

Edgar Filing: EMERGING VISION INC - Form 10-Q

EMERGING VISION INC  
Form 10-Q  
August 14, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549  
FORM 10-Q (Mark one)

☒ [X]

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for

OR

☐ [ ]

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for

Commission file number: 1-14128

EMERGING VISION, INC. (Exact name of Registrant as specified in its charter)

NEW YORK (State or other jurisdiction of incorporation or organization)

11-3096941 (I.R.S. Employer Identification No.)

100 Quentin Roosevelt Boulevard Garden City, NY 11530 (Address and zip code of principal executive

Telephone Number: (516) 390-2100 (Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by S

Yes ☒ X

No ☐ \_\_\_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer,

Large accelerated filer ☐ \_\_\_

Accelerated filer ☐ \_\_\_

Non accelerated filer ☐ \_\_\_

Smaller reporting company ☒ X

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the

Yes ☐ \_\_\_

No ☒ X

As of August 14, 2008, there were 125,292,806 outstanding shares of the Issuer's Common Stock, pa

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Certification of Chief Executive Officer and Chief Financial Officer

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

EMERGING VISION, INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED BALANCE SHEETS (In Thousands, Except

ASSETS

June 30,  
December 31,

2008  
2007

(unaudited)  
(audited)

Current assets:

Cash and cash equivalents  
\$2,074 \$2,846

Franchise receivables, net of allowance of \$124 and \$147, respectively  
1,820 1,842

Optical purchasing group receivables, net of allowance of \$60  
7,367 4,840

Other receivables, net of allowance of \$7 and \$5, respectively  
414 369

Current portion of franchise notes receivable, net of allowance of \$38  
228 191

Inventories, net  
409 466

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Prepaid expenses and other current assets  
669 447

Deferred tax assets, current portion  
615 600

Total current assets  
13,596 11,601

Property and equipment, net  
1,255 1,496

Franchise notes receivable  
147 121

Deferred tax asset, net of current portion  
1,324 1,074

Goodwill, net  
4,249 4,237

Intangible assets, net  
3,192 3,065

Other assets  
254 271

Total assets  
\$24,017 \$21,865

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Current liabilities:

Accounts payable and accrued liabilities  
\$4,526 \$5,607

Optical purchasing group payables  
6,775 4,486

Accrual for store closings  
268 300

Short-term debt  
23 32

Related party obligations  
399 404

Total current liabilities  
11,991 10,829

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Long-term debt

4,415      4,424

Related party borrowings, net of current portion

719      770

Franchise deposits and other liabilities

392      442

Total liabilities

17,517      16,465

Commitments and contingencies

Shareholders' equity:

Preferred stock, \$0.01 par value per share; 5,000,000 shares authorized: Senior Convertible Pref

74      74

Common stock, \$0.01 par value per share; 150,000,000 shares authorized; 125,475,143 shares issued

1,254      1,254

Treasury stock, at cost, 182,337 shares

(204)      (204)

Additional paid-in capital

128,017      127,971

Accumulated comprehensive income

195      165

Accumulated deficit

(122,836)      (123,860)

Total shareholders' equity

6,500      5,400

Total liabilities and shareholders' equity

\$24,017      \$21,865

### Table of Contents

The accompanying notes are an integral part of these consolidated condensed financial statements.

EMERGING VISION, INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

For the Three Months Ended June 30,

For the Six Months Ended June 30,

2008

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2007  
2008  
2007

## Revenues:

Optical purchasing group sales				
	\$16,367	\$4,597	\$30,662	\$8,922
Franchise royalties				
	1,595	1,765	3,246	3,506
Retail sales - Company-owned stores				
	954	1,248	2,096	2,605
Membership fees - VisionCare of California				
	877	878	1,720	1,727
Franchise related fees and other revenues				
	18	75	248	128
Total revenue				
	19,811	8,563	37,972	16,888

## Costs and operating expenses:

Cost of optical purchasing group sales				
	15,626	4,300	29,159	8,303
Cost of retail sales				
	246	364	511	682
Selling, general and administrative expenses				
	3,723	3,818	7,444	7,453
Total costs and operating expenses				
	19,595	8,482	37,114	16,438
Operating income				
	216	81	858	450

