EMERGING VISION INC
Form 10-K
April 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2008

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 Offices)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:
Yes No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:
Yes No X

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer | Accelerated filer
Non-accelerated filer | Smaller reporting company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Yes | No X

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2008, was $21,437,695.

Number of shares outstanding as of March 31, 2009:

125,292,806 shares of Common Stock, par value $0.01 per share

Documents incorporated by reference: Part III of this Annual Report on Form 10-K incorporates by reference information from the registrant’s definitive Proxy Statement for its Annual Meeting of Shareholders to be held during 2009.

Part I

Item 1. Business

GENERAL

Emerging Vision, Inc. (the “Registrant” and, together with its subsidiaries, hereinafter the “Company” or “EVI”) operates one of the largest chains of retail optical stores and one of the largest franchise optical chains in the United States, based upon management’s beliefs, domestic sales and the number of locations of Company-owned and franchised stores (collectively referred to hereinafter as “Sterling Stores”). Additionally, Emerging operates one of the leading optical purchasing groups in the United States (hereinafter referred to as “Combine”) and one of the leading optical purchasing groups in Canada (hereinafter referred to as “TOG”), based upon management’s beliefs, annual sales and the number of member locations. The Registrant was incorporated under the laws of the State of New York in January 1992 and, in July 1992, purchased substantially all of the assets of Sterling Optical Corp., a New York corporation, then a debtor-in-possession under Chapter 11 of the U.S. Bankruptcy Code.

RETAIL STORE OPERATIONS

The Company and its franchisees operate retail optical stores under the trade names “Sterling Optical,” “Site For Sore Eyes,” “Kindy Optical” and “Singer Specs,” although most stores (other than the Company’s Site for Sore Eyes stores located in Northern California) operate under the name “Sterling Optical.” The Company also operates VisionCare of California, Inc. (“VCC”), a specialized health care maintenance organization licensed by the State of California, Department of Managed Health Care, which employs licensed optometrists who render services in offices located immediately adjacent to, or within, most Sterling Stores located in California.

Most Sterling Stores offer eye care products and services such as prescription and non-prescription eyeglasses, eyeglass frames, ophthalmic lenses, contact lenses, sunglasses and a broad range of ancillary items. To the extent permitted by individual state regulations, an optometrist is employed by, or affiliated with, most Sterling Stores to provide professional eye examinations to the public. The Company fills prescriptions from these employed or affiliated optometrists, as well as from unaffiliated optometrists and ophthalmologists. Most Sterling Stores have an inventory of ophthalmic and contact lenses, as well as on-site lab equipment for cutting and edging ophthalmic lenses to fit into eyeglass frames, which, in many cases, allows Sterling Stores to offer same-day service.

All Sterling Stores carry a large selection of ophthalmic eyeglass frames, sunglasses, ophthalmic and contact lenses and accessories. The Company frequently test-markets various brands of sunglasses, ophthalmic lenses, contact lenses and designer frames. Small quantities of these items are usually purchased for selected stores that test customer response and interest. If a product test is successful, the Company attempts to negotiate a system-wide preferred vendor discount for the product in an effort to maximize system-wide sales and profits.

Sterling Stores generally range in size from approximately 1,000 square feet to 2,000 square feet, are similar in appearance and are operated under certain uniform standards and operating procedures. Many Sterling Stores are located in enclosed regional shopping malls and smaller strip centers, with a limited number of Sterling Stores being housed in freestanding buildings with adjacent parking facilities. Sterling Stores are generally clustered within geographic market areas to maximize the benefit of advertising strategies and minimize the cost of supervising operations.

Occasionally, the Company sells the assets of certain of its Company-owned stores to qualified franchisees and, in certain instances, realizes a profit on the conveyance of the assets of such stores. Through these sales, along with the opening of new stores by qualified franchisees, the Company seeks to create a stream of royalty payments based upon a percentage of the gross revenues of the franchised locations, and grow both the Sterling Optical and Site for Sore Eyes brand names.

The Retail Stores division currently derives its revenues from the sale of eye care products and services at Company-owned stores, membership fees paid to VCC and ongoing royalty fees based upon a percentage of the gross revenues of its franchised stores.

As of December 31, 2008, there were 139 Sterling Stores in operation, consisting of 6 Company-owned stores (inclusive of 1 store being managed for the Company under the terms of a Management Agreement) and 133 franchised stores. Sterling Stores are located in 14 states, the District of Columbia and the U.S. Virgin Islands.

The following chart sets forth the breakdown of Sterling Stores in operation as of December 31, 2008 and 2007:

	December 31,	
I. COMPANY-OWNED STORES:	2008*	2007
Company-owned stores	5	11
Company-owned stores managed by franchisee	1	1
Total	6	12

(*) Existing store locations: Maryland (1), New York (4) and Pennsylvania (1).

	December 31,	
	2008*	2007
II. FRANCHISED STORES:	133	146

(*) Existing store locations: California (41), Delaware (3), Florida (2), Illinois (1), Kentucky (2), Louisiana (2), Maryland (10), New Jersey (7), New York (37), North Dakota (3), Pennsylvania (8), Virginia (6), Washington D.C. (1), West Virginia (1), Wisconsin (7), and the U.S. Virgin Islands (2)

FRANCHISE SYSTEM

An integral part of the Company's franchise system includes providing a high level of marketing, training and administrative support to its franchisees. The Company provides “grand opening” assistance for each new franchised location by consulting with its franchisees with respect to store design, fixture and equipment requirements and sources, inventory selection and sources, and marketing and promotional programs, as well as assistance in obtaining managed care contracts. Specifically, the Company's grand opening assistance helps to establish business plans and budgets, provides preliminary store design and plan approval prior to construction of a franchised store, and provides training, an operations manual and a comprehensive business review to aid the franchisee in attempting to maximize its sales and profitability. Further, on an ongoing basis, the Company provides training through regional and national seminars, offers assistance in marketing and advertising programs and promotions, offers online communication, franchisee group discussion as well as updated training modules and product information through its interactive Franchisee Intranet, and consults with its franchisees as to their management and operational strategies and business plans.

