purchase up to 17,375,000 shares of common stock. In connection with providing the $100 subordinated loan to the Company, Ms. Yimoyines received warrants to purchase up to 125,000 shares of common stock. In conjunction with the amendment and restatement of the credit facility, CapitalSource received warrants to purchase 250,000 shares of common stock. The warrants were issued at an exercise price of $0.14 per share and are exercisable during a ten-year period expiring January 24, 2012. The estimated fair value of the warrants of approximately $1,380 was recorded as a debt discount and is being amortized on the interest method over the term of the related debt.

The bridge loan from Alexander Enterprise Holdings Corp. was satisfied in full, as follows: (i) $2,534 in cash was paid to Alexander Enterprise in full satisfaction of the $2,300 of principal and $234 of accrued interest due to Alexander Enterprise under the Bridge Loan. Alexander Enterprise relinquished its security interest in the assets of the company and has no further claims against us. The cash was provided by the $3,600 purchase by Palisade of Series B Preferred Stock; (ii) The Company issued 309,170.5 shares of Series B Preferred Stock to Palisade to satisfy the $400 of principal and $33 of accrued interest due to Palisade as a participant under the Bridge Loan; and (iii) the Company issued 38,646.3 shares of Series B Preferred Stock to Ms. Yimoyines to satisfy the $50 of principal and $4 of accrued interest due to Ms. Yimoyines as a participant under the bridge loan.

The Company reacquired from Bank Austria, for a cash payment of $1,350, certain notes and contractual rights originally issued or made to the company in connection with the Company's transfers of certain medical practice assets to physicians engaged in such practices.

Without further consideration, Bank Austria surrendered warrants previously issued to it to purchase 100,000 shares of the Company's common stock; surrendered to the Company (for retirement) 418,803 shares of Series A convertible preferred stock of the Company; and surrendered to the Company (for the Company to retire) 56,900 shares of common stock.

In connection with the Capital Restructuring Transactions, the number of shares of authorized common stock was increased from 50,000,000 to 75,000,000. The additional authorized shares provide, among other things, for the availability of common stock to be issued upon conversion of the Series B Preferred Stock and exercise of the warrants issued.

The following table sets forth the long-term debt of the Company:

Term note payable to CapitalSource in principal amounts of $50 per quarter. The final principal payment is payable for the outstanding principal balance and is due and payable on June 1, 2004. Principal and interest is due and payable monthly in arrears. The interest rate equals the Prime Rate plus 3.5%. Maturity date is January 22, 2004. The term note is collateralized by substantially all assets of the Company.

Revolving credit note to CapitalSource, due January 22, 2005, interest is due and payable monthly in arrears on the first of the month at an annual rate of Prime Rate plus 1.5% and is collateralized by substantially all assets of the Company.

Senior subordinated secured notes payable due January 24, 2012. The interest rate is 11.50% payable on the last day of each calendar quarter. The notes are secured by second-priority security interests in substantially all the company's assets (the first-priority security interest is held by CapitalSource). The outstanding loan balance at March 31, 2002 includes $295 of paid-in-kind interest.

Subordinated notes payable due at various dates through 2005. Principal and interest payments are due monthly or annually. Interest is payable at rates ranging from 5.5% to 9.0%.

Unamortized discounts

Total
Less current portion

Long-term portion

OPTICARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except share data)

3. EXTRAORDINARY ITEM

On January 25, 2002, the Company recorded a gain on the early extinguishment of debt of $8,789 before income tax of $3,475 as a result of the Company's Capital Restructuring Transactions. The $8,789 gain was comprised principally of approximately $10,000 of debt and interest forgiveness by Bank Austria, the Company's former senior secured lender, which was partially offset by $1,200 of unamortized deferred financing fees and debt discount.

4. SEGMENT INFORMATION

The Company currently manages the operations of the business through three operating segments: (1) Managed Care Services (2) Professional Services and (3) Other Integrated Services. The managed care segment contracts with insurers, managed care plans and other third party payors to manage claims payment administration of eye health benefits for those contracting parties. The professional services segment provides laser and ambulatory surgery facilities, develops and sells integrated practice management systems and provides support services to eye care professionals. The other integrated services segment owns, operates and/or contracts with fully integrated eye health centers and professional optometric practices and provides wholesale buying services to eye care professionals. Management assesses the performance of its segments based on income before income taxes, interest expense, depreciation and amortization, and other corporate overhead.

Summarized financial information, by segment, for the three months ended March

(Amounts in thousands except share data)

31, 2002 and 2001 is as follows:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
REVENUES:		
Managed care services	$ 7,512	$ 7,969
Professional services	1,429	1,609
Other integrated services	23,099	23,577
Segment totals	32,040	33,155
Elimination of inter-segment revenues	(3,294)	(3,573)
Total net revenue	$28,746	$29,582
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM AND INCOME TAXES:		
Managed care services	553	$ 489
Professional services	200	403
Other integrated services	970	794
Segment totals	1,723	1,686
Depreciation	(645)	(673)
Amortization	(116)	(337)
Interest expense	(719)	(851)
Corporate	(675)	(634)
Income (loss) before extraordinary item and income taxes	$ (432)	$ (809)

5. EARNINGS PER SHARE

The following tables sets forth the computation of basic and diluted earnings (loss) per share:

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2002	2001
Income (loss) before extraordinary item	$ (257)	$ (809)
Preferred stock dividend	(103)	--
Income (loss) before extraordinary items available		

to common stockholders	$ (360)	$ (809)
Extraordinary item	5,314	--
Net income (loss) available to common stockholders	$ 4,954	(809)
Weighted average common shares outstanding - basic and diluted	12,733,365	12,759,336
Earnings Per Share - basic and diluted:		
Income (loss) before extraordinary items available to common stockholders	$ (0.03)	$ (0.06)
Extraordinary item	0.42	--
Net income (loss) per common share	$ 0.39	$ (0.06)

The following table reflects the potential common shares of the Company at March 31, 2002 and 2001. These potential shares have been excluded from the calculation of diluted earnings per share because their effect would be antidilutive.

	2002	2001
Options	2,470,458	920,458
Warrants	21,176,198	3,501,198
Convertible Preferred Stock	32,049,598	418,803
	55,696,254	4,840,459

6. CONTINGENCIES

The Company is both a plaintiff and defendant in lawsuits incidental to its current and former operations. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at March 31, 2002 cannot be ascertained. Management is of the opinion that, after taking into account the merits of defenses and established reserves, the ultimate resolution of these matters will not have a material adverse impact on the Company's consolidated financial position or results of operations.

7. NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 2002, the Company adopted Financial Accounting Standard ("FAS") No. 142, "Goodwill and Other Intangible Assets". The standard changes the accounting for goodwill and intangible assets with an indefinite life whereby such assets will no longer be amortized; however the standard does require evaluation for impairment, and a corresponding writedown, if appropriate. FAS No. 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company will complete its transitional impairment test by June 30, 2002.

Comparative information as if goodwill had not been amortized in the first quarter of 2001 is as follows:

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net income (loss) as reported	$ 5,057	$ (809)
Add back: goodwill amortization	--	238
Adjusted net income (loss)	$ 5,057	$ (571)
Earnings per common share - basic and diluted:		
Net income (loss)	$ 0.39	$ (0.06)
Goodwill amortization	--	0.02
Adjusted net income (loss) per share	$ 0.39	$ (0.04)

Intangible assets consist of the following at March 31, 2002 and 2001:

	Gross	Accumulated Amortization	Net
2002:			
Administrative Services Agreement	$7,123	$(712)	$6,4
Other	2,144	(593)	1,5
Total	$9,267	$(1,305)	$7,9
2001:			
Administrative Services Agreement	$7,123	$(427)	$6,6
Other	2,412	(673)	1,7
Total	$9,535	$(1,100)	$8,4

Amortization of intangibles was $116 and $119 for the three months ended March 31, 2002 and 2001, respectively. Estimated annual amortization expense is expected to be $472, $465, $403, $403 and $403 for the years 2002, 2003, 2004, 2005 and 2006, respectively.

