EMERGING VISION INC
Form 10-Q
May 15, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2001

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ________ to ________

Commission file number: 1-14128

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

New York	11-3096941
(State of Incorporation)	(IRS Employer Identification No.)

1500 Hempstead Turnpike
East Meadow, New York 11554
(Address of Principal Executive Offices, including Zip Code)

(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 Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS:

There were 25,376,894 shares outstanding of the Registrant's Common Stock, par value $.01 per share, as of May 11, 2001.

Item 1. Financial Statements

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

ASSETS
Current assets:

Cash and cash equivalents
Franchise receivables, net of allowance of $2,792 and $3,521, respectively
Other receivables, net of allowance for doubtful account of $316 and $323, respectively
Current portion of notes receivable from franchisees
Inventories
Prepaid expenses and other current assets

Total current assets

Property and equipment, net
Franchise notes and other receivables, net of allowance of $3,746 and $3,019, respectively
Intangible assets, net
Other assets
Net assets of discontinued operations

Total assets

LIABILITIES AND SHAREHOLDERS' EQUITY
Current liabilities:
Current portion of long-term debt
Accounts payable and accrued liabilities
Net liabilities of discontinued operations

Total current liabilities

Long-term debt

Excess of fair value of assets acquired over cost

Franchise deposits and other liabilities

Commitments and contingencies (Note 4)

Shareholders' equity
Preferred stock, $.01 par value per share; authorized 5,000,000 shares:
Senior Convertible Preferred Stock, $100,000 liquidation preference per share;
3 shares issued and outstanding
Common stock, $.01 par value per share; authorized 50,000,000 shares; issued 25,559,231;
and 25,376,894 and 25,382,230 shares outstanding, respectively
Treasury stock, at cost, 182,337 and 177,001 shares, respectively
Additional paid-in capital
Accumulated deficit

Total shareholders' equity

Total liabilities and shareholders' equity

The accompanying Notes are an integral part of these Consolidated Condensed Financial St

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EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

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Revenues:	
Net sales	$ 2,
Franchise royalties	2,
Net transfer fees from the conveyance of franchise-owned store assets	
Interest on franchise notes receivable	
Other income	
Total revenues	5,
Costs and expenses:	
Cost of sales	
Selling, general and administrative expenses	4,
Loss from franchised stores operated under management agreements	
Non-cash charges for issuance of warrants	
Interest expense	
Total costs and expenses	5,
Loss from continuing operations before provision for income taxes	
Provision for income taxes	
Loss from continuing operations	(
Discontinued operations: (Note 2)	
Income (loss) from discontinued operations	
Net income (loss)	$
Per share information - basic and diluted: (Note 3)	
Loss from continuing operations	$ 0
Income (loss) from discontinued operations	0
Net income (loss) per share	$ 0

Weighted-average number of common shares outstanding - basic and diluted	25,

The accompanying Notes are an integral part of these Consolidated Condensed Financial St

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EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In Thousands)

	For t
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Cash flows from operating activities:	
Net loss from continuing operations	$
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities:	
Depreciation and amortization	
Provision for doubtful accounts	
Accrued interest	
Non-cash compensation charges related to options and warrants	
Impairment of long-lived assets	
Changes in operating assets and liabilities:	
Franchise receivables	
Inventories	
Prepaid expenses and other current assets	
Other assets	
Accounts payable and accrued liabilities	
Franchise deposits and other liabilities	
Deferred franchise income	
Accrual for store closings	
Net cash provided by (used in) operating activities	
Cash flows from investing activities:	
Franchise notes receivable issued	
Proceeds from franchise and other notes receivable	
Purchases of property and equipment	
Net cash provided by investing activities	
Cash flows from financing activities:	
Proceeds from the exercise of stock options and warrants	
Net proceeds from the issuance of Series B Convertible Preferred Stock	
Proceeds from long-term debt	
Payments on long-term debt	
Acquisition of treasury shares	
Net cash (used in) provided by financing activities	

Net cash provided by continuing operations	
Net cash used in discontinued operations	(1
Net (decrease) increase in cash and cash equivalents	(1
Cash and cash equivalents - beginning of period	5
Cash and cash equivalents - end of period	$ 3

Supplemental disclosures of cash flow information:
Cash paid during the period for:

Interest	$
Taxes	$

Non-cash investing and financing activities:

Net assets of franchise stores reacquired through exchange of receivables	$
Issuance of common shares for consulting services and other	
Extinguishment of related party debt	

The accompanying Notes are an integral part of these Consolidated Condensed Financial St

EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2001
(In Thousands, Except Share Data)

	Senior Convertible Preferred Stock Shares	Amount	Common Stock Shares	Amount	Treasury Stock, at cost Shares	Amount	Add Pa Ca
BALANCE - DECEMBER 31, 2000	3	$ 287	25,559,231	$ 256	177,001	$(203)	$1
Issuance of warrants for consulting services (Note 5)	-	-	-	-	-	-	
Acquisition of treasury shares	-	-	-	-	5,336	(1)	
Net income	-	-	-	-	-	-	
BALANCE - MARCH 31, 2001	3	$ 287	25,559,231	$ 256	182,337	$(204)	$1

The accompanying notes are an integral part of these consolidated st

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EMERGING VISION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION:

The accompanying Consolidated Condensed Financial Statements of Emerging Vision, Inc. (formerly known as Sterling Vision, Inc.; (hereinafter, the "Registrant")) and subsidiaries (collectively, the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial statement presentation and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statement presentation. In the opinion of management, all adjustments for a fair statement of the results of operations and financial position for the interim periods presented have been included. All such adjustments are of a normal recurring nature. This financial information should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Registrant's Annual Report on Form 10-K for the Year Ended December 31, 2000, as supplemented by its Annual Report on Form 10-K/A for such year. There have been no changes in significant accounting policies since December 31, 2000.