## Other income (expense):

Interest on franchise notes receivable				
	7	12	14	23
Gain on sale of company-owned stores to franchisees				
	-	5	19	5
Other income				

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	25	12	54	47
Interest expense	(80)	(44)	(186)	(109)
Total other income (expense)	(48)	(15)	(99)	(34)

Income before income tax benefit	168	66	759	416
----------------------------------	-----	----	-----	-----

Income tax benefit	139	302	265	383
--------------------	-----	-----	-----	-----

Net income	307	368	1,024	799
------------	-----	-----	-------	-----

Comprehensive income:

Foreign currency translation adjustments	9	-	33	-
--	---	---	----	---

Comprehensive income	\$316	\$368	\$918	\$799
----------------------	-------	-------	-------	-------

Net income per share:

Basic	\$0.00	\$0.01	\$0.01	\$0.01
-------	--------	--------	--------	--------

Diluted	\$0.00	\$0.00	\$0.01	\$0.01
---------	--------	--------	--------	--------

Weighted-average number of common shares outstanding:

Basic	125,293	70,324	125,293	70,324
-------	---------	--------	---------	--------

Diluted	130,783	127,012	131,175	123,635
---------	---------	---------	---------	---------

Table of Contents The accompanying notes are an integral part of these consolidated condens



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### EMERGING VISION, INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Six Months Ended June 30,

2008  
2007

Cash flows from operating activities:

Net income  
\$1,024    \$799

Adjustments to reconcile net income to net cash (used in) provided by operating activities:

Depreciation and amortization  
313    220

Provision for doubtful accounts  
12    (1)

Deferred tax assets  
(265)    (422)

Gain on the sale of property and equipment  
(19)    (5)

Non-cash compensation charges related to options and warrants  
46    73

Changes in operating assets and liabilities:

Franchise and other receivables  
(42)    (827)

Optical purchasing group receivables  
(2,527)    (936)

Inventories  
4    (33)

Prepaid expenses and other current assets  
(222)    (108)

Other assets  
(7)    182

Accounts payable and accrued liabilities  
(1,081)    562

Optical purchasing group payables  
2,289    771

Franchise deposits and other liabilities  
(82)    (88)

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Net cash (used in) provided by operating activities  
(557) 187

Cash flows from investing activities:

Proceeds from franchise and other notes receivable  
126 74

Costs associated with enhancing trademark value  
(228) (60)

Franchise notes receivable issued  
(20) (131)

Purchases of property and equipment  
(21) (504)

Net cash used in investing activities  
(143) (621)

Cash flows from financing activities:

Borrowings under credit facility  
- 350

Payments on borrowings  
(74) (349)

Net cash (used in) provided by financing activities  
(74) 1

Net cash used in operations  
(774) (433)

Effect of foreign exchange rate changes on cash  
2 -

Net decrease in cash and cash equivalents  
(772) (433)

Cash and cash equivalents - beginning of period  
2,846 1,289

Cash and cash equivalents - end of period  
\$2,074 \$856

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest

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\$158 \$25

Taxes

\$32 \$29

Non-cash investing and financing activities:

Accounts and notes receivable in connection with the sale of two Company-owned stores (inclusive of cash)  
\$169 \$-

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The accompanying notes are an integral part of these consolidated condensed financial statements.

EMERGING VISION, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
NOTE 1 - ORGANIZATION:

#### Business

Emerging Vision, Inc. and subsidiaries (collectively, the "Company") operates one of the following business segments:  
As of June 30, 2008, there were 151 Retail Stores in operation, consisting of 142 franchised stores and 9 Company-owned stores.

#### Principles of Consolidation

The Consolidated Condensed Financial Statements include the accounts of Emerging Vision, Inc. and its subsidiaries.

#### Basis of Presentation

The accompanying Consolidated Condensed Financial Statements of the Company have been prepared on a basis of presentation that is consistent with the Company's internal financial reporting. Effective January 1, 2008, the Company changed its basis of presentation for its business segment reporting.