Effective January 1, 2002, the Company adopted FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". FAS No. 144 addresses the conditions under which an impairment charge should be recorded related to long-lived assets to be held and used, except for goodwill, and those to be disposed of by sale or otherwise. There was no effect on the Company's financial statements as a result of such adoption.

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

The following discussion may be understood more fully by reference to the financial statements, notes to the financial statements, and management's discussion and analysis contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and Current Report on Form 8-K, as filed with the Securities and Exchange Commission on April 1, 2002 and February 11, 2002, respectively.

Overview. OptiCare Health Systems, Inc. (the "Company") is an integrated eye care services company that delivers a range of services and systems for eye health professionals and consumers, including managed care and professional eye care services. The Company executes its business through three business segments: (1) managed care services (2) professional services and (3) other integrated services. The managed care services segment contracts with insurers, managed care plans and other third party payors to manage claims payment administration of eye health benefits. The professional services segment provides laser and ambulatory surgery facilities; develops and sells integrated practice management systems, including internet-based software solutions; and provides support services to eye care professionals throughout the country. The other integrated services segment owns, operates and/or contracts with integrated eye health centers and professional optometric practices in Connecticut and North Carolina, and provides wholesale buying services to eye care professionals nationwide.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 Compared to the Three Months Ended March 31, 2001

Managed care services revenue. Managed care services revenue decreased to $7.4 million for the three months ended March 31, 2002 from $7.7 million for the three months ended March 31, 2001, a decrease of $0.3 million. This decrease was primarily due to an amendment to the company's contract with ConnectiCare in April 2001, allowing ConnectiCare to resume administration of the contract. This decrease was partially offset by negotiated increases in capitation revenue on existing contracts.

Product sales revenue. Product sales revenue decreased to $14.1 million for the three months ended March 31, 2002 compared to $14.9 million for the three months ended March 31, 2001, a decrease of $0.8 million. Of this decrease $0.5 million represented a decrease in buying group revenue resulting from decreases in purchasing volume. This decrease in volume was primarily due to consolidation in the eyecare industry whereby smaller independent eyecare businesses are being replaced by larger eyecare chains that purchase directly from vendors. The company expects this shift to continue and potentially further reduce the buying group's market share and revenue; however the company does not expect this trend to have a material impact on its overall profitability. The remaining $0.3 million decrease represented a decrease in retail optometry sales primarily due to the closure of certain optometry facilities during 2001 in connection with the restructuring of operations in Connecticut.

Services revenue. Services revenue increased to $7.2 million for the three months ended March 31, 2002 from $6.9 million for the three months ended March

31, 2001, an increase of $0.3 million. This increase was comprised of a $0.3 million increase in optometry and ophthalmology revenue primarily due to increased productivity in 2002, and a $0.4 million increase in revenue associated with increased sales of software systems. These increases were partially offset by a $0.4 million decrease in Health Service Organization revenue. The company's revenue stream from fees collected under its Health Service Organization agreements has been decreasing due to disputes with certain physician practices who are parties to these agreements. The company is in litigation with several of these practices and intends to pursue settlement of these matters in the future. While a continued decrease in these fees could negatively impact our cash flows, the company is currently focusing on resolving the disputes with these practices and believes that the collections will increase during 2002 due to settlements, resumption of the contractual payment schedules or a combination of both.

Medical claims expense. Medical claims expense decreased to $5.8 million for the three months ended March 31, 2002 from $6.2 million for the three months ended March 31, 2001, a decrease of $0.4 million. The medical claims expense loss ratio (MLR), representing medical claims expense as a percentage of managed care revenue, improved to 78.1% in 2002, from 80.3% in 2002. This improvement in MLR was primarily due to the ConnectiCare contract that is no longer managed by the company, which had higher MLRs than the average of the company's remaining contracts, and to negotiated increases in capitation rates on existing managed care contracts.

Cost of product sales. Cost of product sales decreased to $9.1 million for the three months ended March 31, 2002 from $9.5 million for the three months ended March 31, 2001, a decrease of $0.4 million. This decrease represented a reduction in cost of sales related to the buying group program as a result of the decrease in sales volume.

Income (loss) before income taxes. The company reported a loss before income taxes of $0.4 million for the three months ended March 31, 2002 compared to a loss before income taxes of $0.8 million for the three months ended March 31, 2001. The improvement was primarily due to overall increased profitability in managed care and services as described above.

Income tax expense (benefit). The company reported a $0.2 million income tax benefit for the three months ended March 31, 2002 related to the operating loss. The company did not record an income tax benefit on its operating loss for the three months ended March 31, 2001, primarily due to the uncertainty surrounding the company's ability to utilize its net operating loss carryforwards at that time.

Extraordinary item. The company reported a $5.3 million net gain on early extinguishment of debt for the three months ended March 31, 2002. The gain was comprised of approximately $10.0 million of forgiveness of principal and interest by Bank Austria, the company's former senior secured lender, and was partially offset by the write-off of $1.2 million of related unamortized deferred financing fees and debt discount, and $3.5 million of income taxes.

LIQUIDITY AND CAPITAL RESOURCES

The company's primary sources of liquidity are cash flows generated from operations and borrowings under its credit facility. The company's principal uses of liquidity are to provide working capital, meet debt service requirements and finance capital expenditures. We believe that our cash flow from operations, borrowings under our credit facility, and operating and capital lease financing will provide us with sufficient funds to finance our operations for the next 12 months.

As of March 31, 2002, we had approximately $3.0 million of cash and cash equivalents, $3.0 million of borrowings outstanding under a term loan, and $6.0 million outstanding under our revolving credit agreement. Although we have a $10 million revolving credit facility, the amount available to be borrowed at any time is based on the value of the collateral underlying the facility and on the amount outstanding under the facility at such time. As of March 31, 2002, we had $1.4 million of available credit under our revolving credit facility. Subsequent to March 31, 2002, we borrowed the remaining amount available under our revolving credit facility and received an additional $1.0 million temporary over-advance from our lender, CapitalSource.

For the three months ended March 31, 2002, the company used $1.1 in operating activities, which included a $0.3 million loss (before an extraordinary gain on the early extinguishment of debt) and a $1.7 million increase in other assets, which were partially offset by non-cash charges of $0.8 million for depreciation and amortization. Net cash provided by operating activities of $1.2 million for the three months ended March 31, 2001 included an $0.8 million loss from operations offset by $1.1 million increase in accounts payable and accrued expenses and $1.0 million of non-cash charges for depreciation and amortization

Net cash used in investing activities was $1.5 million for the three months ended March 31, 2002 compared to $0.1 million for the three months ended March 31, 2000. Net cash used in financing activities in 2002 consisted principally of $1.4 million paid to reacquire certain notes receivable and contractual rights as part of the Capital Restructuring Transactions.

Net cash provided by financing activities was $3.1 for the three months ended March 31, 2002 compared to $0.3 million for the three months ended March 31, 2001. Net cash provided by financing activities in 2002 consisted of approximately $27.3 from the issuance of debt and preferred stock which was partially offset by approximately $24.2 million of principal payments on long-term debt, primarily related to the company's capital restructuring in January 2002. The primary sources of net cash from financing activities for the three months ended March 31, 2001 was $0.5 million of net proceeds from additional funds borrowed under the company's amended bridge loan which was partially offset by approximately $0.2 million of principal payments on long-term debt.