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

NOTE 2 - DISCONTINUED OPERATIONS:

On March 28, 2001, the Company announced its Board of Directors' decision to discontinue further development of its Internet Division and focus its efforts and resources on its franchise/retail optical store business, Sterling Optical. The Company continues to adhere to its previously announced formalized plan to sell the assets of its 66.5% owned subsidiary, Insight Laser Centers, Inc. ("Insight Laser"), as well as the Company's assets located in the Ambulatory Surgery Center (the "Ambulatory Center") situated in Garden City, New York. Accordingly, all of the net assets, operating results and cash flows of these segments of the Company's business have been presented as discontinued operations in the accompanying Consolidated Condensed Financial Statements for all periods presented. As of March 31, 2001 and December 31, 2000, net liabilities of discontinued operations of $(987,000) and $(2,166,000), respectively, have been segregated on the accompanying Consolidated Condensed Balance Sheets. The Company expects to substantially complete its plan of disposal of the assets of such discontinued segments of its business by the end of the second quarter of 2001.

In connection with the foregoing, the Company had reserved approximately $5,608,000 for such discontinued operations at December 31, 2000, which reserves included anticipated future operating losses of these divisions, the expenses associated with the disposal of the assets of these divisions, and an estimate

of loss upon disposition. The Company has, since December 31, 2000, successfully settled certain liabilities related to its Internet Division for less than the amounts initially recorded at December 31, 2000. In addition, the Company has since reevaluated its reserve for discontinued operations and, accordingly, had reversed approximately $400,000 of such reserves as of March 31, 2001. At March 31, 2001, $3,150,000 of this provision remained accrued as part of accounts payable and accrued liabilities on the accompanying Consolidated Condensed Balance Sheet.

During the three months ended March 31, 2001, the Company utilized approximately $2,058,000 of its reserve for discontinued operations. This included approximately $805,000 in severance payments to all of its Internet Division's personnel located in its Dallas, Texas office, and approximately $1,253,000 of operating costs for such division through March 31, 2001. Included in such total severance costs were payments of $277,000 and $205,000 to Mr. Gregory Cook, the Company's former President and Chief Executive Officer, and Mr. James Ewer, the Company's former Senior Vice President of Operations, respectively.

On April 24, 2001, the Company and Ms. Sara V. Traberman, the former Chief Financial Officer of the Company, settled her claim for severance benefits (which called for a cash settlement, in the approximate amount of $1,300,000, and the immediate vesting of the 400,000 stock options previously granted to her

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under her then existing Employment Agreement, all as a result of the failure of the Company to sell its non-Internet related assets by March 1, 2001), for a lump sum payment of $750,000 plus the issuance of fully vested stock options to purchase 125,000 shares of the Registrant's Common Stock at an exercise price equal to the composite per share closing price ($0.29) of the Registrant's Common Stock, as quoted on the Nasdaq National Market System ("Nasdaq-NMS") on such date.

On May 4, 2001, the Company and the owner/licensee of the Ambulatory Center reached an agreement in principle pursuant to which the Company will sell and transfer, to a limited liability owned, in principal part, by such owner, its assets located at the Center in exchange for: (i) the purchaser's assumption of the Center's liabilities (subject to certain limitations); (ii) the release of the Company from its obligation under the Lease pursuant to which the Company leases the premises of the Center (except in limited circumstances); (iii) the termination of the Administrative Services and Consulting Agreement pursuant to which the Company renders services to such owner/licensee in connection with its operation of the Center; and (iv) the termination of the Purchase Agreement pursuant to which the Company agreed to purchase the New York State License (Certificate of Need) for the Center. If the Company, however, is unsuccessful in consummating the terms of such agreement, it will, in all likelihood, close such facility, whereupon it will be in default in performing its obligations under such Consulting Agreement, Lease, and Purchase Agreement. As of March 31, 2001, $1,145,000 of reserves relating to the aforementioned future obligations remained accrued (as part of accounts payable and accrued liabilities) on the accompanying Consolidated Condensed Balance Sheet. During the three months ended March 31, 2001, the net operating results of the Ambulatory Center was $0; therefore no costs were charged against the previously established reserve for discontinued operations related to the center.

The Company continues to pursue a sale of the assets of Insight Laser. Subsequent to March 31, 2001, the Company received an offer to purchase such assets, which the Company is currently evaluating. During the three months ended March 31, 2001, Insight Laser's results from operations generated net income of $31,000.

Summarized financial information for these discontinued operations is as follows (in thousands):

As of and for the Three Months Ended March 31:

	Internet Division	Insight Laser	Ambulatory Center
2001			
Net revenues	$ -	$ 416	$ 77
Income before income taxes	$ -	$ 31	$ -
Gain on disposal of discontinued operations	$ 400	$ -	$ -
Net income	$ 400	$ 31	$ -
Current assets	$ -	$ 164	$ 104
Total assets	$ -	$1,023	$ 104
Current liabilities	$ 404	$1,696	$ 14
Net (liabilities) assets	$ (404)	$ (673)	$ 90
2000			
Net revenues	$ -	$ 862	$ 185
Loss before income taxes	$(1,212)	$ (66)	$ (1)
Net loss	$(1,212)	$ (66)	$ (1)
Current assets	$ -	$ 376	$ 131
Total assets	$ 1,020	$2,552	$2,540
Current liabilities	$ 76	$1,302	$ 47
Net assets	$ 944	$ 545	$2,493

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NOTE 3 - PER SHARE INFORMATION:

The Company follows the provisions of SFAS No. 128, "Earnings Per Share". Basic net loss per common share ("Basic EPS") is computed by dividing the net loss attributable to common shareholders by the weighted-average number of common shares outstanding. Diluted net loss per common share ("Diluted EPS") is computed by dividing the net loss attributable to common shareholders by the weighted-average number of common shares and dilutive common share equivalents and convertible securities then outstanding. SFAS No. 128 requires the presentation of both Basic EPS and Diluted EPS appear on the Company's Consolidated Condensed Statements of Operations. Common stock equivalents were excluded from the computation for all periods presented, as their impact would be anti-dilutive.