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

##### Share-Based Compensation

The Company accounts for share-based compensation in accordance with the fair value method provisions of SFAS No. 123. Share-based compensation cost of approximately \$41,000 and \$69,000 is reflected in selling, general and administrative expenses. On May 7, 2008, the Company's Compensation Committee granted an aggregate of 625,000 common stock options to certain employees. There were no common stock option grants to any of the Company's employees, or warrant grants to any of the Company's employees.

##### Revenue Recognition

The Company recognizes revenues in accordance with the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 101.

The Company derives its revenues from the following five principal sources:

Optical purchasing group sales - Represents product pricing extended to the Company's optical purchasing group.

Franchise royalties - Represents continuing franchise royalty fees based upon a percentage of the Company's net sales.

Retail sales - Company-owned stores - Represents sales from eye care products and related services.

Membership fees - VisionCare of California - Represents membership fees generated by VisionCare of California.

Franchise related fees and other revenues - Represents certain franchise fees collected by the Company.

The Company also follows the provisions of Emerging Issue Task Force ("EITF") Issue 01-09, "Accounting for Certain Financial Instruments."

Comprehensive Income

The Company follows the provisions of SFAS No. 130, "Reporting Comprehensive Income," which establishes the criteria for reporting comprehensive income.

Foreign Currency Translation

The financial position and results of operations of TOG were measured using TOG's local currency.

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## Income Taxes

Effective January 1, 2007, the Company adopted the provisions of FASB's Interpretation ("FIN") No. 48, "Revenue Recognition." The Company recognizes interest and penalties related to uncertain tax positions as a reduction of income tax expense. The Company operates in multiple tax jurisdictions within the United States of America and Canada.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles  
Reclassification

Certain reclassifications have been made to prior year's consolidated condensed financial statements

NOTE 3 - PER SHARE INFORMATION:

In accordance with SFAS No. 128, "Earnings Per Share", basic earnings per share of common stock (The following table sets forth the computation of basic and diluted per share information:

For the Three Months Ended June 30,

For the Six Months Ended June 30,

2008

2007

2008

2007

Numerator:

## Net income (in thousands):

\$307      \$368      \$1,024      \$799

## Denominator:

## Weighted-average shares of common stock outstanding

125,293	70,324	125,293	70,324
---------	--------	---------	--------

Dilutive effect of stock options, warrants and restricted stock

5,490	56,688	5.882	53,312
-------	--------	-------	--------

Weighted-average shares of common stock outstanding, assuming dilution

130,783	127,012	131,175	123,636
---------	---------	---------	---------

Net income per share:

## Basic

\$0.00    \$0.01    \$0.01    \$0.01

## Diluted

\$0.00    \$0.00    \$0.01    \$0.01

NOTE 4 - CREDIT FACILITY:

On August 8, 2007, the Company entered into a Revolving Line of Credit Note and Credit Agreement

On August 10, 2007, the Company borrowed \$3,609,423 to fund the purchase price payable in connect

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### NOTE 5 - SEGMENT REPORTING

#### Business Segments

Operating segments are organized internally primarily by the type of services provided, and in accordance with the manner in which the segments are managed. The Optical Purchasing Group Business segment consists of the operations of Combine, acquired in 2007. The Franchise segment consists of 142 franchise locations as of June 30, 2008. Revenues generated by the Franchise segment are primarily from the sale of contact lenses. The Company Store segment consists of 8 Company-owned retail optical stores as of June 30, 2008. The VisionCare of California ("VCC") segment consists of optometric services provided to patients. The Corporate Overhead segment consists of expenses not allocated to one of the other segments. The Other segment includes revenues and expenses from other business activities that do not fall into the other segments. Certain business segment information is as follows (in thousands):

As of June 30,

As of December 31,

2008

2007

#### Total Assets:

#### Optical Purchasing Group Business

\$14,746    \$11,682

#### Franchise

4,063    4,507

#### Company Store

1,036    1,301

#### VisionCare of California

628    568

#### Corporate Overhead

3,358    3,731

#### Other

186    76

#### Total assets

\$24,017    \$21,865

For the Three Months Ended June 30,

For the Six Months Ended June 30,

2008

2007

2008

2007

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## Net Revenues:

Optical Purchasing Group Business				
\$16,367	\$4,597	\$30,662	\$8,922	

Franchise				
1,605	1,840	3,406	3,634	

Company Store				
954	1,248	2,096	2,605	

VisionCare of California				
877	878	1,720	1,727	

Corporate Overhead				
-	-	-	-	

Other				
8	-	88	-	

Net revenues				
\$19,811	\$8,563	\$37,972	\$16,888	

## Income (Loss) before Income Tax Benefit:

Optical Purchasing Group Business				
\$319	\$95	\$640	\$186	

Franchise				
985	1,005	2,168	2,137	

Company Store				
(186)	(175)	(203)	(266)	

VisionCare of California				
4	16	6	25	

Corporate Overhead				
(898)	(875)	(1,785)	(1,666)	

Other				
(56)	-	(67)	-	

Income before income tax benefit				
\$168	\$66	\$759	\$416	

## Depreciation and Amortization:

Optical Purchasing Group Business				
\$77	\$39	\$153	\$77	

Franchise				
27	20	55	42	

Company Store				
16	28	35	53	

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VisionCare of California				
5	3	11	6	
Corporate Overhead				
27	20	55	42	
Other				
4	-	4	-	
Total depreciation and amortization				
\$156	\$110	\$313	\$220	

## Interest Expense:

Optical Purchasing Group Business				
\$67	\$32	\$159	\$87	
Franchise				
-	-	-	-	
Company Store				
-	-	-	-	
VisionCare of California				
-	-	-	-	
Corporate Overhead				
13	12	27	22	
Other				
-	-	-	-	
Total interest expense				
\$80	\$44	\$186	\$109	

The following table shows certain unaudited pro forma results of the Company, assuming the Company

For the Three Months Ended June 30,

For the Six Months Ended June 30,

2008

2007

2008

2007

## Net Revenues:

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Optical Purchasing Group Business				
	\$16,367	\$15,937	\$30,662	\$28,665
Franchise				
	1,605	1,840	3,406	3,634
Company Store				
	954	1,248	2,096	2,605
VisionCare of California				
	877	878	1,720	1,727
Corporate Overhead				
	-	-	-	-
Other				
	8	-	88	-

Net revenues				
	\$19,811	\$19,903	\$37,972	\$36,631

Income (Loss) before Income Tax Benefit:

Optical Purchasing Group Business				
	\$319	\$210	\$640	\$485
Franchise				
	985	1,005	2,168	2,137
Company Store				
	(186)	(175)	(203)	(266)
VisionCare of California				
	4	16	6	25
Corporate Overhead				
	(898)	(875)	(1,785)	(1,666)
Other				
	(56)	-	(67)	-
Income before income tax benefit				
	\$168	\$181	\$759	\$715

Depreciation and Amortization:

Optical Purchasing Group Business				
	\$77	\$70	\$153	\$140
Franchise				
	27	20	55	42
Company Store				
	16	28	35	53
VisionCare of California				
	5	3	11	6



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Corporate Overhead				
	27	20	55	42

Other				
	4	-	4	-

Total depreciation and amortization				
	\$156	\$141	\$313	\$283

### Interest Expense:

Optical Purchasing Group Business				
	\$67	\$84	\$159	\$206

Franchise				
	-	-	-	-

Company Store				
	-	-	-	-

VisionCare of California				
	-	-	-	-

Corporate Overhead				
	13	12	27	22

Other				
	-	-	-	-

Total interest expense				
	\$80	\$96	\$186	\$228

### Geographic Information

The Company also does business in two separate geographic areas; the United States and Canada. C

For the Three Months Ended June 30,  
For the Six Months Ended June 30,

2008	
2007	
2008	
2007	

### Net Revenues:

Canada				
	\$297	\$-	\$594	\$-

United States

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	19,514	8,563	37,378	16,888
Net revenues	\$19,811	\$8,563	\$37,972	\$16,888

Income before Income Tax Benefit:

Canada	\$49	\$-	\$98	\$-
United States	119	66	661	416
Income before income tax benefit	\$168	\$66	\$759	\$416

The geographic information on Canada includes TOG's business activity from August 1, 2007, the effective date of the acquisition. Additional geographic information is summarized as follows for the six months ended June 30, 2008:

United States				
Canada				
Total				
 Total Assets				
	\$23,445	\$572	\$24,017	
 Depreciation and Amortization				
	308	5	313	
 Goodwill				
	4,249	-	4,249	
 Intangible Assets				
	3,192	-	3,192	
 Interest Expense				
	186	-	186	

### NOTE 6 - COMMITMENTS AND CONTINGENCIES:

#### Litigation

In 1999, Berenter Greenhouse and Webster, an advertising agency previously utilized by the Company, commenced an action against the Company. In July 2001, the Company commenced an arbitration proceeding, in the Ontario Superior Court of Justice, against Berenter Greenhouse and Webster. In February 2002, Kaye Scholer, LLP, the law firm previously retained by the Company as its outside legal counsel, commenced an action against the Company. On May 20, 2003, Irondequoit Mall, LLC commenced an action against the Company and Sterling Vision of California, Inc. ("SVC"). In August 2006, the Company and its subsidiary, Sterling Vision of California, Inc. ("SVC") filed a lawsuit against Irondequoit Mall, LLC. In October 2007, Arnot Realty Corporation commenced an action against the Company, in the Supreme Court of the State of New York. In February 2008, Sangertown Square, LLC commenced an action against the Company, in the Supreme Court of the State of New York. In July 2008, Ontario Mills Limited Partnership commenced an action against the Company, in the Supreme Court of the State of New York.

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Although the Company, where indicated herein, believes that it has a meritorious defense to the c  
In addition to the foregoing, in the ordinary course of business, the Company is a defendant in c  
Guarantees

As of June 30, 2008, the Company was a guarantor of certain leases of retail optical stores fran  
Employment Agreements

The Company has an Employment Agreement ("Agreement 1") with its Chief Executive Officer ("CEO"),  
Additionally, in connection with the acquisition of Combine Optical Management Corporation ("COMO

### NOTE 7 - OTHER EVENTS

Upon the recommendation of the Nominating Committee of the Board of Directors of the Company, eff  
On May 23, 2008, the Company's independent inspector of election, Broadridge Financial Solutions,

Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations  
This Report contains certain forward-looking statements and information relating to the Company t  
In order to more accurately detail our financial information and performance, the Company has mad  
Segment results for the three and six months ended June 30, 2008, as compared to the three and si  
Consolidated Segment Results

Total revenues for the Company increased approximately \$11,248,000, or 131.4%, to \$19,811,000 for  
Total costs, and selling, general and administrative expenses for the Company increased approxima

### Optical Purchasing Group Business Segment

For the Three Months Ended June 30 (in thousands):

2008

2007

\$ Change

% Change

### Net Revenues:

Optical purchasing group sales				
\$16,367	\$4,597	\$11,770	256.0%	

Cost of optical purchasing group sales				
15,626	4,300	11,326	263.4%	

Gross margin				
741	297	444	149.5%	

### Operating Expenses:

Salaries and related benefits				
123	82	41	50.0%	

Rent and related overhead				
88	26	62	238.5%	

Depreciation and amortization

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	76	39	37	94.9%
Credit card and bank fees				
	76	22	54	245.5%
Other general and administrative costs				
	4	4	-	0.0%
Total operating expenses				
	367	173	194	112.1%
Operating Income				
	\$374	\$124	\$250	201.6%

For the Six Months Ended June 30 (in thousands):

2008

2007  
\$ Change  
% Change

Net Revenues:

Optical purchasing group sales				
	\$30,662	\$8,922	\$21,740	243.7%
Cost of optical purchasing group sales				
	29,159	8,303	20,856	251.2%
Gross margin				
	1,503	619	884	142.8%

Operating Expenses:

Salaries and related benefits				
	257	160	97	60.6%
Rent and related overhead				
	161	55	106	192.7%
Depreciation and amortization				
	153	77	76	98.7%
Credit card and bank fees				
	135	44	91	206.8%
Other general and administrative costs				
	17	16	1	6.3%
Total operating expenses				
	723	352	371	105.4%
Operating Income				
	\$780	\$267	\$513	192.1%