As of March 31, 2001, under an agreement with the Texas Department of Insurance, the company is required to maintain a restricted investment of $250,000. The company does not believe the requirements of the Texas Department of Insurance will have a material impact on the company's liquidity.

As previously disclosed in our filings with the Securities and Exchange Commission the Company was in default of its obligations to its then senior lender, Bank Austria Creditanstalt Corporate Finance, Inc. On January 25, 2002 the default was cured as a result of the Capital Restructuring Transactions described below.

The Capital Restructuring Transactions

On January 25, 2002, the company completed a series of transactions that resulted in a major reduction in, and restructuring of, the debt described above as well as our issuance of voting capital stock. The transactions included, among other things, the following:

1. Palisade Concentrated Equity Partnership, L.P., a fund manager and stockholder of the company, purchased, for $3.6 million in cash, 2,571,429 shares of the company's Series B 12.5% Voting Cumulative Convertible Participating Preferred Stock, par value $.001 per share, referred to as the Series B Preferred Stock, convertible into 25,714,290 shares of common stock. Linda Yimoyines, wife of Dr. Yimoyines, purchased for a cash payment of $0.4 million, 285,714 shares of Series B Preferred Stock. The Series B Preferred Stock is described in more detail below.

2. Bank Austria forgave the portion of our indebtedness to it in excess of $21.8 million and sold the loans and other obligations of the company which Bank Austria then held, including security agreements, pledges of stock by certain of our subsidiaries and guarantees of loans and other obligations, to CapitalSource Finance LLC, a Delaware limited liability company.

3. CapitalSource, as lender, and the company, as borrower, amended and restated the terms of the indebtedness acquired by CapitalSource from Bank Austria by entering into an Amended and Restated Revolving Credit, Term Loan and Security Agreement, referred to as the Loan and Security Agreement or the Credit Facility.

4. Palisade made a subordinated loan to us of $13.9 million, and Linda Yimoyines, wife of Dean J. Yimoyines, made a subordinated loan to us of $100,000, which loans are evidenced by senior subordinated secured notes, the terms of which are described in more detail below.

5. In connection with providing its $13.9 million subordinated loan to the company, Palisade received warrants entitling Palisade to purchase up to 17,375,000 shares of common stock at an exercise price of $0.14 per share (subject to anti-dilution provisions). In connection with her providing a $100,000 subordinated loan to the company, Ms. Yimoyines received warrants entitling her to purchase up to 125,000 shares of common stock at an exercise price of $0.14 per share (subject to anti-dilution provisions). The warrants issued to Palisade and to Ms. Yimoyines are exercisable during a ten-year period expiring January 24, 2012.

6. In conjunction with the amendment and restatement of the credit facility, we issued 10-year warrants to CapitalSource to purchase 250,000 shares of our common stock at an exercise price of $0.14 per share (subject to anti-dilution provisions).

7. The company applied a portion of the proceeds of the Palisade loan to pay down the indebtedness under our credit facility now held by CapitalSource.

8. Our bridge loan from Alexander Enterprise was satisfied in full, as follows:

    a. $2.5 million in cash was paid to Alexander Enterprise in full satisfaction of the principal and interest owed to Alexander Enterprise under the bridge loan. Alexander Enterprise relinquished its security interest in the assets of the company and has no further claims against us. The cash was provided by the $3.6 million purchase by Palisade of Series B Preferred Stock.

b. We satisfied our obligations to Palisade as a participant under the bridge loan by issuing to Palisade 309,170.5 shares of Series B Preferred Stock. The amount of such participation, including accrued but unpaid interest, was $432,839.

c. We satisfied our obligations to Ms. Yimoyines as a participant under the bridge loan by issuing to Ms. Yimoyines 38,646.3 shares of Series B Preferred Stock. The amount of such participation, including accrued but unpaid interest, was $54,104.

9. We reacquired from Bank Austria, for a cash payment of $1.35 million, certain notes and contractual rights originally issued or made to the company in connection with the company's transfers of certain medical practice assets to physicians engaged in such practices.

10. Without further consideration, Bank Austria surrendered to the company warrants previously issued to it to purchase 100,000 shares of the company's common stock; surrendered to the company (for retirement) 418,803 shares of Series A convertible preferred stock of the company; and surrendered to the company (for retirement) 56,900 shares of common stock.

11. As of the closing of the Capital Restructuring Transactions on January 25, 2002, Palisade held (i) 2,000,000 shares of our common stock which were previously acquired, (ii) 2,880,599.5 shares of Series B Preferred Stock, immediately convertible into 28,805,995 shares of common stock, and (iii) immediately exercisable warrants to purchase up to an additional 17,775,000 shares of common stock, of which warrants to purchase 400,000 shares at $0.40 per share were previously acquired. Thus, 44,864,690 shares of our common stock (including 12,815,092 shares of common stock outstanding as of January 25, 2002 (i.e., prior to the Capital Restructuring Transactions), and 32,049,598 shares of common stock issuable upon conversion of the Series B Preferred Stock held by Palisade and Ms. Yimoyines) would be outstanding in the event that all of the shares of Series B Preferred Stock are converted. Without giving effect to any warrants, Palisade may be deemed to beneficially own 74.0% of our common stock. Giving effect to the warrants held by Palisade, Palisade may be deemed to beneficially own 81.8% of our common stock.

In connection with the Capital Restructuring Transactions, we agreed that, so long as Palisade owns more than 50% of the voting power of the company, Palisade shall have the right to designate a majority of our board of directors. Pursuant to this provision, three nominees of Palisade were elected to the company's board of directors effective January 25, 2002.

In connection with the Capital Restructuring Transactions, our stockholders approved various equity-related proposals by written consent in a solicitation process which commenced on January 4, 2002. Among those was a proposal to increase the number of shares of authorized common stock from 50,000,000 to 75,000,000. The additional authorized shares provide the availability of common stock to be issued upon conversion of the Series B Preferred Stock and exercise of the warrants which were issued to Palisade, Ms. Yimoyines and CapitalSource.

Subject to the reservation shares of common stock for such conversion and exercise of warrants, the additional shares will be available for issuance from time to time by the company at the discretion of the board of directors, normally without further stockholder action or notification (except as may be required for a particular transaction by applicable law, requirements of regulatory agencies or by stock exchange rules) to provide for future equity and convertible debt financings, acquisitions of property or securities of other corporations, debt conversions and exchanges, exercise of current and future options and warrants, and for issuance under our current or future employee benefit plans, stock dividends and stock splits.

In conjunction with the Capital Restructuring Transactions the company adopted a by-law amendment which provides that, for so long as Palisade holds more than 50% of our voting power, the approval of the majority of the company's independent directors (as that term is defined by the American Stock Exchange) is required to, among other things, redeem the Series B Preferred Stock; issue any new class or series of preferred stock to Palisade; issue a security convertible into preferred stock to Palisade; declare or pay any dividend in cash, property or securities of the company; or amend the special voting provision of the company's by-laws.

The CapitalSource Credit Facility

The amended and restated credit facility with CapitalSource is comprised of a $3 million term loan and up to a $10 million revolving credit facility.

The principal terms of the term loan with CapitalSource are:

- The maximum amount of the term loan is 40% of the value of our capital equipment, as determined by CapitalSource in its absolute discretion; the current balance drawn down on the term loan is $3 million.

- The interest rate is 3.5 percentage points over the announced prime rate of Citibank, N.A., but not less than 9%.