The following table sets forth the computation of basic and diluted per share information (in thousands, except per share data):

For th

2001

Numerator:	
Loss from continuing operations	$(41
Induced conversion of Senior Convertible Preferred Stock	-
Accretion of dividends on Series B Convertible Preferred Stock	-
Numerator for basic and diluted loss per share - Loss attributable to common shareholders	(41
Basic and Diluted:	
Loss attributable to common shareholders	(41
Income (loss) from discontinued operations	31
Gain on disposal of discontinued operations	400
Net income (loss) attributable to common shareholders	$390
Denominator:	
Denominator for basic and diluted per share information - weighted average shares outstanding	25,381
Basic and Diluted Per Share Information:	
Loss attributable to common shareholders	$ 0.00
Income (loss) from discontinued operations	0.00
Gain on disposal of discontinued operations	0.02
Net income (loss) attributable to common shareholders	$ 0.02

NOTE 4 - CONTINGENCIES:

In February 2001, five of the Company's Site for Sore Eyes Franchisees (owning an aggregate of seven franchised Site for Sore Eyes Stores) commenced an action in the United States District Court for the Northern District of California seeking: (i) $35,000,000 of damages as a result of the Company's alleged breach of the respective Franchise Agreements pursuant to which each such Franchisee operates its Site for Sore Eyes Optical Center, fraud and violations of California law; and (ii) a declaratory judgment that each such

Franchise Agreement had been modified to afford each plaintiff certain rights which are in addition to those set forth in the applicable Franchise Agreements. As of the date hereof, the Company and the plaintiffs are attempting to reach an amicable settlement of this dispute.

In 1999, the Company commenced an action in the Supreme Court of the State of New York against Dr. Larry Joel and Apryl Robinson for amounts claimed due, by the Company, on a series of five separate Negotiable Promissory Notes issued by corporations owned by the defendants in connection with their purchase of the assets of, and a Sterling Optical Center Franchise for, an aggregate of four of

the Company's retail optical stores and an optical laboratory, the repayment of each of which Notes was personally guaranteed by each of the defendants. In response thereto, the defendants asserted counterclaims in excess of $13,000,000 based upon the Company's alleged failure to comply with the terms of an oral, month-to-month consulting agreement between Dr. Joel and the Company, as well as to purchase the assets of various companies owned by Dr. Joel, including Duling Optical and D & K Optical, notwithstanding the fact that: (i) the parties failed to agree upon the terms of any such purchase; (ii) the parties failed to enter into any written agreement memorializing such transaction; and (iii) the Company subsequently purchased such assets from Norwest Bank (which held a first lien on substantially all of said assets as collateral for various loans made to each of said entities, all of which were then in default), in a private foreclosure sale. In March 2001, the Appellate Division granted the Company's Motion for Summary Judgment on the issue of the defendants' liability, as guarantors of each of such Notes, a hearing on damages having been scheduled for June 2001. In addition, in March 2001, the Company filed an additional Motion for Summary Judgment seeking dismissal of all of such counterclaims; and the defendant, Dr. Joel, thereafter filed a cross-motion seeking a determination that the Company breached such oral, month-to-month consulting agreement and that he is, accordingly, entitled to damages of approximately $13,000,000, both of which motions have not yet been decided by the Court.

Pursuant to the terms of the Company's Professional Services Master Agreement (the "Agreement") with Rare Medium, Inc. ("Rare"), the Company paid Rare the cash sum of $1,000,000 and, on February 29, 2000, issued to Rare 1,000,000 shares of the Registrant's Common Stock (valued at $9,750,000), all in exchange for Rare's agreement to provide services to the Company in connection with the development and implementation of its previously proposed, web-based business strategy. In addition, the terms of the Agreement afforded Rare a price-protection guarantee on any such shares (which have since been registered by the Company under the Securities Act of 1933, as amended; (the "Act")) sold in the open market at a price of less than $3.00 per share, and contained certain "lock-up" provisions regarding Rare's ability to sell such shares prior to certain dates, which Agreement was subsequently terminated by the Company based upon its opinion that Rare was unable to provide the services required of it pursuant to the Agreement. In November 2000, Rare notified the Company that it was allegedly in default of the terms of the Agreement entered into between the Company and Rare in February 2000, as a result of the Company's refusal to permit the transfer of the 1,000,000 shares of its Common Stock previously issued to Rare in partial consideration of the services to be rendered to the Company pursuant to such Agreement; and in February 2001, Rare additionally claimed that there was due and owing to it the additional approximate sum of $840,000 for rent for office space utilized by the Company, in both Dallas, Texas and New York City, pending the opening of the Company's corporate offices in each such city, and for additional services rendered to the Company by certain of its employees, all of which, the Company believes, were to be provided to it without additional cost. The Company thereupon advised representatives of Rare that, in its opinion, Rare was not able to provide the services required of it pursuant to such Agreement, which necessitated the Company to terminate such Agreement. As of the date hereof, the Company and Rare are attempting to reach an amicable settlement of this dispute.

