

1 800 CONTACTS INC
Form DEFM14A
August 07, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

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.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- 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:
1-800 CONTACTS, INC. common stock, par value \$0.01 per share (Common Stock) |
| (2) | Aggregate number of securities to which transaction applies:
14,085,965 shares of Common Stock and options to purchase 714,470 shares of Common Stock. |
| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
The proposed maximum aggregate value of the transaction for purposes of calculating the filing fee only is \$10,651. The filing fee was determined by adding (a) the product of (i) the 14,085,965 shares of Common Stock that are proposed to be retired in the merger and (ii) the merger consideration of \$24.25 per share of Common Stock, plus (b) \$5,331,035 expected to be paid upon cancellation of all outstanding options (the Total Consideration). The filing fee was calculated by multiplying the Total Consideration by .0000307. |
| (4) | Proposed maximum aggregate value of transaction:
\$346,915,686.25 |
| (5) | Total fee paid:
\$10,651 |
- Fee paid previously with preliminary materials.
 Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- | | |
|-----|---|
| (1) | Amount Previously Paid: |
| (2) | Form, Schedule or Registration Statement No.: |
| (3) | Filing Party: |

(4)

Date Filed:

1-800 CONTACTS, INC.
66 E. Wadsworth Park Drive
Draper, Utah 84020

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

To the Stockholders of 1-800 CONTACTS, INC.:

You are cordially invited to attend a special meeting of stockholders, including any adjournment or postponement of the special meeting, of 1-800 CONTACTS, INC. to be held on September 6, 2007 at 8:00 a.m., Mountain time, at our executive offices, 66 E. Wadsworth Park Drive, Draper, Utah 84020.

At the special meeting you will be asked to consider and vote upon a proposal to approve and adopt the merger agreement entered into by 1-800 CONTACTS with Alta Parent Corp. and Alta Acquisition Corp., which were organized to effect the merger and related transactions at the direction of Fenway Partners Capital Fund III, L.P. The merger agreement provides for the merger of Alta Acquisition Corp. with and into 1-800 CONTACTS, with 1-800 CONTACTS continuing as the surviving corporation. In connection with the merger, we expect that certain members of our board of directors and senior management will exchange a portion of their equity interests in 1-800 CONTACTS for equity interests in the parent company of Alta Parent Corp.

If the merger is completed, each share of our common stock issued and outstanding (other than shares held in treasury, shares owned by Alta Parent Corp. immediately prior to the effective time of the merger (including shares to be exchanged for equity interests in the parent company of Alta Parent Corp. by the continuing investors) or shares held by stockholders who are entitled to and who properly exercise appraisal rights under Delaware law) at the effective time of the merger will be canceled and converted into the right to receive \$24.25 in cash. As a result of the merger, all of the outstanding common stock of 1-800 CONTACTS will be privately owned by a group of investors led by Fenway Partners Capital Fund III, L.P. and continuing investors.

In order to evaluate the advisability of the merger, our board of directors formed a transactions committee of our board, consisting of four independent directors. The transactions committee has unanimously recommended to our board of directors that the merger and the merger agreement be approved and adopted. In its evaluation of the merger, the transactions committee considered the opinion of Sonenshine Partners LLC, its independent financial advisor, to the effect that, as of the date of such opinion, the cash merger consideration of \$24.25 per share to be received by our stockholders is fair to such holders from a financial point of view. Sonenshine Partners' opinion is subject to the assumptions, limitations and qualifications set forth in its written opinion, which is attached as Annex C to the enclosed proxy statement.

Both the transactions committee and our board of directors have determined that the merger agreement is fair to and in the best interests of 1-800 CONTACTS and our stockholders and recommend that you approve and adopt the merger agreement.

The attached proxy statement provides you with detailed information about the proposed merger and merger agreement. We urge you to read the entire document carefully. The affirmative vote of holders of a majority of the outstanding shares of our common stock is required to adopt the merger agreement and the merger.

Regardless of the number of shares you own, your vote is very important. Whether or not you plan to attend the meeting, please complete, sign, date and mail the enclosed proxy card, or submit your proxy by telephone or the Internet.

Jonathan C. Coon
Chairman and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved this transaction, or passed upon the fairness or merits of this transaction or the adequacy or accuracy of the enclosed proxy statement. Any representation

to the contrary is a criminal offense.

This proxy statement is dated August 7, 2007 and is first being mailed to stockholders on or about August 8, 2007.

1-800 CONTACTS, INC.
66 E. Wadsworth Park Drive
Draper, Utah 84020

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON SEPTEMBER 6, 2007

To 1-800 CONTACTS, INC. Stockholders:

We will hold a special meeting of stockholders of 1-800 CONTACTS, INC. on Thursday, September 6, 2007 at 8:00 a.m., Mountain time, at our executive offices, 66 E. Wadsworth Park Drive, Draper, Utah 84020. The purpose of the special meeting is:

1. To consider and vote upon a proposal to approve and adopt the merger agreement entered into by 1-800 CONTACTS with Alta Parent Corp. and Alta Acquisition Corp., which, among other things, provides for the merger of Alta Acquisition Corp. with and into 1-800 CONTACTS, with 1-800 CONTACTS continuing as the surviving corporation. The affirmative vote of the holders of a majority of our common stock entitled to vote thereon is required to adopt the merger agreement.
2. To consider and vote upon any proposal to adjourn or postpone the special meeting to a later date if necessary or appropriate, including an adjournment or postponement to solicit additional proxies if there are not sufficient votes in favor of the approval and adoption of the merger agreement; and
3. To transact such other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

We have described the merger agreement and merger in the accompanying proxy statement, which you should read in its entirety before voting. A copy of the merger agreement is attached as Annex A to the proxy statement. The record date to determine who is entitled to vote at the meeting is August 6, 2007. Only holders of our common stock at the close of business on the record date are entitled to notice of, and to vote at, the meeting.

Stockholders who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares of our common stock if they deliver a demand for appraisal before the vote is taken on the merger agreement and comply with all the requirements of Delaware law, which are summarized in the accompanying proxy statement.

Your vote is important. You should complete, sign, date and return the enclosed proxy card as soon as possible to make sure your shares are represented at the meeting. If you attend the meeting and wish to vote in person, you may revoke your proxy and vote in person. If you have instructed a broker to vote your shares, you must follow directions received from the broker to change or revoke your proxy.

By Order of the Board of Directors,

R. Joe Zeidner
Secretary

August 7, 2007
Draper, Utah

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING SELF-ADDRESSED POSTAGE PRE-PAID ENVELOPE OR BY FOLLOWING THE INTERNET OR TELEPHONE VOTING INSTRUCTIONS AS SOON AS POSSIBLE.

SUMMARY VOTING INSTRUCTIONS

YOUR VOTE IS IMPORTANT

Ensure that your 1-800 CONTACTS common stock can be voted at the special meeting by submitting your proxy or contacting your broker, bank or other nominee. If you do not vote or do not instruct your broker, bank or other nominee how to vote, it will have the same effect as voting AGAINST the approval and adoption of the merger agreement.

If your 1-800 CONTACTS common stock is registered in the name of a broker, bank or other nominee: check the voting instruction card forwarded by your broker, bank or other nominee to see which voting options are available or contact your broker, bank or other nominee in order to obtain directions as to how to ensure that your shares of common stock are voted in favor of the proposals at the special meeting.

If your 1-800 CONTACTS common stock is registered in your name: submit your proxy as soon as possible by telephone, via the Internet or by signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope, so that your shares can be voted in favor of the proposals at the special meeting. Instructions regarding telephone and Internet voting are included on the proxy card.

If you need assistance in completing your proxy card or have questions regarding the special meeting, please contact:

1-800 CONTACTS, INC.
66 E. Wadsworth Park Drive
Draper, Utah 84020
Attention: Corporate Secretary
Telephone: (801) 316-5000

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1-800 CONTACTS, INC.
66 E. Wadsworth Park Drive
Draper, Utah 84020

PROXY STATEMENT

SUMMARY TERM SHEET

The following summary briefly describes the material information in this proxy statement, including the material terms of the proposed merger. This summary does not contain all the information that may be important for you to consider when evaluating the merger. We encourage you to read this proxy statement and the documents we have incorporated by reference before voting. We have included section references to direct you to a more complete description of the topics described in this summary. Unless the context requires otherwise, references in this proxy statement to we, us, our, our company or 1-800 CONTACTS refer to 1-800 CONTACTS, INC. and its subsidiaries.

The Special Meeting (page 17)

This proxy statement contains information related to our special meeting of stockholders to be held on September 6, 2007, at our executive offices, 66 E. Wadsworth Park Drive, Draper, Utah 84020 at 8:00 a.m., Mountain time, and at any adjournments or postponements thereof. **We are furnishing this proxy statement to our stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting.** At the special meeting you will be asked to, among other things, consider and vote to approve and adopt the merger and the merger agreement.

Record Date and Quorum Requirement (page 17)

Only holders of record of our common stock at the close of business on August 6, 2007, the record date, are entitled to notice of and to vote at the special meeting. On the record date, 14,085,965 shares of our common stock were issued and outstanding and held by 170 holders of record.

Vote Required (page 18)

Each stockholder of record on the record date is entitled to one vote on each matter submitted to a vote at the meeting for each share of our common stock held. A majority of the shares of our common stock outstanding on the record date represented in person or by proxy constitutes a quorum for consideration of such matters at the meeting. The affirmative vote of at least a majority of shares of our common stock outstanding and entitled to vote is required to adopt the merger agreement. Delaware corporate law requires that our stockholders adopt the merger agreement before we can complete the merger. Because the vote is based on the number of shares of common stock outstanding rather than the number of votes cast, a failure to vote shares and broker non-votes will have the same effect as voting against the merger agreement.

Mr. Jonathan C. Coon, our Chairman and Chief Executive Officer, Mr. John F. Nichols, our Vice President, Trade Relations and one of our directors, and two investment funds controlled by Mr. Frank LaGrange Johnson, one of our directors, have, together with certain of their affiliates, each executed a support agreement with Alta Parent Corp. and Alta Acquisition Corp., pursuant to which they have agreed, among other things, to vote 5,636,361 shares of our common stock owned by them in the aggregate (constituting approximately 40% of the fully diluted shares of our common stock on the date we signed the

merger agreement, or 40% of the outstanding shares of our common stock entitled to vote at the special meeting) in favor of the approval and adoption of the merger agreement at the special meeting. See **SPECIAL FACTORS** Interests of Certain Persons in the Merger. As of the record date, our directors and executive officers and their affiliates were the beneficial owners of an aggregate of 6,048,588 (approximately 43%) of the shares of our common stock then outstanding and eligible to vote. Our directors and executive officers have informed us that they intend to vote their shares of common stock in favor of adopting the merger agreement.

Parties to the Merger (page 20)

1-800 CONTACTS. 1-800 CONTACTS is a Delaware corporation that is a direct marketer of replacement contact lenses. We sell all of the popular brands of contacts lenses, including those manufactured by Johnson & Johnson Vision Care, CIBA Vision, CooperVision and Bausch & Lomb. We sell contact lenses primarily through our easy-to-remember, toll-free telephone number, 1-800 CONTACTS (1-800-266-8228), and through our Internet addresses.

Alta Acquisition Corp. Alta Acquisition Corp. (*Acquisition*) is a Delaware corporation incorporated on June 1, 2007, at the direction of Fenway Partners Capital Fund III, L.P., a private equity fund (*Fenway*), for the purpose of engaging in the transactions set forth in the merger agreement, and is not engaged in any other business activities. All of the outstanding capital stock of Alta Acquisition Corp. is owned by Alta Parent Corp.

Alta Parent Corp. Alta Parent Corp. (*Parent*) is a Delaware corporation incorporated on June 1, 2007, at the direction of Fenway for the purpose of engaging in the transactions set forth in the merger agreement, and is not engaged in any other business activities. If the merger is completed, a group of investors led by Fenway and certain members of our board of directors and senior management will own all of the outstanding capital stock of Parent through a newly formed Delaware limited partnership (*Holdings*). In connection with the merger, we expect that certain members of our board of directors and senior management will exchange all or a portion of their equity interests in 1-800 CONTACTS and/or pay cash for equity interests in Holdings.

Fenway Partners Capital Fund III, L.P. Fenway is a Delaware limited partnership whose general partner is Fenway Partners III, LLC, a Delaware limited liability company (*Fenway GP*).

The Merger (page 62)

If the merger agreement is adopted by the stockholders and the other conditions to the closing of the merger are either satisfied or waived, Acquisition will be merged with and into 1-800 CONTACTS, with 1-800 CONTACTS being the surviving corporation. After the merger, 1-800 CONTACTS will become a privately held company owned by a group of investors led by Fenway and the continuing investors. We sometimes use the term *surviving corporation* in this proxy statement to refer to 1-800 CONTACTS as the surviving entity following the merger.

The closing date of the merger will be no later than the third business day after all the closing conditions set forth in the merger agreement are satisfied or waived by us, Parent or Acquisition, as applicable. If the closing date would otherwise occur at any time from and including August 24, 2007 to and including September 5, 2007, the closing date may be deferred by Parent or us until September 6, 2007.

What You will Receive in the Merger (page 62)

If you are not a dissenting stockholder as described below, you will receive \$24.25 in cash for each share of our common stock that you own at the effective time of the merger.

Payment for Stock Certificates (page 15)

Promptly after the merger, the paying agent for the merger will send a letter of transmittal to you to be used for surrendering your 1-800 CONTACTS common stock certificates for \$24.25 in cash per share. You should not send in your 1-800 CONTACTS common stock certificates until you receive the letter of transmittal.

Background of the Merger (page 21)

For a description of the events leading up to the adoption of the merger agreement by our board of directors, you should refer to **SPECIAL FACTORS** Background of the Merger.

Recommendation of the Transactions Committee and the Board of Directors (page 26)

A transactions committee of independent directors of 1-800 CONTACTS and our board of directors carefully reviewed and considered the terms and conditions of the merger and the merger agreement and determined that the merger agreement is fair to and in the best interests of 1-800 CONTACTS and our stockholders and the merger consideration to be received by our stockholders in the merger is fair to such stockholders. The members of the transactions committee are Mr. Stephen L. Key (chair), Mr. Thomas H. Boggs, Jr., Mr. Bradley T. Knight and Mr. Garth T. Vincent. The transactions committee unanimously recommended to our board of directors that the merger and the merger agreement be approved and adopted. By a vote of the directors at a meeting at which a quorum of directors was present, our board of directors approved and adopted the merger and the merger agreement and concluded that the merger is fair to our stockholders. Accordingly, our board of directors recommends that you vote to approve and adopt the merger and the merger agreement. See **SPECIAL FACTORS** Background of the Merger and Recommendation of the Transactions Committee and Board of Directors; Reasons For the Merger; Fairness of the Merger.

Opinion of Financial Advisor (page 31)

At a meeting of our board of directors held on June 3, 2007, Sonenshine Partners LLC (**Sonenshine Partners**), the board's financial advisor, delivered an oral opinion (subsequently confirmed in writing), that the consideration to be received by the holders of shares of our common stock pursuant to the merger was fair, from a financial point of view, to such holders. The full text of Sonenshine Partners' written opinion is attached to this proxy statement as Annex C. We encourage you to carefully read this opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Pursuant to the terms of an engagement letter, we will pay Sonenshine Partners a fee of approximately \$5.72 million, of which approximately \$4.0 million is due upon the consummation of the merger and is payable only if the merger is completed. We have also agreed to reimburse Sonenshine Partners for its reasonable out-of-pocket expenses, including the reasonable expenses of legal counsel, and to indemnify Sonenshine Partners and related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement. *The opinion of Sonenshine Partners is directed only to the matters described in the opinion and does not constitute a recommendation to any stockholder as to how you should vote on any matter at the special meeting.*

Applicability of Securities and Exchange Commission Rules Related to Going Private Transactions (pages 26, 29, 30, 40, 41 and 42)

The requirements of Rule 13e-3 under the Securities Exchange Act of 1934, as amended (the **Exchange Act**), apply to the merger because certain of our affiliates are deemed to be engaged in a going private transaction under Rule 13e-3 and related rules under the Exchange Act. These affiliates include Messrs. Coon and Nichols, Mr. Brian W. Bethers, our President, Mr. Robert G. Hunter, our Chief

Financial Officer, Kevin K. McCallum, our Chief Marketing Officer, John R. Murray, our Chief Information Officer, Max E. Neves, our Vice President, Human Resources, and R. Joe Zeidner, our General Counsel and Chief Legal Officer, LaGrange Capital Partners, LP, a Delaware limited partnership (LaGrange Capital), LaGrange Capital Partners Offshore Fund, Ltd., a Cayman Islands exempted company (LaGrange Offshore), LaGrange Capital Administration, LLC, a Delaware limited liability company and the investment manager of LaGrange Capital Offshore (LaGrange Administration), LaGrange Capital Management, LLC, a Delaware limited liability company and the general partner of LaGrange Capital Partners (LaGrange Management) and Mr. Johnson. In addition, Parent, Acquisition, Fenway and Fenway GP could also be deemed to be engaged in a going private transaction under these rules. To comply with the requirements of Rule 13e-3, our board of directors, Messrs. Coon, Nichols, Bethers, Hunter, McCallum, Murray and Neves, LaGrange Capital, LaGrange Offshore, LaGrange Administration, LaGrange Management, Mr. Johnson, Parent, Acquisition, Fenway and Fenway GP make certain statements in this proxy statement as to, among other matters, their purposes and reasons for the merger, and their belief as to the fairness of the merger to our unaffiliated stockholders. See SPECIAL FACTORS Purpose and Reasons for the Merger of Management Investors, Purpose and Reasons for the Merger of LaGrange Investors, Purpose and Reasons for the Merger of Parent, Acquisition, Fenway and Fenway GP, Position of Management Investors as to the Fairness of the Merger, Position of LaGrange Investors as to the Fairness of the Merger and Position of Parent, Acquisition, Fenway and Fenway GP as to the Fairness of the Merger.

Certain Effects of the Merger (page 44)

Upon consummation of the merger, all shares of our common stock issued and outstanding immediately prior to the effective time of the merger (other than shares held in treasury, shares owned by Parent immediately prior to the effective time of the merger (including shares to be exchanged for equity interests in the parent company of Parent by the continuing investors) or shares held by stockholders who are entitled to and who properly exercise appraisal rights under Delaware law) will be canceled and converted into the right to receive \$24.25 in cash. After the merger, our capital stock will be privately held by a group of investors led by Fenway and the continuing investors.

Upon the consummation of the merger, all outstanding options to acquire our common stock will become fully vested and immediately exercisable and all such options not exercised prior to the merger will be canceled and converted into a right to receive a cash payment equal to the number of shares of our common stock underlying the options multiplied by the amount (if any) by which \$24.25 exceeds the option exercise price, without interest and less any applicable withholding taxes.

Each share of restricted stock that is vested and outstanding as of the effective time of the merger, and each share of restricted stock that is unvested as of the effective time of the merger and whose vesting is, by its terms, accelerated to the effective time of the merger as a result of the merger, will be canceled, with the holder of each such share of restricted stock receiving the \$24.25 per share merger consideration in cash, without interest and less any applicable withholding taxes. Each share of restricted stock whose vesting is not, by its terms, accelerated to the effective time of the merger as a result of the merger will be canceled, with the holder of each such share of restricted stock receiving the \$24.25 per share merger consideration, without interest and less any applicable withholding taxes, at the times set forth in the applicable agreement governing the grant of any such share. In the case of our executive officers, the restricted stock agreements generally provide that upon a change in control, 33% of any unvested time-vesting and performance-vesting restricted shares held by an executive officer vest immediately, and any remaining unvested time-vesting and performance-vesting restricted shares vest in equal quarterly installments over a two-year period commencing on the date of a change in control.

Upon the completion of the merger, our common stock will be delisted from the Nasdaq Global Market and the registration of our common stock under the Exchange Act will be terminated.

Interests of Certain Persons in the Merger (page 47)

In connection with the execution of the merger agreement, Fenway agreed with Mr. Jonathan C. Coon, our Chairman and Chief Executive Officer, and Mr. John F. Nichols, our Vice President, Trade Relations and one of our directors, that they would collectively have the right to acquire at or prior to the completion of the merger equity interests in Holdings, which will be the ultimate parent company of 1-800 CONTACTS following the merger, having a value of at least \$25.0 million in the aggregate. We have been informed by Messrs. Coon and Nichols that they intend to acquire the entire amount allotted. In addition, Messrs. Coon and Nichols have informed us that they may be permitted to, and intend to, acquire up to an additional \$5.0 million of equity interests in Holdings, for a total investment of \$30.0 million in the aggregate. Upon completion of the merger, assuming their acquisition of \$30.0 million of equity interests in Holdings, Messrs. Coon and Nichols will collectively own approximately 21% of the outstanding equity interests in Holdings. In addition, Fenway anticipates that Mr. Brian W. Bethers, our President, Mr. Robert G. Hunter, our Chief Financial Officer, Mr. Kevin K. McCallum, our Chief Marketing Officer, Mr. John R. Murray, our Chief Information Officer, Mr. Max E. Neves, our Vice President, Human Resources, Mr. R. Joe Zeidner, our General Counsel and Chief Legal Officer, Mr. David G. Walker, our Vice President, Operations and Mr. Allen T. Hwang, our Vice President, Marketing, will acquire equity interests in Holdings having a value of up to \$2.0 million in the aggregate. Finally, Fenway anticipates that LaGrange Capital and LaGrange Offshore will acquire equity interests in Holdings having a value of up to \$5.0 million. Substantive discussions regarding the terms on which these continuing investors would make an investment in Holdings are ongoing at this time. For ease of reference, we sometimes refer to Messrs. Coon, Nichols, Bethers, Hunter, McCallum, Murray, Neves and Zeidner collectively as the Management Investors, to LaGrange Capital, LaGrange Offshore, LaGrange Administration, LaGrange Management and Mr. Johnson collectively as the LaGrange Investors, and to the Management Investors and the LaGrange Investors, collectively, with Messrs. Walker and Hwang, as the continuing investors.