- Principal and interest are payable monthly, on the basis of a 15-year amortization, with payment in full of the balance due on January 25, 2004, two years from the closing of the Loan and Security Agreement.

The principal terms of the revolving credit facility with CapitalSource are:

- The maximum amount which may be advanced under the revolving credit facility is the lesser of (i) $10 million or (ii) 80% of eligible accounts receivable and inventory of the company, plus up to an additional $750,000. In addition, prior to April 1, 2002, the amount available was up to 85% of eligible accounts receivable and inventory, plus an additional $750,000. If the outstanding balance as of April 1, 2002 is in excess of 80% of eligible accounts receivable and inventory, the excess must be paid down in monthly installments over the four months ending July 31, 2002.

    - Eligible accounts receivable are accounts receivable not more than 120 days old, subject to certain cross-aging requirements, and subject to determination by CapitalSource.

    - Eligible inventory is inventory meeting a number of detailed requirements of CapitalSource and valued at the company's cost less all discounts.

- The interest rate on the revolving credit facility is 1.5 percentage points above the announced prime rate of Citibank, N.A., but not less than 7% per year. Interest is payable monthly in arrears.

- All accounts receivable of the company shall be paid into lockbox accounts and immediately transferred from such lockbox accounts into a depository account maintained by CapitalSource on a daily basis.

- The revolving credit facility expires and the outstanding balance of the revolving credit facility, together with accrued but unpaid interest, comes due in full on January 25, 2005, three years from the closing of the amended and restated Loan and Security Agreement.

With respect to both the term loan and the revolving credit facility, we must also pay a monthly "unused line fee" that equals the excess, if any, of $3,000 over all interest accrued for such month.

The Loan and Security Agreement contains certain restrictions on the conduct of our business, including, among other things, restrictions on incurring debt, purchasing or investing in the securities of, or acquiring any other interest in, all or substantially all of the assets of any person or joint venture, declaring or paying any cash dividends or making any other payment or distribution on our capital stock, and creating or suffering liens on our assets. We are required to maintain certain financial covenants, including a minimum fixed charge ratio and a minimum net worth.

The company's subsidiaries have guaranteed payments and other obligations under the credit facility and the company (including certain subsidiaries) has granted a security interest in substantially all its assets in favor of CapitalSource. The company also pledged the capital stock of certain of its subsidiaries to CapitalSource.

The occurrence of certain events or conditions described in the Loan and Security Agreement (subject to grace periods in certain cases) constitutes an "event of default." If an event of default occurs, the entire outstanding balance of principal and interest would become immediately due and payable. Events of default include:

- Our failure to pay any principal or interest when due;

- Our failure to pay any indebtedness to persons other than CapitalSource in excess of $250,000 (including amounts payable to Palisade under the note issued to Palisade);

- Our failure to observe any covenant under the credit facility (including, e.g., the financial covenants);

- Bankruptcy, insolvency or receivership proceedings with respect to the company;

- Certain changes of control of the company (as defined in the Loan and Security Agreement);

- Our inability to pay our debts generally as they come due; and

- The occurrence or expectation of any material adverse change with respect to the company.

The Palisade and Yimoyines Senior Subordinated Secured Loans

Palisade made a subordinated loan to us of $13.9 million, and Ms. Yimoyines made a subordinated loan to us of $100,000, which loans are evidenced by senior subordinated secured notes. The senior subordinated secured notes issued to Palisade and to Ms. Yimoyines rank pari passu with each other. The notes are subordinate to our indebtedness to CapitalSource and are secured by second-priority security interests in substantially all the company's assets (the first-priority security interest is held by CapitalSource).

Principal is due to be paid in 10 years (i.e., on January 25, 2012) and interest is payable quarterly at the rate of 11.5%. In the first and second years, the company has the right to defer 100% and 50%, respectively, of interest to maturity by increasing the principal amount of the note by the amount of interest so deferred. In the third through tenth years, the holder of the note has the right to require the company to defer interest to maturity by increasing the principal amount of the note by the amount of interest so deferred. As of March 31, 2002, the Company deferred the first payment of interest on these senior notes to maturity by increasing the principal balance of these notes by $295,000 (the amount of interest due on the notes at March 31, 2002).

The notes contain certain restrictions on the conduct of our business, including, among other things, restrictions on incurring debt, becoming a party to a merger, selling or transferring substantially all of the assets of the company, declaring or paying any cash dividends or making any other payment or distribution on the company's capital stock or purchasing or redeeming such stock, entering into any agreements inconsistent with the company's obligations under the notes, making any redemption or prepayment of any subordinated debt, creating or suffering liens on the company's assets, or materially changing the nature of the company's business.

The occurrence of certain events or conditions described in the Notes (subject to grace periods in certain cases) constitutes a "default." If a default occurs, the entire outstanding balance of principal and interest would become immediately due and payable. Such defaults include, but are not limited to, failure to pay any principal or interest under the notes when due; failure to pay any principal or interest when due with respect to the CapitalSource credit facility; failure to perform or comply with any obligation under the notes; entry of a final judgment against the company, which, together with all other final judgments, exceeds in the aggregate $250,000, and which judgment is not stayed, paid or discharged; and bankruptcy, insolvency or receivership proceedings with respect to the company.

The Series B Preferred Stock

The Company issued 3,204,959 shares of Series B 12.5% Voting Cumulative Convertible Participating Preferred Stock. The Preferred Stock accrues cumulative dividends at an annual rate of 12.5%. As of March 31, 2002, accrued and unpaid dividends on the Preferred Stock were approximately $103,000.

Each share of Series B Preferred Stock is immediately convertible into ten shares of common stock and has the voting power equivalent to ten shares of common stock, subject to certain anti-dilution adjustments. The Preferred Stock is redeemable at any time by the company on 30 days' notice and must be redeemed in full by the company on

December 31, 2008, at a price equal to the greater of the aggregate adjusted redemption value of the Series B Preferred Stock plus accrued but unpaid dividends or the amount the preferred stockholders would be entitled to receive if the Series B Preferred Stock plus accrued dividends were converted at that time into common stock and the company were to liquidate and distribute all of its assets to its common stockholders.

RECENT ACCOUNTING CHANGES

Effective January 1, 2002, the Company adopted Financial Accounting Standard ("FAS") No. 142, "Goodwill and Other Intangible Assets". The standard changes the accounting for goodwill and intangible assets with an indefinite life whereby such assets will no longer be amortized; however the standard does require evaluation for impairment, and a corresponding writedown, if appropriate. FAS No. 142 requires a transitional goodwill impairment test six months from the date of adoption. The Company will complete its transitional impairment test by June 30, 2002.

Effective January 1, 2002, the Company adopted FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". FAS No. 144 addresses accounting and reporting for the impairment or disposal of long-lived assets, including discontinued operations. There was no effect on the Company's financial statements as a result of such adoption.

IMPACT OF INFLATION AND CHANGING PRICES

The Company is subject to pre-determined Medicare reimbursement rates which, for certain products and services, have decreased over the past three years. A decrease in Medicare reimbursement rates could have an adverse effect on the Company's results of operations if it can not manage these reductions through increases in revenues or decreases in operating costs. To some degree, prices for health care are driven by Medicare reimbursement rates, so that the Company's non-Medicare business is also affected by changes in Medicare reimbursement rates.

Management believes that inflation has not had a material effect on the Company's revenues for the three-month periods ended March 31, 2002 and 2001.