Preferred Vendor Network. With the collective buying power of Company-owned and franchised Sterling Stores, the Company has established a network of preferred vendors (the "Preferred Vendors") whose products may be purchased directly by franchisees at group discount prices, thereby providing such franchisees with the opportunity for higher gross margins. Additionally, the Company negotiates and executes cooperative advertising programs with its Preferred Vendors for the benefit of all Company-owned and franchised stores.

Franchise Agreements. Each franchisee enters into a franchise agreement (the "Franchise Agreement") with the Company, the material terms of which are as follows:

a. Term. Generally, the term of each Franchise Agreement is ten years and, subject to certain conditions, is renewable at the option of the franchisee.

    b. Initial Fees. Generally, franchisees (except for any franchisees converting their existing retail optical store to a Sterling Store (a "Converted Store"), franchisees opening a location that has limited public access (a "Limited Access Facility"), and those entering into agreements for more than one location) must pay the Company a non-recurring, initial franchise fee of $20,000. For each franchisee entering into agreements for more than one location, the Company charges a non-recurring, initial franchise fee of $15,000 for the second location, and $10,000 for each location in excess of two. The Company charges each franchisee of a Converted Store or Limited Access Facility a non-recurring, initial franchise fee of $10,000 per location.

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c. Ongoing Royalties. Franchisees are obligated to pay the Company ongoing royalties in an amount equal to a percentage (generally 8%) of the gross revenues generated by their Sterling Store. Franchisees of Converted Stores, however, pay ongoing royalties, on their store's historical average base sales, at reduced rates increasing (in most cases) from 2% to 6% for the first three years of the term of the Franchise Agreement. Royalties on the gross revenues generated in excess of those base sales will be calculated at 8%. Additionally, Franchisees of Limited Access Facilities pay ongoing royalties at reduced rates increasing from 1% to 4% in year 3 and each year thereafter. The Franchise Agreement provides for the payment of ongoing royalties on a weekly basis, based upon the gross revenues for the preceding week. Gross revenues generally include all revenues generated from the operation of the Sterling Store in question, excluding refunds to customers, sales taxes, a limited amount of bad debts and, to the extent required by state law, fees charged by independent optometrists.

d. Advertising Fund Contributions. Most franchisees must make ongoing contributions, on a weekly basis, to an advertising fund (the “Advertising Fund”) generally equal to 6% of their store's gross revenues for the preceding week. Franchisees of Limited Access Facilities, however, must make ongoing contributions equal to 4% of their store's gross revenues for the preceding week. Generally, 50% of these funds are expended at the direction of each individual franchisee (for the particular Sterling Store in question), with the balance being expended on joint advertising campaigns for all franchisees located within specific geographic areas.

e. Termination. Franchise Agreements may be terminated if a franchisee has defaulted on its payment of monies due to the Company, or in its performance of the other terms and conditions of the Franchise Agreement. During 2008, the assets of (as well as possession of) two franchised stores were reacquired by the Company. Substantially all of the assets located in such stores were voluntarily surrendered and transferred back to the Company in connection with the termination of the related Franchise Agreements. In certain instances, the Company will re-convey the assets of such a store to a new franchisee, requiring the new franchisee to enter into the Company’s then current form of Franchise Agreement. However, the Company reviews each stores historical performance to consider if the Company will continue to operate such store (as a Company-owned location) without re-conveying the assets of such store to a new franchisee.

OPTICAL PURCHASING GROUP BUSINESS

The Optical Purchasing Group Business is divided into two units. The U.S. unit, Combine, which is based in the state of Florida, is one of the leading optical purchasing groups in the United States. Combine operates an optical purchasing group business, which provides its members (“Combine Members”) with vendor discounts on optical products for resale. Combine Members are typically independent optical retailers. As of December 31, 2008, Combine had 842 active members in its optical purchasing group.

TOG, which is based in Ontario, Canada, is one of the leading optical purchasing groups in Canada. TOG operates an optical purchasing group business, which also provides its members (“TOG Members”) with vendor discounts on optical products for resale. TOG Members are typically independent optical retailers. TOG also operates a credit reference business within the optical industry in Canada, which allows TOG to selectively service only the most credit-worthy retailers. As of December 31, 2008 TOG had 535 active members in its optical purchasing group.

INSIGHT MANAGED VISION CARE

The Company, under the trade name “Insight Managed Vision Care,” contracts with payers (i.e. health maintenance organizations, preferred provider organizations, insurance companies, Taft-Hartley unions, and mid-sized to large

companies) who offer eye care benefits to their covered participants. When Sterling Stores provide services or products to a covered participant, it is generally at a discount from the everyday advertised retail price. Typically, participants will be eligible for greater eye care benefits at Sterling Stores than those offered at eye care providers that are not participating in a managed care program. The Company believes that the additional customer traffic generated by covered participants, along with purchases by covered participants above and beyond their eye care benefits, more than offsets the reduced gross margins being realized on these sales. The Company believes that convenience of store locations and hours of operation are key factors in attracting managed care business. As the Company increases its presence within markets it has already entered it believes it will be more attractive to managed care payers.