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This segment consists of the operations of Combine and TOG. TOG's activity for the three and s Optical purchasing group revenues increased approximately \$11,770,000, or 256.0%, to \$16,367,000 Costs of optical purchasing group sales increased approximately \$11,326,000, or 263.4%, to \$15,62 Operating expenses of the optical purchasing group segment increased approximately \$194,000, or 1 Interest expense related to the optical purchasing group segment increased approximately \$35,000, Franchise Segment

For the Three Months Ended June 30 (in thousands):

2008

2007

\$ Change

% Change

### Net Revenues:

#### Royalties

\$1,595	\$1,765	\$ (170)	(9.6%)
---------	---------	----------	--------

#### Franchise fees

10	75	(65)	(86.7%)
----	----	------	---------

#### Net revenues

1,605	1,840	(235)	(12.8%)
-------	-------	-------	---------

### Operating Expenses:

#### Salaries and related benefits

287	314	(27)	(8.6%)
-----	-----	------	--------

#### Rent and related overhead

93	104	(11)	(10.6%)
----	-----	------	---------

#### Professional fees

111	99	12	12.1%
-----	----	----	-------

#### Trade shows

99	105	(6)	(5.7%)
----	-----	-----	--------

#### Bad debt

5	51	(46)	(90.2%)
---	----	------	---------

#### Other general and administrative costs

32	32	-	0.0%
----	----	---	------

#### Total operating expenses

627	705	(78)	(11.1%)
-----	-----	------	---------

#### Operating Income

\$978	\$1,135	\$ (157)	(13.8%)
-------	---------	----------	---------

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For the Six Months Ended June 30 (in thousands):

2008

2007

\$ Change

% Change

### Net Revenues:

#### Royalties

\$3,246	\$3,506	\$ (260)	(7.4%)
---------	---------	----------	--------

#### Franchise fees

160	128	32	25.0%
-----	-----	----	-------

#### Net revenues

3,406	3,634	(228)	(6.3%)
-------	-------	-------	--------

### Operating Expenses:

#### Salaries and related benefits

645	665	(20)	(3.0%)
-----	-----	------	--------

#### Rent and related overhead

154	211	(57)	(27.0%)
-----	-----	------	---------

#### Professional fees

221	255	(34)	(13.3%)
-----	-----	------	---------

#### Trade shows

164	187	(23)	(12.3%)
-----	-----	------	---------

#### Other general and administrative costs

86	46	40	87.0%
----	----	----	-------

#### Total operating expenses

1,270	1,364	(94)	(6.9%)
-------	-------	------	--------

#### Operating Income

\$2,136	\$2,270	\$ (134)	(5.9%)
---------	---------	----------	--------

Franchise royalties decreased approximately \$170,000, or 9.6%, to \$1,595,000 for the three months ended June 30, 2008, from \$1,765,000 for the three months ended June 30, 2007. Franchise fees (which includes initial franchise fees, renewal fees, conversion fees and store transfer fees) increased approximately \$100,000, or 11.1%, to \$1,000,000 for the three months ended June 30, 2008, from \$900,000 for the three months ended June 30, 2007. Operating expenses of the franchise segment decreased approximately \$78,000, or 11.1%, to \$627,000 for the three months ended June 30, 2008, from \$705,000 for the three months ended June 30, 2007.

### Company Store Segment

For the Three Months Ended June 30 (in thousands):

2008

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2007  
\$ Change  
% Change

## Net Revenues:

Retail sales  
\$954 \$1,248 \$(294) (23.6%)

Cost of retail sales  
246 364 (118) (32.4%)

Gross margin  
708 884 (176) (19.9%)

## Operating Expenses:

Salaries and related benefits  
480 578 (98) (17.0%)

Rent and related overhead  
294 352 (58) (16.5%)

Advertising  
65 139 (74) (53.2%)

Other general and administrative costs  
62 61 1 1.6%

Total operating expenses  
901 1,130 (229) (20.3%)

Operating (Loss) Income  
\$(193) \$(246) \$53 21.5%

For the Six Months Ended June 30 (in thousands):

2008  
2007  
\$ Change  
% Change

## Net Revenues:

Retail sales  
\$2,096 \$2,605 \$(509) (19.5%)

Cost of retail sales  
511 682 (171) (25.1%)