FORWARD-LOOKING INFORMATION AND RISK FACTORS

The statements in this Form 10-Q and elsewhere (such as in other filings by the company with the Securities and Exchange Commission, press releases, presentations by the company or its management and oral statements) that relate to matters that are not historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Exchange Act of 1934. When used in this document and elsewhere, words such as "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "will," "could," "may," "predict" and similar expressions are intended to identify forward-looking statements. Such forward-looking statements include those relating to:

- Future opportunities;
- The outlook of customers;
- The reception of new services, technologies and pricing methods;
- Existing and potential strategic alliances;
- The likelihood of incremental revenues offsetting expense related to new initiatives; and
- Expected improvements in the company's financial condition as a result of the new capital structure.

In addition, such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results expressed or implied by such forward-looking statements. Also, our business could be materially adversely affected and the trading price of our common stock could decline if any of the following risks and uncertainties develop into actual events. Such risk factors, uncertainties and the other factors include:

- Changes in the regulatory environment applicable to the company's business, including health-care cost containment efforts by Medicare, Medicaid and other third-party payers;

- Demand and competition for the company's products and services;
- General economic conditions;
- Risks related to the eye care industry, including the cost and availability of medical malpractice insurance, and adverse long-term experience with laser and other surgical vision correction;
- Risks related to the managed care and insurance industries, including risks relating to class action litigation seeking to broaden the scope of covered services;
- Our ability to successfully integrate and profitably manage our operations;
- Loss of the services of key management personnel;
- Our ability to execute our growth strategy, without which we may not become profitable or sustain our profitability;
- Our ability to obtain additional capital, without which our growth could be limited;
- The fact that we have a history of losses and may incur further losses in the future;
- The fact that if we default on our debt, our creditors could foreclose on our assets;
- The possibility that we may not compete effectively with other eye care services companies which have more resources and experience than us;
- Failure to negotiate profitable capitated fee arrangements;
- The possibility that we may have potential conflicts of interests with respect to related party transactions which could result in certain of our officers, directors and key employees having interests that differ from us and our stockholders;
- Health care regulations or health care reform initiatives, which could materially adversely affect our business, financial condition and results of operations;
- The fact that the nature of our business could subject us to potential malpractice, product liability and other claims;

- The fact that managed care companies face increasing threats of private-party litigation, including class actions, over the scope of care that the managed care companies must pay for;

- The fact that the company is dependent upon letters of credit or other forms of third party security in connection with certain of its contractual arrangements and, thus, would be adversely affected in the event it was unable to obtain such credit as needed;

- The fact that certain parties are challenging the validity of and/or the company's compliance with Health Services Organization contracts and have ceased or may cease making payments under such contracts, jeopardizing the company's cash flow; and

- Other risks and uncertainties discussed in this Form 10-Q and detailed from time to time in the company's periodic earnings releases and reports filed with the Securities and Exchange Commission.

We undertake no obligation to publicly update or revise forward looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The company is subject to market risk from exposure to changes in interest rates based on its financing activities under its credit facility with CapitalSource, due to its variable interest rate. The nature and amount of the company's indebtedness may vary as a result of future business requirements, market conditions and other factors. The extent of the company's interest rate risk is not quantifiable or predictable due to the variability of future interest rates and financing needs. The company does not expect changes in interest rates to have a material effect on income or cash flows in the year 2002, although there can be no assurances that interest rates will not significantly change. An

increase of 10% in the interest rate payable by the company on its variable rate debt would increase the quarterly interest expense by approximately $15,000 assuming that the Company's borrowing level is unchanged. The company did not use derivative instruments to adjust the Company's interest rate risk profile during the three months ended March 31, 2002.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Described below is information regarding all securities that have been sold by the Company during the first quarter ended March 31, 2002 that were not registered under the Securities Act.

On January 4, 2002, the Company granted options to purchase 1,305,000 shares of Common Stock under the Performance Stock Program, at an exercise price of $0.15 per share.

On January 25, 2002, the Company granted options to purchase 120,000 shares at an exercise price of $0.31 per share and on March 19, 2002 granted options to purchase 125,000 shares of common stock at $0.16 per share. These options were granted under the 2002 Stock Incentive Plan.

On or about January 25, 2002, in connection with the closing of the Capital Restructuring Transactions, the Company issued warrants to purchase common stock as follows: (i) in connection with providing the $13.9 million subordinated loan to the Company, the Company issued to Palisade warrants to purchase up to 17,375,000 shares of common stock; (ii) in connection with providing the $0.1 million subordinated loan to the company, Ms. Yimoyines received warrants to purchase up to 125,000 shares of common stock; and (iii) in connection with the amendment and restatement of the credit facility, CapitalSource received warrants to purchase 250,000 shares of common stock. These warrants were issued at an exercise price of $0.14 per share and are exercisable during a ten-year period expiring January 24, 2012. The estimated fair value of the warrants was recorded as a debt discount.

On or about January 25, 2002 in connection with the closing of the Capital Restructuring Transactions, Palisade purchased, for $3.6 million in cash, 2,571,429 shares of the company's Series B 12.5% Voting Cumulative Convertible Participating Preferred Stock, par value $.001 per share, referred to as the Series B Preferred Stock, convertible into 25,714,290 shares of common stock, pursuant to the Restructure Agreement. Linda Yimoyines, wife of Dr. Yimoyines, purchased for a cash payment of $0.4 million, 285,714 shares of Series B Preferred Stock. The cash was used primarily to payoff the principal and interest due to Alexander Enterprise under the bridge loan.

On or about January 25, 2002, in connection with the closing of the Capital Restructuring Transactions, the Company satisfied its obligations to Palisade as a participant under the bridge loan by issuing to Palisade 309,170.5 shares of Series B Preferred Stock. The amount of such participation, including accrued but unpaid interest, was $432,839. The Company also satisfied its obligations to Ms. Yimoyines as a participant under the bridge loan by issuing to Ms. Yimoyines 38,646.3 shares of Series B Preferred Stock. The amount of such participation, including accrued but unpaid interest, was $54,104.

On or about January 25, 2002, the company granted warrants to purchase 25,000 shares of Common Stock at $0.14 per share.

On March 19, 2002, the company awarded 25,000 shares of restricted Common Stock under the 2002 Stock Incentive Plan.

The above transactions were private transactions not involving a public offering and were exempt from the registration provisions of the Securities Act pursuant to Section 4(2) thereof. No underwriter was engaged in connection with the foregoing sales of securities. The Company has reason to believe that (i) all of the foregoing purchasers were familiar with or had access to information concerning the operations and financial conditions of the Company, (ii) all of those individuals purchasing securities represented that they acquired the shares for investment and not with a view to the distribution thereof, and (iii) other than with respect to the options, that the foregoing purchasers are accredited investors within the meaning of Regulation D promulgated under the Securities Act. At the time of issuance, all of the foregoing securities were deemed to be restricted securities for purposes of the Securities Act and the certificates representing such securities bore or will bear legends to that effect.

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

Commencing January 4, 2002, a number of proposals relating to our capital restructuring were submitted to the company's stockholders for their written consent in lieu of a meeting. The consent solicitation terminated on January 18, 2002. Votes were received from stockholders holding a total of 9,140,030 shares of common stock of the company. All proposals were approved by a majority of our stockholders.