MARKETING AND ADVERTISING

The Company's marketing strategy emphasizes professional eye examinations, competitive pricing (primarily through product promotions), convenient locations, excellent customer service, customer-oriented store design and product displays, knowledgeable sales associates, and a broad range of quality products, including privately-labeled contact lenses presently being offered by the Company and certain of its franchisees. Examinations by licensed optometrists are generally available on the premises of, or directly adjacent to, substantially all Sterling Stores.

The Company continually prepares and revises its in-store, point-of-purchase displays, which provide various promotional messages to customers. Both Company-owned and franchised Sterling Stores participate in advertising and in-store promotions, which include visual merchandising techniques to draw attention to the products displayed in the Sterling Store in question. The Company is also continually refining its interactive web sites, which further markets the “Sterling Optical” and “Site for Sore Eyes” brands in an effort to increase traffic to its stores and, in many instances, also uses direct mail advertising as well as opt-in email, search engine and other internet advertising to reach prospective, as well as existing, consumers.

The Company annually budgets approximately 4% to 6% of system-wide sales for advertising and promotional expenditures. Generally, franchisees are obligated to contribute a percentage of their Sterling Store’s gross revenues to the Company's segregated advertising fund accounts, which the Company maintains for advertising, promotional and public relations programs. In most cases, the Company permits each franchisee to direct the expenditure of approximately 50% of such contributions, with the balance being expended to advertise and promote all Sterling Stores located within the geographic area of the Sterling Store in question, and/or on national promotions and campaigns.

COMPETITION

The optical business is highly competitive and includes chains of retail optical stores, superstores, individual retail outlets, the operators of web sites and a large number of independent opticians, optometrists and ophthalmologists who provide professional services and may, in connection therewith, dispense prescription eyewear. As retailers of prescription eyewear generally service local markets, competition varies substantially from one location or geographic area to another. Since 1994, certain major competitors of the Company have been offering promotional incentives to their customers and, in response thereto, the Company generally offers the same or similar incentives to its customers. Many of these competitors have greater resources than the Company, which opens them to more favorable discounts on an assortment of goods/services than the Company can get based on their purchasing power.

The Company believes that the principal competitive factors in the retail optical business are convenience of location, on-site availability of professional eye examinations, rapid service, quality and consistency of product and service, price, product warranties, a broad selection of merchandise, the participation in third-party managed care provider programs and the general consumer acceptance of refractive laser surgery.

There are other optical purchasing group businesses both in the United States and Canada that offer the same type of services and vendor discounts that the Company’s optical purchasing group businesses offer. In addition, certain groups offer a different arrangement of services and products than the Company’s groups.

GOVERNMENT REGULATION

The Company and its operations are subject to extensive federal, state and local laws, rules and regulations affecting the health care industry and the delivery of health care, including laws and regulations prohibiting the practice of medicine and optometry by persons not licensed to practice medicine or optometry, prohibiting the unlawful rebate or unlawful division of fees, and limiting the manner in which prospective patients may be solicited. The regulatory requirements that the Company must satisfy to conduct its business vary from state to state. In particular, some states have enacted laws governing the ability of ophthalmologists and optometrists to enter into contracts to provide professional services with business corporations or lay persons, and some states prohibit the Company from computing its continuing royalty fees based upon a percentage of the gross revenues of the fees collected by affiliated optometrists. Various federal and state regulations limit the financial and non-financial terms of agreements with these health care providers; and the revenues potentially generated by the Company differ among its various health care provider affiliations.

The Company is also subject to certain regulations adopted under the Federal Occupational Safety and Health Act with respect to its in-store laboratory operations. The Company believes that it is in material compliance with all such applicable laws and regulations.

As a franchisor, the Company is subject to various registration and disclosure requirements imposed by the Federal Trade Commission and by many states in which the Company conducts franchising operations. The Company believes that it is in material compliance with all such applicable laws and regulations.

The Company must comply with the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”), which governs our participation in managed care programs. We also must comply with the privacy regulations under HIPAA, which went into effect in April 2003. In addition, all states have passed laws that govern or affect our arrangements with the optometrists who practice in our vision centers. Some states, such as California, have particularly extensive and burdensome requirements that affect the way we do business. In California, optometrists who practice adjacent to our retail locations are providers to, and subtenants of, a subsidiary, which is licensed as a single-service HMO.

ENVIRONMENTAL REGULATION

The Company's business activities are not significantly affected by environmental regulations, and no material expenditures are anticipated in order for the Company to comply with any such environmental regulations. However, the Company is subject to certain regulations promulgated under the Federal Environmental Protection Act with respect to the grinding, tinting, edging and disposal of ophthalmic lenses and solutions, with which the Company believes it is in material compliance.

EMPLOYEES

As of March 30, 2009, the Company employed approximately 116 individuals, of which approximately 62% were employed on a full-time basis. No employees are covered by any collective bargaining agreement. At franchised store locations, employees are hired and governed by the franchisee, not the Company. The Company considers its labor relations with its associates to be in good standing and has not experienced any interruption of its operations due to disagreements.

Item 1A. Risk Factors

An investment in the Company’s common stock involves a number of very significant risks. Because of these risks, only persons able to bear the risk and withstand the loss of their entire investment should invest in the Company’s common stock. Prospective investors should consider the following risk factors before making an investment decision.

- The current U.S. and global economic conditions have affected and will continue to affect the Company's results of operations and financial position. The current economic conditions have resulted in decreased revenues, retail store count, operating income and cash flow. This downturn might also lead to a reduction of certain overhead expenses as well as stronger restrictions on customer credit. These uncertainties about future economic conditions make it difficult for the Company to forecast future operating results and cash flows from operations.