Fenway has in the past invited certain persons with whom it has commercial or investment relationships to be co-investors in its portfolio companies, and it may invite such persons to co-invest in Holdings. Fenway anticipates that none of these co-investors or their principals will be directors or officers of the surviving company or otherwise be an affiliate of Holdings.

In addition to the foregoing, certain of our directors and executive officers have interests in the merger that differ from, or are in addition to, and therefore may conflict with, your interests as a common stockholder. Our board of directors is aware of these interests and considered them in approving the merger and the other transactions contemplated by the merger agreement. These interests include:

- Certain of our directors and executive officers hold options to purchase our common stock, all of which, whether or not then vested or exercisable, will be converted into the right to receive an amount equal to the \$24.25 per share merger consideration less the applicable option exercise price at the effective time of the merger.
- Certain of our directors and executive officers hold restricted shares of common stock, some of which will have their vesting accelerated to the effective time of the merger as a result of the merger and will be treated in the same manner as our common stock, and some of which will be canceled, with the holder of each such share of restricted stock receiving the \$24.25 per share merger consideration at the times set forth in the applicable agreement governing the grant of any such share. In the case of our directors, the restricted stock agreements provide that all unvested restricted shares vest immediately upon a change in control. In the case of our executive officers, the restricted stock agreements generally provide that 33% of any unvested time-vesting and performance-vesting restricted shares held by an executive officer shall vest immediately, and any remaining unvested time-vesting and performance-vesting restricted shares vest in equal quarterly installments over a two-year period commencing on the date of a change in control.

- All of our executive officers will continue to be eligible for the severance benefits provided by their existing employment agreements with us following the completion of the merger.
- Certain of our executive officers will be granted new equity-based incentive awards in Holdings, which will be the ultimate parent company of the surviving corporation.
- We expect that certain of our directors and executive officers will serve as directors of the surviving corporation and as members of the equivalent governing body of Holdings. Discussions regarding these arrangements are ongoing at this time.
- Our directors and executive officers are entitled to indemnification by us and the surviving corporation.

Financing of the Merger (page 53)

The merger agreement does not contain any condition relating to receipt of financing by Parent and Acquisition. The total amount of funds required to complete the merger and the related transactions, including payment of estimated fees and expenses in connection with the merger, is anticipated to be approximately \$359.5 million. This amount is expected to be provided through a combination of:

- equity contributions from Fenway totaling approximately \$144.5 million; and
- debt financing totaling approximately \$215.0 million.

Fenway may assign to other affiliated and/or non-affiliated investors, with the consent of Parent, a portion of their respective commitments under the equity commitment letter delivered to Parent. See **SPECIAL FACTORS** Financing of the Merger.

Regulatory Matters (page 55)

Completion of the transactions contemplated by the merger agreement is subject to approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or the HSR Act. The parties to the merger agreement filed the required notifications and forms under the HSR Act with the Federal Trade Commission and the Department of Justice on June 8, 2007. On June 15, 2007, the Federal Trade Commission granted termination of the waiting period under the HSR Act.

Certain Material United States Federal Income Tax Consequences (page 56)

The receipt of \$24.25 in cash for each share of common stock pursuant to the merger will be a taxable transaction for United States federal income tax purposes. For United States federal income tax purposes, a U.S. holder generally will recognize gain or loss as a result of the merger measured by the difference, if any, between \$24.25 per share and such holder's adjusted tax basis in that share. However, subject to certain exceptions, a non-U.S. holder will generally not be subject to United States federal income tax on any gain or loss recognized as a result of the merger.

You should read **SPECIAL FACTORS** Certain Material United States Federal Income Tax Consequences beginning on page 56 of this proxy statement for a more complete discussion of the federal income tax consequences of the merger. Tax matters can be complicated, and the tax consequences of the merger to you will depend on your particular tax situation. **We urge you to consult your tax advisor on the tax consequences of the merger to you.**

Accounting Treatment (page 58)

The merger is intended to be accounted for under the purchase method of accounting. See **SPECIAL FACTORS** Accounting Treatment.

Appraisal Rights (page 58)

Our stockholders who follow certain procedural requirements may be entitled to receive cash in the amount of the fair value of their shares instead of the merger consideration offered pursuant to the merger. The fair value of shares of our common stock would be determined pursuant to Delaware law.

Any 1-800 CONTACTS stockholder who wishes to exercise appraisal rights must not vote in favor of the merger agreement and must comply with all of the procedural requirements provided by Delaware law. The procedures are summarized in greater detail in SPECIAL FACTORS Appraisal Rights and the relevant text of the appraisal rights statute is attached as Annex D to this proxy statement. We encourage you to read the statute carefully and to consult with legal counsel if you desire to exercise your appraisal rights. Your failure to take all of the steps required under Delaware law could result in the loss of your appraisal rights.

Important Terms of the Merger Agreement (page 62)

Conditions to the Merger. We will complete the merger only if the conditions set forth in the merger agreement are satisfied or, in some cases, waived. These conditions include:

- the adoption of the merger agreement by our stockholders;
- the termination or expiration of the waiting period applicable to the merger under the HSR Act;
- the absence of any law, statute, rule, regulation, executive order, decree, ruling, injunction or other order being enacted, entered, promulgated or enforced by any United States court or United States governmental entity which prohibits, restrains or enjoins the consummation of the merger;
- the representations and warranties of 1-800 CONTACTS, Acquisition and Parent being true and correct, in each case as of the effective time of the merger, subject in many cases to material adverse effect qualifications;
- our, Parent's and Acquisition's performance in all material respects of the obligations, and compliance in all material respects with the agreements and covenants, in the merger agreement; and
- the receipt of a consent from one of our material suppliers.

At any time before the merger, to the extent permitted by law, either we or Parent and Acquisition may waive compliance with any of the conditions contained in the merger agreement. As of the date of this proxy statement, neither we nor Parent and Acquisition expect that any condition will be waived.

Termination of the Merger Agreement. We and Parent may terminate the merger agreement by mutual written consent at any time without completing the merger.

The merger agreement may also be terminated prior to the effective time of the merger by us or by Parent by written notice to the other if:

- a court or other governmental entity in the United States issues a final order, decree or ruling, or takes any other final action restraining, enjoining or otherwise prohibiting the merger and the order, decree, ruling or other action has become final and nonappealable (so long as such party's breach of its obligation to challenge such order or action has not caused or resulted in such failure to complete the merger);
- the merger is not completed by March 31, 2008 (so long as such party's breach of the merger agreement has not caused or resulted in such failure to complete the merger); or
- our stockholders do not adopt the merger agreement.

In addition, the merger agreement may be terminated by us if:

- Parent or Acquisition breaches any representation, warranty, covenant or agreement contained in the merger agreement and the breach is not cured prior to the earlier of (A) 20 business days following notice of the breach to Parent and (B) March 31, 2008;
- we enter into a definitive agreement with respect to a Superior Proposal as described under THE MERGER AGREEMENT No Solicitation, provided that we pay the required termination fee and transaction expenses of Parent; or
- if all the conditions to the merger to be performed by us have been satisfied and the merger has not been consummated on or prior to the third business day thereafter (provided that if the third business day occurs at any time from and including August 24, 2007 to and including September 5, 2007, the third business day shall be deemed to be September 6, 2007).

Finally, the merger agreement may be terminated by Parent if:

- we breach any representation, warranty, covenant or agreement contained in the merger agreement and the breach is not cured prior to the earlier of (A) 20 business days following notice of the breach to us and (B) March 31, 2008;
- our board of directors:
 - withdraws or modifies, or proposes publicly to withdraw or modify in a manner adverse to Parent, its approval or recommendation of the merger or the merger agreement, or approves or recommends, or proposes publicly to approve or recommend, any Acquisition Proposal, as defined in THE MERGER AGREEMENT No Solicitation ;
- breaches our obligations under the merger agreement by failing to call a stockholders meeting as required by the merger agreement; or
- resolves, or any committee of our board resolves, to take any of the foregoing actions; or
- a tender or exchange offer that would constitute an Acquisition Proposal is commenced on or after the date of the merger agreement and our board or any committee thereof fails to recommend against the acceptance of the tender or exchange offer within ten business days from its commencement, or our board fails, within five business days of Parent's written request, to reaffirm its recommendation of the merger and the merger agreement, or our board or any committee of our board resolves to take any of the foregoing actions.

Termination Fee. We have agreed to pay Parent a \$10,330,550 termination fee and to reimburse Parent for the documented out-of-pocket fees and expenses reasonably incurred by Parent and Acquisition in connection with the merger agreement and the transactions contemplated thereby up to \$1,500,000 in the aggregate, if the merger agreement is terminated:

- by us to enter into a definitive agreement with respect to a Superior Proposal;
- by Parent if our board of directors:
 - withdraws or modifies, or proposes publicly to withdraw or modify in a manner adverse to Parent, its approval or recommendation of the merger or the merger agreement, or approves or recommends, or proposes publicly to approve or recommend, any Acquisition Proposal;

- breaches our obligations under the merger agreement by failing to call a stockholders meeting as required by the merger agreement; or
- resolves, or any committee of our board resolves, to take any of the foregoing actions;

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- by Parent if a tender or exchange offer that would constitute an Acquisition Proposal is commenced on or after the date of the merger agreement and our board or any committee thereof fails to recommend against the acceptance of the tender or exchange offer within ten business days from its commencement, or our board fails, within five business days of Parent's written request, to reaffirm its recommendation of the merger and the merger agreement, or our board or any committee of our board resolves to take any of the foregoing actions;
- by Parent if we breach any representation, warranty, covenant or agreement contained in the merger agreement and the breach is not cured prior to the earlier of (A) 20 business days following notice of the breach to us and (B) March 31, 2008, and, in addition,
- a proposed Acquisition Proposal is communicated to our board or any committee thereof or publicly announced prior to March 31, 2008, and
- within six months after the termination we enter into a definitive agreement with respect to, or consummate, a transaction that would have constituted an Acquisition Proposal; or
- the merger agreement is terminated by Parent or by us if, upon a vote taken at the stockholders meeting or any postponement or adjournment thereof, our stockholders do not adopt the merger agreement, or if the merger is not consummated on or before March 31, 2008, and, in addition
- a proposed Acquisition Proposal is communicated to our board or any committee thereof or publicly announced prior to the time of the special meeting or prior to the termination of the merger agreement, as the case may be, and
- within twelve months after the termination we enter into a definitive agreement with respect to, or consummate, a transaction that would have constituted an Acquisition Proposal.

Parent has agreed to pay us a \$10,330,550 termination fee if all the conditions to the merger to be performed by us have been satisfied and the merger has not been consummated on or prior to the third business day thereafter (provided that if the third business day occurs at any time from and including August 24, 2007 to and including September 5, 2007, the third business day shall be deemed to be September 6, 2007); provided, however, that the termination fee will be increased to \$13,774,000 if Parent or Acquisition willfully breaches any of its representations, warranties, covenants or other agreements set forth in the merger agreement.

Non-Solicitation of Competing Proposals. The merger agreement generally restricts our ability to solicit, initiate, knowingly facilitate or encourage any inquiries regarding any Acquisition Proposal or participate in discussions or negotiate regarding an Acquisition Proposal; however, we may respond to an unsolicited Acquisition Proposal by furnishing information with respect to us and participating in discussions and negotiations regarding the Acquisition Proposal, if our board of directors or any committee thereof determines in good faith (i) after consultation with its financial advisor, that the Acquisition Proposal constitutes or could reasonably be expected to lead to a Superior Proposal, and (ii) after consultation with outside counsel, that failure to furnish information and participate in discussions and negotiations would be inconsistent with its fiduciary duties under applicable law.

Fenway Guaranty. Pursuant to a guaranty, dated as of June 3, 2007, delivered by Fenway to us, Fenway irrevocably and unconditionally guarantees to us the payment by Parent and Acquisition of their obligation to pay the termination fee under the merger agreement, up to a maximum amount of \$13,774,000.

Modifying or Amending the Merger Agreement. We, Parent and Acquisition may, at any time prior to the effective time of the merger, amend the merger agreement by written agreement, but after our stockholders have adopted the merger agreement, no amendment may be made which by law requires the further approval of our stockholders without such further approval.

Expenses. The merger agreement provides that under certain circumstances we will reimburse Parent and Acquisition for all out-of-pocket fees and expenses reasonably incurred by Parent or Acquisition in connection with the merger agreement and the transactions contemplated thereby in an amount not to exceed \$1,500,000. See THE MERGER AGREEMENT Termination Fees and Expenses.

Market Price of 1-800 CONTACTS Common Stock (page 82)

On June 1, 2007, the last trading day prior to the public announcement of the execution of the merger agreement, the low and high reported sales price of our common stock on the Nasdaq Global Market was \$19.77 and \$20.09, respectively. The \$24.25 per share to be paid for each share of our common stock in the merger represents a premium of approximately 23% and 21% to the low and high reported sales price on June 1, 2007 and a premium of approximately 34% over the average closing share price during the 30 trading days ending June 1, 2007. See IMPORTANT INFORMATION CONCERNING 1-800 CONTACTS Market Prices of 1-800 CONTACTS Common Stock.

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers are intended to address briefly some commonly asked questions regarding the merger, the merger agreement and the special meeting. These questions and answers do not address all questions that may be important to you as a 1-800 CONTACTS stockholder. Please refer to the Summary Term Sheet and the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement, which you should read carefully.

Q: What will happen in the merger?

A: Acquisition will be merged with and into 1-800 CONTACTS, and 1-800 CONTACTS will be the surviving corporation. Acquisition and Parent are corporations formed by Fenway for the sole purpose of effecting the merger. After the merger, 1-800 CONTACTS will become a privately held company owned by a group of investors led by Fenway and the continuing investors. Accordingly, after the merger, you will no longer have an equity interest in 1-800 CONTACTS and will not participate in any potential future earnings or growth of 1-800 CONTACTS.

Q: What will be the effect of the merger?

A: You will receive \$24.25 in cash in exchange for each share of common stock owned by you at the effective time of the merger, unless you are a dissenting stockholder and you perfect your dissenter's rights under Delaware law.

Upon the consummation of the merger, all outstanding options to acquire our common stock will become fully vested and immediately exercisable and all such options not exercised prior to the merger will be canceled and converted into a right to receive a cash payment equal to the number of shares of our common stock underlying the options multiplied by the amount (if any) by which \$24.25 exceeds the option exercise price, without interest and less any applicable withholding taxes.

Each share of restricted stock that is vested and outstanding as of the effective time of the merger, and each share of restricted stock that is unvested as of the effective time of the merger and whose vesting is, by its terms, accelerated to the effective time of the merger as a result of the merger, will be canceled, with the holder of each such share of restricted stock receiving the \$24.25 per share merger consideration in cash, without interest and less any applicable withholding taxes. Each share of restricted stock whose vesting is not, by its terms, accelerated to the effective time of the merger as a result of the merger will be canceled, with the holder of each such share of restricted stock receiving the \$24.25 per share merger consideration, without interest and less any applicable withholding taxes, at the times set forth in the applicable agreement governing the grant of any such share. In the case of our directors, the restricted stock agreements provide that all unvested restricted shares vest immediately upon a change in control. In the case of our executive officers, the restricted stock agreements generally provide that upon a change in control, 33% of any unvested time-vesting and performance-vesting restricted shares held by an executive officer vest immediately, and any remaining unvested time-vesting and performance-vesting restricted shares vest in equal quarterly installments over a two-year period commencing on the date of a change in control.

Q: Who are the continuing investors?

A: The continuing investors are certain members of our senior management and board of directors and investment funds affiliated with one of our directors. The continuing investors will have some or all of their shares of our common stock and/or option equity value exchanged for equity interests in Holdings, which will be the ultimate parent company of 1-800 CONTACTS following

the merger. In some cases, continuing investors will receive varying combinations of indirect equity interests in 1-800 CONTACTS and cash in the merger.

Q: Can I choose to be a continuing investor?

A: No. The continuing investors will include only the 1-800 CONTACTS stockholders who are identified in this proxy statement and described in the preceding answer.

Q: Why was the transactions committee formed?

A: Because certain of our directors have actual or potential conflicts of interest in evaluating the merger, our board of directors appointed a transactions committee of independent directors to review and evaluate the proposed merger. The members of the transactions committee are Mr. Stephen L. Key (chair), Mr. Thomas H. Boggs, Jr., Mr. Bradley T. Knight and Mr. Garth T. Vincent. The transactions committee has unanimously recommended to our board of directors that the merger and the merger agreement be approved and adopted. In arriving at its conclusion, the transactions committee considered the opinion of Sonenshine Partners, its independent financial advisor, that, as of the date of such opinion and based upon the limitations, qualifications and assumptions described in the opinion, the cash merger consideration of \$24.25 per share to be received by our stockholders is fair to such stockholders from a financial point of view.

Q: When and where is the special meeting of stockholders of 1-800 CONTACTS?

A: The special meeting of stockholders will take place on Thursday, September 6, 2007, at our executive offices, 66 E. Wadsworth Park Drive, Draper, Utah 84020.

Q: What vote of our stockholders is required to approve and adopt the merger agreement?

A: For us to complete the merger, stockholders holding a majority of our shares of common stock outstanding at the close of business on the record date must vote **FOR** the proposal to approve and adopt the merger agreement. Because the vote is based on the number of shares of common stock outstanding rather than the number of votes cast, failure to vote your shares and broker non-votes will have the same effect as voting **AGAINST** the merger agreement. At the close of business on the record date, 14,085,965 shares of common stock were outstanding.

Certain of our existing stockholders have each executed a support agreement with Parent and Acquisition pursuant to which they have agreed to vote 5,636,631 shares owned by them in the aggregate (constituting approximately 40% of the fully diluted shares of our common stock on the date we signed the merger agreement, or 40% of the outstanding shares of our common stock entitled to vote at the special meeting) in favor of the approval and adoption of the merger agreement at the special meeting.

The existing stockholders who are parties to the support agreement are: Jonathan C. Coon; Jonathan C. Coon, as custodian under the UGMA for and on behalf of Hannah K. Coon; Jonathan C. Coon, as custodian under the UGMA for and on behalf of Abigail I. Coon; Jonathan C. Coon, as custodian under the UGMA for and on behalf of Samuel Coon; John F. Nichols; John F. Nichols, as custodian under the UGMA for and on behalf of Micah Matthew Howard; LaGrange Capital; and LaGrange Offshore. Jonathan C. Coon is our Chairman and Chief Executive Officer and John F. Nichols is our Vice President, Trade Relations and one of our directors. None of their minor children hold positions with 1-800 Contacts. LaGrange Capital and LaGrange Offshore are investment funds controlled by Frank LaGrange Johnson, one of our directors.

Q: What is the required vote for the other matters at the special meeting?

A: The approval of a proposal to adjourn or postpone the special meeting, or in the event other items are properly brought before the special meeting, requires that holders of more of our shares vote in favor of the proposal to adjourn or postpone the special meeting than vote against the proposal. A properly executed proxy marked **ABSTAIN** with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum.

Q: Who can attend and vote at the special meeting?

A: All stockholders of record as of the close of business on August 6, 2007, the record date for the special meeting, are entitled to receive notice of and to attend and vote at the special meeting, or any postponement or adjournment thereof. If you wish to attend the special meeting and your shares are held in an account at a brokerage firm, bank or other nominee (*i.e.*, in street name), you will need to bring a copy of your voting instruction card or brokerage statement reflecting your share ownership as of the record date. Street name holders who wish to vote at the special meeting will need to obtain a proxy from the broker, bank or other nominee that holds their common stock. Seating will be limited at the special meeting.

Q: How does our board of directors recommend that I vote?

A: Our board of directors recommends that our stockholders vote **FOR** the proposal to approve and adopt the merger agreement and **FOR** any proposal to adjourn or postpone the special meeting to a later date, including an adjournment or postponement to solicit additional proxies if there are not sufficient votes in favor of approval and adoption of the merger agreement.

Q: Why is our board of directors recommending that I vote FOR the proposal to approve and adopt the merger agreement?