In the consent solicitation, the proposals listed below were approved by the following votes:

PROPOSAL	NUMBER OF SHARES VOTED FOR:	NUMBER SHARES V AGAINST
Approval of an amendment to the company's certificate of incorporation to increase the number of authorized shares of common stock from 50,000,000 to 75,000,000 shares.	7,488,284	1,406,8
Approval of the creation of a new class of convertible preferred stock, to be designated as the Series B 12.5% voting cumulative convertible participating preferred stock, as authorized by the company's board of directors, consisting of up to 3,500,000 shares.	7,405,784	1,406,8
Approval of the issuance and sale of approximately 2,571,429 shares of the Series B Preferred Stock to Palisade Concentrated Equity Partnership, L.P. for a cash payment of $3,500,000.	7,422,784	1,448,8
Approval of an investment in the company by Dean J. Yimoyines, M.D., chairman of the board and chief executive officer of the company, and/or members of his family, of $500,000 in cash, of which $400,000 would be invested in the form of a purchase of 285,714 shares of Series B Preferred Stock, and $100,000 would be invested as a subordinated secured loan to the company due in 10 years; references to Dr. Yimoyines acting as an investor include such family members and/or trusts.	7,563,236	1,390,8
Approval of the issuance to Palisade of approximately 285,714 additional shares of Series B Preferred Stock (plus additional shares of Series B Preferred Stock for accumulated interest) as payment in full of principal and interest owed on Palisade's $400,000 participation in a junior secured bridge loan to the company by Alexander Enterprise Holdings Corp.	7,422,784	1,389,8
Approval of the issuance to Dr. Yimoyines of 35,714 additional shares of the Series B Preferred Stock (plus additional shares of Series B Preferred Stock for accumulated interest) as payment in full of principal and interest owed on Dr. Yimoyines' $50,000 participation in a junior secured bridge loan to the company by Alexander Enterprise Holdings Corp.	7,404,782	1,407,8

Approval of the issuance to Palisade and Dr. Yimoyines of warrants to purchase an aggregate of up to 17,500,000 shares of common stock, at an exercise price of $0.14 per share, subject to adjustment, in connection with their making subordinated secured loans to the company of $14,000,000 of principal in the aggregate and agreeing to defer a portion of the interest accruing thereon to the 10-year maturity date of the loans, which loans are to be evidenced by subordinated secured notes issued by the company.	7,326,809	1,466,8

There were no broker non-votes on any of the above proposals.

ITEM 5. OTHER INFORMATION

On April 20, 2001, the American Stock Exchange suspended trading of our common stock, and the exchange did not permit trading in the stock from that date until December 12, 2001, principally because we had not filed our Annual Report on Form 10-K for the year ended December 31, 2000, or our Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2001. We filed all those reports by December 3, 2001, and the exchange thereafter permitted trading to be conducted.

By letter dated November 19, 2001, the staff of the American Stock Exchange advised us that it would recommend to the exchange's Committee on Securities the delisting of our common stock. We appealed such recommendation and a hearing on the appeal was held before the Committee on Securities on January 29, 2002. The Committee decided at that time to postpone a determination of whether or not to delist our common stock pending timely receipt of our Annual Report on Form 10-K for the year ended December 31, 2001, and review of that report by the Committee and the staff of the exchange. The Company timely filed its Annual Report on Form 10-K on April 1, 2002.

On April 12, 2002 the American Stock Exchange Committee on Securities determined not to recommend to the Amex Adjudicatory Council that an application be filed with the SEC to strike the company's common stock from listing and registration on the Amex.

In accordance with pending amendments to the Amex Company Guide, the company will be subject to a 12-month follow-up period during which the company will be reviewed to ensure that it does not again fall below any of the Amex continued listing requirements.

ITEM 6. EXHIBITS AND REPORTS ON FORM 10-Q.

a. Exhibits

The following Exhibits are filed as part of this Quarterly Report on Form 10-Q:

EXHIBIT	DESCRIPTION
3.1	Certificate of Incorporation of Registrant, incorporated herein by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-KSB filed February 3, 1995.

3.2	Certificate of Amendment of the Certificate of Incorporation, dated as of August 13, 1999, as filed with the Delaware Secretary of State on August 13, 1999, incorporated herein by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed on August 30, 1999.
3.3	Amended and Restated By-laws of Registrant adopted March 27, 2000, incorporated herein by reference to Exhibit 3.3 to Registrant's Annual Report on Form 10-K filed on March 30, 2000.
3.4	Certificate of Designation with respect to the Registrant's Series A Convertible Preferred Stock, as filed with the Delaware Secretary of State on August 13, 1999, incorporated herein by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K filed on August 30, 1999.
3.5	Warrant agreement dated as of August 13, 1999, between the Registrant and Bank Austria Creditanstalt Corporate Finance, Inc., incorporated herein by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed on August 30, 1999.
3.6	Warrant Agreement dated as of October 10, 2000, by and between OptiCare Health Systems, Inc. and Medici Investment Corp., incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended 9/30/00, Exhibit 10.14

3.7	Certificate of Amendment of the Certificate of Incorporation, dated as of January 21, 2002, increasing the authorized common stock of the Company from 50,000,000 to 75,000,000 shares, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 3.1.
3.8	Certificate of Designation, Rights and Preferences of the Series B 12.5% Voting Cumulative Convertible Participating Preferred Stock of the Company, as filed with the Delaware Secretary of State on January 23, 2002, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 3.2.
3.9	Amendment No. 1 to the Amended and Restated Bylaws of OptiCare Health Systems, Inc., incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 3.3.
4.1	Performance Stock Program, incorporated herein by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-4, registration no. 333-78501, first filed on May 14, 1999, as amended (the "Registration Statement 333-78501"). +
4.2	Amended and Restated 1999 Employee Stock Purchase Plan,

	incorporated herein by reference to Exhibit 4.2 to Registrant's Annual Report on Form 10-K filed on March 30, 2000. +
4.3	2000 Professional Employee Stock Purchase Plan incorporated herein by reference to Exhibit 4.3 to Registrant's Annual Report on Form 10-K filed on March 30, 2000. +
10.7	Settlement agreement dated as of April 9, 1999, among PrimeVision Health, Inc., Dr. Allan L.M. Barker, Dr. D. Blair Harrold, Optometric Eye Care Center, P.A., Steven B. Waite, Bank Austria AG, and Bank Austria Corporate Finance, Inc., incorporated herein by reference to Exhibit 10.8 to the Registration Statement 333-78501.
10.8	Vision care capitation agreement between OptiCare Eye Health Centers, Inc. and Blue Cross & Blue Shield of Connecticut, Inc. (and its affiliates) dated October 23, 1999, incorporated herein by reference to Exhibit 10.9 to the Registration Statement 333-78501.
10.9	Eye care services agreement between OptiCare Eye Health Centers, Inc. and Anthem Health Plans, Inc. (d/b/a Anthem Blue Cross and Blue Shield of Connecticut), effective November 1, 1998, incorporated herein by reference to Exhibit 10.10 to the Registration Statement 333-78501.
10.10	Contracting provider services agreement dated April 26, 1996, and amendment thereto dated as of January 1, 1999, between Blue Cross and Blue Shield of Connecticut, Inc., and OptiCare Eye Health Centers, Inc., incorporated herein by reference to Exhibit 10.11 to the Registration Statement 333-78501.
10.11	Form of employment agreement between the Registrant and Dean J. Yimoyines, M.D., effective August 13, 1999, incorporated herein by reference to Exhibit 10.12 to the Registration Statement 333-78501.+
10.12	Form of employment agreement between the Registrant and Steven L. Ditman, effective August 13, 1999, incorporated herein by reference to Exhibit 10.13 to the Registration Statement 333-78501.+
10.13	Form of employment agreement between the Registrant and Dr. Allan L.M. Barker, effective August 13, 1999, incorporated herein by reference to Exhibit 10.14 to the Registration Statement 333-78501.+
10.14	Form of employment agreement between the Registrant and Dr. D. Blair Harrold, effective August 13, 1999, incorporated herein by reference to Exhibit 10.15 to the Registration Statement 333-78501.+
10.16	Lease dated September 22, 1987 and lease extension agreement dated December 12, 1997 by and between Cross Street Medical Building partnership, as landlord, and