- The Company's common stock is trading on the Over-The-Counter Bulletin Board ("OTCBB"). The OTCBB is generally considered a less efficient market that is does not have national exposure to prospective shareholders. As such, shareholders are likely to find it more difficult to trade the Company's common stock on the OTCBB.

- The application of the "penny stock rules" could reduce the liquidity and, therefore, the market price of the Company's common stock. On March 30, 2009, the last reported sales price of the Company's common stock was $0.19. Because the trading price of the Company's common stock is less than $5.00 per share and no longer trades on NASDAQ, the Company's common stock comes within the definition of a "penny stock." The "penny stock rules" impose additional sales practice requirements on broker-dealers who sell the Company's securities to persons other than established customers and accredited investors, generally those with assets in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 together with their spouse. Before a broker-dealer can sell a penny stock, the Securities and Exchange Commission (the "SEC") rules require the firm to first approve the customer for the transaction in question and receive from the customer a written agreement to such transaction. The firm must furnish the customer a document describing the risks of investing in penny stocks. The broker-dealer must also advise the customer of the current market quotation, if any, for the penny stock and the compensation the firm and its broker will receive for the trade. Finally, the firm must send monthly account statements showing the market value of each penny stock held in the customer's account. These additional burdens imposed on broker-dealers may restrict the ability of broker-dealers to sell the Company's securities and may affect your ability to resell the Company's common stock.

- Dr. Alan Cohen, the Company's Chairman of its Board of Directors, and, one of the Company's significant shareholders, owns, operates, manages and/or is otherwise involved with other companies in the retail optical industry, which are in competition with the Company's Sterling Stores and/or Combine Members, and may result in potential conflicts. Dr. Cohen is also a principal shareholder and executive officer and director of Real Optical, LLC. Real Optical operates and franchises retail optical stores similar to Sterling Stores and Combine Members in the States of Connecticut, Florida, New Hampshire, Massachusetts, New Jersey and New York and may, in the future, operate in other states as well. In the future, Real Optical may open or franchise additional stores that are located in the same areas as Sterling Stores and/or Combine Member locations. These competing businesses could reduce the revenues generated at the Company's competing Sterling Stores and/or from Combine Members.

Dr. Cohen is also one of the principal members and executive officers of General Vision Services, LLC, or GVS, which operates retail optical stores located in the New York metropolitan area. GVS stores are similar to, and compete with, the Sterling Stores and/or Combine Members being operated in the same areas. Furthermore, GVS solicits and administers third party benefit programs, similar to those being administered by the Company, through GVS's network of company-owned and independent retail optical stores. It is possible that additional GVS stores, or other retail optical stores, which provide services under third party benefit plans administered by GVS, may, in the future, be located near one or more of the Company's Sterling Stores and/or Combine Member locations, and may compete directly with such locations. Additionally, the Company and GVS jointly participate in certain third party benefit plans and certain Sterling Stores and GVS stores participate as providers under third party benefit plans obtained by the Company or GVS and, in all likelihood, will continue to do so in the future.

A possible consequence of Dr. Cohen's' interests in Cohen Fashion Optical, Real Optical, GVS and their respective affiliates is that conflicts of interest may arise, as described above, and when business opportunities in the Company's line of business are presented to them, whether in his capacity as member of the Company's Board or as a shareholder,

officer and director in these other entities. While there can be no assurance as to the manner in which corporate opportunities presented to Dr. Cohen will be allocated, by him, among the various competing business entities in which he is involved, as a supplement to the common law fiduciary duties to which all directors owe the Company and its shareholders, the Company has adopted a Corporate Code of Ethics (which can be accessed on the Company's website www.emergingvision.com) to which Dr. Cohen must adhere, which, in part, establishes guidelines as to how potential conflicts of interest are to be handled.

Dr. Robert Cohen, who served on the Company's Board of Directors until he resigned on March 5, 2008, and who is still a shareholder of the Company, also owns, operates, manages and/or is otherwise involved with the same companies that Dr. Alan Cohen is involved in.

- The Company significantly depends on the ability and experience of certain members of its management, and their departure may prevent or delay the successful execution of the Company's business plan. The Company relies on the skills of certain members of its senior management team to guide its operations including, but not limited to, Mr. Christopher G. Payan, the Company's Chief Executive Officer, the loss of whom could have an adverse effect on the Company's operations. The Company currently has an employment agreement with Mr. Payan through November 2009; however, only one other member of senior management has an employment agreement. Accordingly, the loss of their services could prevent or delay the successful execution of its business plan and attainment of profitability.

- The Company does not control the management of most of the Sterling Stores that operate under its name, nor does it control any of the Combine or TOG Members, and these stores may be managed by unsuccessful franchisees, Combine Members and/or TOG Members, which would reduce the Company's revenues from these stores. The Company relies, in substantial part, on franchisees, Combine Members and TOG Members for revenues. Since the Company does not control the management of these locations, it is possible that a franchisee/owner may not have the business acumen or financial resources to successfully operate his or her franchised Sterling Store, Combine Member location and/or TOG Member location. The Company, together with a substantial number of franchisees, has recently experienced a significant decrease in sales, mainly due to current economic conditions, generated from the operation of Sterling Stores, and cannot predict what will happen with the economy in the future. If a substantial number of franchisees, Combine Members and/or TOG Members experience a future decline in their sales and/or are ultimately not successful; revenues from franchisees, Combine Members and/or TOG Members would decrease. Some of the factors that could lead to future decline in sales, include, among others: decreased spending by consumers, continuing current economic climate, increased competition by large discount eyewear chains, which increases the need for franchisees, Combine Members and/or TOG Members to provide more aggressive promotional sales, thus decreasing their profit margins; and the limitations of vision care benefits available under medical and third party benefit plans.