A: After careful consideration, our board of directors adopted and declared advisable the merger agreement and the merger and related transactions, and determined that the merger is in the best interests of 1-800 CONTACTS and our stockholders. In reaching its decision to adopt the merger agreement and to recommend the approval and adoption of the merger agreement by our stockholders, the board of directors considered the recommendation of the transactions committee, consulted with our management, as well as our legal and financial advisors, and considered the terms of the proposed merger agreement and the transactions contemplated by the merger agreement. Our board of directors also considered each of the items set forth on pages 26 through 29 under **SPECIAL FACTORS Recommendation of Transactions Committee and the Board of Directors; Reasons for the Merger; Fairness of the Merger.**

Q: What rights do I have to seek appraisal for my shares?

A: If you wish, you may seek an appraisal of the fair value of your shares, but only if you comply with all requirements of Delaware law as described in the section of this proxy statement entitled **SPECIAL FACTORS Appraisal Rights** beginning on page 58 and in Annex D of this proxy statement. Depending upon the determination of the Delaware Court of Chancery, the appraised fair value of your 1-800 CONTACTS common stock, which will be paid to you if you seek an appraisal and comply with all requirements of Delaware law, may be more than, less than or equal to the per share consideration to be paid pursuant to the merger.

Merely voting against the adoption of the merger agreement will not preserve your appraisal rights under Delaware law. In order to validly exercise and perfect appraisal rights under Section 262 of the General Corporation Law of the State of Delaware (**DGCL**), among other things,

you must not vote for the adoption of the merger agreement and you must deliver to us written demand for appraisal in compliance with Delaware law prior to the vote on the merger

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agreement at the special meeting. Failure to take all of the steps required under Delaware law may result in the loss of your appraisal rights.

Q: How do I cast my vote?

A: If you were a holder of record at the close of business on August 6, 2007, you may vote in person at the special meeting or by submitting a proxy for the special meeting. You can submit your proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed, postage paid envelope. Holders of record may also vote by telephone or the Internet by following the instructions on the proxy card.

*If you properly transmit your proxy, but do not indicate how you want to vote, your proxy will be voted **FOR** the approval and adoption of the merger agreement and **FOR** a proposal to adjourn or postpone the special meeting for purposes of soliciting additional proxies.*

Q: How do I cast my vote if my shares are held in street name by my broker, bank or other nominee?

A: If you hold your shares in street name, which means your shares are held of record by a broker, bank or other nominee, you must provide the record holder of your shares with instructions on how to vote your shares in accordance with the voting directions provided by your broker, bank or other nominee. **If you do not provide your broker, banker or other nominee with instructions on how to vote your shares, it will not be permitted to vote your shares, and this will have the same effect as voting AGAINST the approval and adoption of the merger agreement.** Broker non-votes will have no effect on the other proposals. Please refer to the voting instruction card used by your broker, bank or nominee to see if you may submit voting instructions using the Internet or telephone.

Q: What will happen if I abstain from voting or fail to vote?

A: If you abstain from voting, fail to cast your vote in person or by proxy or fail to give voting instructions to your broker, bank or other nominee, it will have the same effect as a vote **AGAINST** approval and adoption of the merger agreement.

Q: Can I change my vote after I have delivered my proxy?

A: Yes. If you are a record holder, you can change your vote at any time before your proxy is voted at the special meeting by properly delivering a later-dated proxy either by mail, the Internet or telephone or attending the special meeting in person and voting. You also may revoke your proxy by delivering a notice of revocation to our corporate secretary prior to the vote at the special meeting. If your shares are held in street name, you must contact your broker, bank or other nominee to revoke your proxy.

Q: What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. **Please vote each proxy and voting instruction card that you receive.**

Q: Is the merger expected to be taxable to me?

A: Yes, if you are a United States holder. The receipt of \$24.25 in cash for each share of common stock pursuant to the merger will be a taxable transaction for United States federal income tax purposes. For United States federal income tax purposes, a United States holder generally will recognize gain or loss as a result of the merger measured

by the difference, if any, between \$24.25

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per share and such holder's adjusted tax basis in that share. However, subject to certain exceptions, a non-U.S. holder will generally not be subject to United States federal income tax on any gain or loss recognized as a result of the merger.

You should read **SPECIAL FACTORS** Certain Material United States Federal Income Tax Consequences beginning on page 56 for a more complete discussion of the United States federal income tax consequences of the merger. Tax matters can be complicated, and the tax consequences of the merger to you will depend on your particular tax situation. **We urge you to consult your tax advisor on the tax consequences of the merger to you.**

Q: If I am a holder of certificated shares of 1-800 CONTACTS common stock, should I send in my stock certificates now?

A: No. Promptly after the merger is completed, holders of record as of the time of the merger will be sent written instructions for exchanging their share certificates for the merger consideration. These instructions will tell you how and where to send in your certificates for your cash consideration. You will receive your cash payment after the paying agent receives your share certificates and any other documents requested in the instructions. Please do not send certificates with your proxy card.

If your shares are held in street name by your broker, bank or other nominee, you will receive instructions from your broker, bank or other nominee as to how to surrender your street name shares in exchange for the merger consideration.

Q: Is the merger contingent upon Acquisition or Parent obtaining financing?

A: No. The consummation of the merger is not contingent upon Acquisition or Parent obtaining financing. See **SPECIAL FACTORS** Financing of the Merger for additional information regarding how Acquisition and Parent intend to finance the merger.

Q: When do you expect the merger to be completed?

A: We are working to complete the merger as quickly as possible. We cannot, however, predict the exact timing of the merger. In order to complete the merger, we must obtain stockholder approval, and the other closing conditions under the merger agreement must be satisfied or waived. See **THE MERGER AGREEMENT** Conditions to the Merger beginning on page 72.

Q: Who can help answer my questions?

A: If you have any questions about the merger or if you need additional copies of this proxy statement or the enclosed proxy card, you should contact:

1-800 CONTACTS, INC.
66 E. Wadsworth Park Drive
Draper, Utah 84020
Attention: Corporate Secretary
Telephone: (801) 316-5000

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement contains forward-looking statements with respect to our financial condition, results of operations, plans, objectives, intentions, future performance and business and other statements that are not statements of historical facts, as well as certain information relating to the merger, including, without limitation:

- statements about the benefits of the proposed merger to our stockholders;
- the financial projections set forth in the section entitled **Important Information Concerning 1-800 CONTACTS Projected Financial Information**;
- statements with respect to our plans, objectives, expectations and intentions and other statements that are not historical facts; and
- other statements identified by words such as **will, would, likely, thinks, may, believes, expects, anticipates, estimates, intends, plans, targets, projects** and similar expressions.

These forward-looking statements involve certain risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- the satisfaction of the conditions to complete the merger, including the receipt of the required stockholder approval;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement;
- the failure of the merger to close for any other reason; and
- the amount of the costs, fees, expenses and charges related to the merger.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in reports we have filed with the Securities and Exchange Commission (the **SEC**).

Forward-looking statements speak only as of the date of this proxy statement or the date of any document incorporated by reference in this document. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Moreover, although we believe the expectations reflected in the forward-looking statements are based upon reasonable assumptions, we give no assurance that we will attain these expectations or that any deviations will not be material. Except to the extent required by applicable law or regulation, we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date of this proxy statement or to reflect the occurrence of unanticipated events. There is no safe harbor for forward-looking statements under the Private Securities Litigation Reform Act of 1995 in connection with a going-private transaction such as the merger. As a result, the reports which are incorporated by reference herein are incorporated exclusive of the language claiming the safe harbor.

THE SPECIAL MEETING

We are furnishing this proxy statement to our stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting.

Date, Time and Place

We will hold the special meeting on Thursday, September 6, at 8:00 a.m., Mountain time, at our executive offices, 66 E. Wadsworth Park Drive, Draper, Utah 84020. Seating will be limited at the special meeting.

Purpose of the Special Meeting

At the special meeting, we are asking holders of record of our common stock to consider and vote on the following proposals:

- The proposal to approve and adopt the merger agreement (see **PROPOSAL 1 APPROVAL AND ADOPTION OF THE MERGER AGREEMENT** beginning on page 20);
- Any proposal to adjourn or postpone the special meeting to a later date if necessary or appropriate, including an adjournment or postponement to solicit additional proxies if there are not sufficient votes in favor of approval and adoption of the merger agreement (see **PROPOSAL 2 ADJOURNMENT OF THE SPECIAL MEETING** beginning on page 77); and
- Any other proposal that is properly brought before the special meeting or any reconvened meeting after any adjournment or postponement of the meeting.

Recommendation of Our Board of Directors

Our board of directors recommends that our stockholders vote **FOR** the proposal to approve and adopt of the merger agreement and **FOR** any proposal to adjourn or postpone the special meeting.

Record Date; Stockholders Entitled to Vote; Quorum

Only holders of record of shares of our common stock at the close of business on August 6, 2007, the record date, are entitled to notice of and to vote at the special meeting. On the record date, 14,085,965 shares of our common stock were issued and outstanding and held by 170 holders of record. Holders of record of shares of our common stock on the record date are entitled to one vote per share of common stock at the special meeting on each proposal. Our stockholders' list will be available for inspection by any stockholder entitled to vote at the special meeting at our executive offices beginning no later than ten days before and continuing through the special meeting.

A quorum is necessary to hold a valid special meeting. A quorum will be present at the special meeting if the holders of a majority of our shares of our common stock outstanding and entitled to vote on the record date are present, in person or by proxy. If a quorum is not present at the special meeting, we expect that the special meeting will be adjourned to solicit additional proxies. Abstentions and broker non-votes count as present for establishing a quorum for the transaction of all business. Generally, broker non-votes occur when common stock held by a broker, bank or other nominee for a beneficial owner are not voted with respect to a particular proposal because (1) the broker, bank or other nominee has not received voting instructions from the beneficial owner and (2) the broker, bank or other nominee lacks discretionary voting power to vote such shares. Brokers, banks and other nominees only have discretionary voting power with respect to the proposal to adjourn or postpone the special meeting for purposes of soliciting additional proxies.

Vote Required

Approval and Adoption of the Merger Agreement

The approval of the proposal to approve and adopt the merger agreement by our stockholders requires the affirmative vote of the holders of a majority of the shares of our common stock outstanding and entitled to vote at the special meeting as of the record date, either in person or by proxy. Because the vote is based on the number of shares outstanding rather than the number of votes cast, failure to vote your shares and broker non-votes will have the same effect as voting **AGAINST** approval and adoption of the merger agreement.

Other Proposals

The approval of a proposal to adjourn or postpone the special meeting or of any other items properly brought before the special meeting requires that holders of more of our common stock vote in favor of the proposal to adjourn or postpone the special meeting than vote against the proposal. Abstentions and broker non-votes will have no effect on the outcome of such proposal.

Support Agreement

Mr. Jonathan C. Coon, our Chairman and Chief Executive Officer, Mr. John F. Nichols, our Vice President, Trade Relations and one of our directors, and LaGrange Capital and LaGrange Offshore, investment funds controlled by Mr. Frank LaGrange Johnson, one of our directors, have, together with certain of their affiliates, each executed a support agreement with Parent and Acquisition, pursuant to which they have agreed to vote 5,636,631 shares of our common stock owned by them in the aggregate (constituting approximately 40% of the fully diluted shares of our common stock on the date we signed the merger agreement, or 40% of the outstanding shares of our common stock entitled to vote at the special meeting) in favor of the approval and adoption of the merger agreement at the special meeting. See **Special Factors** **Interests of Certain Persons in the Merger**. As of the record date, our directors and executive officers and their affiliates were the beneficial owners of an aggregate of 6,048,588 (approximately 43%) of the shares of our common stock then outstanding and eligible to vote. Our directors and executive officers have informed us that they intend to vote their shares of common stock in favor of adopting the merger agreement.

Voting Procedures

Voting by Proxy or in Person at the Special Meeting

Holders of record can ensure that their shares are voted at the special meeting by completing, signing, dating and delivering the enclosed proxy card in the enclosed postage-paid envelope. Submitting by this method or voting by telephone or the Internet as described below will not affect your right to attend the special meeting and to vote in person. If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your common stock is held in **street name** by a broker, bank or other nominee and you wish to vote at the special meeting, you must bring to the special meeting a proxy from the record holder of the common stock authorizing you to vote at the special meeting.

Electronic Voting

Our holders of record and many stockholders who hold their shares of common stock through a broker, bank or other nominee will have the option to submit their proxy cards or voting instruction cards electronically by telephone or the Internet. Please note that there are separate arrangements for using the telephone depending on whether your common stock is registered in our records in your name or in the name of a broker, bank or other nominee. Some brokers, banks or other nominees may also allow voting through the Internet. If you hold your common stock through a broker, bank or other nominee, you should

check your voting instruction card forwarded by your broker, bank or other nominee to see which voting options are available.

Read and follow the instructions on your proxy or voting instruction card carefully.

Adjournments; Other Business

Adjournments may be made for the purpose of, among other things, soliciting additional proxies. An adjournment requires that holders of more of our shares vote in favor of adjournment than vote against adjournment, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting of the date, time and place at which the meeting will be reconvened. If the adjournment is for more than 120 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting will be given to each stockholder of record entitled to vote at the meeting. No proxy voted against the merger proposal will be voted in favor of any adjournment unless it is specifically marked **FOR** a proposal presented by our management to adjourn or postpone the special meeting. We do not currently intend to seek an adjournment of the special meeting.

Revocation of Proxies

Submitting a proxy on the enclosed form does not preclude a stockholder from voting in person at the special meeting. A stockholder of record may revoke a proxy at any time before it is voted by filing with our Corporate Secretary a duly executed revocation of proxy, by properly submitting a proxy by mail, the Internet or telephone with a later date or by appearing at the special meeting and voting in person. A stockholder of record may revoke a proxy by any of these methods, regardless of the method used to deliver the stockholder's previous proxy. Attendance at the special meeting without voting will not itself revoke a proxy. If your shares are held in street name, you must contact your broker, bank or other nominee to revoke your proxy.

Solicitation of Proxies

We are soliciting proxies for the special meeting from our stockholders. We will bear the entire cost of soliciting proxies from our stockholders. In addition to the solicitation of proxies by mail, we will request that banks, brokers and other record holders send proxies and proxy materials to the beneficial owners of 1-800 CONTACTS common stock held by them and secure their voting instructions if necessary. We will reimburse those record holders for their reasonable expenses in so doing. We may use several of our regular employees, who will not be specially compensated, to solicit proxies from our stockholders, either personally or by telephone, Internet, telegram, facsimile or special delivery letter.

Appraisal Rights

Under the General Corporation Law of the State of Delaware, holders of our common stock who do not vote in favor of adopting the merger agreement will have the right to seek appraisal of the fair value of their shares of common stock as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for an appraisal prior to the vote on the adoption of the merger agreement and they comply with the provisions of Section 262 of the General Corporation Law of the State of Delaware set forth in full as Annex D to this proxy statement.

Assistance

If you need assistance in completing your proxy card or have questions regarding the special meeting, please contact:

1-800 CONTACTS, INC.
66 E. Wadsworth Park Drive
Draper, Utah 84020
Attention: Corporate Secretary
Telephone: (801) 316-5000

PROPOSAL 1 APPROVAL AND ADOPTION OF THE MERGER AGREEMENT

THE PARTIES TO THE MERGER

1-800 CONTACTS

1-800 CONTACTS is a Delaware corporation that is a direct marketer of replacement contact lenses. We sell all of the popular brands of contact lenses, including those manufactured by Johnson & Johnson Vision Care, CIBA Vision, CooperVision and Bausch & Lomb. We sell contact lenses primarily through our easy-to-remember, toll-free telephone number, 1-800 CONTACTS (1-800-266-8228), and through our Internet addresses. During our most recently completed fiscal year, we generated approximately \$248.7 million in net sales.

On June 15, 2007, we sold our ClearLab Flat-Pack technology to Menicon Co., Ltd., pursuant to an asset purchase agreement dated as of May 24, 2007. On June 30, 2007, we sold ClearLab's manufacturing, distribution and customer support operation to Mi Gwang Contact Lens Co., Ltd., pursuant to a purchase agreement dated as of May 25, 2007.

A detailed discussion of our business is contained in our Annual Report on Form 10-K for the year ended December 30, 2006, which is incorporated by reference in this proxy statement. See **ADDITIONAL INFORMATION** Where You Can Find More Information.

The principal offices of 1-800 CONTACTS are located at 66 East Wadsworth Park Drive, Draper, Utah 84020, and our telephone number is (801) 316-5000. Our common stock is listed on the Nasdaq Global Market under the symbol CTAC.

Alta Acquisition Corp.

Acquisition is a Delaware corporation that was incorporated on June 1, 2007, at the direction of Fenway for the purpose of engaging in the transactions set forth in the merger agreement, and is not engaged in any other business activities. All of the outstanding capital stock of Acquisition is owned by Parent.

Alta Parent Corp.

Parent is a Delaware corporation that was incorporated on June 1, 2007, at the direction of Fenway for the purpose of engaging in the transactions set forth in the merger agreement, and is not engaged in any other business activities. At the effective time of the merger, all of outstanding capital stock of Parent will be owned by Holdings, which will be controlled by Fenway.

Fenway Partners Capital Fund III, L.P.

Fenway is a Delaware limited partnership whose general partner is Fenway GP. Fenway is a middle market private equity fund with offices in New York and Los Angeles and, together with affiliated funds, has \$1.7 billion under management.

The principal offices of each of Acquisition, Parent, Fenway and Fenway GP are located at c/o Fenway Partners Capital Fund III, L.P., 152 West 57th Street, 59th Floor, New York, New York 10019. The telephone number for each of Acquisition, Parent, Fenway and Fenway GP is (212) 698-9400.

See Annex E to this proxy statement for additional information regarding the directors and executive officers of 1-800 CONTACTS, Parent, Acquisition, Fenway and Fenway GP.

SPECIAL FACTORS

Background of the Merger

Our board of directors has, since 2003, periodically reviewed with management and Sonenshine Partners the potential strategic direction for 1-800 CONTACTS in light of market, economic, competitive, regulatory and other conditions and developments. In December 2003, we engaged Sonenshine Partners to provide financial advisory services in connection with this earlier exploration of strategic alternatives. In December 2003, we also engaged Goldman, Sachs & Co. (Goldman Sachs) for the limited purpose of exploring a specific transaction which was not consummated. Other than as described below, there have been no discussions between 1-800 CONTACTS and any potential strategic partner in the last two years that resulted in any proposals concerning any merger, consolidation, acquisition, tender offer for or acquisition of any class of our securities, election of our directors or sale or other transfer of a material amount of our assets.

From 2003 to April 2005, we engaged in exploratory merger talks with certain potential strategic buyers. The potential strategic buyers indicated they were not interested in acquiring the ClearLab business as part of our company. The ClearLab business was not profitable, and our ownership of ClearLab prevented ClearLab from selling their products at wholesale in the United States because those products would have competed with products sourced from our four major suppliers. Because our management and our board believed that ClearLab would be more valuable to another owner and that the ClearLab business impaired the value and achievability of a sale of 1-800 CONTACTS, our board elected to pursue the sale of ClearLab.

In June 2006, we modified the engagement letter with Sonenshine Partners to include advice on strategic alternatives for our ClearLab businesses in the United Kingdom and Singapore and to provide for a possible engagement on other strategic alternatives for 1-800 CONTACTS. In July 2006, we announced that 1-800 CONTACTS management and directors had begun to evaluate a broad range of strategic alternatives in an effort to capitalize on the value of ClearLab and that among the options being considered to maximize value for our stockholders was the separation of ClearLab from 1-800 CONTACTS. As the evaluation of that potential separation proceeded, our board of directors also began a review of our core U.S. retail business and, in December 2006, engaged Sonenshine Partners to assist in conducting this broader review, including by commencing contacts with potential acquirors of 1-800 CONTACTS. In its review of our core U.S. retail business, our board of directors considered a number of strategic alternatives, including remaining an independent public company. The board considered the challenges we faced as an independent public company, including stock market challenges resulting from the limited public float and low average daily trading volume of our common stock, as well as the costs associated with being a public company. The board of directors also considered the uncertainty of opportunities for our future growth and the significant future marketing and advertising spending that would be required for growth. Over the past few years, our board of directors and management have from time to time explored the possibility of contacting potential acquisition candidates, but found no acquisition opportunities in our industry that, when combined with our business, would have the potential to address the challenges facing 1-800 CONTACTS.

In July 2006, we revised our engagement letter with Goldman Sachs to redefine the services Goldman Sachs would provide, in light of our announcement that month of our evaluation of our strategic alternatives. These redefined services were limited to providing the names of companies (and contacts at those companies) that might be interested in a potential merger with 1-800 CONTACTS. Pursuant to Goldman Sachs' amended engagement letter, we will pay a transaction fee to Goldman Sachs of \$1,000,000 contingent upon the closing of the merger.

Beginning in December 2006, Sonenshine Partners contacted 85 potential strategic and financial buyers for 1-800 CONTACTS (excluding the ClearLab businesses). That group of potential buyers included 32 strategic parties and 53 financial sponsors.