	Ophthalmic Physicians and Surgeons, P.C., as tenant, for premises located at 40 Cross Street, Norwalk, Connecticut incorporated herein by reference to Exhibit 10.16 to the Registration Statement 333-78501.
10.17	Lease agreement dated September 1, 1995 by and between French's Mill Associates, as landlord, and OptiCare Eye Health Centers, Inc. as tenant, for premises located at 87 Grandview Avenue, Waterbury, Connecticut incorporated herein by reference to Exhibit 10.17 to the Registration Statement 333-78501.
10.18	Lease agreement dated September 30, 1997 by and between French's Mill Associates II, LLP, as landlord, and OptiCare Eye Health Center, P.C., as tenant, for premises located at 160 Robbins Street, Waterbury, Connecticut (upper level), incorporated herein by reference to Exhibit 10.18 to the Registration Statement 333-78501.
10.19	Lease agreement dated September 1, 1995 and amendment to lease dated September 30, 1997 by and between French's Mill Associates II, LLP, as landlord, and OptiCare Eye Health Center, P.C., as tenant, for premises located at 160 Robbins Street, Waterbury, Connecticut (lower level), incorporated herein by reference to Exhibit 10.19 to the Registration Statement 333-78501.
10.20	Lease agreement dated September 1, 1995 between O.C. Realty Associates Limited Partnership, as landlord, and OptiCare Eye Health Centers, Inc., as tenant, for premises located at 54 Park Lane, New Milford, Connecticut, incorporated herein by reference to Exhibit 10.20 to the Registration Statement 333-78501.
10.21	Lease dated March 1, 1997 by and between D. Blair Harrold & Allan L.M. Barker d/b/a Harrold Barker Investment Co. ("HBIC"), as landlord, and Consolidated Eye Care, Inc. ("CEC"), as tenant, for premises located at 112-B Zebulon Court, Rocky Mount, North Carolina, incorporated herein by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q filed on November 15, 1999.
10.22	Lease dated March 1, 1997 by and between HBIC, as landlord, and CEC, a wholly-owned subsidiary of PrimeVision Health, Inc., as tenant, for premises located at 110 Zebulon Court, Rocky Mount, North Carolina, incorporated herein by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q filed on November 15, 1999.
10.23	Lease dated March 1, 1997 by and between HBIC, as landlord, and CEC, as tenant, for premises located at 112-A Zebulon Court, Rocky Mount, North Carolina, incorporated herein by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q filed on November 15, 1999.
10.24	Form of health services organization agreement between PrimeVision Health, Inc. and eye care providers, incorporated herein by reference to Exhibit 10.21 to the Registration Statement 333-78501.
10.25	Professional Services and Support Agreement dated December 1, 1995 between OptiCare Eye Health Centers, Inc. and

	OptiCare P.C., a Connecticut professional corporation, incorporated herein by reference to Exhibit 10.22 to the Registration Statement 333-78501.
10.26	Voting Agreement, dated as of July 14, 1999, between Thomas Cooke and PrimeVision Health, Inc., incorporated herein by reference to Exhibit 10.23 to the Registration Statement 333-78501.
10.27	Amended and Restated Loan and Security Agreement, dated as of August 13, 1999, among Consolidated Eye Care, Inc., renamed OptiCare Eye Health Network, Inc, OptiCare Eye Health Centers, Inc., and PrimeVision Health, Inc. as borrowers, the Registrant as the Parent, the lenders named therein (the "Lenders"), Bank Austria, AG (the "LC Issuer"), and Bank Austria Creditanstalt Corporate Finance, Inc., as the agent (the "Agent") (excluding schedules and other attachments thereto), incorporated herein

	by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 30, 1999.
10.28	Guaranty dated as of August 13, 1999, among the Registrant, OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc., Consolidated Eye Care, Inc., renamed OptiCare Eye Health Network, Inc., and each of the other subsidiaries and affiliates of the Registrant listed on the signature pages thereto, in favor of the Lenders, the LC Issuer and the Agent, incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on August 30, 1999.
10.29	Security Agreement dated as of August 13, 1999, among the Registrant and the other parties listed on the signature page thereto in favor of the Agent for the benefit of the Lenders and the LC Issuer, incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on August 30, 1999.
10.30	Conditional Assignment and Trademark Security Agreement dated as of August 13, 1999, between the Registrant and the Agent for the benefit of the Lenders and the LC Issuer, incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on August 30, 1999.
10.31	Pledge and Security Agreement, dated as of August 13, 1999, among each of the Registrant, OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc., Consolidated Eye Care, Inc., renamed OptiCare Eye Health Network, Inc., and each of the other subsidiaries and affiliates of the Registrant listed on the signature pages thereto, in favor of the Agent for the benefit of the Lenders and the LC Issuer, incorporated herein by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on August 30, 1999.
10.32	Assignment of Notes and Security Agreement, dated as of

	August 13, 1999, between PrimeVision Health, Inc. and the Agent, incorporated herein by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on August 30, 1999.
10.33	Agreement and Plan of Merger, dated as of April 12, 1999, among the Registrant (then known as "Saratoga Resources, Inc."), OptiCare Shellco Merger Corporation, Prime Shellco Merger Corporation, OptiCare Eye Health Centers, Inc., a Connecticut corporation, and PrimeVision Health, Inc., incorporated herein by reference to Exhibit 2 to the Registration Statement 333-78501.
10.36	Stock Purchase Agreement dated October 1, 1999, among the Registrant, Stephen Cohen, Robert Airola, Gerald Mandel and Reginald Westbrook (excluding schedules and other attachments thereto), incorporated herein by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q filed on November 15, 1999.
10.38	Lease dated March 1, 1997, between the Registrant as tenant and Drs. D. Blair Harrold and Allan L.M. Barker as landlord, covering premises known as 579 Cross Creek Mall, Fayetteville, N.C., incorporated herein by reference to Exhibit 10.39 to the Registrant's Registration Statement on Form S-1, registration no. 333-93043, first filed on December 17, 1999, as amended ("Registration Statement 333-93043").
10.39	Lease dated March 1, 1997, between the Registrant as tenant and Optometric Eye Care Center, P.A., as landlord, covering premises at 315-A Western Boulevard, Jacksonville, N.C., incorporated herein by reference to Exhibit 10.40 to the Registration Statement 333-93043.
10.40	Employment agreement between the Registrant as employer and Gordon A. Bishop, dated August, 13, 1999, incorporated herein by reference to Exhibit 10.41 to the Registration Statement 333-93043. +
10.41	Lease dated September 1, 1999, between the Registrant as tenant and Harrold-Barker Realty, as landlord, covering premises located in Rocky Mount, N.C., incorporated herein by reference to Exhibit 10.42 to the Registration Statement 333-93043.

10.42	Professional Services and Support Agreement between the Registrant and Optometric Eye Care Center, P.A., incorporated herein by reference to Exhibit 10.43 to the Registration Statement 333-93043.
10.44	First Amendment to Amended and Restated Loan and Security Agreement, dated as of June 30, 2000, by and among Bank Austria Creditanstalt Corporate Finance, Inc., and the Registrant, incorporated herein by reference to Exhibit 10.9 to the Registrant's Form 10-Q filed on August 14, 2000.