- Better financed competitors that provide greater levels of advertising obtain favorable discounts from suppliers and offer customers aggressive discount pricing. The Company competes with many types of eyewear providers, which may prevent it from increasing or maintaining market share. The retail optical business is highly competitive and includes chains of retail optical stores, superstores, individual retail outlets and a large number of individual opticians, optometrists and ophthalmologists that provide professional services and dispense prescription eyewear. These competitors may take advantage of prompt payment discount plans, aggressive discounting and price-cutting for customers, and increased advertising. As retailers of prescription eyewear, the Company and its franchisees generally service local markets and, therefore, competition varies substantially from one location or geographic area to another. If the Company is not successful in dealing with competition, the Company will not be able to increase or maintain its customer base or market share.

- The Company often offers incentives to its customers, which lower profit margins. At times when major competitors offer significantly lower prices for their products, it then becomes in the Company's best interest to do the same. Certain of the major competitors offer promotional incentives to their customers including free eye

exams, "50% Off" on designer frames and "Buy One, Get One Free" eye care promotions. In response to these promotions, the Company has offered the same or similar incentives to its customers. This practice has resulted in lower profit margins and these competitive promotional incentives may further reduce revenues, gross margins and cash flows. Although the Company believes that Sterling Stores provide quality service and products at competitive prices, several of the large retail optical chains have greater financial resources. Therefore, the Company may not be able to continue to deliver cost efficient products in the event of aggressive pricing by competitors, which would reduce the Company's profit margins, net income and cash flow.

- Laser surgery could eliminate the need for certain eyeglasses and contact lenses. As refractive laser surgery gains market acceptance, the Company may lose revenue from traditional eyewear customers. As traditional eyewear users undergo laser vision correction procedures or other vision correction techniques, the demand for certain contact lenses and eyeglasses will decrease. Due to the fact that the marketing and sale of eyeglasses and contact lenses is a significant part of the Company's business, a decrease in customer demand for these products could have a material adverse effect on sales of prescription eyewear, as well as those of the Company's franchisees.

- The Company is subject to a variety of federal, state and local laws, rules and regulations that affect the health care industry, which may affect its ability to generate revenues or subject the Company to additional expenses. The regulatory requirements that the Company and its franchisees must satisfy to conduct its businesses, varies from state to state. For example, some states have enacted laws governing the ability of ophthalmologists and optometrists to enter into contracts with business corporations or lay persons, and some states prohibit companies from computing their royalty fees based upon a percentage of the gross revenues generated by optometrists from exam fees. Various federal and state regulations also limit the financial and non-financial terms of agreements with health care providers and, therefore, potential revenues may differ depending upon the nature of the Company's various health care provider affiliations.

- The Company and its franchisees are also subject to the requirements of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), which governs participation in managed care programs. The Company also must comply with the privacy regulations under HIPAA. In addition, all states have passed laws that govern or affect arrangements with the optometrists who practice in vision centers. Additionally, the Company and its franchisees are also subject to regulations regarding franchise business and in-store laboratory operations, as well as the operation, in California, of VCC, which is regulated by the State of California Department of Managed Health Care. As a franchisor, the Company is subject to various registrations and disclosure requirements imposed by the Federal Trade Commission and by many of the states in which the Company conducts franchising operations. The Federal Occupational Safety and Health Act regulates the Company's in-store laboratory operations. Although the Company believes that it is in material compliance with all applicable laws and/or regulations, the Company may not be able to sustain compliance if these laws and/or regulations change in the future and, in that event, the Company may have to incur significant expenses to maintain compliance.

- If the Company's subsidiary, VCC, is no longer permitted to employ optometrists, then the revenue generated from its California Sterling Stores would, in all likelihood, decrease materially, thereby decreasing net income and cash flow.

A class action was commenced against the Company and VCC alleging that the operation of VCC, which employs licensed optometrists, violates certain provisions of the California Business and Professions Code. Although the Company and VCC prevailed in this case, in such event that VCC would lose its right to employ licensed optometrists in the future, then sales, net income and cash flow would, in all likelihood, decrease.

- The Company may be exposed to significant risk from liability claims if it is unable to obtain insurance, at acceptable costs, to protect the Company against potential liability claims. The provision of professional eye care services entails an inherent risk of professional malpractice and other similar claims. The Company does not influence or control the practice of optometry by the optometrists that it employs or affiliates with, nor does it have

responsibility for their compliance with certain regulatory and other requirements directly applicable to these individual professionals. As a result of the relationship between the Company and its employed or affiliated optometrists, the Company may become subject to professional malpractice actions or claims under various theories relating to the professional services provided by these individuals. The Company may not be able to continue to obtain adequate liability insurance at reasonable rates, in which event; its insurance may not be adequate to cover claims asserted against the Company, thus, potentially decreasing the Company's future cash position and potentially jeopardizing the Company's ability to continue operations.

- The Company's operations and success are highly dependent upon health care providers, and the Company may be unable to enter into favorable arrangements with these providers. Certain states prohibit the Company from employing optometrists to render professional services. Accordingly, the success of the Company's operations as full-service eye care providers depends upon its ability to enter into agreements with these health care providers to render professional services at Sterling Stores, Combine Member and/or TOG Member locations. Due to the increased competition, among large discounters of retail eyewear, to enter into agreements with health care providers and the finite number of available health care providers, the costs of compensating these health care providers has increased materially. The Company, its franchisees, Combine Members and/or TOG Members may not be able to enter into agreements with these health care providers on satisfactory terms, or these agreements may not be profitable, which would reduce the revenues the Company, its franchisees, Combine Members and/or TOG Members could generate from their operations.