In January, 2001, the Company commenced an action against Binns Optical, Inc. ("BOI"), Michael Binns and Mary Ann Binns (collectively, the "Guarantors") in the United States District Court for the Eastern District of Missouri seeking to prohibit the defendants from operating the Sterling Optical Center located in Ballwin, Missouri, under any name other than Sterling Optical, as well as to require the defendants to return to the Company all patient records, customer lists, furniture, fixtures and equipment removed by defendants from the six Sterling Optical Centers previously franchised to, and ultimately abandoned by, BOI. In February, 2001, the defendants entered into a Stipulation agreeing to the entry of a preliminary injunction pursuant to which the defendants agreed to

substantially all of the relief requested by the Company. In March, 2001, the defendants filed a counterclaim against the Company seeking damages in the amount of $3,000,000 plus punitive damages as a result of the Company's alleged fraud in the inducement, negligent misrepresentation, breach of fiduciary duty and claims stated in the alternative for breach of contract and breach of oral agreement. The Company has denied defendants' counterclaims and has filed a

motion to dismiss all such counterclaims, which motion has not yet been decided by the Court. In a related matter, in February, 2001, the Company commenced a separate action against the Guarantors in the New York State Supreme Court by filing a Motion for Summary Judgment in Lieu of Complaint, seeking damages (under the Guarantors' payment guaranty in favor of the Company) as a result of the failure of BOI to comply with its obligations under a series of eight Negotiable Promissory Notes made by BOI in its favor; and on April 17, 2001, the Court granted the Company's motion and awarded the Company a judgment in the approximate sum of $1,300,000, which the Company will seek to enforce in the State of Missouri, where the Guarantors both reside.

In addition to the foregoing, the Company is a defendant in certain lawsuits alleging various claims incurred in the ordinary course of business. These claims are generally covered by various insurance policies, subject to certain deductible amounts and maximum policy limits. In the opinion of management, the resolution of such additional, existing lawsuits should not have a material adverse effect, individually or in the aggregate, upon the Company's business or financial condition. Other than as set forth above, management believes that there are no other legal proceedings pending or threatened to which the Company is, or may be a party, or to which any of its properties are or may be subject, which are likely to have a material adverse effect on the Company.

NOTE 5 - SHAREHOLDER'S EQUITY:

SERIES B CONVERTIBLE PREFERRED STOCK

During the first quarter of 2000, the Company completed a private placement pursuant to which it sold an aggregate of 1,677,570 units (the "Units"), each Unit consisting of one share of the Company's Series B Convertible Preferred Stock, par value $.01 per share, with a liquidation preference of $7.00 per share (the "Series B Preferred Stock"), and one warrant (the "Series B Warrant") to purchase one-half share of Series B Preferred Stock at an exercise price, per one-half share, of $7.5875, exercisable from and after the expiration of the six-month period following the date of the first issuance of such Series B Warrants, for a period of 5 years thereafter.

Each share of Series B Preferred Stock was automatically converted into two shares of the Company's Common Stock upon the Company's filing of an amendment to its Certificate of Incorporation (the "Amendment") increasing its authorized Common Stock from 28,000,000 to 50,000,000 shares. Each Series B Warrant was initially exercisable for one-half share of Series B Preferred Stock; however, upon the automatic conversion of the Series B Preferred Stock into Common Stock, the Series B Warrants (to the extent not previously exercised) became exercisable, at the same exercise price of $7.5875, for one share of Common Stock.

In accordance with EITF Issue 98-05, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," the net proceeds received in the private placement (approximately

$10,618,000) were allocated based on the relative fair values of the Series B Preferred Stock and the Series B Warrants. Accordingly, approximately $6,239,000 was allocated to the Series B Preferred Stock and $4,379,000 was allocated to the Series B Warrants. The approximately $11,743,000 liquidation value of the 1,677,570 shares of Series B Preferred Stock was recorded net of issuance costs of approximately $1,125,000, and net of a full discount, of which approximately $4,379,000 was attributable to the fair value of the Series B Warrants issued in connection therewith, and approximately $6,239,000 was attributable to the beneficial conversion feature embodied in the Series B Preferred Stock. This discount was accreted in its entirety as preferred dividends through April 17, 2000, the date on which all of the Series B Preferred Stock automatically converted into shares of the Company's Common Stock (as described above) at a ratio of 1 to 2. In connection with the private placement, the Company issued to the placement agents 500,000 warrants to purchase shares of the Company's Common Stock at an exercise price of $7.59, which warrants will expire on February 13, 2005. The fair value of these warrants was treated as part of the issuance costs.

ISSUANCE OF WARRANTS FOR CONSULTING SERVICES

On January 16, 2001, the Company entered into an agreement with Goldin Associates, L.L.C. ("Goldin") pursuant to which Goldin agreed to provide interim management services to the Company, for an initial six-month period, with respect to its retail optical, Insight Laser and Ambulatory Center divisions (collectively, the "Divisions") at the direction of the Board of Directors of