On December 15, 2006, we executed a non-disclosure agreement with a strategic party that we refer to herein as Bidder A.

On January 12, 2007, Mr. Jonathan C. Coon, our Chairman and Chief Executive Officer, Mr. Brian W. Bethers, our President, Mr. Robert G. Hunter, our Chief Financial Officer, Mr. Kevin K. McCallum, our Chief Marketing Officer, and representatives of Sonenshine Partners met in person with representatives of Bidder A at its headquarters location to discuss the parties respective business operations, relative valuations and potential business combination opportunities.

On January 30, 2007, we executed a non-disclosure agreement with a financial sponsor that we refer to herein as Bidder B.

On February 5, 2007, our board of directors created a steering committee to supervise the strategic review process, with respect to both the ClearLab business and the core U.S. retail business. The steering committee consisted of Mr. Stephen L. Key (chair), Mr. E. Dean Butler, Mr. Jonathan C. Coon and Mr. Frank LaGrange Johnson.

In February 2007, we engaged Kirkland & Ellis LLP as legal counsel to the steering committee and the board of directors.

Effective February 27, 2007, we executed an amended and restated non-disclosure agreement with Bidder A in order to make minor changes intended to clarify the scope of the parties respective non-disclosure obligations. This amended and restated agreement superseded the agreement executed on December 15, 2006.

On February 28, 2007, representatives of Bidder A met in person with members of our management team at our offices in Draper, Utah. At this meeting, the representatives of Bidder A toured our facilities and continued their discussions with our management regarding potential business combination opportunities.

On each of February 9, March 1, March 7, March 22 and April 11, the steering committee held telephonic meetings to review with Sonenshine Partners and management the status of the strategic reviews and, in particular, the negotiations for the divestiture of the ClearLab assets.

On March 6, 2007, we announced that we had broadened the strategic review to include the U.S. retail business and that Sonenshine Partners would continue to act as our lead financial advisor, with Goldman, Sachs also retained to assist with the review of our retail business. Goldman Sachs did not provide any reports, opinions or appraisals or give strategic advice to us in connection with the review of our retail business.

By March 2007, we had executed non-disclosure agreements with 28 interested parties, including Fenway, and management had made presentations on the U.S. retail business to 11 of those 28 parties. Sonenshine Partners delivered instructions to each of the 28 interested parties requesting that preliminary proposals for a transaction with 1-800 CONTACTS be submitted in writing to Sonenshine Partners no later than March 30, 2007.

On March 13, 2007, management made a presentation to representatives of Fenway.

On or around March 30, 2007, we received preliminary proposals from six parties all financial sponsors ranging from approximately \$18.00 to \$22.00 per share of common stock. On March 30, 2007, Fenway made a preliminary proposal to acquire us for a price of \$21.50 to \$22.00 per share of common stock. Until mid-May 2007 (or such earlier date as a bidder informed us that it was no longer interested in pursuing a transaction with us), all six bidders had access to an online data site that provided them with confidential information about 1-800 CONTACTS that could help inform their final bids.

Throughout March, April and May 2007, various representatives of 1-800 CONTACTS and Sonenshine Partners participated in telephone calls and meetings with each of the six financial sponsors that submitted preliminary proposals, including Fenway and Bidder B, to discuss due diligence and related

issues. Sonenshine Partners also continued discussions with Bidder A concerning an alternative contractual relationship.

Between April 14 and April 17, 2007, Sonenshine Partners delivered bid instruction letters for the potential acquisition of 1-800 CONTACTS to the remaining six interested parties, requesting the delivery of final bids no later than May 3, 2007. In light of developments in the planned divestiture of the ClearLab business and the desire to allow bidders to familiarize themselves with these developments, on or around April 24, 2007, Sonenshine Partners delivered updated bid instruction letters to the remaining interested bidders informing them that the final bid date had been changed to May 15, 2007.

On May 1 and 2, 2007, representatives of Fenway met with representatives of our management and Sonenshine Partners in Salt Lake City and Draper, Utah to discuss due diligence and business strategy matters.

On May 15, 2007, Mr. Coon met in Draper, Utah with Timothy P. Mayhew, a managing director of Fenway, to discuss management's vision for the company's future.

On or around May 15, 2007, we received revised proposals from two financial sponsors, Fenway and Bidder B. Fenway submitted a proposal of \$23.25 per share, and Bidder B submitted a proposal of \$20.00 per share. None of the 32 strategic parties that Sonenshine Partners contacted beginning in December 2006 had submitted a bid to acquire 1-800 CONTACTS by the prescribed deadline of May 15, and no strategic party was actively participating in the auction process by that date. On May 18, 2007, Bidder A submitted a proposal for a strategic alliance that did not involve a change-in-control transaction or cash consideration being paid to our stockholders for their shares. The proposal from Bidder A was inconsistent with the bid instruction letters sent by Sonenshine Partners and was not a proposal to acquire 1-800 CONTACTS. The proposal consisted of an alternative contractual relationship in which Bidder A would have a majority interest and 1-800 CONTACTS would have a minority interest in the combined contact lens business. The proposal contemplated Bidder A being entitled to report all revenues, having a priority on returns from the combined contact lens business, having a call right (but no obligation) to acquire 1-800 CONTACTS, restricting the sale of 1-800 CONTACTS to any other party and having certain rights of first refusal. The proposal also contemplated that Bidder A would have certain termination rights based on the performance of the combined contact lens business.

Between May 15 and June 2, 2007, Kirkland & Ellis LLP held numerous telephonic discussions with Ropes & Gray LLP, counsel to Fenway, to negotiate the provisions of the merger agreement and related documentation.

On May 22, 2007, the board of directors met in New York, New York to review the two acquisition bids that had been received from Fenway and Bidder B and the strategic alliance proposal that had been received from Bidder A. Representatives of Sonenshine Partners discussed with the board the auction process to date and the development during the auction process of the terms and conditions contained in each of Fenway's and Bidder B's proposals, including the financing proposals that accompanied each of their bids. Representatives of Kirkland & Ellis LLP discussed with the board the material terms of the three proposals, as well as the board's fiduciary duties in connection with the proposed transactions. Mr. Coon described for the board the strategic alliance proposal received from Bidder A, including the business fundamentals of Bidder A's business and the anticipated effects of the proposed strategic alliance. Representatives of Sonenshine Partners presented an assessment of the relative merits of Bidder A's proposal and compared that proposal with the proposals from Fenway and Bidder B. The board authorized management and its representatives to continue discussions with Fenway, Bidder A and Bidder B and provided guidance as to the improvements in their proposals being sought by the board.

Also on May 22, 2007, representatives of Sonenshine Partners spoke with each of Fenway and Bidder B about the terms for a transaction that the board would find acceptable, and each indicated a willingness to consider increasing its bid. In addition, the representatives of Sonenshine Partners updated the bidders on the terms and progress of the contemplated ClearLab divestitures.

On May 23, 2007, Mr. Coon and representatives of Sonenshine Partners met at Sonenshine Partners' offices in New York, New York with Mr. Mayhew of Fenway to discuss valuation issues and the state of the business.

Also on May 23, Messrs. Coon and Bethers met with representatives of one of Bidder B's portfolio companies to discuss strategic opportunities.

On May 24, 2007, representatives of Sonenshine Partners met with Bidder B to discuss valuation and the state of the business.

On May 25, 2007, the board of directors met telephonically to receive an update on the progress of negotiations with the various bidders since May 22. The board concluded that, in light of the failure of any strategic party to submit a bid to acquire 1-800 CONTACTS by the prescribed deadline of May 15, it was most likely that it would be a financial sponsor that would present the proposal most favorable to our stockholders and that such sponsor would likely request that certain officers or directors invest in the equity of the acquiring company. In light of that development, the board concluded that, in order to avoid even the appearance of any conflict of interest, it would be desirable and appropriate to form an independent transactions committee, consisting solely of directors who would not (and would likely not be asked to) participate in the equity financing of the acquisition. The board determined that the transactions committee would replace the previously formed steering committee, on which Mr. Coon and Mr. Johnson, both significant stockholders in 1-800 CONTACTS, served. The board formed the transactions committee and appointed Mr. Key (Chair), Mr. Boggs, Mr. Bradley T. Knight and Mr. Garth T. Vincent to serve on that committee.

In the evening of May 25, 2007, we received a modestly improved and more detailed proposal from Bidder A, which included draft terms for a strategic alliance. Also on May 25, Sonenshine Partners received, on behalf of 1-800 CONTACTS, a revised proposal from Fenway to acquire 1-800 CONTACTS at a price of \$24.00 per share in cash.

On May 29, 2007, we announced the execution of definitive documents to sell ClearLab's manufacturing, distribution and customer support operations to Mi Gwang Contact Lens Co., Ltd., a Korean contact lens manufacturer, and ClearLab's flat pack technology and certain other intellectual property to Menicon Co., Ltd., Japan's largest independent contact lens manufacturer.

Also on May 29, 2007, Messrs. Coon, Bethers, Hunter and McCallum, together with Mr. R. Joe Zeidner, General Counsel of 1-800 CONTACTS, and a representative of Sonenshine Partners met in person with Bidder A at its headquarters location. At this meeting, Bidder A agreed to certain improvements to its revised proposal. Bidder A, after being informed of the board's request to remove the termination language and provide clarification on the call right, agreed to slightly more favorable termination provisions and provided clarification on a performance-based call right, but declined to make the call mandatory. In addition, on May 29, Sonenshine Partners received, on behalf of 1-800 CONTACTS, a revised proposal from Bidder B to acquire us for \$20.25 per share.

On May 30 and 31, 2007, representatives of Sonenshine Partners held telephonic discussions with Fenway regarding the key unresolved terms of its bid.

On May 30, 2007, the transactions committee met telephonically. Mr. Key invited members of management to participate in the meeting for the limited purpose of updating the transactions committee on the substance of the May 29 meetings with Bidder A. Representatives of Sonenshine Partners and Kirkland & Ellis LLP were invited to participate in the full meeting. Members of management reported on the improvements to Bidder A's proposal. Members of the transactions committee questioned whether further improvements consistent with the May 22 guidance provided by the board of directors could be achieved; management advised the transactions committee that they could not. Management was excused from the meeting, and representatives of Sonenshine Partners then presented to the transactions committee its financial review of Bidder A's proposal and compared that proposal to a standalone alternative and to the cash bids of Fenway and Bidder B. Representatives of Sonenshine Partners also

provided an update on discussions with Fenway and Bidder B, including a description of their improved bids received on May 25 and May 29, respectively. The transactions committee compared the Fenway proposal's superior value and immediate cash payout to stockholders with the other strategic alternatives for our business, including remaining an independent public company. The transactions committee concluded, having considered the advice of Sonenshine Partners, that the Fenway proposal had the greatest likelihood of maximizing stockholder value and, therefore, instructed Sonenshine Partners and Kirkland & Ellis LLP to engage with Fenway and its legal counsel on the remaining material issues in Fenway's bid.

In the morning of May 31, 2007, the transactions committee met telephonically to receive an update from Sonenshine Partners and Kirkland & Ellis LLP on discussions with Fenway and its legal counsel that occurred the prior evening and earlier that morning. Sonenshine Partners reported that Kirkland & Ellis LLP and Sonenshine Partners had reached resolutions with Fenway and its advisors on all material open issues and that Fenway had agreed to increase the price per share in its proposal to \$24.25. The transactions committee instructed Kirkland & Ellis LLP to finalize the definitive merger agreement with Fenway to reflect the resolutions that had been negotiated.

On June 1, 2007, the transactions committee met telephonically. Representatives of Kirkland & Ellis LLP described the material terms of the merger agreement and the support agreement with Fenway.

On June 2 and 3, 2007, representatives of Debevoise & Plimpton LLP, counsel to Messrs. Coon and Nichols, negotiated with Ropes & Gray LLP, counsel to Fenway, the preliminary terms of Messrs. Coon and Nichols' rollover investment in the acquiring entity.

In the morning of June 3, 2007, the transactions committee convened to receive Sonenshine Partners' analysis of the fairness of the proposed Fenway transaction. Following extensive discussion, the transactions committee voted unanimously to recommend to the full board of directors that it approve the merger with Fenway on the terms presented to the transactions committee.

In the afternoon of June 3, our board of directors met telephonically. All board members other than Mr. Butler attended the meeting. Mr. Key, as chairman of the transactions committee, presented the recommendation of the transactions committee in favor of the Fenway merger. Mr. Key described the transactions committee's review of the available strategic alternatives, including the final cash bids from Fenway and Bidder B and the strategic alliance proposal from Bidder A. Mr. Key conveyed that the final proposal from Bidder A consisted of an alternative contractual relationship in which Bidder A would have a majority interest and 1-800 CONTACTS would have a minority interest in the combined contact lens business. The proposal contemplated Bidder A being entitled to report all revenues, having a priority on returns from the combined contact lens business, having a call right (but no obligation) to acquire 1-800 CONTACTS, restricting the sale of 1-800 CONTACTS to any other party and having certain rights of first refusal. The proposal also contemplated that Bidder A would have certain termination rights based on the performance of the combined contact lens business. The transactions committee concluded that Bidder A's proposal, especially the right for Bidder A to terminate, presented too much uncertainty to stockholders. The final bid from Bidder B was for an acquisition of 1-800 CONTACTS at a price of \$20.25 per share. Representatives of Kirkland & Ellis LLP reviewed for the directors their fiduciary duties when considering the approval of a change-in-control transaction and also described the final terms of the merger agreement, Fenway's guaranty of certain obligations under the merger agreement, the support agreement between Fenway and certain major stockholders and a letter agreement and term sheet governing the investment by Messrs. Coon and Nichols in the equity of the acquiring company. Representatives of Sonenshine Partners presented to the board of directors the financial analysis that they had presented to the transactions committee earlier that morning and orally delivered the opinion of Sonenshine Partners that, based on and subject to the various assumptions made, matters considered and limitations described in the opinion, as of June 3, 2007, the merger consideration was fair, from a financial point of view, to the holders of 1-800 CONTACTS common stock, as discussed below in the section entitled "Opinion of Financial Advisor." Sonenshine Partners subsequently confirmed its opinion in writing on the same day.

Following lengthy discussions, our board of directors, including all of non-employee directors (other than Mr. Butler, who was absent), approved the merger agreement and the transactions contemplated thereby and resolved to recommend that our stockholders vote to adopt the merger agreement and approve the merger and related transactions. On the evening of June 3, 2007, Parent, Acquisition and 1-800 CONTACTS executed the merger agreement, Fenway and 1-800 CONTACTS executed the guaranty, Parent and Acquisition executed the support agreement with the stockholders party thereto and Fenway and Messrs. Coon and Nichols executed the letter agreement with respect to the investment by Messrs. Coon and Nichols in the equity of Holdings.

On June 4, 2007, the parties issued a press release prior to the opening of the U.S. financial markets announcing the execution of the merger agreement and the terms of the proposed acquisition of 1-800 CONTACTS by Fenway.

Recommendation of the Transactions Committee and Board of Directors; Reasons for the Merger; Fairness of the Merger

Each of the transactions committee and our board of directors has determined that the merger is fair to and in the best interests of 1-800 CONTACTS and our stockholders, including all of our unaffiliated stockholders. Each of the transactions committee and the full board of directors recommends that our stockholders approve and adopt the merger agreement.

In recommending approval and adoption of the merger agreement, the full board of directors, having received the favorable recommendation of the transactions committee, consulted with its legal counsel and financial advisors and considered a number of factors which it believed supported its recommendation, including:

- Our historical results of operations, financial condition, assets, liabilities, business strategy and prospects and the nature of the industry in which we compete. Based upon its consideration of our operations and prospects and the nature of the industry, the transactions committee concluded that it might take a considerable period of time before the trading price of our shares would reach and sustain at least the \$24.25 per share offered. While the transactions committee did not analyze specifically how long it might take for our common stock to independently reach a trading price of \$24.25, members of the transactions committee observed that it had been several years since our common stock had traded at that price level. The transactions committee reviewed certain information on 1-800 CONTACTS historical financial performance and historical stock price, management's projections for our future financial performance, the current stock price, valuation multiples and market trading data of certain public companies viewed as reasonably relevant, and concluded that a considerable amount of time might pass before a trading price of \$24.25 might be reached.
- The limited public float and low average daily trading volume of our common stock, the small number of market makers and investment banking firms preparing research reports with respect to us, and the few comparable public companies against which investors could evaluate our performance, which the transactions committee concluded would be reasonably likely to adversely affect the price at which shares of our common stock would trade for the foreseeable future.
- The inherent risks and probable impact on our stock price associated with executing management's business plan on a stand-alone basis and the challenges and risks associated with attempting to build our company through joint ventures or acquisitions.
- The recommendation of our investment bankers to consider a sale of our company to a strategic or financial acquirer as the most effective opportunity for enhancing stockholder value.
- The extensive auction process conducted in 2007 pursuant to which 85 potential acquirers, including industry competitors and equity sponsors of leveraged buyouts, were contacted by Sonenshine Partners to determine their interest in acquiring our company.

- The fact that the auction process resulted in six preliminary indications of interest from financial sponsors, but did not result in any final proposals for alternative transactions other than those that the board determined not to be as favorable to our stockholders as the proposed Fenway transaction.
- The fact that, since the date of the merger agreement, no third party has come forward with an alternative transaction proposal.
- The opinion of Sonenshine Partners, dated June 3, 2007, that, as of that date, and based upon and subject to the various factors, assumptions and limitations set out in the fairness opinion, the consideration to be received by our stockholders was fair to such stockholders from a financial point of view. The transactions committee also considered Sonenshine Partners' presentation to the transactions committee. In its review of the analyses performed by Sonenshine Partners, the transactions committee did not weigh each of the separate analyses prepared by Sonenshine Partners separately, but rather considered them taken as a whole.
- The relationship of the \$24.25 per share cash consideration offered in the merger to the current market price and the market prices for our common stock over the previous two years during which the average closing price had been \$15.72 per share.
- The reputation and proven experience of Fenway in completing similar transactions.
- The arms-length negotiations between the transactions committee and Fenway and their respective representatives, including negotiations that resulted in:
 - three separate increases in the per share cash purchase price to be received by our stockholders;
 - our having the right, under certain conditions, to engage in negotiations with, and supply information to, a person making an unsolicited proposal for a competing acquisition transaction;
 - our having the right to terminate the merger agreement to accept a superior proposal;
 - Fenway agreeing to guarantee the termination fee pursuant to the terms of the guaranty; and
 - definitiveness in the financing commitments reducing the risk of consummation of the transaction.
- The nature of the financing commitments received by Parent with respect to the merger, including the identities of the institutions providing such commitments and their experience in consummating transactions such as the merger.
- The fact that adoption of the merger agreement requires the affirmative vote of a majority of our outstanding shares entitled to vote thereon and that, under Delaware law, our stockholders have the right to exercise appraisal rights to receive the fair value of their shares if they dissent from the merger.
- The fact that the obligation of Parent and Acquisition to complete the merger is not conditioned on financing being made available to Parent.

The transactions committee also considered a variety of risks and other potentially negative factors concerning the merger. These factors included:

- our only likely recourse in the event of a termination of the merger agreement in certain circumstances being limited to the termination fee (\$10,330,550 or \$13,774,000, as applicable) guaranteed by Fenway;

- the cash consideration to be received by stockholders being taxable to them;
- the conflicts of interest of some of our officers, directors and stockholders; and

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- following the merger, our stockholders (other than continuing investors) ceasing to participate in any of our future earnings growth or benefiting from any increase in the value of our company.

The transactions committee did not believe that the net book value and liquidation value of our stock reflected the fair value of our company. The transactions committee considered that net book value (\$2.76 per share at March 31, 2007) is indicative of historical cost and that the valuation methodologies used by Sonenshine Partners incorporated our future expected performance and business prospects to arrive at a market-based value for our common stock. The transactions committee did not find it practicable to, and did not, appraise our assets to determine a liquidation value for our company. The transactions committee considered our company as a viable going concern business and did not consider the liquidation value as a relevant valuation methodology.

The foregoing discussion of the information and factors considered by the transactions committee includes all of the material factors considered by the transactions committee in reaching its conclusions and recommendations but is not meant to be exhaustive. In view of the variety of factors considered in reaching its determination, the transactions committee did not find it practicable to, and did not, quantify or otherwise assign relative weights to specific factors considered in reaching its conclusions and recommendations. In addition, individual members of the transactions committee may have given different weights to different factors.

Our board consists of eight directors, four of whom served on the transactions committee. At the June 3, 2007 meeting of our board, the transactions committee, with its legal and financial advisors participating, reported to the other members of our board on its review of the merger agreement and the related financing commitments and the factors taken into account by the transactions committee in reaching its determination that the merger was fair to and in the best interests of our stockholders. Accordingly, the same factors considered by the transactions committee were taken into account by our board of directors. In addition, our board considered the conclusions and recommendations of the transactions committee and believes that these factors supported the determination of fairness by our board. Furthermore, our board considered the fact that the \$24.25 per share cash consideration and the terms and conditions of the merger agreement were the result of arms-length negotiations among the transactions committee and Fenway and their respective advisors and the fact that the transactions committee received a fairness opinion from Sonenshine Partners. Our board of directors believes that these factors supported its fairness determination.