Gross margin  
1,585 1,923 (338) (17.6%)

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### Operating Expenses:

Salaries and related benefits				
981	1,141	(160)	(14.0%)	
Rent and related overhead				
569	703	(134)	(19.1%)	
Advertising				
133	300	(167)	(55.7%)	
Other general and administrative costs				
113	118	(5)	(4.2%)	
Total operating expenses				
1,796	2,262	(466)	(20.6%)	
Operating (Loss) Income				
\$ (211)	\$ (339)	\$ 128	37.8%	

Retail sales for the Company store segment decreased approximately \$294,000, or 23.6%, to \$ Excluding exam fee revenue from retail sales, the Company-owned store's gross profit margin incre Operating expenses of the Company store segment decreased approximately \$229,000, or 20.3%, to \$9 Gain on sale of company-owned stores to franchisees related to the sale of a Company-owned store VisionCare of California Segment

For the Three Months Ended June 30 (in thousands):

2008

2007  
\$ Change  
% Change

### Net Revenues:

Membership fees			
\$877	\$878	\$ (1)	(0.1%)

### Operating Expenses:

Salaries and related benefits			
812	795	17	2.1%
Rent and related overhead			
35	39	(4)	(10.3%)
Other general and administrative costs			
32	33	(1)	(3.0%)
Total operating expenses			
879	867	12	1.4%
Operating (Loss) Income			
\$ (2)	\$ 11	\$ (13)	(118.2%)



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For the Six Months Ended June 30 (in thousands):

2008

2007

\$ Change

% Change

Net Revenues:

Membership fees

\$1,720	\$1,727	\$ (7)	(0.4%)
---------	---------	--------	--------

Operating Expenses:

Salaries and related benefits

1,594	1,571	23	1.5%
-------	-------	----	------

Rent and related overhead

73	75	(2)	(2.7%)
----	----	-----	--------

Other general and administrative costs

56	69	(13)	(18.8%)
----	----	------	---------

Total operating expenses

1,723	1,715	8	0.5%
-------	-------	---	------

Operating (Loss) Income

\$ (3)	\$12	\$ (15)	(125.0%)
--------	------	---------	----------

Revenues generated by the Company's wholly-owned subsidiary, VisionCare of California, Inc. Operating expenses of the VCC segment remained consistent with last year's expenses, increasing Corporate Overhead Segment

For the Three Months Ended June 30 (in thousands):

2008

2007

\$ Change

% Change

Operating Expenses:

Salaries and related benefits

\$538	\$581	\$ (43)	(7.4%)
-------	-------	---------	--------

Rent and related overhead

60	81	(21)	(25.9%)
----	----	------	---------

Professional fees

168	140	28	20.0%
-----	-----	----	-------

Insurance

38	58	(20)	(34.5%)
----	----	------	---------

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Other general and administrative costs

78 83 (5) (6.0%)

Total operating expenses

882 943 (61) (6.5%)

Operating (Loss) Income

\$ (882) \$ (943) \$ 61 6.5%

For the Six Months Ended June 30 (in thousands):

2008

2007

\$ Change

% Change

Operating Expenses:

Salaries and related benefits

\$1,119 \$1,109 \$10 1.0%

Rent and related overhead

121 176 (55) (31.3%)

Professional fees

302 234 68 29.1%

Insurance

126 121 5 4.1%

Other general and administrative costs

127 120 7 5.8%

Total operating expenses

1,795 1,760 35 2.0%

Operating Loss

\$ (1,795) \$ (1,760) \$ (35) (2.0%)

There were no revenues generated by the corporate overhead segment.