    - Certain events could result in a dilution of your ownership of the Company's common stock. As of December 31, 2008, the Company had 23,218,311 shares that were reserved for issuance under outstanding warrants, options and senior convertible preferred stock. The exercise and conversion prices, as the case may be, of common stock equivalents range from $0.05 to $8.06 per share. If converted or exercised, these securities will result in a dilution of your percentage ownership of the Company's common stock. In addition, if the Company acquires new companies through the issuance of common or preferred stock, your percentage of ownership will be further diluted.

- The Company's potential limitation on the use of its net operating loss carry-forwards in accordance with Section 382 of the Internal Revenue Code of 1986, as amended, due to certain changes in ownership that have occurred or could occur in the future. Furthermore, in order to limit the potential that future transactions could have a similar effect on the Company's tax attributes, the Company amended its by-laws to provide the Board of Directors with the ability to void certain transactions in Company securities that may impair or limit the future utilization of its tax attributes, including its net operating loss carry-forwards. However, there can be no assurance that the Company has been, or will in the future be, successful in preventing an event which could materially impair or limit the Company's utilization of its net operating loss carry-forwards and other tax attributes.

- Combine Members operate retail optical stores similar to Sterling Stores in the states of California, Delaware, Florida, Illinois, Kentucky, Louisiana, Maryland, New Jersey, New York, North Dakota, Pennsylvania, Virginia, West Virginia, Wisconsin, and in the District of Columbia and the Virgin Islands. As of the date hereof, many Combine Member locations are in the same shopping center or mall as, or in close proximity to, certain Sterling Stores; and in the future, the Company may open Sterling Stores that are located in the same areas as Combine Members. These competing businesses could reduce the revenues generated at, both, the Company's Sterling Stores and Combine Member locations, or could cause Combine Members to leave Combine because they view Combine as the competition.

- Combine and TOG operations and success are highly dependent upon the purchases of eye care products by independent optical retailers (Combine/TOG Members). If Combine/TOG Member's decide to purchase their eye care products through a competing optical purchasing group business or purchase direct from a vendor, then revenues generated from Combine and/or TOG would decrease. A decrease in the number of Combine/TOG Members could reduce Combine and/or TOG profit margins, net income and cash flow.

- Combine and TOG utilize certain key vendors to provide its members with a broad spectrum of product purchasing options. If one of these key vendors ceases to do business with Combine and/or TOG, or ceases to exist, Combine and/or TOG could see a decrease in the amount of product purchased by its members, thus decreasing its revenues and net income.

- The Company relies heavily on computer systems in managing financial results. The Company is subject to damage and interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events and usage by employees. This includes any damage to the systems that allow for electronic payments from the Company's franchisees and credit card payments from its Sterling Store customers. Any repairs necessary to replace and/or fix these systems could result in a significant expense to the Company. Additionally, certain of the Company's financial reporting processes are not part of an integrated financial reporting system, which requires additional hours and administrative costs to operate manage and control these systems. The Company is working to transition most of the processes to an integrated financial reporting system. The conversion of these systems and processes to become SOX compliant could result in a significant expense to the Company and may pose greater risks associated with maintaining internal controls as the systems are integrated.

- The Company's leasing space for a majority of its Sterling Stores could expose it to possible liabilities and losses. The Company's leases are generally for 10 years. Many of the leases provide for annual increases over the term of the lease in addition to the costs associated with insurance, taxes, repairs, maintenance and utilities. If an existing Sterling Store becomes non-profitable and the Company decides to close the location, the Company may still be required to pay the base rent, taxes and other rental charges for the balance of the lease.

- The Company may be unable to service its debt obligations. In connection with the purchases of Combine and TOG, along with other debt obligations, the Company has approximately $6,077,000 of outstanding debt as of December 31, 2008. If the Company is unable to generate sufficient cash flows from operations in the future, it may be unable to make principal or interest payments on such borrowings when they become due and may need to refinance all or a portion of the existing debt, or obtain additional financing.

Additionally, the amount outstanding on the Company's Revolving Line of Credit Note and Credit Agreement (the "Credit Agreement") with Manufacturers and Traders Trust Company ("M&T") was $4,806,854 as of March 31, 2009. All remaining principal on the Credit Agreement is due in April 2010. The Company currently cannot guarantee that it will be able to make such principal payments on or before April 2010 and cannot guarantee that M&T will refinance on favorable terms, if at all.

- The Company is Plaintiff in a pending civil action (the "Action") against For Eyes Optical Company ("For Eyes" or "Defendant") in which the Company claims, among other things, , that (i) there is no likelihood of confusion between the Company's and Defendant's mark, and that the Company has not infringed, and is not infringing, Defendant's mark; (ii) the Company is not bound by that certain settlement agreement, executed in 1981 by a prior owner of the Site For Sore Eyes trademark; and (iii) Defendant's mark is generic and must be cancelled. For Eyes, in its Answer, asserted defenses to the Company's claims, and asserted counterclaims against the Company, including, among others, that (i) the Company has infringed For Eyes' mark; (ii) the Company wrongfully obtained a trademark registration for its mark and that said registration should be cancelled; and (iii) the acts of the Company constitute a breach of the aforementioned settlement agreement. For Eyes seeks injunctive relief, cancellation of the Company's trademark registration, trebled monetary damages, payment of any profits made by the Company in respect of the use of such trade name, and costs and attorney fees. While the Company believes that it will be successful in prosecuting its claims against the Defendant, and in defending against the counterclaims made by Defendant, there can be no assurance of such success. In the event that the Company is not successful, it is possible that, under certain circumstances, the Company may be limited in, or precluded from continuing, its use of the Site for Sore Eyes trade name.