In addition, the transactions committee believes that sufficient procedural safeguards were and are present to insure the fairness of the merger and to permit the transactions committee to represent effectively the interests of the stockholders, including:

- the transactions committee consisted of non-employee independent directors who acted to represent solely the interests of the stockholders;
- the transactions committee retained and received advice from its independent legal counsel, Kirkland & Ellis LLP;
- the transactions committee was advised by Sonenshine Partners and received the opinion of Sonenshine Partners to the effect that, as of the date of such opinion, the consideration to be received by the holders of shares of our common stock was fair, from a financial point of view, to such holders; and
- the availability of appraisal rights under Delaware law for our stockholders who believe the terms of the merger are unfair.

Because the above safeguards were and are in place, the transactions committee and the board of directors did not consider it necessary to require approval of the merger agreement and the merger by at least a majority of our unaffiliated stockholders or to retain any additional unaffiliated representative to act on behalf of our unaffiliated stockholders.

Purpose for the Merger for 1-800 CONTACTS

The primary purpose of the merger for 1-800 CONTACTS is to enable our stockholders to immediately realize the value of their investment in 1-800 CONTACTS through their receipt of the per share merger price of \$24.25 in cash. Another purpose of the merger for 1-800 CONTACTS is to create greater operating flexibility, allowing management to concentrate on long-term growth rather than the short-term expectations of the financial markets. Given our stock price and the economic and market conditions affecting us and our industry sector as a whole, we believe our long-term objectives can best be pursued as a private company.

The board began a review of strategic alternatives for our business in July 2006. Over the course of its review of our strategic alternatives, we decided to separate the ClearLab business from our U.S. core retail business and in December 2006 our board engaged Sonenshine Partners to conduct a broader review for the U.S. core retail business. As discussed under Background of the Merger, we were actively engaged in pursuing a transaction over a period of several months and entered into the merger agreement promptly once factors aligned to make the merger possible. These factors included our generating sufficient third-party interest in acquiring the ClearLab business that we had reasonable assurance that the sale of that business would occur and our securing long-term supply agreements with our principal suppliers, both of which occurred in the last few months.

Purpose and Reasons for the Merger of Management Investors

Under the rules governing going private transactions, the Management Investors are deemed to be engaged in a going private transaction and are required to express their purpose and reasons for the merger to our unaffiliated stockholders. The Management Investors are making the statements included in this section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

For the Management Investors, the primary purpose of the merger is to enable our unaffiliated stockholders to immediately realize the value of their investment in our company through their receipt of the per share merger price of \$24.25 in cash. In addition, the merger will allow the Management Investors to immediately realize in cash the value of a portion of their respective holdings in our company and, through their commitment to make an equity investment in the ultimate parent of the surviving corporation, to benefit from any future earnings and growth of our company after its stock ceases to be publicly traded. For a more complete description of the amounts to be realized and/or reinvested by the Management Investors in connection with the merger, see Interests of the Certain Persons in the Merger Equity Rollover Arrangements and the table on page 49 of this proxy statement. The Management Investors believe that public company status imposes a number of limitations on us and our management in conducting our operations, including restraints associated with meeting the expectations of market analysts. Accordingly, one of the purposes of the merger for the Management Investors is to afford us greater operating flexibility, allowing management to concentrate on long-term growth and to reduce our focus on the quarter-to-quarter performance often emphasized by the public markets.

The Management Investors determined to pursue the proposed merger at this time for the same reasons as 1-800 CONTACTS, as set forth under Purpose for the Merger for 1-800 CONTACTS.

Purpose and Reasons for the Merger of LaGrange Investors

The LaGrange Investors include Mr. Frank LaGrange Johnson, one of our directors, LaGrange Capital and LaGrange Offshore, investment funds controlled by Mr. Johnson, LaGrange Administration, the investment manager of LaGrange Offshore, and LaGrange Management, the general partner of LaGrange Capital. Under the rules governing going private transactions, the LaGrange Investors are deemed to be engaged in a going private transaction and are required to express their purpose and reasons for the merger to our unaffiliated stockholders. The LaGrange Investors are making the

statements included in this section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

For the LaGrange Investors, the primary purpose of the merger is to enable the unaffiliated stockholders to immediately realize the value of their investment in our company through their receipt of the per share merger price of \$24.25 in cash. In addition, the merger will allow the LaGrange Investors to immediately realize in cash the value of a portion of their holdings in our company and, through their commitment to make an equity investment in the ultimate parent of the surviving corporation, to benefit from any future earnings and growth of our company after its stock ceases to be publicly traded. For a more complete description of the amounts to be realized and/or reinvested by the LaGrange Investors in connection with the merger, see [Interests of the Certain Persons in the Merger](#) [Equity Rollover Arrangements](#). The LaGrange Investors believe that public company status imposes a number of limitations on us and our management in conducting our operations, including restraints associated with meeting the expectations of market analysts. Accordingly, one of the purposes of the merger for the LaGrange Investors is to afford us greater operating flexibility, allowing management to concentrate on long-term growth and to reduce our focus on the quarter-to-quarter performance often emphasized by the public markets.

The LaGrange Investors determined to pursue the proposed merger at this time for the same reasons as 1-800 CONTACTS, as set forth under [Purpose for the Merger for 1-800 CONTACTS](#).

Purpose and Reasons for the Merger of Parent, Acquisition, Fenway and Fenway GP

The proposed merger is a going private transaction. If the proposed merger is completed, 1-800 CONTACTS will become a wholly owned subsidiary of Parent. For Parent and Acquisition, the purpose of the merger is to effectuate the transactions contemplated by the merger agreement. For Fenway and Fenway GP, the purpose of the merger is to allow it to own equity interests in 1-800 CONTACTS and to bear the rewards and risks of such ownership after shares of our common stock cease to be publicly traded.

Fenway believes that there are potential benefits to 1-800 CONTACTS associated with operating as a privately held entity. As a privately held entity, we will have the flexibility to focus on continuing improvements to our business without the constraints and distractions caused by the public equity market's valuation of us. Moreover, Fenway believes that our future business prospects can be improved through their active participation in the strategic direction and operations of our company. Although Fenway believes that there will be significant opportunities associated with its investment in us, it realizes that there are also substantial risks (including the risks and uncertainties relating to our prospects, including the prospects described in management's projections summarized under [IMPORTANT INFORMATION ABOUT 1-800 CONTACTS](#) [Projected Financial Information](#)).

Fenway believes that structuring the transaction as a going private merger transaction is preferable to other transaction structures because (i) it will enable Parent to acquire all of the outstanding shares of our common stock at the same time, (ii) it represents an opportunity for our unaffiliated stockholders to receive fair value for their shares and (iii) it also allows the continuing investors to maintain a significant portion of their investment in us.

Fenway is engaged in the business of making private equity and other types of investments. As a result, Fenway reviews investment opportunities on an ongoing basis. Since Fenway is known in the financial community for making investments, from time to time Fenway receives solicitations from companies that are engaged in a sale process. Fenway was approached by representatives of 1-800 CONTACTS in connection with 1-800 CONTACTS' review process. Fenway determined to participate in our sale process and to pursue the proposed merger at this time in light of the fact that the acquisition of 1-800 CONTACTS would be consistent with its investment profile and the opportunities Fenway perceives will strengthen 1-800 CONTACTS' strategy and financial performance through its active participation in the strategic direction and operations of 1-800 CONTACTS.

Opinion of Financial Advisor

Pursuant to an engagement letter dated as of December 2, 2003, and amended on both June 6, 2006 and May 25, 2007 (together, the Engagement Letter), our transactions committee and our board of directors retained Sonenshine Partners to perform financial advisory services and to render an opinion as to the fairness to holders of shares of our common stock, from a financial point of view, of the consideration to be paid to such holders in the merger. Sonenshine Partners delivered to our transactions committee and our board of directors an opinion, dated June 3, 2007, that the \$24.25 per share in cash consideration to be received by the holders of shares of our common stock pursuant to the merger was fair, from a financial point of view, to such holders.

The full text of the Sonenshine Partners opinion is attached as Annex C to this proxy statement and is incorporated into this proxy statement by reference. The description of the Sonenshine Partners opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of the Sonenshine Partners opinion set forth as Annex C. You are urged to read the Sonenshine Partners opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sonenshine Partners in connection with its opinion. Sonenshine Partners' written opinion is addressed to, and for the use and benefit of, our board of directors and is not a recommendation to the holders of our common stock as to how to vote with respect to the merger. Sonenshine Partners opinion is limited to the fairness, from a financial point of view, to our stockholders of the consideration to be received by such holders in the merger. Sonenshine Partners expressed no opinion as to the merits of the underlying decision by 1-800 CONTACTS to engage in the merger. Sonenshine Partners' opinion is necessarily based on economic, market and other conditions in effect on, and the information made available to Sonenshine Partners as of, the date of Sonenshine Partners' opinion. The following is only a summary of the Sonenshine Partners opinion. You are urged to read the entire opinion carefully.

In connection with its role as financial advisor to our board of directors, and in arriving at its opinion, among other things, Sonenshine Partners reviewed certain publicly available financial and other information concerning us and certain internal analyses and other information furnished to it by us. Sonenshine Partners also held discussions with members of our senior management regarding our business and prospects. In addition, Sonenshine Partners:

- reviewed the reported prices and trading activity for our common stock;
- prepared certain financial analyses including a discounted cash flow analysis of the financial projections of our ongoing business made available by our management;
- compared certain financial and stock market information for us with similar information for certain other companies whose securities are publicly traded and whose businesses Sonenshine Partners deemed comparable in whole or in part to our business;
- reviewed the financial terms of certain recent corporate mergers and acquisitions which Sonenshine Partners deemed relevant in whole or in part;
- reviewed the financial terms and conditions of the merger agreement and certain related documents; and
- performed such other financial studies and analyses and considered such other factors as Sonenshine Partners deemed appropriate.

Sonenshine Partners did not assume responsibility for independent verification of, and did not independently verify, any information, whether publicly available or furnished to it, including, without limitation, any financial information, forecasts or projections considered in connection with the rendering of its opinion. Accordingly, for purposes of its opinion, Sonenshine Partners assumed and relied upon the accuracy and completeness of all such information. In addition, Sonenshine Partners did not conduct a physical inspection of any of our properties or assets and did not prepare or obtain any independent

evaluation or appraisal of any of our assets or liabilities. In the case of information concerning us, with respect to financial estimates and projections related to our business made available by us to Sonenshine Partners and used in its analysis, Sonenshine Partners assumed that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of our management as to the matters covered thereby. In rendering its opinion, Sonenshine Partners expressed no view as to the reasonableness of such analyses, forecasts and projections, or the assumptions on which they were based. Sonenshine Partners did not express any opinion as to any tax or other consequences that might result from the merger, nor did its opinion address any legal, tax, regulatory or accounting matters, as to which Sonenshine Partners understood that we obtained such advice as we deemed necessary from qualified professionals.

In rendering its opinion, Sonenshine Partners also assumed that our divestitures of our ClearLab Flat-Pack technology to Menicon Co., Ltd., pursuant to the asset purchase agreement and related documents dated as of May 24, 2007, and of our ClearLab manufacturing operations to Mi Gwang Contact Lens Co. Ltd., pursuant to the asset purchase agreement and related documents dated May 25, 2007 (together, the ClearLab Transactions) would be consummated on substantially the same terms and conditions as set forth in their respective definitive agreements. The transaction with Menicon was consummated on June 15, 2007. Further, Sonenshine Partners assumed that the ClearLab Transactions would result in (a) up-front cash consideration consistent with that described in those asset purchase agreements that would be used principally to repay our indebtedness; and (b) additional value associated with certain securities, rights, tax and other transaction benefits that might potentially accrue to our benefit following the ClearLab Transactions (the Additional Value). The Additional Value was calculated by Sonenshine Partners with the guidance of our management and such Additional Value was reviewed and deemed reasonable by our management. In determining the amount of the Additional Value, Sonenshine Partners considered a range of outcomes, from which it established a reference range of approximately \$1.00-\$2.00 per share on a present value basis. Because Sonenshine Partners assumed the completion of the ClearLab Transactions on the above basis, it also analyzed separately the values realized from the ClearLab Transactions and the estimated values of the continuing business and its estimated results of operation.

Since the ClearLab Transactions had been agreed to independently from the merger, Sonenshine Partners believed it was appropriate to take into account all such upfront and potential additional values associated with the ClearLab Transactions in considering the range of values for 1-800 CONTACTS. Sonenshine Partners took into account the upfront cash consideration associated with the ClearLab Transactions when it calculated the preliminary per share values of our continuing operations in determining the fairness of the merger. It added the Additional Value to take into account certain potential additional benefits to 1-800 CONTACTS associated with those divestitures whose value depends on the occurrence of certain events other than the mere closing of the ClearLab Transactions. These benefits included the potential value of MiGwang stock, certain potential additional cash payments that might be made by Menicon Co., Ltd. to 1-800 CONTACTS under certain circumstances, and certain potential tax benefits associated with the ClearLab Transactions.

For purposes of rendering its opinion, Sonenshine Partners assumed that, in all respects material to its analysis, the representations and warranties of 1-800 CONTACTS, Parent and Acquisition contained in the merger agreement were true and correct; 1-800 CONTACTS, Parent and Acquisition would each perform all of the covenants and agreements to be performed by it under the merger agreement; and all conditions to the obligations of each of 1-800 CONTACTS, Parent and Acquisition to consummate the merger would be satisfied without any waiver or modification thereof. Sonenshine Partners also assumed that the necessary regulatory approvals and contractual consents for the merger would be obtained.

The following is a summary of the material financial and comparative analyses that Sonenshine Partners deemed appropriate for this type of transaction and that were performed by Sonenshine Partners in connection with rendering its opinion. The summary of Sonenshine Partners analyses described below is not a complete description of the analyses underlying Sonenshine Partners opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most

appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances, and, therefore, is not readily susceptible to summary description. Sonenshine Partners made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of the analyses. Sonenshine Partners did not form an opinion as to whether any individual analysis or factor, whether positive or negative, considered in isolation, supported or failed to support Sonenshine Partners' opinion. Rather, Sonenshine Partners arrived at its ultimate opinion as to fairness on the basis of the results of all analyses undertaken by it and assessed as a whole, and did not attribute any particular weight to any factor or analysis considered by it. Sonenshine Partners believes that the totality of the factors considered and analyses it performed in connection with its opinion operated collectively to support its determination as to the fairness of the merger consideration from a financial point of view as of the date of Sonenshine Partners' opinion to the holders of our common stock. Accordingly, Sonenshine Partners believes that its analyses and the summary below must be considered as a whole and that selecting portions of its analyses and factors, without considering all analyses and factors, could create a misleading or incomplete view of the processes underlying Sonenshine Partners' analyses and opinion.

For purposes of Sonenshine Partners' review, Sonenshine Partners utilized, among other things, certain projections of our future financial performance as described below, as prepared by our management.

In its analyses, Sonenshine Partners considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond our control. No company, transaction or business used in Sonenshine Partners' analyses as a comparison is identical to 1-800 CONTACTS or the proposed merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies or transactions analyzed. The estimates contained in Sonenshine Partners' analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold.

Accordingly, the estimates used in, and the results derived from, Sonenshine Partners' analyses are inherently subject to substantial uncertainty.

The financial analyses summarized below include information presented in tabular format. In order to fully understand Sonenshine Partners' financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Sonenshine Partners' financial analyses.

The financial analyses that Sonenshine Partners utilized in providing its opinion were based upon management's projections of our retail business for fiscal years 2007 to 2011.

Discounted Cash Flow Analysis

Sonenshine Partners performed a discounted cash flow analysis to calculate the estimated present value of the stand-alone, unlevered, after-tax free cash flows that we could generate over the period from the second half of fiscal year 2007 through fiscal year 2011. This analysis was based on internal estimates that our management had provided to Sonenshine Partners. Using the projections for fiscal years 2007 to 2011, Sonenshine Partners performed an analysis of the present value, as of June 30, 2007, of (a) the free cash flows that we could generate from June 30, 2007 through December 31, 2011 plus (b) our terminal value based on our earnings before interest, taxes, depreciation and amortization (EBITDA) in 2011. Sonenshine Partners calculated a range of terminal values for us by applying (i) an EBITDA multiple of 7.5 to 8.5, derived based on a range of multiples for companies that Sonenshine Partners deemed relevant, times our estimated fiscal year 2011 EBITDA and (ii) perpetuity growth rates ranging from 3% to 4% for the projected free cash flows for periods subsequent to 2011. The EBITDA multiples were applied to our estimated fiscal year 2011 EBITDA, and the perpetuity growth rates were applied to our projected free cash flow for 2011. The resultant range of terminal values was then discounted to present value, along with our projected free cash flow from June 30, 2007 through December 31, 2011, using discount rates ranging from 12% to 14% (based on our estimated weighted average cost of capital).

Based on the foregoing, Sonenshine Partners calculated an implied price per share range for our common stock of \$16.97 to \$24.62. Sonenshine Partners then added the estimated Additional Value of \$1.00-\$2.00 per share to this range and compared the resulting sum to the merger consideration of \$24.25 per share of our common stock.

Comparable Public Companies Analysis

Sonenshine Partners reviewed and analyzed certain public companies in (1) the optical retail and manufacturing industries, (2) the direct marketing industry and (3) the online and telephone retail industries that, based on its knowledge of the industry, Sonenshine Partners viewed as reasonably relevant to us. These sectors were selected, among other reasons, because of their operational and overall business similarities with our business. In addition to analyzing certain public companies engaged in similar businesses to ours, Sonenshine Partners considered certain public companies in adjacent sectors, including (a) contact lens manufacturing, (b) solutions manufacturing, (c) corrective lens manufacturing, (d) drugstore retail, and (e) laser surgery. In performing these analyses, Sonenshine Partners reviewed and analyzed certain financial information, valuation multiples and market trading data relating to the selected comparable companies and compared such information to the corresponding information for us.

Sonenshine Partners compared us to a total of 38 publicly traded companies in the four categories identified in the preceding paragraph. Using publicly available information from SEC filings, as well as information obtained from the research services of Capital IQ and Bloomberg L.P., Sonenshine Partners reviewed, among other things: (a) enterprise values (calculated as the market value of common equity plus the book value of total short-term and long-term debt and the book value of minority interests, plus the value of any preferred stock (at liquidation value), minus cash and cash equivalents) of the selected comparable companies as a multiple of those companies' respective latest twelve months (LTM) EBITDA; (b) enterprise values of the selected comparable companies as a multiple of those companies' respective LTM earnings before interest and taxes (EBIT); and (c) market capitalizations (calculated as market value of common equity) of the selected comparable companies as a multiple of those companies' respective LTM net income.

(1) The optical retail and manufacturing companies were:

Luxottica;

HAL;

Fielmann;

Safilo;

Marcolin;

Drugstore.com; and

Coastal Contacts.

(2) The direct marketing companies were:

Avon;

Nu Skin;

Blyth; and

Mannatech.

(3) The online and telephone retailers were:

Cabela's;

Netflix;

1-800 Flowers.com;

FTD;

PetMed Express (1-800-PetMeds); and

Stamps.com.

The companies in adjacent sectors were:

(a) contact lens manufacturers

Johnson & Johnson;

Novartis; and

Cooper Companies.

(b) solutions manufacturers

Alcon;

Allergan; and

Advanced Medical Optics

(c) corrective lens manufacturers

Corning;

Hoya;

Essilor;

Oakley;

Shamir; and

Indo

(d) drugstore retailers

Wal-Mart;

CVS;

Walgreens;

Boots;

Rite Aid;

BJ's Wholesale; and

Longs Drugs Stores

(e) laser surgery providers

LCA Vision; and

TLC Vision

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Sonenshine Partners calculated the following trading multiples for each category of the above comparable companies:

		Enterprise Value/ LTM EBITDA (Median)	Enterprise Value/ LTM EBIT (Median)	LTM P/E (Median)
1.	Optical Retail and Manufacturing Industries	13.4x	17.3x	28.3x
2.	Direct Marketing Industry	9.3x	12.5x	21.2x
3.	Online and Telephone Retail Industries	11.7x	13.0x	18.6x
4.	Adjacent Industries			
	(a) Contact Lens Manufacturers	12.3x	15.1x	17.9x
	(b) Solutions Manufacturers	15.5x	19.8x	29.5x
	(c) Corrective Lens Manufacturers	14.2x	19.2x	25.9x
	(d) Drugstore Retail	11.0x	14.5x	29.3x
	(e) Laser Surgery	12.2x	17.9x	31.9x

Based on its analysis, and based specifically on the optical retail and manufacturing industries, the direct marketing industry, and the online and telephone retail industries described above, Sonenshine Partners applied (a) enterprise value/EBITDA multiples of 8.5x-10.5x to our LTM EBITDA from continuing operations; (b) enterprise value/EBIT multiples of 12.0x-14.0x to our LTM EBIT from continuing operations; and (c) P/E multiples of 18.5x-22.5x to our LTM Net Income from continuing operations. In addition to the consideration as described above of multiples as applied to our actual LTM financial results from continuing operations, Sonenshine Partners also considered certain modified multiple ranges as applied to our LTM results from continuing operations taking into account certain adjustments for certain expenses that we had incurred which management believed we would not incur on a continuing basis and certain revenues that we had failed to achieve, which management believed we would achieve in the future. Specifically, these adjustments relate principally to: (a) certain corporate expenses associated with ClearLab; (b) certain expenses associated with our efforts to ensure long-term access to supply of products from key suppliers; and (c) revenues and associated expenses from certain products temporarily under recall or temporarily not made available to 1-800 CONTACTS.