10.45	Second Amendment to Amended and Restated Loan and Security Agreement, dated as of October 10, 2000, by and among the Registrant and Bank Austria Creditanstalt Corporate Finance, Inc., incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, Exhibit 10.11.
10.47	Secured promissory note dated as of October 10, 2000, made by the Registrant to Alexander Enterprise Holdings Corp., incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, Exhibit 10.12
10.48	Security Agreement dated as of October 10, 2000, among the Registrant, OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc., Consolidated Eye Care, Inc. and each of the other subsidiaries and affiliates of the Registrant listed on the signature pages thereto, in favor of Alexander Enterprise Holdings Corp., incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, Exhibit 10.13.
10.49	Amended and Restated Secured Promissory Note issued as of October 10, 2000, by OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc. and Consolidated Eye Care, Inc. to Alexander Enterprise Holdings Corp. ("Bridge Loan") , incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10.49.
10.50	Employment Agreement between the Registrant and Jason M. Harrold, effective July 1, 2000, incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, Exhibit 10.10. +
10.51	Pre-workout Agreement dated February 26, 2001, among Bank Austria Creditanstalt Corporate Finance, Inc. and OptiCare Eye Health Network, Inc., OptiCare Eye Health Centers, Inc., PrimeVision Health Inc., and the Registrant, incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10.51.
10.52	OptiCare Directors' and Officers' Trust Agreement dated November 7, 2001, between the Registrant and Norman S. Drubner, Esq., as Trustee, incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10.52. +
10.53	Agreement for Consulting Services between Morris Anderson and Associates, Ltd. and OptiCare Health Systems, Inc. dated April 16, 2001, incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10.53.
10.54	Form of Warrant to purchase 2,250,000 shares of common stock issued in connection with the Secured Promissory Note issued as of October 10, 2000, by OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc. and OptiCare Eye Health Network, Inc. to Medici Investment Corp., incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000,

Exhibit 10.54.

10.55 Form of Warrant to purchase 300,000 shares and 2,000,000 shares of common stock issued in connection with the Amended and Restated Secured Promissory Note issued as of October 10, 2000, by OptiCare Eye Health Centers, Inc., PrimeVision Health,

Inc. and OptiCare Eye Health Network, Inc. to Medici Investment Corp., incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10.55.

10.56 Form of Warrant to purchase 50,000 shares of common stock issued in connection with the Amended and Restated Secured Promissory Note issued as of October 10, 2000, by OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc. and OptiCare Eye Health Network, Inc. to Dean J. Yimoyines, M.D., incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10.56.

10.57 Form of Warrant to purchase 400,000 shares of common stock issued in connection with the Amended and Restated Secured Promissory Note issued as of October 10, 2000, by OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc. and OptiCare Eye Health Network, Inc. to Palisade Concentrated Equity Partnership, L.P., incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10.57.

10.58 Third Amendment to Amended and Restated Loan and Security Agreement, dated as of January 5, 2001, by and among Bank Austria Creditanstalt Corporate Finance, Inc. and OptiCare Eye Health Network, Inc., OptiCare Eye Health Centers, Inc., PrimeVision Health Inc., and the Registrant, incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10.58.

10.59 Amendment to Security Agreement dated as of January 5, 2001, among the Registrant, OptiCare Eye Health Centers, Inc., PrimeVision Health, Inc., Consolidated Eye Care, Inc. and each of the other subsidiaries and affiliates of the Registrant listed on the signature pages thereto, in favor of Alexander Enterprise Holdings Corp., incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, Exhibit 10.59.

10.60 Restructure Agreement dated December 17, 2001, among Palisade Concentrated Equity Partnership, L.P., Dean J. Yimoyines, M.D. and the Company, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.1.

10.61 Amendment No. 1, dated January 5, 2002, to the Restructure Agreement dated December 17, 2001, among Palisade Concentrated Equity Partnership. L.P., Dean J. Yimoyines,

	M.D. and the Company, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.2.
10.62	Amendment No. 2, dated January 22, 2002, to the Restructure Agreement dated December 17, 2001, among Palisade Concentrated Equity Partnership, L.P. Dean J. Yimoyines, M.D. and the Company, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.3.
10.63	Senior Secured Subordinated Note dated January 25, 2002, in the principal sum of $13,900,000, issued by the Company to Palisade Concentrated Equity Partnership, L.P., incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.4.
10.64	Senior Secured Subordinated Note dated January 25, 2002, in the principal sum of $100,000, issued by the Company to Linda Yimoyines, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.5.
10.65	Subordinated Pledge and Security Agreement dated as of January 25, 2002, by the Company (including certain of its subsidiaries) as grantor, and Palisade Concentrated Equity Partnership, L.P., as secured party and agent for the other secured party (Linda Yimoyines), securing the senior secured subordinated notes made by the Company to

	the secured parties dated January 25, 2002, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.6.
10.66	Form of Warrant dated January 25, 2002, issued to Palisade Concentrated Equity Partnership, L.P., for the purchase of up to 17,375,000 shares of common stock., incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 3.4.
10.67	Form of Warrant dated January 25, 2002, issued to Linda Yimoyines, for the purchase of up to 125,000 shares of common stock, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 3.5.
10.68	Form of Warrant dated January 25, 2002, issued to CapitalSource Finance, LLC, for the purchase of up to 250,000 shares of common stock, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 3.6.
10.69	Registration Rights Agreement dated January 25, 2002, covering common stock held by Palisade, common stock issuable on conversion of the Series B Preferred Stock and exercise of the warrants issued to Palisade, Linda

	Yimoyines and CapitalSource Finance, L.L.C., incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.7.
10.70	Subordination Agreement dated January 25, 2002, among Palisade Concentrated Equity Partnership, L.P., Linda Yimoyines, CapitalSource Finance, L.L.C. and the Company, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.8.
10.71	Amended and Restated Revolving Credit, Term Loan and Security Agreement dated as of January 25, 2002, between CapitalSource Finance, L.L.C. and the Company, including Annex I, Financial Covenants, and Appendix I, Definitions, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.9.
10.72	Reassignment of Rights to Payments under Services Agreements, Physician Notes and Physician Security Agreements, between Bank Austria Creditanstalt Corporate Finance, Inc., and the Company, dated January 25, 2002, incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.10.
10.73	Assignment and Assumption Agreement dated January 25, 2002, between Bank Austria Creditanstalt Corporate Finance, Inc., and CapitalSource Finance, L.L.C., incorporated herein by reference to the Registrant's Current Report on Form 8-K dated January 25, 2002, Exhibit 10.11.
10.74	OptiCare Directors' & Officers' Tail Policy Trust dated January 10, 2002, between the Registrant and Norman S. Drubner, Esq.,as trustee. +
10.75	Employment Agreement dated as of September 1, 2001, between the Registrant and William Blaskiewicz, incorporated herein by reference to Exhibit 10.21 of the Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2001.+
10.76	Form of Employment Letter Agreement between the company and Christopher J. Walls dated February 18, 2002.*+

* Filed herewith.
\+ Management or compensatory plan.

b. Reports filed on Form 8-K filed in the period covered by this report:

The Company filed a Current Report on Form 8-K with the Securities and Exchange Commission on February 11, 2002 relating to a series of transactions which resulted in a change of control and three new members of the Board of Directors (as described in Item 1 to the Form 8-K) and a major restructuring of its debt, equity and voting capital stock (as described in Item 5 to the Form 8-K).

SIGNATURE

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

Date: May 15, 2002

OPTICARE HEALTH SYSTEMS, INC.

By: /s/ William A. Blaskiewicz

William A. Blaskiewicz
Vice President and
Chief Financial Officer
(Principal Financial and Accounting
Officer and duly authorized officer)