If the Company is successful in prosecuting its claims against Defendant in the Action, it is possible that the Company would then have a right to use the Site for Sore Eyes mark beyond the territory to which Defendant claims its use is restricted. However, if the Company is unsuccessful in prosecuting such claims, the Company could be required to recognize a charge to earnings, as the Company is currently accounting for the costs of such litigation as an Intangible Asset – Trademark. The Company currently has accumulated approximately $880,000 of costs related to such litigation.

- The Company is exposed to foreign currency risk associated with TOG operations as the financial position and operating results of TOG, which operations are being calculated in Canadian Dollars and then translated into U.S. Dollars for consolidation. The Company has not implemented a hedging strategy to potentially reduce foreign currency risk.

Item 1B. Unresolved Staff Comments

This Annual Report does not include information described under Item 6 of Form 10-K pursuant to the rules of the Securities and Exchange Commission that permit "smaller reporting companies" to omit such information.

Item 2. Properties

The Company's headquarters, consisting of approximately 7,000 square feet, are located in an office building situated at 100 Quentin Roosevelt Boulevard, Garden City, New York 11530, under a sublease that expires in November 2010. This facility houses the Company's principal executive and administrative offices.

VCC's headquarters, consisting of approximately 1,050 square feet, are located in an office building situated at 9625 Black Mountain Road, Suite 311, San Diego, California 92126, under a lease that expires in March 2010.

Combine's headquarters, consisting of approximately 1,900 square feet, are located in an office building situated at 6001 Broken Sound Parkway, Suite 508, Boca Raton, Florida 33487, under a lease that expires in June 2009.

TOG's headquarters, consisting of approximately 1,520 square feet, are located in an office building situated at 20 Elgin Street, Suite 200, Oshawa, Ontario L1G 1S8, under a lease that expires in July 2009.

The Company leases the space occupied by all of its Company-owned Sterling Stores and certain of its franchised Sterling Stores. The remaining leases for its franchised Sterling Stores are held in the names of the respective franchisees, of which the Company holds a collateral assignment on certain of those leases. The Company does not hold any of the leases, nor does it hold any collateral assignments, on Combine or TOG Member locations.

Sterling Stores are generally located in commercial areas, including major shopping malls, strip centers, freestanding buildings and other areas conducive to retail trade. Generally, Sterling Stores range in size from 1,000 to 2,000 square feet.

Item 3. Legal Proceedings

Information with respect to the Company's legal proceedings required by Item 103 of Regulation S-K is set forth in the Notes to the Consolidated Financial Statements included in Item 8 of this Report, and is incorporated by reference herein.

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

The Company held its Annual Meeting of Shareholders on May 23, 2008. Having received approximately 86.3% of the votes cast, Joel Gold, Christopher G. Payan and Jeffrey Rubin were re-elected to serve as Class II directors of the Company, for a term of two years expiring in 2010. Approximately 57.0% of the Company's outstanding shares were voted at the meeting.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Registrant's Common Stock is traded in the over-the-counter market and quoted on the OTCBB under the trading symbol “ISEE”. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The range of the high and low closing bid prices for the Registrant's Common Stock for each quarterly period of the last two years is as follows:

	2008				2007			
Quarter Ended:	High		Low		High		Low	
March 31	$	0.25	$	0.17	$	0.21	$	0.15
June 30	$	0.21	$	0.16	$	0.47	$	0.17
September 30	$	0.20	$	0.12	$	0.38	$	0.22
December 31	$	0.19	$	0.06	$	0.33	$	0.18

The approximate number of shareholders of record of the Company's Common Stock as of March 31, 2009 was 278.

There was one shareholder of record of the Company’s Senior Convertible Preferred Stock as of March 31, 2009.

Historically, the Company has not paid dividends on its Common Stock, and has no intention to pay dividends on its Common Stock in the foreseeable future. It is the present policy of the Registrant’s Board of Directors to retain earnings, if any, to finance the Company's future operations and growth.

Although the Company has not paid dividends, if the Company does in the future, those dividend payments could affect the Company’s financial covenants related to their credit facility. Such credit facility is described in Item 7 of this Report.

Item 6. Selected Financial Data

This Annual Report does not include information described under Item 6 of Form 10-K pursuant to the rules of the Securities and Exchange Commission that permit “smaller reporting companies” to omit such information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Report (the “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. When used in this Report, the words “anticipate”, “believe”, “estimate”, “expect”, “there can be no assurance”, “may”, “could”, “would”, “might”, “intends” and similar expressions and their negatives, as they relate to the Company or the Company’s management, are intended to identify forward-looking statements. Such statements reflect the view of the Company at the date they are made with respect to future events, are not guarantees of future performance and are subject to various risks and uncertainties as identified in Item 1A. Risk Factors. 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 with the forward-looking statements referred to above and as set forth in this Report. The Company does not intend to update these forward-looking statements for new information, or otherwise, for the occurrence of future events.

In order to more accurately detail our financial information and performance, the Company has made changes to the format of this Report and changed its segment reporting. The Company has simplified its Consolidated Statements of Operations to expand the segment reporting to detail each segment's revenue and expense. Management's discussion and analysis of financial conditions and results of operations concentrates on describing segment performance through the use of new detailed financial tables, which will assist the reader in understanding each business segment and how it relates to the overall performance of the Company.