Based on its overall analysis of comparable public companies, Sonenshine Partners determined an implied price per share range for our common stock of \$16.50-\$22.70 per share. Sonenshine Partners then added the estimated Additional Value of \$1.00-\$2.00 per share to this range and compared the resulting sum to the merger consideration of \$24.25 per share of our common stock.

Precedent Transactions Analysis

Sonenshine Partners reviewed and analyzed selected recent precedent merger and acquisition transactions involving companies in the online retail/direct marketing, specialty retail and optical retail industries that it viewed as comparable to the merger. In performing these analyses, Sonenshine Partners analyzed certain financial information and transaction multiples relating to companies in the selected transactions and compared such information to the corresponding information for us.

Specifically, Sonenshine Partners reviewed 14 merger and acquisition transactions since February 2001 involving companies in the categories identified in the preceding paragraph for which sufficient public information was available. To the extent publicly available, Sonenshine Partners reviewed, among other things, the transaction enterprise values implied by the precedent transactions as: (a) a multiple of the target's LTM EBIT and (b) a multiple of the target's LTM EBITDA (both as of the date of the announcement).

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The precedent transactions involving online retail/direct marketing were (listed by acquirer followed by the acquired company and the date these transactions were publicly announced):

Redcats USA, Inc. / Sportsman's Guide Inc. May 4, 2006; and
IAC/InterActiveCorp / Cornerstone Brands March 1, 2005.

The precedent transactions involving specialty retailers were (listed by acquirer followed by the acquired company and the date these transactions were publicly announced):

Dick's Sporting Goods / Golf Galaxy November 13, 2006;
Leonard Green, Texas Pacific Group / Petco Animal Supplies July 14, 2006; and
GMM Capital, Prentice Capital Mgmt. / Goody's Family Clothing October 27, 2005.

The precedent transactions involving optical stores were (listed by acquirer followed by the acquired company and the date these transactions were publicly announced):

Highmark / Eye Care Centers of America May 1, 2006;
Bridgepoint / Alain Afflelou February 24, 2006;
Berkshire Partners / National Vision July 26, 2005;
Moulin and Golden Gate Capital / Eye Care Centers of America December 2, 2004;
Luxottica / Cole National July 15, 2004;
HAL and Pearle Europe / Grandvision February 2, 2004;
Luxottica / OPSM Group April 29, 2003;
HAL and Pearle Europe / Instrumentarium September 19, 2002; and
Luxottica / Sunglass Hut February 22, 2001.

Sonenshine Partners calculated the following multiples for each subcategory of the selected transactions used in its analysis:

	Enterprise Value as a Multiple of LTM EBITDA (Median)	Enterprise Value as a Multiple of LTM EBIT (Median)
Online Retail/Direct Marketing	11.0x	12.1x
Specialty Retail	9.3x	14.7x
Optical Retail	8.3x	12.4x

Based on its analysis, Sonenshine Partners applied: (a) a multiple reference range of 9.0x to 12.0x to be applied to our LTM EBITDA from continuing operations, and (b) a multiple reference range of 13.0x to 16.0x to be applied to our LTM EBIT from continuing operations. In addition to the consideration as described above of multiples as applied to our actual LTM financial results from continuing operations, Sonenshine Partners also considered certain modified multiple ranges as applied to our LTM results from continuing operations taking into account certain adjustments for certain expenses that we had incurred which management believed we would not incur on a continuing basis and certain revenues that we had failed to achieve, which management believed we would achieve in the future.

Based on its overall analysis of precedent transactions, Sonenshine Partners determined an implied price per share range for our common stock of \$18.05-\$26.47. Sonenshine Partners then added the estimated Additional Value of \$1.00-\$2.00 per share to this range and compared the resulting sum to the merger consideration of \$24.25 per share of our common stock.

Premiums Paid Analysis

Sonenshine Partners reviewed the premiums paid, where available, for the transactions mentioned in the *Precedent Transactions Analysis* section above. Sonenshine Partners reviewed information regarding the premiums paid in those transactions to the targets' common stocks' closing share prices one trading day prior to, 30 trading days prior to, and 60 days prior to the announcement of those transactions. This analysis indicated the following median premiums paid:

	1-Day Premium (Median)	30-Day Premium (Median)	60-Day Premium (Median)
Online Retail/Direct Marketing	14.6 %	19.8 %	27.4 %
Specialty Retail	27.8 %	34.5 %	25.6 %
Optical Retail	27.0 %	28.0 %	35.4 %

Based on the information above, Sonenshine Partners applied a broad premium range of 20%-35% to the average closing price for the 30 trading days prior to the announcement of our agreement with Fenway. On the basis of this premium range, Sonenshine Partners calculated an implied price per share range for our common stock of \$21.64-\$24.35, as compared to the merger consideration of \$24.25 per share of our common stock.

Sonenshine Partners also compared the multiples implied by the merger consideration of \$24.25 per share with the pre-announcement trading level of our common stock on a one day, 10-day, 30-day, 60-day, 90-day, 120-day, 1-year, and 2-year average basis. This analysis indicated that the \$24.25 per share to be paid to our stockholders pursuant to the merger represented, among other things, the following:

- a premium of 20.5% to the LTM high market price of \$20.13;
- a premium of 84.0% to the LTM low market price of \$13.18;
- a premium of 34.4% to the 30 day average; and
- a premium of 20.8% to the current price.

Leveraged Buyout Analysis

Sonenshine Partners performed a leveraged buyout analysis in which it analyzed the theoretical rate of return a financial buyer might expect to achieve based on financial projections as prepared by management. Sonenshine Partners assumed (i) a purchase price multiple of 8.5x-9.5x management's projected 2007 EBITDA (incorporating adjustments for certain non-recurring revenue and expense items); (ii) debt financing of 5.3x-6.3x the same projected 2007 EBITDA; (iii) a new management and employee equity incentive pool; and (iv) the completion of an exit transaction on December 31, 2011 at an exit multiple of 9.0x our projected 2011 EBITDA. Based on these assumptions, Sonenshine Partners determined internal rates of return on equity capital invested of approximately 14%-27%. Separately, Sonenshine Partners also assumed (i) a purchase price of \$24.25 per share; (ii) debt financing of 5.3x-6.3x our projected 2007 EBITDA (incorporating adjustments for certain non-recurring revenue and expense items); (iii) a new management and employee equity incentive pool; and (iv) the completion of an exit transaction on December 31, 2011 at a range of exit multiples of 8.5x-9.5x our projected 2011 EBITDA. Based on these assumptions, Sonenshine Partners determined internal rates of return on equity capital invested of approximately 13%-21%.

Comparison to Other Proposals

Sonenshine Partners assessed Fenway's proposal to acquire 1-800 CONTACTS for \$24.25 per share in cash in comparison with Bidder A's proposal to enter into an alternative contractual relationship in which

Bidder A would have a majority interest and 1-800 CONTACTS would have a minority interest in the combined contact lens business between the two parties. Sonenshine Partners noted that Fenway's proposal was for \$24.25 per share in cash, whereas Bidder A's proposal:

- (a) provided no immediate cash or liquidity to 1-800 CONTACTS shareholders;
- (b) was highly preliminary and involved significant uncertainty as to execution of a specific agreement;
- (c) contemplated a complex and unusual operating structure that would significantly limit 1-800 CONTACTS ability to grow autonomously;
- (d) contained several terms that favored Bidder A over 1-800 CONTACTS, including Bidder A having a priority on returns from the combined contact lens business, a call right to acquire 1-800 CONTACTS with no obligation on Bidder A's part to acquire 1-800 CONTACTS, and certain rights of first refusal concerning 1-800 CONTACTS in favor of Bidder A; and
- (e) involved significant risks and uncertainties associated with the implementation and longevity of a combination of the two companies' contact lens businesses, since Bidder A's proposal included broad termination rights.

Sonenshine Partners also assessed Fenway's proposal to acquire 1-800 CONTACTS for \$24.25 per share in cash in comparison with Bidder B's proposal to acquire 1-800 CONTACTS for \$20.25 per share in cash. Sonenshine Partners noted that the proposed cash consideration of \$24.25 per share in Fenway's proposal was substantially higher than the proposed cash consideration of \$20.25 per share in Bidder B's proposal, and that Fenway's proposal involved no further diligence or negotiations of legal documentation, whereas Bidder B's proposal would have involved significant additional time and uncertainty associated with further diligence and negotiation of legal documentation.

Miscellaneous

Sonenshine Partners' opinion and financial analyses were not the only factors considered by our board of directors in its evaluation of the merger and should not be viewed as determinative of the views of our board of directors or our management.

Pursuant to the terms of the Engagement Letter, Sonenshine Partners: (1) has received from us a fee of approximately \$1,140,000, payable upon signing of a definitive agreement for a sale or merger of 1-800 CONTACTS; (2) has received from us a fee of approximately \$570,000, payable upon delivery to our board of directors of a fairness opinion in connection with the proposed merger; and (3) would receive from us a transaction fee of approximately \$5,720,000 payable upon consummation of the merger, less any fees paid pursuant to (1) and (2) above, based on the number of outstanding shares of our common stock and on the merger consideration of \$24.25 per share. The precise amount of total fees payable will be based on (a) the number of fully diluted shares at the time of consummation of the merger, and (b) certain other components of aggregate consideration customarily included for purposes of the calculation of transaction fees in investment banking engagement letters. We have also agreed to reimburse Sonenshine Partners for its reasonable out-of-pocket expenses, including the reasonable expenses of legal counsel, and to indemnify Sonenshine Partners and related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Sonenshine Partners has in the past performed investment banking services for us. In particular, Sonenshine Partners has received a retainer fee of \$200,000 per annum since December 2003 for rendering general strategic and financial investment banking advice to us. Sonenshine Partners also served as investment banking advisor to us on the ClearLab Transactions, announced in May 2007. Sonenshine Partners received a transaction fee of \$300,000 subsequent to the signing of those transactions and an

additional transaction fee of \$450,000 subsequent to the closing of the sale of our ClearLab Flat-Pack technology to Menicon Co., Ltd.

Sonenshine Partners is an internationally recognized investment banking firm and as part of its investment banking activities is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, private placements, leveraged buyouts, and valuations for corporate and other purposes. Sonenshine Partners was selected to act as investment banker to us because of its expertise, reputation and familiarity with our industry because its investment banking professionals have substantial experience in transactions comparable or relevant to the proposed merger.

Position of Management Investors as to the Fairness of the Merger

Under the rules governing going private transactions, the Management Investors are deemed to be engaged in a going private transaction and are required to express their beliefs as to the fairness of the merger to our unaffiliated stockholders. The Management Investors are making the statements included in this section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

The views of the Management Investors as to the fairness of the merger should not be construed as a recommendation to any stockholder as to how that stockholder should vote on the proposal to approve and adopt the merger agreement. The Management Investors have interests in the merger different from, and in addition to, those of our other stockholders. These interests are described under [Interests of Certain Persons in the Merger](#).

The Management Investors did not undertake a formal evaluation of the merger or engage a financial advisor for such purpose. The unaffiliated stockholders, however, were represented by the transactions committee, which negotiated the terms and conditions of the merger agreement on their behalf, with the assistance of its independent financial and legal advisors. The Management Investors believe that the merger is substantively and procedurally fair to the unaffiliated stockholders and agree with the analyses and conclusions of the transactions committee and the board of directors based upon the reasonableness of those analyses and conclusions, which they adopt, and their knowledge of our company, as well as the factors considered by, and the findings of, the transactions committee and the board of directors with respect to the fairness of the merger to such unaffiliated stockholders (see [Recommendation of the Transactions Committee and Board of Directors; Reasons for the Merger; Fairness of the Merger](#)). In addition, the Management Investors considered the fact that the transactions committee received an opinion from Sonenshine Partners to the effect that, as of the date of the fairness opinion, and based upon and subject to the various factors, assumptions and limitations set out in the fairness opinion, the \$24.25 per share merger consideration to be received by stockholders in cash was fair to such stockholders from a financial point of view (see [Recommendation of the Transactions Committee and Board of Directors; Reasons for the Merger; Fairness of the Merger](#)).

While certain of the Management Investors are directors of 1-800 CONTACTS, because of their differing interests in the merger they did not participate in the negotiation of the merger agreement or the evaluation of the merger agreement and the merger. For these reasons, the Management Investors do not believe that their interests in the merger influenced the decision of the transactions committee or the board of directors with respect to the merger agreement or the merger.

The foregoing discussion of the information and factors considered and given weight by the Management Investors in connection with the fairness of the merger is not intended to be exhaustive but is believed to include all material factors considered by the Management Investors. The Management Investors did not find it practicable to, and did not, quantify or otherwise attach relative weights to the foregoing factors in reaching their position as to the fairness of the merger. The Management Investors

believe that these factors provide a reasonable basis for their belief that the merger is fair to the unaffiliated stockholders.

Position of LaGrange Investors as to the Fairness of the Merger

Under the rules governing going private transactions, the LaGrange Investors are deemed to be engaged in a going private transaction and are required to express their beliefs as to the fairness of the merger to our unaffiliated stockholders. The LaGrange Investors are making the statements included in this section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

The views of the LaGrange Investors as to the fairness of the merger should not be construed as a recommendation to any stockholder as to how that stockholder should vote on the proposal to approve and adopt the merger agreement. The LaGrange Investors have interests in the merger different from, and in addition to, those of our other stockholders. These interests are described under Interests of Certain Persons in the Merger Equity Rollover Arrangements.

The LaGrange Investors did not undertake a formal evaluation of the merger or engage a financial advisor for such purpose. The unaffiliated stockholders, however, were represented by the transactions committee, which negotiated the terms and conditions of the merger agreement on their behalf, with the assistance of its independent financial and legal advisors. The LaGrange Investors believe that the merger is substantively and procedurally fair to the unaffiliated stockholders and agree with the analyses and conclusions of the transactions committee and the board of directors based upon the reasonableness of those analyses and conclusions, which they adopt, and their knowledge of our company, as well as the factors considered by, and the findings of, the transactions committee and the board of directors with respect to the fairness of the merger to such unaffiliated stockholders (see Recommendation of the Transactions Committee and Board of Directors; Reasons for the Merger; Fairness of the Merger). In addition, the LaGrange Investors considered the fact that the transactions committee received an opinion from Sonenshine Partners to the effect that, as of the date of the fairness opinion, and based upon and subject to the various factors, assumptions and limitations set out in the fairness opinion, the \$24.25 per share merger consideration to be received by stockholders in cash was fair to such stockholders from a financial point of view (see Recommendation of the Transactions Committee and Board of Directors; Reasons for the Merger; Fairness of the Merger).

While Mr. Johnson is a director of 1-800 CONTACTS, because of his differing interests in the merger he did not participate in the negotiation of the merger agreement or the evaluation of the merger agreement and the merger. For these reasons, the LaGrange Investors do not believe that their interests in the merger influenced the decision of the transactions committee or the board of directors with respect to the merger agreement or the merger.

The foregoing discussion of the information and factors considered and given weight by the LaGrange Investors in connection with the fairness of the merger is not intended to be exhaustive but is believed to include all material factors considered by the LaGrange Investors. The LaGrange Investors did not find it practicable to, and did not, quantify or otherwise attach relative weights to the foregoing factors in reaching their position as to the fairness of the merger. The LaGrange Investors believe that these factors provide a reasonable basis for their belief that the merger is fair to the unaffiliated stockholders.

Position of Parent, Acquisition, Fenway and Fenway GP as to the Fairness of the Merger

Under a potential interpretation of the rules governing going private transactions, Parent, Acquisition, Fenway and Fenway GP may be required to express their beliefs as to the fairness of the merger to our unaffiliated stockholders. Parent, Acquisition, Fenway and Fenway GP are making the statements included in this section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. None of Parent, Acquisition, Fenway or Fenway GP believes that it has or had any fiduciary duty to us or our stockholders, including with respect to the merger and its terms. Parent, Acquisition, Fenway and Fenway GP attempted to negotiate the terms of a transaction that would be most favorable to them, and not to our stockholders, and, accordingly did not negotiate the merger agreement with a goal of obtaining terms that were fair to such stockholders. The views of Parent, Acquisition, Fenway and Fenway GP should not be construed as a recommendation to any stockholder as to how that stockholder should vote on the proposal to adopt the merger agreement or the adjournment proposal.

None of Parent, Acquisition, Fenway or Fenway GP participated in the deliberation process of the transactions committee and none of them participated in the conclusions of the transactions committee or our board of directors that the merger was fair to our stockholders, nor did they undertake any independent evaluation of the fairness of the merger. However, Parent, Acquisition, Fenway and Fenway GP found persuasive the conclusions of the transactions committee and the board of directors as to the substantive and procedural fairness of the merger to the stockholders (see Recommendation of the Transactions Committee and Board of Directors; Reasons for the Merger; Fairness of the Merger).

Accordingly, each of Parent, Acquisition, Fenway and Fenway GP believes that the merger is substantively and procedurally fair to our unaffiliated stockholders because, among other things:

- the merger consideration of \$24.25 per share to be paid in cash for each share of our common stock in the merger represents a premium of approximately 23% and 21% to the low and high reported sales price on June 1, 2007 (the last trading day prior to the public announcement of the execution of the merger agreement);
- negotiations were conducted by the transactions committee, which was comprised of independent directors who are not our employees and who have no financial interest in the merger that is different from that of our stockholders unaffiliated with Parent, Acquisition or their subsidiaries and respective affiliates;
- the board of directors could not proceed with a transaction involving Fenway without the approval of the transactions committee, which had the ultimate authority to decide whether or not to pursue such a transaction (subject to approval of the merger agreement by our board of directors);
- the transactions committee and board of directors retained and received advice and assistance from independent financial and legal advisors, each of which has extensive experience in transactions similar to the proposed merger, in evaluating, negotiating and recommending the terms of the merger agreement, as applicable;
- the fact that the transactions committee received an opinion from Sonenshine Partners to the effect that, as of the date of the fairness opinion, and based upon and subject to the various factors, assumptions and limitations set out in the fairness opinion, the consideration to be received by the holders of shares of our common stock pursuant to the merger was fair, from a financial point of view, to such holders;
- the transactions committee and its advisors made substantial efforts to negotiate and execute a merger agreement favorable to our stockholders;

- the financial and other terms and conditions of the merger agreement were the product of arms-length negotiations between the parties;
- the merger will provide consideration to the stockholders (other than Parent, Acquisition and the continuing investors) entirely in cash, which allows such stockholders to immediately realize a fair value for their investment and provides such stockholders certainty of value for their shares;
- subject to compliance with the terms and conditions of the merger agreement, our board of directors is permitted to change its recommendation or terminate the merger agreement, prior to the adoption of the merger agreement by our stockholders, in order to approve a superior proposal, upon the payment to Parent of a \$10,330,550 termination fee and expense reimbursement for the documented out-of-pocket fees and expenses reasonably incurred by Parent and Acquisition in connection with the merger agreement and the transactions contemplated thereby up to \$1,500,000;
- Fenway guaranteed Parent's obligation to pay a termination fee pursuant to the terms of a guaranty; and
- appraisal rights are available to holders of our common stock who comply with all of the required procedures under Delaware law, which allows such holders to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery.

Each of Parent, Acquisition, Fenway and Fenway GP believes that the merger is procedurally fair for all the reasons listed above, notwithstanding the fact that we did not retain an unaffiliated representative to act on behalf of our unaffiliated stockholders. In this regard, each of Parent, Acquisition, Fenway and Fenway GP notes that our board of directors believed it was not necessary to appoint an additional representative unaffiliated with us to act solely on behalf of the unaffiliated stockholders for purposes of negotiating the terms of the merger agreement or preparing a report concerning the fairness of the merger in light of the fact that the use of a transactions committee such as ours is a well recognized mechanism to achieve fairness in transactions such as the merger.

