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EMERGING VISION INC
Form 10-Q
August 14, 2008

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

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

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

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

Yes

No

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

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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 |

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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 historical cost basis. Effective January 1, 2008, the Company changed its basis of presentation for its business segment to the LIFO method.

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. 123R. 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. There were no common stock option grants to any of the Company's employees, or warrant grants to non-employees.

Revenue Recognition
The Company recognizes revenues in accordance with the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 107. 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 optical purchasing group 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 Franchise Fees." 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 - Uncertainty of Income Taxes". 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 requires the use of estimates.

Reclassification

Certain reclassifications have been made to prior year's consolidated condensed financial statements to conform to the current year's presentation.

NOTE 3 - PER SHARE INFORMATION:

In accordance with SFAS No. 128, "Earnings Per Share", basic earnings per share of common stock (EPS) is calculated by dividing net income by the weighted-average number of common shares outstanding. 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 with a financial institution. On August 10, 2007, the Company borrowed \$3,609,423 to fund the purchase price payable in connection with the acquisition of a subsidiary.

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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 nature of the products sold. 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 reported net of royalties. 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 any of 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 arbitration proceeding, in the Ontario Superior Court of Justice. 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 and Sterling Vision of California, Inc. ("SVC") in the Superior Court of California. On May 20, 2003, Irondequoit Mall, LLC commenced an action against the Company and Sterling Vision of California, Inc. ("SVC") in the Superior Court of California. In August 2006, the Company and its subsidiary, Sterling Vision of California, Inc. ("SVC") filed an action against the Company in the Superior Court of California. In October 2007, Arnot Realty Corporation commenced an action against the Company, in the Superior Court of California. In February 2008, Sangertown Square, LLC commenced an action against the Company, in the Superior Court of California. In July 2008, Ontario Mills Limited Partnership commenced an action against the Company, in the Superior Court of California.

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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, compared to \$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 \$32,000, or 25.0%, to \$160,000 for the three months ended June 30, 2008, compared to \$128,000 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, compared to \$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 June 30, 2008. 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% |
| Depreciation and amortization | 313 | 220 | 93 | 42.3% |
| EBITDA | \$1,258 | \$751 | \$507 | 67.5% |

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 Securities Act of 1933 and Rules 13a-14 and 15d-14(a) of the Securities Exchange Act of 1934

31.2

Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14(a) of the Securities Act of 1933 and Rules 13a-14 and 15d-14(a) of the Securities Exchange Act of 1934

32.1

Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350(a)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant hereby certifies that the following signatures and titles of the Registrant:

EMERGING VISION, INC. (Registrant)

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

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

Dated: August 14, 2008