the Company or its Chairman or other officers, pursuant to delegated authority. In connection with the foregoing, Michael C. McGeeney was initially appointed Chief Executive Officer of the retail optical division and, subsequently, on March 28, 2001, replaced Gregory T. Cook as the Company's President and Chief Executive Officer. The fee for such services is $50,000 per month plus an Incentive Fee, comprised, in the aggregate, of warrants (at an exercise price of $0.01 each) to purchase up to an aggregate of 5% (subject to customary anti-dilution provisions) of the outstanding Common Stock of the Company as of January 22, 2001. The Incentive Fee is to be provided to Goldin in increments according to the following schedule: (1) warrants to purchase 422,272 of such outstanding Common Stock on January 22, 2001 (the fair value of this portion of the total warrants issued to Goldin were valued using the Black Scholes model, which amounted to approximately $301,000, and recorded, as a non-cash charge to compensation expense, in the first quarter of fiscal year 2001); (2) warrants to purchase an additional 1.11% of such outstanding Common Stock immediately following a year in which the Divisions shall realize earnings before interest, depreciation, taxes and amortization (EBIDTA) of $1,000,000; (3) warrants to purchase an additional 1.11% of such outstanding Common Stock immediately following a year in which the Divisions shall realize EBIDTA of $2,000,000; and (4) warrants to purchase an additional 1.12% of such outstanding Common Stock immediately following a year in which the Divisions shall realize EBIDTA of $3,000,000. These warrants, except for the warrants referred to in clause (1) above (which became exercisable immediately), may be exercised only if the applicable EBITDA targets are achieved prior to January 12, 2005; and, due to these contingencies, will result in charges to the Company's results of operations in future periods, if and when achieved. All warrants expire seven years after their issuance date.

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

Financial instruments that potentially subject the Company to a

concentration of credit risk consist of cash, cash equivalents and accounts receivable. Cash and cash equivalents are deposited with high quality financial institutions. All highly liquid investments with an original maturity from date of purchase of three months or less are considered to be cash equivalents. The Company's cash and cash equivalents are invested in various investment-grade money market accounts and are recorded on the accompanying Consolidated Condensed Balance Sheet, as of March 31, 2001, at $3,880,000.

NOTE 7 - SUBSEQUENT EVENTS:

The Nasdaq requires, among other items, that the Company maintain a minimum of $4,000,000 of net tangible assets to maintain the listing of the Registrant's shares of Common Stock on the Nasdaq-NMS. The Company's net tangible assets as of March 31, 2001 was $3,084,000. Accordingly, the Company anticipates that unless: (i) the Company's profitability continues to improve during the second quarter of 2001; and (ii) the Company is successful in completing its plan for disposing of the assets of its Internet, Insight Laser and Ambulatory Center divisions, it will require additional funds (in the form of an equity investment) to comply with the Nasdaq-NMS net tangible assets requirement; and there can be no assurance that the Company will be able to improve such profitability and dispose of such assets within the time period required by Nasdaq, or that funds will be available from equity financings or, that if available, any such financings will be available on terms and conditions acceptable to the Company. The Nasdaq also requires, as a condition to the continued listing of such Common Stock on the Nasdaq-NMS, a minimum bid price for the Registrant's Common Stock of $1.00 per share. On April 9, 2001, the Company was notified by Nasdaq that it did not meet the minimum bid price of $1.00 for continued listing of its shares on the Nasdaq-NMS and that the Company had until July 5, 2001 to comply with such rule in order to avoid delisting. Additionally, on April 11, 2001, Nasdaq notified the Company that it did not meet the aforementioned net tangible assets requirement. The Company responded to Nasdaq on April 30, 2001 by providing Nasdaq with its anticipated plans by which the Company believes it will meet such requirement. Nasdaq is reviewing these plans as of the date of this Report. If the Registrant's Common Stock were delisted, such delisting would have an adverse affect on the trading prices of the Registrant's Common Stock and would, in all likelihood, adversely affect the liquidity of the shares of Common Stock held by the Company's stockholders.

On April 26, 2001, the Company's Board of Directors approved the terms of an agreement pursuant to which it will issue to Balfour Investors Incorporated ("Balfour"), in exchange for its advisory services to be rendered to the Company's Board of Directors, warrants to purchase up to an aggregate of 2.5% (subject to customary anti-dilution provisions) of the Registrant's outstanding Common Stock as of April 26, 2001, 190,327 of which warrants will be immediately exercisable and will be valued, using the Black Scholes model, at approximately $62,000. The balance of such aggregate number of warrants to be issued to Balfour will become exercisable according to the following schedule: (1) warrants to purchase an additional 0.58% of such outstanding Common Stock immediately following a year in which the Divisions shall realize EBIDTA of $1 million or more; (2) warrants to purchase an additional 0.58% of such outstanding Common Stock immediately following a year in which the Divisions shall realize EBIDTA of $2,000,000; and (3) warrants to purchase an additional 0.59% of such outstanding Common Stock immediately following a year in which the Divisions shall realize EBIDTA of $3,000,000. These warrants, except for the warrants which became exercisable immediately, may be exercised only if the applicable EBITDA targets are achieved prior to April 26, 2005 and, due to these contingencies, will result in charges to the Company's results of operations in

future periods, if and when achieved. All warrants expire seven years after their issuance date.

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

This Report contains certain forward-looking statements and information relating to the Company that is based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Report, the words "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events, are not guarantees of future performance and are subject to certain risks and uncertainties. These risks and uncertainties may include: product demand and market acceptance risks; the effect of economic conditions; success of transactions with third parties; the impact of competitive products, services and pricing; product development, commercialization and technological difficulties; the outcome of current and future litigation; delisting by Nasdaq-NMS; and other risks described elsewhere herein. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, or expected. The Company does not intend to update these forward-looking statements.

The Company's historical financial information has been restated to report the operating results, net assets and cash flows of the Internet Division, Insight Laser and Ambulatory Center through March 31, 2001 as discontinued operations for all periods presented. The following discussion and analysis focuses on continuing operations, as restated, unless otherwise noted.

RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO MARCH 31, 2000

Net sales for Company-owned stores, as well as revenues generated by the Registrant's wholly owned subsidiary, VisionCare of California ("VCC"), a specialized health care maintenance organization licensed by the California Department of Corporations, decreased by approximately $914,000, or 24.3%, to $2,840,000 for the three months ended March 31, 2001, as compared to $3,754,000 for the comparable period in 2000. This decrease was principally due to a lower average number of stores in operation during the three months ended March 31, 2001, as compared to the comparable period in 2000, as described below. At March 31, 2001, there were 223 Sterling Stores in operation, consisting of 39 Company-owned stores (including 12 Company-owned stores being managed by franchisees) and 184 franchised stores (including 3 franchised stores being managed by the Company on behalf of franchisees), as compared to 251 Sterling Stores in operation for the comparable period in 2000, consisting of 37 Company-owned stores (including 12 Company-owned stores being managed by franchisees) and 214 franchised stores (including 5 stores being managed by the

Company on behalf of franchisees). On a same store basis (for stores that

operated as a Company-owned store during both of the three month periods ended March 31, 2001 and 2000), comparative net sales decreased by $220,000, or 10.7%, to $1,830,000 for the three months ended March 31, 2001, as compared to $2,050,000 for the comparable period in 2000.

Franchise royalties decreased by $145,000, or 6.1%, to $2,232,000 for the three months ended March 31, 2001, as compared to $2,377,000 for the comparable period in 2000. This decrease was as a result of a fewer number of franchised stores in operation throughout the three month period ended March 31, 2001, as compared to 2000.

Net gains and fees from the conveyance of Company-owned store assets to franchisees, including renewal fees and the fees charged as a condition to the transfer of ownership of the assets and franchise for a store, from one franchisee to another, increased by $74,000, or 528.6%, to $88,000 for the three months ended March 31, 2001, as compared to $14,000 for the comparable period in 2000. This increase was principally due to transfer fees collected on the conveyance of the assets of 8 franchise-owned stores during the three months ended March 31, 2001, as compared to the conveyance of the assets of 2 franchise-owned stores for the comparable period in 2000. There were no conveyances of the assets of Company-owned store locations to franchisees during either of the three months ended March 31, 2001 and 2000.

Interest on franchise notes receivable decreased by $28,000, or 8.6%, to $299,000 for the three months ended March 31, 2001, as compared to $327,000 for the comparable period in 2000. This decrease was principally due to reductions of the principal balance of several franchisees notes and fewer notes being generated during the three months ended March 31, 2001, as compared to the comparable period in 2000.

Other income (primarily initial franchise fees) decreased by $56,000, or 91.8%, to $5,000 for the three months ended March 31, 2001, as compared to $61,000 for the comparable period in 2000, due to fewer stores being franchised during the three months ended March 31, 2001.

The Company's gross profit margin increased by 8.3% to 80.5% for the three months ended March 31, 2001, as compared to 72.2% for the comparable period in 2000, due to the mix of products being sold in Company operated stores during each respective period. In the future, the Company's gross profit margin may fluctuate depending upon the extent and timing of changes in the product mix in Company-owned stores, competition and promotional incentives.

Selling, general and administrative expenses decreased by $1,100,000, or 19.6%, to $4,516,000 for the three months ended March 31, 2001, as compared to $5,616,000 for the comparable period in 2000. This change was primarily due to a decrease of approximately $949,000 related to reductions in operating and administrative payroll related costs for the three months ended March 31, 2001, as compared to the comparable period in 2000. In addition, there was a decrease of approximately $151,000 in the provision for doubtful accounts associated with accounts and notes receivable due from franchisees during the three months ended March 31, 2001, as compared to the comparable period in 2000. As a result of a change in management philosophy, policy, direction, and related courses of action resulting from a change in the Company's senior management personnel during the first quarter of fiscal year 2001, (e.g., to take back franchised stores from various problem franchisees), the Company reacquired the assets of 8 franchised store locations during the three months ended March 31, 2001, and an additional 2 franchised stores subsequent to March 31, 2001.

Warrant issuance and induced conversion costs increased by $29,000, or 10.7%, to $301,000 for the three months ended March 31, 2001, from $272,000 for the comparable period in 2000, as a result of the Company's issuance of warrants to Goldin Associates, L.L.C.

Loss from the operation of franchised stores managed by the Company increased by approximately $2,000, or 1.8%, to approximately $(113,000) for the three months ended March 31, 2001, as compared to approximately $(111,000) for the comparable period in 2000.

Interest expense decreased by $167,000, or 88.8%, to $21,000 for the three months ended March 31, 2001, as compared to $188,000 for the comparable period in 2000. This decrease resulted from a reduction in the principal balances of

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the Company's long-term debt during the three months ended March 31, 2001, as compared to the comparable period in 2000.

The Company incurred a net loss from continuing operations of $(41,000) for the three months ended March 31, 2001, as compared to a net loss of $(696,000) for the comparable period in 2000. These losses were a result of the financial effects of the items discussed above.

Income from discontinued operations represents the operating results of the Company's Internet Division, Insight Laser and Ambulatory Center of $0, $31,000, and $0, respectively. For the three months ended March 31, 2001, the Internet Division had actual operating losses of approximately $2,058,000, which were charged to the discontinued operations accrual at March 31, 2001. In addition, the Company reversed approximately $400,000 of liabilities previously recorded in connection with its disposal of discontinued operations. This reversal was a result of the Company settling certain liabilities for less than the amounts initially recorded.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31, 2001, cash flows provided by operating activities were $288,000, as compared to cash flows used in operating activities of $(2,678,000) for the three months ended March 31, 2000. Net loss from continuing operations for the three months ended March 31, 2001 was ($41,000), as compared to a loss from continuing operations of ($696,000) for the comparable period in 2000. During the three months ended March 31, 2001, the Company made significant payments to its vendors from proceeds generated from the exercise of stock options.

For the three months ended March 31, 2001, cash flows provided by investing activities were $266,000, as compared to $152,000 for the comparable period in 2000. This increase was principally due to an increase of approximately $94,000, to $592,000, in proceeds from franchise and other notes receivables, a decrease of approximately $(124,000) in capital expenditures, and an increase of approximately $104,000 in notes issued by franchisees.