In evaluating the fairness of the merger to our unaffiliated stockholders, Parent, Acquisition, Fenway and Fenway GP did not consider net book value because they believe that net book value, which is an accounting concept, does not reflect, or have any meaningful impact on, the market trading prices for our common stock. Parent, Acquisition, Fenway and Fenway GP noted, however, that the merger consideration of \$24.25 per share is significantly higher than the last reported net book value per share of our common stock (\$2.76 per share at March 31, 2007). Parent, Acquisition, Fenway and Fenway GP did not consider liquidation value in determining the fairness of the merger to our stockholders because we will continue to operate our business following completion of the merger and because Parent, Acquisition, Fenway and Fenway GP believe that liquidation sales generally result in proceeds substantially less than sales of a going concern. Parent, Acquisition, Fenway and Fenway GP did not establish going concern value for our common stock as a public company to determine the fairness of the merger consideration to the stockholders. None of Parent, Acquisition, Fenway or Fenway GP believes that there is a single method for determining going concern value and, therefore, did not base their valuation of us on a concept that is subject to various interpretations. Further, Parent, Acquisition, Fenway and Fenway GP believed that, to the extent that our pre-merger going concern value was already reflected in the pre-announcement per share stock price of our common stock, such pre-merger going concern value undervalued us in comparison to the offer prices being discussed in the merger negotiations, which from the outset reflected a premium to such pre-announcement stock price. In addition, Parent, Acquisition, Fenway and Fenway GP did not consider any other firm offers made by any unaffiliated third parties with respect to a merger or consolidation, sale of assets or other sale of us and did not consider any recent purchases of our common stock by Parent, Acquisition, Fenway, Fenway GP or any of the continuing investors.

Parent, Acquisition, Fenway and Fenway GP did not receive any opinion, report or appraisal from an outside party that is materially related to the merger. Since Parent, Acquisition, Fenway and Fenway GP

relied on their own analysis and conclusions in forming their belief as to the fairness of the proposed merger to our stockholders, they did not adopt the conclusions of the transactions committee or the board of directors with respect to such fairness and, accordingly, did not adopt the analysis or opinion of Sonenshine Partners.

The foregoing discussion of the information and factors considered and given weight by Parent, Acquisition, Fenway and Fenway GP in connection with the fairness of the merger agreement and the merger is not intended to be exhaustive but is believed to include all material factors considered by Parent, Acquisition, Fenway and Fenway GP. Parent, Acquisition, Fenway and Fenway GP did not find it practicable to, and did not, quantify or otherwise attach relative weights to the foregoing factors in reaching their position as to the fairness of the merger agreement and the merger. Parent, Acquisition, Fenway and Fenway GP believe that these factors provide a reasonable basis for their position that they believe that the merger is fair to the stockholders.

Plans for 1-800 CONTACTS after the Merger

It is expected that, upon consummation of the merger (and excluding the transactions contemplated in connection with the merger as described in this proxy statement), our operations will be conducted substantially as they currently are being conducted. Fenway has advised us that it does not have any current intentions, plans or proposals to cause us to engage in any of the following:

- an extraordinary corporate transaction following consummation of the merger involving our corporate structure, business or management, such as a merger, reorganization or liquidation;
- the relocation of any material operations or sale or transfer of a material amount of assets; or
- any other material changes in our business.

Nevertheless, following consummation of the merger, the management and/or board of directors of the surviving corporation may initiate a review of the surviving corporation and its assets, corporate and capital structure, capitalization, operations, business, properties and personnel to determine what changes, if any, would be desirable following the merger to enhance the business and operations of the surviving corporation and may cause the surviving corporation to engage in the types of transactions set forth above if the management and/or board of directors of the surviving corporation decides that such transactions are in the best interest of the surviving corporation upon such review. The surviving corporation expressly reserves the right to make any changes it deems appropriate in light of such evaluation and review or in light of future developments.

Certain Effects of the Merger

If the merger agreement is adopted by our stockholders, certain other conditions to the closing of the merger are either satisfied or waived, Acquisition will be merged with and into 1-800 CONTACTS, with 1-800 CONTACTS being the surviving corporation.

Upon the consummation of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger (other than shares held in treasury, shares owned by Parent immediately prior to the effective time of the merger (including shares to be exchanged for equity interests in Holdings by the continuing investors) or shares held by stockholders who are entitled to and who properly exercise appraisal rights under Delaware law) will be converted into the right to receive \$24.25 in cash, without interest and less any applicable withholding taxes. Upon the consummation of the merger, all outstanding options to acquire our common stock will become fully vested and immediately exercisable and all such options not exercised prior to the merger will be canceled and converted into a right to receive a cash payment equal to the number of shares of our common stock underlying the options multiplied by the amount (if any) by which \$24.25 exceeds the option exercise price, without interest and less any applicable withholding taxes. Each share of restricted stock that is vested and outstanding as of the

effective time of the merger, and each share of restricted stock that is unvested as of the effective time of the merger and whose vesting is, by its terms, accelerated to the effective time of the merger as a result of the merger, will be canceled, with the holder of each such share of restricted stock receiving the \$24.25 per share merger consideration in cash, without interest and less any applicable withholding taxes. Each share of restricted stock whose vesting is not, by its terms, accelerated to the effective time of the merger as a result of the merger will be canceled, with the holder of each such share of restricted stock receiving the \$24.25 per share merger consideration, without interest and less any applicable withholding taxes, at the times set forth in the applicable agreement governing the grant of any such share. In the case of our directors, the restricted stock agreements provide that all unvested restricted shares vest immediately upon a change in control. In the case of our executive officers, the restricted stock agreements generally provide that upon a change in control, 33% of any unvested time-vesting and performance-vesting restricted shares held by an executive officer vest immediately, and any remaining unvested time-vesting and performance-vesting restricted shares vest in equal quarterly installments over a two-year period commencing on the date of a change in control.

Following the merger, the entire equity in the surviving corporation will ultimately be owned through Holdings by an investor group led by Fenway and the continuing investors (collectively, the investor group). If the merger is completed, the members of the investor group and any additional investors that Fenway permits to invest in Holdings will be the sole beneficiaries of our future earnings and growth, if any, and will be entitled to vote on corporate matters affecting us following the merger. Similarly, the members of the investor group will also bear the risks of ongoing operations, including the risks of any decrease in our value after the merger and the operational and other risks related to the incurrence by the surviving corporation of significant additional debt as described below under Financing of the Merger.

If the merger is completed, our unaffiliated stockholders, other than Messrs. Walker and Hwang, will have no interest in our net book value or net earnings, if any. The table below sets forth the direct and indirect interests of each of Messrs. Coon, Nichols, Bethers, Hunter, McCallum, Murray, Neves and Zeidner, the LaGrange Investors and Fenway in our net book value prior to and immediately after the merger, based upon our net book value at March 31, 2007. Following the merger, the entire interest in our net book value and net income, if any, will be held indirectly through Holdings by the investor group. Because we did not generate any earnings in the three fiscal months ended March 31, 2007, or in any of our last three fiscal years, no information has been provided in the table with respect to earnings.

Name	Ownership Prior to the Merger(1) Net Book Value \$ in thousands		Ownership After the Merger(2) Net Book Value \$ in thousands	
		%		%
Jonathan C. Coon(3)	\$ 8,251	22.0 %	\$ 5,982	16.0 %
John F. Nichols(4)	\$ 2,635	7.0 %	\$ 1,821	4.9 %
Other management investors(5)(6)	\$ 116	0.3 %	\$ 520	1.4 %
LaGrange Investors(7)	\$ 4,641	12.4 %	\$ 1,300	3.5 %
Fenway(8)	N/A	N/A	\$ 27,830	74.2 %

(1) Based upon beneficial ownership as of August 6, 2007, excluding any options (whether or not exercisable) and unvested shares of restricted stock, and our net book value at March 31, 2007.

(2) Based upon the expected equity investments in Holdings by the Management Investors and the LaGrange Investors and our net book value at March 31, 2007, and without giving effect to any additional indebtedness to be incurred in connection with the merger.

(3) Ownership prior to the merger is based on 3,005,290 shares of our common stock beneficially owned by Mr. Coon, including 292,673 shares beneficially owned by Mr. Coon as custodian under the Uniform Gift to Minors Act (UGMA) and 14,134 shares held by Mr. Coon's minor children.

(4) Ownership prior to the merger is based on 959,927 shares of our common stock beneficially owned by Mr. Nichols, including 5,153 shares beneficially owned by Mr. Nichols as custodian under the UGMA.

(5) Ownership prior to the merger is based on 18,000 shares of our common stock beneficially owned by Mr. Bethers, including 5,000 shares of common stock held in trust for Mr. Bethers' children; 1,671 shares of our common stock beneficially owned by Mr. Hunter; 3,354 shares of our common stock beneficially owned by Mr. McCallum; 5,312 shares of our common stock beneficially owned by Mr. Murray; 5,600 shares of our common stock beneficially owned by Mr. Neves; and 8,264 shares of our common stock beneficially owned by Mr. Zeidner.

(6) The specific allocations of equity interests in Holdings among these individuals has not yet been determined.

(7) Ownership prior to the merger is based on 1,344,290 shares beneficially owned by LaGrange Capital, 326,884 shares of our common stock beneficially owned by LaGrange Offshore, 17,161 shares of our common stock held by Mr. Johnson in an individual retirement account and 2,000 shares of our common stock owned by Mr. Johnson's wife.

(8) Based upon current equity commitments by Fenway less the amount of expected equity investments in Holdings by the continuing investors. These amounts are subject to change in the event that any other co-investors invest in Holdings.

In connection with the merger, the continuing investors will receive benefits and be subject to obligations in connection with the merger that are different from, or in addition to, the benefits and obligations of our stockholders generally, as described in more detail under "Interests of Certain Persons in the Merger." The incremental benefits include the right of the continuing investors to make an agreed upon equity investment in Holdings in cash and/or by exchanging a portion of their option equity value and/or shares of our common stock for equity interests in Holdings. A detriment to the continuing investors is that their new equity interests in Holdings will not initially be and may not subsequently be registered under the federal securities laws and that such equity interests will be relatively illiquid without an active public trading market for such securities. The equity interests received in exchange for such shares of our common stock will also be subject to a limited partnership agreement restricting the ability of the continuing investors to sell such equity. Additional incremental benefits to executive officers who are continuing investors include, among others, continuing as executive officers of the surviving corporation and entering into employment and related agreements with the surviving corporation. A related potential detriment to the continuing investors is that Fenway will control Holdings, will control the board of directors of Holdings, Parent and the surviving corporation and will be able to exert substantial influence over the governance and operations of Holdings, Parent and the surviving corporation following the merger.

Our common stock is currently registered under the Exchange Act and is quoted on the Nasdaq Global Market under the symbol "CTAC." As a result of the merger, we will be a privately held corporation, and there will be no public market for our common stock. After the merger, our common stock will cease to be quoted on the Nasdaq Global Market, and price quotations with respect to sales of shares of common stock in the public market will no longer be available. In addition, registration of our common stock under the Exchange Act will be terminated.

At the effective time of the merger, the directors of Acquisition will become the directors of the surviving corporation and the current officers of 1-800 CONTACTS will become the officers of the surviving corporation. The certificate of incorporation of 1-800 CONTACTS will be amended to be the same as the certificate of incorporation of Acquisition as in effect immediately prior to the effective time of the merger, except that the name of the surviving corporation shall continue to be 1-800 CONTACTS, INC. and except for the provisions relating to the incorporator and registered agent. The bylaws of 1-800

CONTACTS in effect immediately prior to the effective time of the merger will become the bylaws of the surviving corporation.

Effects on the Company if the Merger is Not Completed

If the merger agreement is not adopted by our stockholders or if the merger is not completed for any other reason, stockholders will not receive any payment for their shares in connection with the merger. Instead, we will remain an independent public company and our common stock will continue to be listed and traded on the Nasdaq Global Market. In addition, if the merger is not completed, we expect that management will operate the business in a manner similar to that in which it is being operated today and that our stockholders will continue to be subject to the same risks and opportunities as they currently are, including, among other things, the nature of the contact lens industry on which our business largely depends, and general industry, economic, regulatory and market conditions. Accordingly, if the merger is not consummated, there can be no assurance as to the effect of these risks and opportunities on the future value of your 1-800 CONTACTS shares. From time to time, our board of directors will evaluate and review, among other things, our business operations, properties, dividend policy and capitalization and make such changes as are deemed appropriate and continue to seek to identify strategic alternatives to enhance stockholder value. If the merger agreement is not adopted by our stockholders or if the merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to us will be offered, or that our business, prospects or results of operations will not be adversely impacted.

In addition, if the merger is terminated under certain circumstances, we would be obligated to pay Parent a \$10,330,550 termination fee and to reimburse Parent for the documented out-of-pocket fees and expenses reasonably incurred by Parent and Acquisition in connection with the merger agreement and the transactions contemplated by the merger agreement up to \$1,500,000 in the aggregate.

Interests of Certain Persons in the Merger

In considering the recommendation of the transactions committee and of the board of directors with respect to the merger, our stockholders should be aware that certain of our officers and directors have interests in the merger that are different from, or in addition to, the interests of our stockholders in general. As discussed above, at least two members of our board of directors, one of whom is the chief executive officer and the other of whom is also an executive officer, are continuing investors, and the members of our board of directors were aware of such directors interests in the proposed transactions when deciding to approve the transactions, as was the transactions committee when deciding to recommend such approval. See SPECIAL FACTORS Background of the Merger and SPECIAL FACTORS Recommendation of the Transactions Committee and Board of Directors; Reasons for the Merger; Fairness of the Merger. These interests include those described below.

Support Agreement

Mr. Jonathan C. Coon, our Chairman and Chief Executive Officer, Mr. John F. Nichols, our Vice President, Trade Relations and one of our directors, and LaGrange Capital and LaGrange Offshore, investment funds controlled by Frank LaGrange Johnson, one of our directors, have, together with certain of their affiliates, each executed a support agreement with Parent and Acquisition, pursuant to which they have agreed, among other things, to vote 5,636,361 shares of our common stock owned by them in the aggregate (constituting approximately 40% of the fully diluted shares of our common stock on the date we signed the merger agreement, or 40% of the outstanding shares of our common stock entitled to vote at the special meeting) in favor of the approval and adoption of the merger agreement at the special meeting. Specifically, each of these stockholders has agreed, severally and not jointly, that during the term of the support agreement, at any meeting of our stockholders, however called, or at any adjournment thereof or in any other circumstances upon which a vote or other approval of our stockholders is sought, such

stockholder will (i) when a meeting is held, appear at such meeting in person or by proxy or otherwise cause the covered shares to be counted as present thereat for the purpose of establishing a quorum, (ii) vote (or cause to be voted) in person or by proxy the covered shares in favor of the merger, the adoption of the merger agreement and the transactions contemplated by the merger agreement and (iii) vote (or cause to be voted) the covered shares against (A) any extraordinary corporate transaction (other than the merger), such as a merger, consolidation, business combination, tender or exchange offer, reorganization, recapitalization, liquidation, sale or transfer of all or substantially all of the assets or securities of 1-800 CONTACTS and any of our subsidiaries (other than pursuant to the merger), dividend or distribution, (B) any change in the corporate structure of 1-800 CONTACTS or our subsidiaries or any amendment to our certificate of incorporation or bylaws (other than pursuant to the merger agreement), (C) any Acquisition Proposal or other proposal made in opposition to or in competition with the consummation of the merger, (D) the election of a group of individuals to replace a majority or more of the individuals on our board of directors as of June 3, 2007 and (E) any other action, agreement, proposal, plan or arrangement that could reasonably be expected to result in a breach of a representation, warranty or covenant of 1-800 CONTACTS under the merger agreement or would in any manner prevent or materially impede, interfere with or delay the merger, the approval of the merger agreement or the consummation of any of the transactions involving Parent and Acquisition contemplated by the merger agreement. Each of the stockholders has agreed that, during the term of the support agreement, he or it will not, in his or its capacity as a stockholder, act by written consent on any matter.

Each of the stockholders who has signed the support agreement has agreed that, without the prior written consent of Parent, during the term of the support agreement, he or it will not, directly or indirectly, (i) grant any proxies or enter into any voting trust or other agreement or arrangement with respect to the voting of any covered shares or (ii) sell, sell short, pledge, assign, transfer, encumber or otherwise dispose of (including by merger, consolidation or otherwise by operation of law), or enter into any contract, option futures contract, short sale, derivative contract or other arrangement or understanding with respect to the direct or indirect assignment, transfer, encumbrance, delivery or other disposition of (including by merger, consolidation, operation of law or otherwise), any covered shares.

The support agreement provides that it will terminate (i) automatically upon the earlier of (A) the effective time of the merger or (B) the termination of the merger agreement in accordance with its terms or (ii) upon written notice of termination of the support agreement by Parent or Acquisition to such stockholders.

Treatment of Outstanding Options and Restricted Stock

Stock Options. Our directors and executive officers hold options to purchase our common stock, a portion of which are not currently vested or exercisable. In accordance with the terms of the merger agreement, each outstanding option to purchase shares of our common stock under any employee stock incentive plan, whether or not then exercisable, will be canceled in exchange for the right to receive an amount in cash equal to the product of (i) the number of shares subject to such option and (ii) the excess, if any, of the \$24.25 per share merger consideration over the exercise price per share of such option, without interest and less any applicable withholding taxes.

Restricted Shares. Restricted shares of our common stock have been issued to our directors and executive officers as long-term equity compensation. The restricted share grants to our executive officers include both time-vesting and performance-vesting restricted shares, and the restricted share grants to our directors are time-vesting restricted shares. Both the time-vesting and the performance-vesting restricted shares are subject to various change in control provisions. Pursuant to the agreements governing grants of restricted stock to our executive officers, generally upon a change in control, 33% of any unvested time-vesting and performance-vesting restricted shares held by an executive officer vest immediately, and any remaining unvested time-vesting and performance-vesting restricted shares vest in equal quarterly installments over a two-year period commencing on the date of the change in control. However, all

remaining unvested time-vesting and performance-vesting shares would immediately vest upon the termination of the executive officer without cause within two years following the change in control or if the termination was requested by the party taking control prior to the change in control. Pursuant to the agreements governing grants of restricted stock to our directors, upon a change in control, restricted shares held by a director vest immediately.

As a result of the merger, each share of restricted stock that is vested and outstanding as of the effective time of the merger, and each share of restricted stock that is unvested as of the effective time of the merger and whose vesting is, by its terms, accelerated to the effective time of the merger as a result of the merger, will be canceled, with the holder of each such share of restricted stock receiving the \$24.25 per share merger consideration in cash, without interest and less any applicable withholding taxes. Each share of restricted stock whose vesting is not, by its terms, accelerated to the effective time of the merger as a result of the merger will be canceled, with the holder of each such share of restricted stock receiving the \$24.25 per share merger consideration, without interest and less any applicable withholding taxes, at the times set forth in the applicable agreement governing the grant of any such share.

In addition to payment of the \$24.25 per share merger consideration for shares of our common stock beneficially owned by them, our executive officers and directors will be entitled to receive the following amounts (based on the merger consideration) with respect to their existing options to purchase our common stock and restricted shares:

Executive Officers and Directors:	Stock Option Amounts(1)(\$)	Value of Restricted Stock(2)(\$)	
		Payable at Closing	Payable Over Next 2 Years
Jonathan C. Coon	\$ 315,489		
Robert G. Hunter	772,342	\$ 184,058	\$ 373,692
Brian W. Bethers	2,840	736,230	1,494,770
Kevin K. McCallum	956,477	460,144	934,231
R. Joe Zeidner	278,977	680,334	1,121,078
John F. Nichols.	315,489		
John R. Murray		184,058	519,193
Max E. Neves		111,235	371,340
Thomas H. Boggs, Jr.	12,140	161,675	
E. Dean Butler	1,918,606	161,675	
Stephen L. Key		161,675	
Bradley T. Knight	81,375	161,675	
Garth T. Vincent	2,140	161,675	
Frank LaGrange Johnson			
All directors and executive officers as a group (14 persons)	\$ 4,655,874	\$ 3,164,433	\$ 4,814,304

(1) Represents the merger consideration less the applicable option exercise prices with respect to all outstanding options held by such director or executive officer.

(2) Represents the value of restricted shares for which the restrictions and forfeiture provisions will terminate or lapse in connection with the merger, including restricted shares that vest in equal quarterly installments over a two-year period commencing on the effective date of the merger.

For information on the shares of our common stock beneficially owned by our executive officers and directors, see IMPORTANT INFORMATION CONCERNING 1-800 CONTACTS Security Ownership of Certain Beneficial Owners and Management.