Operating expenses decreased approximately \$61,000, or 6.5%, to \$882,000 for the three months ended

The increase for the six months ended June 30, 2008 was attributable to increases in salaries and

Other Segment

For the Three Months Ended June 30 (in thousands):

2008

2007

\$ Change

% Change

Net Revenues:

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Commissions  
           \$12   \$-   \$12   n/a

Other  
           (4)   -   (4)   n/a

Net revenues  
           8   -   8   n/a

## Operating Expenses:

Salaries and related benefits  
           12   -   12   n/a

Advertising  
           50   -   50   n/a

Other general and administrative costs  
           5   -   5   n/a

Total operating expenses  
           67   -   67   n/a

Operating Loss  
           \$(59)   \$-   \$(59)   n/a

For the Six Months Ended June 30 (in thousands):

2008  
     2007  
     \$ Change  
     % Change

## Net Revenues:

Commissions  
           \$69   \$-   \$69   n/a

Other  
           19   -   19   n/a

Net revenues  
           88   -   88   n/a

## Operating Expenses:

Salaries and related benefits  
           32   -   32   n/a

Advertising  
           92   -   92   n/a

Other general and administrative costs  
           13   -   13   n/a

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Total operating expenses  
           137    -    137    n/a

Operating Loss  
           \$(49) \$-    \$(49)    n/a

Revenues generated by the other segment include approximately \$12,000 and \$69,000 of commis  
 Operating expenses of the other segment solely related to the operations that began in January 20  
 Use of Non-GAAP Performance Indicators  
 The following section expands on the financial performance of the Company detailing the Company's  
 EBITDA does not represent cash flow from operations as defined by generally accepted accounting p  
 EBITDA Reconciliation

For the Three Months Ended June 30 (in thousands):

2008  
           2007  
           \$ Change  
           % Change

### EBITDA Reconciliation:

Net income  
           \$307    \$368    \$(61)    (16.6%)

Interest  
           80    44    36    81.8%

Taxes  
           (139)    (296)    157    53.0%

Depreciation and amortization  
           156    110    46    41.8%

EBITDA  
           \$404    \$226    \$178    78.8%

For the Six Months Ended June 30 (in thousands):

2008  
           2007  
           \$ Change  
           % Change

### EBITDA Reconciliation:

Net income  
           \$1,024    \$799    \$225    28.2%

Interest  
           186    109    77    70.6%

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### Taxes

(265)	(377)	112	29.7%
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### Depreciation and amortization

313	220	93	42.3%
-----	-----	----	-------

### EBITDA

\$1,258	\$751	\$507	67.5%
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The Company also incurred other non-cash charges that effected earnings including compensat Liquidity and Capital Resources

As of June 30, 2008, the Company had a positive working capital of \$1,605,000 and cash on hand of For the six months ended June 30, 2008, cash flows (used in) investing activities were \$143,000 d For the six months ended June 30, 2008, cash flows used in financing activities were \$74,000 due Credit Facility

On August 8, 2007, the Company entered into a Revolving Line of Credit Note and Credit Agreement On August 10, 2007, the Company borrowed \$3,609,423 to fund the purchase price payable in connect Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any contractual arrangement involving an unconsolidated entit The Company does not have any off-balance sheet financing or unconsolidated variable interest ent Management's Discussion of Critical Accounting Policies and Estimates

High-quality financial statements require rigorous application of high-quality accounting policie Management's estimate of the allowances on receivables is based on historical sales, historical l The Company recognizes revenues in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, Management's performs an annual impairment analysis to determine the fair value of goodwill and c

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

This Quarterly Report does not include information for Item 3 pursuant to the rules of the Securi

### Item 4T. Controls and Procedures

#### (a) Disclosure Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") with the parti

#### (b) Changes in Internal Controls over Financial Reporting There has been no change in the Company

A control system, no matter how well designed and operated, can provide only reasonable, not

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

In October 2007, Arnot Realty Corporation commenced an action against the Company, in the Supreme In July 2008, Ontario Mills Limited Partnership commenced an action against the Company, in the S Although the Company, where indicated herein, believes that it has a meritorious defense to the c

### Item 1a. Risk Factors

There have been no material changes to the disclosure related to risk factors made in the Company

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

On May 23, 2008, the Company's independent inspector of election, Broadridge Financial Solutions,

Item 5. Other Information

None.

Item 6. Exhibits

### 31.1

Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14(a) of the Secu

### 31.2

Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14(a) of the Secu

### 32.1

Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant h

EMERGING VISION, INC. (Registrant)

BY:/s/ Christopher G. Payan Christopher G. Payan Chief Executive Officer (Principal Executive Offic

BY:/s/ Brian P. Alessi Brian P. Alessi Chief Financial Officer (Principal Financial and Accounting

Dated: August 14, 2008