For the three months ended March 31, 2001, cash flows used in financing activities were $(63,000), principally due to payments on, reductions of, long-term debt, as compared to $17,102,000 of cash provided from financing activities for the comparable period in 2000. During the first quarter of 2000, the Company received proceeds from the Company's private placement, completed in March 2000, of approximately $10,618,000, and proceeds from the exercise of stock options and warrants of approximately $7,692,000, in each case offset by net payments on long-term debt of approximately $1,208,000.

The Company's working capital deficit was $(1,963,000) at March 31, 2001. This amount included reserves in the aggregate amount of approximately

$2,000,000 related to anticipated liabilities to be incurred in connection with potential settlements related to the Company's discontinued operations. These liabilities reflect a range of possible settlements, which the Company will seek to resolve for a lesser amount (although there can be no assurance that it will be able to do so). The Company believes that it will improve cash flows during 2001 by improving store profitability through increased monitoring of store-by-store operations and actual results as compared to expected results; a reduction of administrative overhead expenses, if necessary; new marketing programs for franchisees; and seeking additional financing, if available.

The Nasdaq requires, among other items, that the Company maintain a minimum of $4,000,000 of net tangible assets to maintain the listing of the Registrant's shares of Common Stock on the Nasdaq-NMS. The Company's net tangible assets as of March 31, 2001 was $3,084,000. Accordingly, the Company anticipates that unless: (i) the Company's profitability continues to improve during the second quarter of 2001; and (ii) the Company is successful in completing its plan for disposing of the assets of its Internet, Insight Laser and Ambulatory Center divisions, it will require additional funds (in the form of an equity investment) to comply with the Nasdaq-NMS net tangible assets requirement; and there can be no assurance that the Company will be able to improve such profitability and dispose of such assets within the time period required by Nasdaq, or that funds will be available from equity financings or, that if available, any such financings will be available on terms and conditions

acceptable to the Company. The Nasdaq also requires, as a condition to the continued listing of such Common Stock on the Nasdaq-NMS, a minimum bid price for the Registrant's Common Stock of $1.00 per share. On April 9, 2001, the Company was notified by Nasdaq that it did not meet the minimum bid price of $1.00 for the continued listing of its shares on the Nasdaq-NMS and that the Company had until July 5, 2001 to comply with such rule in order to avoid delisting. Additionally, on April 11, 2001, Nasdaq notified the Company that it did not meet the aforementioned net tangible assets requirement. The Company responded to Nasdaq on April 30, 2001 by providing Nasdaq with its anticipated plans by which the Company believes it will meet such requirement. Nasdaq is reviewing these plans as of the date of this Report. If the Registrant's Common Stock were delisted, such delisting would have an adverse affect on the trading prices of the Registrant's Common Stock and would, in all likelihood, adversely affect the liquidity of the shares of Common Stock held by the Company's stockholders.

The Company believes that, in the furtherance of its business strategies, the Company's future capital requirements will include: (i) renovating and remodeling Company-owned stores; (ii) acquiring retail optical stores, subject to the availability of qualified opportunities; and (iii) continued upgrading of management information systems for Company operated stores. Additionally, the Company may provide financing of sales of Company-owned store assets to franchisees, which is likely to defer the inflow of cash related to the sales of such assets.

The Company believes that, based on its current cash position and the implementation of the plans described above, sufficient resources will be available for the Company to continue in operation through the end of the first quarter of fiscal year 2002. However, there can be no assurance that the Company will be able to generate positive cash flows and, even if it does, that such cash flows will be sufficient to adequately fund its ongoing operations and future plans. If the Company cannot generate sufficient cash flows from operations, it may be required to seek alternative debt and/or equity financing. However, there can be no assurance that such debt and/or equity financing will be available to the Company when necessary, or on terms that are acceptable to

the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company maintains certain equity instruments with beneficial conversion terms and certain contractual price-protection provisions that are indexed to the performance of the Company's Common Stock. Accordingly, the Company may bear a financial risk in the form of future cash or stock payments made to equalize any stock price declines that are indexed to a specific contractual stock price floor. Additionally, as a result of the above, the Company could incur non-cash charges to equity, which would have a negative impact on future per share calculations.

The Company is exposed to market risks from potential changes in interest rates as they relate to the Company's investments in highly liquid, marketable securities. These investments are deposited with high quality financial institutions. The Company believes that the amount of risk as it relates to its investments is not material to the Company's financial condition or results of operations because the Company does not use derivative financial instruments in its investments.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In February 2001, five of the Company's Site for Sore Eyes Franchisees (owning an aggregate of seven franchised Site for Sore Eyes Stores) commenced an action in the United States District Court for the Northern District of California seeking: (i) $35,000,000 of damages as a result of the Company's alleged breach of the respective Franchise Agreements pursuant to which each such Franchisee operates its Site for Sore Eyes Optical Center, fraud and violations of California law; and (ii) a declaratory judgment that each such Franchise Agreement had been modified to afford each plaintiff certain rights which are in addition to those set forth in the applicable Franchise Agreements. As of the date hereof, the Company and the plaintiffs are attempting to reach an amicable settlement of this dispute.