Equity Rollover Arrangements

In connection with the execution of the merger agreement, Fenway entered into a letter agreement with Messrs. Coon and Nichols pursuant to which Fenway agreed that Messrs. Coon and Nichols would collectively have the right to acquire at or prior to the completion of the merger equity interests in Holdings, which will be the ultimate parent company of 1-800 CONTACTS following the merger, having a value of at least \$25.0 million in the aggregate. We have been informed by Messrs. Coon and Nichols that they intend to acquire the entire amount allotted. In addition, Messrs. Coon and Nichols have informed us that they may be permitted to, and intend to, acquire up to an additional \$5.0 million of equity interests in Holdings, for a total investment of \$30.0 million in the aggregate. Upon completion of the merger, assuming their acquisition of \$30.0 million of equity interests in Holdings, Messrs. Coon and Nichols will collectively own approximately 21% of the outstanding equity interests in Holdings. In addition, Fenway anticipates that Messrs. Bethers, Hunter, McCallum, Murray, Neves, Zeidner, Walker and Hwang will acquire equity interests in Holdings having a value of up to \$2.0 million in the aggregate. Finally, Fenway anticipates that the LaGrange Investors will acquire equity interests in Holdings having a value of up to \$5.0 million. Substantive discussions regarding the terms on which these continuing investors would make an investment in Holdings are ongoing at this time. Fenway has agreed that the equity interests received by the continuing investors will be the same class or classes of equity interests in Holdings as the equity to be acquired by Fenway and that the equity interests received by the continuing investors will be acquired at the same price to be paid by Fenway for its equity. Shares of our common stock will be rolled over at a value equal to the merger consideration.

Fenway has in the past invited certain persons with whom it has commercial or investment relationships to be co-investors in its portfolio companies, and it may invite such persons to co-invest in Holdings. Fenway anticipates that none of these co-investors or their principals will be directors or officers of the surviving company or otherwise be an affiliate of Holdings.

Pursuant to the letter agreement, Fenway and Messrs. Coon and Nichols agreed that they would negotiate in good faith the terms of the limited partnership agreement of Holdings and the other required documentation on the basis of an attached term sheet. The attached term sheet provided for the following terms:

Transferability. Equity interests in Holdings received by Messrs. Coon and Nichols (referred to as the Rollover equity) will not be transferable, except: (i) to family members or estate planning vehicles, (ii) by will or the laws of descent, (iii) by Mr. John F. Nichols to Mr. Jonathan C. Coon, (iv) pursuant to the tag-along and drag-along rights described below or any registered public offering, or (v) to Holdings or a designee of Holdings. The transfer restrictions will terminate upon an initial public offering.

Tag Along Rights. Rollover equity will have the right to participate in any private sale of equity interests acquired by Fenway in connection with the merger, subject to customary permitted exceptions. Such participation will be pro rata on a fully-diluted basis and will be at the same price received by Fenway in the sale.

Drag-Along Obligation. Rollover equity will be subject to drag-along rights pursuant to which, if Fenway proposes to sell in excess of 70% of the outstanding equity interests of Holdings to an unaffiliated third party, Fenway may require each other holder of equity to transfer the same percentage of its equity at the same price and upon substantially the same other terms and conditions.

Registration Rights. Subject to customary exceptions, each time Holdings (or any successor corporation) proposes to register common equity in a public offering, other than an initial public offering (unless Fenway is selling in the initial public offering), holders of Rollover equity may include their common equity, subject to cut-back by the underwriters. Any cut-back will be borne by all participating holders (including Fenway) pro rata.

Subject to customary limitations, at any time after the six-month anniversary of the initial public offering, in addition to any demand registration rights provided to Fenway and its affiliates, the holders of at least a majority of the Rollover equity may require Holdings to register on not more than two (2) occasions the sale of some or all of the common equity held by such holders.

Preemptive Rights. Subject to customary exceptions, if Holdings determines to issue any equity securities, each holder of Rollover equity will be given the right to purchase its pro rata portion of such offered securities.

Board of Managers. The board of managers of the general partner of Holdings will control Holdings and approve all significant transactions. From and after the closing of the merger, such board of managers will consist of: (i) one member designated by Mr. Jonathan C. Coon, so long as he (together with his affiliates) continues to hold a significant percentage of his Rollover equity (provided that if Mr. Coon is terminated for cause, such board member shall not be Mr. Coon), (ii) one member designated by the holders of a majority of the Rollover equity held by non-management holders and reasonably acceptable to Fenway, and (iii) at least five additional members of such board designated by Fenway, at least two of whom will not be affiliates of Fenway (it being understood that Fenway may increase the size of such board at any time). No affiliates of Fenway or members of management who are members of the board of managers shall be eligible to receive any fees as compensation for their board service.

Noncompetition and Nonsolicitation Period. Fenway expects that holders of Rollover equity would be subject to covenants applicable for the later of five years following the closing of the merger or, if an employee, one-year following termination of employment that would prevent the holder from (i) participating, directly or indirectly (including as an investor) in the retailing or distribution of contact lenses in North America or any other area where Holdings or any of its affiliates conducts business, (ii) soliciting or hiring employees of Holdings or any of its affiliates or (iii) interfering with the business relationships of Holdings or any of its affiliates, including relationships with suppliers.

Information Rights. Holders of Rollover equity will be entitled to receive the same audited annual and unaudited quarterly financial statements and other information provided to our senior lenders, subject to appropriate confidentiality restrictions (which restrictions will not restrict Mr. Jonathan C. Coon from sharing such information, or any other information obtained in his capacity as a member of the board of managers of the general partner of Holdings, with Mr. John F. Nichols).

Management Agreement. Upon closing the merger, an affiliate of Fenway will enter into a management and advisory services agreement with Holdings, 1-800 CONTACTS and each of our subsidiaries. Such agreement will provide for a closing fee plus certain ongoing fees and reimbursement of expenses payable at various times following the merger; provided, that any annual monitoring fee to be paid pursuant to such agreement shall not exceed \$1.0 million. During each year, each holder of Rollover equity that has (collectively with its affiliates) purchased at least \$3.0 million of Rollover equity will be entitled to share, on a pro rata basis (to be calculated based on the aggregate amount of Rollover equity held by each such holder (collectively with its affiliates) as a percentage of the total Rollover equity acquired by such group of holders and Fenway at the closing of the merger), in all of such additional ongoing fees (including any annual monitoring fee) if such fees exceed \$1.0 million in the aggregate in such year; provided, that at such time when such holders of Rollover equity, collectively as a group, hold less than 5% of the outstanding equity interests of Holdings, the foregoing right to share in such fees shall expire.

Fees and Expenses. Upon closing the merger, Holdings or one of its subsidiaries will reimburse the reasonable fees and expenses of one legal counsel for each holder of Rollover equity in connection with the merger; provided, that such fees and expenses shall not exceed \$50,000 for each such counsel.

Severance Arrangements

Following the merger, the surviving corporation will continue to have employment agreements with each of our executive officers. Each of our employment agreements with our executive officers provide that they will receive severance payments upon (i) their death, (ii) our termination of their employment (other than a termination for cause), or (iii) their voluntary termination of employment for good

reason. If an executive officer's employment is terminated involuntarily without cause or voluntarily for good reason, these severance payments include continuation of the annual base salary for one year from the date of termination of employment and a pro-rata bonus for the year in which such termination occurred. In addition, if payments made under the employment agreements with Messrs. Coon, Hunter, Bethers, McCallum, Zeidner, Murray and Neves (or any other plans or agreements) are subject to excise tax under the provisions of Section 4999 of the Code, the employment agreements provide that we will pay each executive an additional amount such that the amount retained by each executive would equal the net amount of payments which would have been received by the executive absent application of the excise tax. In addition, Messrs. McCallum and Zeidner will also receive similar severance and pro-rata bonus payments upon a voluntary termination of their employment if they voluntarily terminate their employment with us prior to December 31, 2007.

The information below describes and quantifies certain payments or benefits that would have been payable under our existing executive's employment agreements if an executive officer's employment had terminated involuntarily without cause or voluntarily for good reason on December 30, 2006, which was the last day of our last fiscal year. These benefits are in addition to benefits generally available to all of our salaried employees in connection with a termination of employment such as distributions from the 401(k) Plan, the opportunity to continue to purchase disability and life insurance benefits, and the value of employee-paid group health plan continuation coverage under COBRA:

Name	Severance Pay(1)	Pro-rated Bonus(2)	Continuation Coverage(3)	Total
Jonathan C. Coon	\$ 210,000	\$ 105,000	\$ 12,983	\$ 327,983
Robert G. Hunter	166,250	40,800	12,372	219,422
Brian W. Bethers	310,000	155,000	12,372	477,372
Kevin K. McCallum	220,000	66,000	12,372	298,372
R. Joe Zeidner	200,000	60,000	12,372	272,372
John R. Murray	180,000	54,000	12,372	246,372
Max Neves	156,000	37,000	12,372	205,372

- (1) Severance pay equals one year of annual base salary.
- (2) Pro-rated bonus pay equals annual salary multiplied by an overall targeted rate. The targeted rate includes both Company performance and individual performance metrics.
- (3) We will pay continued health plan coverage under COBRA for the period of one year from the date of termination. This amount represents the estimate of this continuation coverage.

Equity-Based Incentives

Parent has informed us that it intends to offer equity-based compensation on terms to be determined.

Employee Benefits

The merger agreement requires Parent to cause the surviving corporation, for a period commencing at the effective time of the merger and ending on the first anniversary of the effective time, to provide severance and other separation-related payments and benefits not less favorable than those provided for under the severance or separation-related provisions of our employee benefit plans, and to maintain compensation and benefits levels for our employees who remain employed that are no less favorable than those provided prior to the effective time of the merger, disregarding compensation and benefits which are stock-based. See THE MERGER AGREEMENT Other Covenants.

Indemnification and Director and Officer Liability Insurance

The merger agreement provides that, from the effective time of the merger through the sixth anniversary of the effective time of the merger, Parent will, or will cause the surviving corporation to continue to, indemnify and hold harmless each of our present and former officers or directors to the fullest extent permitted under applicable law. The merger agreement further provides that Parent will, or will cause the surviving corporation to, either cause to be obtained at the effective time of the merger tail insurance policies, at no expense to the beneficiaries, with a claims period of six years from the effective time of the merger, or maintain at no expense to the beneficiaries, in effect for six years from the effective time of the merger, the current policies of the directors and officers liability insurance maintained by us with respect to matters existing or occurring at or prior to the effective time of the merger. For a description of the indemnification and insurance of our officers and directors, see THE MERGER AGREEMENT Indemnification; Director and Officer Insurance.

Financing of the Merger

Parent estimates the total amount of funds necessary to complete the merger and the related transactions to be approximately \$359.5 million, which includes approximately \$304.6 million to be paid out to our stockholders for shares of our common stock other than shares to be exchanged for equity interests in Holdings by the continuing investors, with the remainder to be applied to pay related fees and expenses in connection with the merger, the financing arrangements and the related transactions. These payments are expected to be funded by a combination of equity contributions by entities sponsored by or co-investors with Fenway and debt financing.

Equity Commitment Letter

Pursuant to an equity commitment letter from Fenway to Parent, dated as of June 3, 2007, Fenway agreed, subject to all of the terms and conditions set forth therein, to purchase stock of Parent upon the satisfaction, fulfillment or written waiver of the conditions to the closing of the merger set forth in sections 7.1 and 7.2 of the merger agreement for an aggregate consideration of \$144,535,000, less the amount of rollover equity investment in Parent by our existing stockholders, in order to finance, in part, the consummation of the merger and the other transactions contemplated thereby.

The letter agreement provides that it may not be amended, modified or varied, except in a signed writing by Fenway and Parent; provided, however, that any such amendment, modification or variance that would reasonably be expected to be adverse to us will require our prior written consent. In addition, the letter agreement provides that it is for the sole benefit of Parent and nothing therein, expressed or implied, will give or be construed to give any person, other than Parent, any legal or equitable rights thereunder.

Debt Financing

In connection with the execution and delivery of the merger agreement, Acquisition has entered into a debt financing commitment letter with J.P. Morgan Securities Inc. and JPMorgan Chase Bank, N.A., to provide up to \$235.0 million in debt financing in the form of senior secured credit facilities, consisting of (1) senior secured first-lien credit facilities in the aggregate amount of \$160.0 million, consisting of a \$20.0 million senior secured revolving credit facility and a \$140.0 million senior secured term loan facility, and (2) a senior secured second-lien term loan facility in an aggregate principal amount of \$75.0 million, to finance, in part, the payment of the merger consideration, the repayment or refinancing of certain of our debt outstanding on the closing date of the merger and the payment of fees and expenses in connection with the merger, financing and related transactions.

The documentation governing the senior secured credit facilities has not been finalized and, accordingly, their actual terms may differ from those described in this proxy statement. We do not intend

to update or otherwise revise any of the terms of the financing included in this proxy statement to reflect circumstances existing after the date when such statements were made or to reflect the occurrence of future events even in the event that any of the statements regarding the financing arrangements are shown to be in error or otherwise no longer appropriate, except as required by applicable securities law. Except as described herein, there is no current plan or arrangement to finance or repay the debt financing arrangements. As of the date of this proxy statement, no alternative financing arrangements or alternative financing plans have been made in the event the debt financing described herein is not available as anticipated.

Senior Secured Credit Facilities

The senior secured credit facilities are expected to consist of (1) \$160.0 million senior secured first-lien credit facilities, consisting of a \$140.0 million first-lien term loan facility and a \$20.0 million first-lien revolving credit facility, and (2) a \$75.0 million senior secured second-lien term loan facility. As a result of the merger, Acquisition will be merged with and into 1-800 CONTACTS, and 1-800 CONTACTS, as the surviving corporation, will be the borrower under the senior secured credit facilities. All obligations of the surviving corporation under the senior secured credit facilities will be guaranteed by Parent and each existing and future direct and indirect wholly owned domestic subsidiary of the surviving corporation, subject to certain exceptions. The obligations of the surviving corporation and the guarantors under the senior secured first-lien credit facilities and the senior secured second-lien term loan facility will be secured on a first-lien and second-lien basis, respectively, by substantially all of the assets of the surviving corporation and the guarantors, including the equity interests in certain subsidiaries.

The full amount of the first-lien term loan and the second-lien term loan is expected to be used to fund a portion of the merger consideration, to refinance our existing indebtedness and to pay related fees and expenses. The revolving credit facility will be available for working capital and general corporate purposes, with an amount to be agreed upon to be available on the effective date of the merger.

Loans under the senior secured first-lien credit facilities are expected to bear interest, at the borrower's option, at (i) an adjusted London inter-bank offered rate (Adjusted LIBOR) plus 2.75% or (ii) the alternate base rate (ABR) plus 1.75%. The first-lien term loan facility will mature seven years after the effective date of the merger and the first-lien revolving credit facility will mature six years after the effective date of the merger. The first-lien term loan facility will also require quarterly interim amortization payments, with the balance payable at the final maturity date of the first-lien term loan facility. The borrower may make voluntary prepayments of the first-lien term loan at any time. In addition, the first-lien term loan is required to be prepaid in certain circumstances, including with the net cash proceeds of debt issuances (other than debt otherwise permitted), the net cash proceeds of certain asset sales (subject to reinvestment rights and other exceptions) and specified percentages of excess cash flow.

The loan under the senior secured second-lien term facility is expected to bear interest, at the borrower's option, at (1) Adjusted LIBOR plus 6.25% or (2) ABR plus 5.25%. The second-lien term loan facility will mature seven and a half years after the effective date of the merger and will not require any amortization payments. The borrower may make voluntary prepayments of the second-lien term loan at any time, subject to a prepayment premium through the first two years after the effective date of the merger. Such prepayment premium is expected to initially be 2.00%, stepping down to 1.00% on the first anniversary of the effective date of the merger. In addition, the second-lien term loan is required to be prepaid in certain circumstances after the payment in full of the first-lien term loan, including with the net cash proceeds of debt issuances (other than debt otherwise permitted), the net cash proceeds of certain asset sales (subject to reinvestment rights and other exceptions) and specified percentages of excess cash flow.

The senior secured credit facilities will contain customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, investments, asset sales, mergers and consolidations, dividends and other distributions, redemptions, prepayments of certain indebtedness and a maximum leverage ratio. The senior secured credit facilities will also include customary events of default, including upon a change of control.

Conditions to the Debt Financing

The debt financing commitments will expire if not drawn on or prior to March 31, 2008. The senior secured credit facilities contemplated by the debt financing commitments are subject to customary closing conditions, including:

- the execution and delivery of definitive credit documents;
- the receipt of equity contributions in an amount equal to at least 35% of the consolidated capitalization of Acquisition after giving effect to the merger and the other transactions from Fenway and co-investors;
- the merger and all related transactions must have been consummated in accordance with the terms of the merger agreement;
- delivery of certain specified financial statements of 1-800 CONTACTS;
- the absence of any changes since December 31, 2006 that have had or would reasonably be expected to have material adverse effect for purposes of the merger agreement; and
- receipt of customary closing documents.

Although the debt financing described in this proxy statement is not subject to the lenders' satisfaction with their due diligence or to a market out, such financing might not be funded on the closing date because of failure to meet the closing conditions.

Repayment of Indebtedness

We intend to repay the indebtedness incurred to effect the merger through cash flow from operations. Although there can be no assurance, we believe that cash flow from operations should be sufficient to service our interest and principal repayment obligations under the indebtedness incurred to effect the merger for the foreseeable future. However, we believe that it is reasonably likely that we will need to refinance all or a portion of the senior secured credit facility and/or the senior subordinated notes prior to maturity with the proceeds of future financing activities.

Regulatory Matters

In connection with the merger, we will be required to make certain filings with, and comply with certain laws of, various federal and state governmental agencies, including:

- filing a certificate of merger with the Secretary of State of the State of Delaware in accordance with the General Corporation Law of the State of Delaware after the approval of the merger agreement by our shareholders; and
- complying with U.S. federal securities laws.

In addition, under the HSR Act, the parties to the merger agreement cannot complete the merger until they have given notice and information to the Federal Trade Commission and the Department of Justice, and one or more specified waiting periods expire or are earlier terminated. The parties filed the required notifications and reports under the HSR Act with the Federal Trade Commission and the

Department of Justice on June 8, 2007. On June 15, 2007, the Federal Trade Commission granted early termination of the waiting period under the HSR Act.

Certain Material United States Federal Income Tax Consequences

The following is a general discussion of certain material United States federal income tax considerations of the merger discussed earlier in this proxy statement to holders of our common stock. This discussion is a summary for general information purposes only and does not consider all aspects of federal taxation that may be relevant to particular holders in light of their individual investment circumstances or to certain types of holders subject to special tax rules, including partnerships, S corporations, banks, financial institutions or other financial services entities, broker-dealers, insurance companies, tax-exempt organizations, regulated investment companies, real estate investment trusts, retirement plans, individual retirement accounts or other tax-deferred accounts, persons who use or are required to use mark-to-market accounting, persons that hold our common stock as part of a straddle, a hedge or a conversion transaction, persons who receive merger consideration as compensation for services, persons that have a functional currency other than the U.S. dollar, investors in pass-through entities, certain former citizens or permanent residents of the United States and persons subject to the alternative minimum tax, nor does it address any federal non-income, state, local or foreign tax considerations. This summary assumes that holders have held their shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the Code). This summary is based on the Code and applicable Treasury Regulations, rulings, administrative pronouncements and decisions as of the date of this proxy statement, all of which are subject to change or differing interpretations at any time with possible retroactive effect.

The discussion under **Stockholders Other than Continuing Investors** and **Backup Withholding and Information Reporting** applies to holders who exchange all of their 1-800 CONTACTS common stock for cash as a result of the merger and who, after the merger, have no direct or indirect interest in us (whether directly or indirectly from any person pursuant to certain tax attribution rules). The tax considerations of the merger may differ for holders who have any direct or indirect interest in us after the merger as described in the immediately preceding sentence.

For purposes of this discussion, a **U.S. Holder** is a beneficial owner of our common stock that is:

- a citizen or individual resident of the United States,
- a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organized, or treated as created or organized, in or under the laws of the United States or any political subdivision of the United States,
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (1) if a court within the United States is able to exercise primary supervision over the trust's administration and one or more United States persons have authority to control all substantial decisions of the trust or (2) that has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

For purposes of this discussion, a **Non-U.S. Holder** is a beneficial owner of our common stock that does not qualify as a U.S. Holder under the definition above.

If a partnership (or entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. In this event, you should consult your tax advisor concerning the tax treatment of the merger.

EACH HOLDER IS URGED TO CONSULT ITS TAX ADVISOR REGARDING THE SPECIFIC U.S. FEDERAL, STATE AND LOCAL AND FOREIGN INCOME AND OTHER TAX CONSIDERATIONS OF THE MERGER.

Stockholders Other than Continuing Investors

Consequences to U.S. Holders of Company Common Stock

A U.S. Holder of our common stock that receives cash as a result of the merger will recognize capital gain or loss equal to the amount of cash received minus the U.S. Holder's adjusted tax basis in our common stock. Any capital gain or loss recognized by the U.S. Holder will be long-term capital gain or loss if the U.S. Holder held our common stock for more than one year and short-term capital gain or loss otherwise. Gain or loss must be calculated separately for each block of shares (i.e., shares acquired at the same cost in a single transaction). Your ability to use any capital loss to offset other income or gain is subject to certain limitations.

Consequences to Non-U.S. Holders of Company Common Stock

A Non-U.S. Holder that receives cash as a result of the merger generally will not be subject to U.S. federal income taxation unless:

- gain resulting from the merger is effectively connected with the conduct of a U.S. trade or business;
- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the individual's taxable year of the merger; or
- we are or have been a U.S. real property holding corporation ("USRPHC") as defined in Se