In 1999, the Company commenced an action in the Supreme Court of the State of New York against Dr. Larry Joel and Apryl Robinson for amounts claimed due, by the Company, on a series of five separate Negotiable Promissory Notes issued by corporations owned by the defendants in connection with their purchase of the assets of, and a Sterling Optical Center Franchise for, an aggregate of four of the Company's retail optical stores and an optical laboratory, the repayment of each of which Notes was personally guaranteed by each of the defendants. In response thereto, the defendants asserted counterclaims in excess of $13,000,000 based upon the Company's alleged failure to comply with the terms of an oral, month-to-month consulting agreement between Dr. Joel and the Company, as well as to purchase the assets of various companies owned by Dr. Joel, including Duling Optical and D & K Optical, notwithstanding the fact that: (i) the parties failed to agree upon the terms of any such purchase; (ii) the parties failed to enter into any written agreement memorializing such transaction; and (iii) the Company subsequently purchased such assets from Norwest Bank (which held a first lien on substantially all of said assets as collateral for various loans made to each of said entities, all of which were then in default), in a private foreclosure sale. In March 2001, the Appellate Division granted the Company's Motion for Summary Judgment on the issue of the defendants' liability, as guarantors of

each of such Notes, a hearing on damages having been scheduled for June 2001. In addition, in March 2001, the Company filed an additional Motion for Summary Judgment seeking dismissal of all of such counterclaims; and the defendant, Dr. Joel, thereafter filed a cross-motion seeking a determination that the Company breached such oral, month-to-month consulting agreement and that he is, accordingly, entitled to damages of approximately $13,000,000, both of which motions have not yet been decided by the Court.

In January 2001, the Company commenced an action against Binns Optical, Inc. ("BOI") and Michael Binns and Mary Ann Binns (collectively, the "Guarantors") in the United States District Court for the Eastern District of Missouri seeking to prohibit the defendants from operating the Sterling Optical Center located in Ballwin, Missouri, under any name other than Sterling Optical, as well as to require the defendants to return to the Company all patient records, customer lists, furniture, fixtures and equipment removed by defendants from the six Sterling Optical Centers previously franchised to, and ultimately abandoned by, BOI. In February, 2001, the defendants entered into a Stipulation agreeing to the entry of a preliminary injunction pursuant to which the defendants agreed to substantially all of the relief requested by the Company. In March, 2001, the defendants filed a counterclaim against the Company seeking damages in the amount of $3,000,000 plus punitive damages as a result of the Company's alleged fraud in the inducement, negligent misrepresentation, breach of fiduciary duty and claims stated in the alternative for breach of contract and breach of oral agreement. The Company has denied defendants' counterclaims and has filed a motion to dismiss all such counterclaims, which motion has not yet been decided by the Court. In a related matter, in February, 2001, the Company commenced a separate action against the Guarantors in the New York State Supreme Court by filing a Motion for Summary Judgment in Lieu of Complaint, seeking damages (under the Guarantors' payment guaranty in favor of the Company) as a result of the failure of BOI to comply with its obligations under a series of eight Negotiable Promissory Notes made by BOI in its favor; and on April 17, 2001, the Court granted the Company's motion and awarded the Company a judgment in the approximate sum of $1,300,000, which the Company will seek to enforce in the State of Missouri, where the Guarantors both reside.

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In addition to the foregoing, the Company is a defendant in certain lawsuits alleging various claims incurred in the ordinary course of business. These claims are generally covered by various insurance policies, subject to certain deductible amounts and maximum policy limits. In the opinion of management, the resolution of such additional, existing lawsuits should not have a material adverse effect, individually or in the aggregate, upon the Company's business or financial condition. Other than as set forth above, management believes that there are no other legal proceedings pending or threatened to which the Company is, or may be a party, or to which any of its properties are, or may be, subject, which are likely to have a material adverse effect on the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION.

The Nasdaq requires, among other items, that the Company maintain a minimum of $4,000,000 of net tangible assets to maintain the listing of the Registrant's shares of Common Stock on the Nasdaq-NMS. The Company's net tangible assets as of March 31, 2001 was $3,084,000. Accordingly, the Company anticipates that unless: (i) the Company's profitability continues to improve during the second quarter of 2001; and (ii) the Company is successful in completing its plan for disposing of the assets of its Internet, Insight Laser and Ambulatory Center divisions, it will require additional funds (in the form of an equity investment) to comply with the Nasdaq-NMS net tangible assets requirement; and there can be no assurance that the Company will be able to improve such profitability and dispose of such assets within the time period required by Nasdaq, or that funds will be available from equity financings or, that if available, any such financings will be available on terms and conditions acceptable to the Company. The Nasdaq also requires, as a condition to the continued listing of such Common Stock on the Nasdaq-NMS, a minimum bid price for the Registrant's Common Stock of $1.00 per share. On April 9, 2001, the Company was notified by Nasdaq that it did not meet the minimum bid price of $1.00 for the continued listing of its shares on the Nasdaq-NMS and that the Company had until July 5, 2001 to comply with such rule in order to avoid delisting. Additionally, on April 11, 2001, Nasdaq notified the Company that it did not meet the aforementioned net tangible assets requirement. The Company responded to Nasdaq on April 30, 2001 by providing Nasdaq with its anticipated plans by which the Company believes it will meet such requirement. Nasdaq is reviewing these plans as of the date of this Report. If the Registrant's Common Stock were delisted, such delisting would have an adverse affect on the trading prices of the Registrant's Common Stock and would, in all likelihood, adversely affect the liquidity of the shares of Common Stock held by the Company's stockholders.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

A. Exhibits

10.113 Form of Settlement Agreement, dated as of April 24, 2001, between Emerging Vision, Inc. and Sara V. Traberman.

B. Reports on Form 8-K

Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

EMERGING VISION, INC.
(Registrant)

BY: /s/ Michael C. McGeeney

Michael C. McGeeney
President and Chief Executive Officer

BY: /s/ George D. Papadopoulos

George D. Papadopoulos
Senior Vice President and
Chief Financial Officer

Dated: May 15, 2001