COMPARISON OF OPERATING SEGMENT RESULTS FOR THE YEAR ENDED DECEMBER 31, 2008, AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2007

Consolidated Segment Results

Total revenues for the Company increased approximately $22,188,000, or 44.7%, to $71,809,000 for the year ended December 31, 2008, as compared to $49,621,000 for the year ended December 31, 2007. This increase was mainly a result of the acquisition, on August 10, 2007, having an effective date of August 1, 2007, of all of the equity ownership interests in 1725758 Ontario Inc., d/b/a The Optical Group ("TOG") through the Company's wholly-owned subsidiary, OG Acquisition, Inc. This was offset, in part, by a decrease in the average number of Company-owned stores in operation from 10.8 for fiscal 2007 compared to 7.8 for fiscal 2008, and a decrease in the average number of Franchise locations in operation from 146 in fiscal 2007 compared to 141 in fiscal 2008, which resulted in decreased revenues for the Company-store and Franchise segments.

Total costs, and selling, general and administrative expenses for the Company increased approximately $20,729,000, or 41.2% to $71,060,000 for the year ended December 31, 2008, as compared to $50,331,000 for the year ended December 31, 2007. This increase was mainly a result of the acquisition of TOG, offset, in part, by the retail store count decreases described above.

Optical Purchasing Group Business Segment

	For the Year Ended December 31 (in thousands):			
	2008	2007	$ Change	% Change
Net Revenues:				
Optical purchasing group sales	$ 57,914	$ 33,848	$ 24,066	71.1%
Cost of optical purchasing group sales	55,152	32,105	23,047	71.8%
Gross margin	2,762	1,743	1,019	58.5%
Selling, General and Administrative Expenses:				
Salaries and related benefits	455	326	129	39.6%
Depreciation and amortization	303	203	100	49.3%
Credit card and bank fees	277	152	125	82.2%
Rent and related overhead	260	190	70	36.8%
Bad debt expense	112	20	92	460.0%
Other general and administrative costs	116	63	53	84.1%
Total selling, general and administrative expenses	1,523	954	569	59.6%
Operating Income	1,239	789	450	57.0%
Other Income (Expense):				
Interest expense, net	(260)	(213)	(47)	(22.1%)
Total other expense	(260)	(213)	(47)	(22.1%)
Income before provision for (benefit from) income taxes	$ 979	$ 576	$ 403	70.0%

This segment consists of the operations of Combine and TOG. TOG's activity for the period August 1, 2007 through December 31, 2007 has been included in the Company's results of operations for the year ended December 31, 2007.

Optical purchasing group revenues increased approximately $24,066,000, or 71.1%, to $57,914,000 for the year ended December 31, 2008, as compared to $33,848,000 for the year ended December 31, 2007. Only five months of the operations of TOG were including in the results of operations for the year ended December 31, 2007. Individually, Combine's revenues decreased approximately $661,000, or 3.9%, to $16,230,000 for the year ended December 31, 2008, as compared to $16,891,000 for the year ended December 31, 2007. This decrease was due to a generally weaker economy during the 2nd half of 2008, as well as a slight decrease in the total number of active members of Combine. As of December 31, 2008, there were 842 active members, as compared to 856 active members as of December 31, 2007. Additionally, for the comparable five-month period ended December 31, 2008, TOG revenues decreased approximately $2,092,000, or 12.3%, to $14,865,000 as compared to $16,957,000 for the five-month period ended December 31, 2007. This decrease was mainly due to the fluctuation of the foreign currency exchange rate between the Canadian and US Dollar. The rate averaged $0.99 for every Canadian Dollar during the five-month period ended December 31, 2007, as compared to $0.87 for every Canadian Dollar during the same five-month period in 2008. Additionally, the Canadian economy experienced the same downturn the US economy faced during the 2nd half of 2008.

Costs of optical purchasing group sales increased approximately $23,047,000, or 71.8% to $55,152,000 for the year ended December 31, 2008, as compared to $32,105,000 for the year ended December 31, 2007. This increase was also a direct result of the TOG acquisition. Individually, Combine's cost of sales decreased approximately $580,000, or 3.7%, to $15,179,000 for the year ended December 31, 2008, as compared to $15,759,000 for the year ended December 31, 2007. These fluctuations were a direct result of, and proportionate to, the revenue fluctuations described above. Additionally, for the comparable five-month period ended December 31, 2008, TOG's cost of sales decreased approximately $2,107,000, or 12.9%, to $14,238,000, as compared to $16,345,000 for the year ended December 31, 2007. These fluctuations were a direct result of, and proportionate to, the TOG revenue fluctuations described above.

Operating expenses of the optical purchasing group segment increased approximately $569,000, or 59.6%, to $1,523,000 for the year ended December 31, 2008, as compared to $954,000 for the year ended December 31, 2007. This increase was also a direct result of the TOG acquisition. Individually, Combine's operating expenses increased approximately $86,000, or 12.2%, to $789,000 for the year ended December 31, 2008, as compared to $703,000 for the year ended December 31, 2007. Additionally, for the comparable five-month period ended December 31, 2008, TOG's operating expenses increased approximately $94,000, or 37.5% to $345,000, as compared to $251,000 for the year ended December 31, 2007. The increase related to increases in employee compensation as well as increases related to expenses for displaying at some of the optical industry trade shows. Additionally, management increased its allowance on doubtful accounts by approximately $62,000 for member receivables potentially uncollectible. These increases were offset by a decrease due to the exchange rate fluctuations described above.

Interest expense related to the optical purchasing group segment increased approximately $64,000, or 27.8%, to $294,000 for the year ended December 31, 2008, as compared to $230,000 for the year ended December 31, 2007. This increase was related to the borrowings under the Company's Credit Facility with Manufacturers and Traders Trust Corporation ("M&T") to fund the acquisition of TOG. TOG incurred a full year of interest expense during 2008 as compared to five months of interest expense during 2007.

Franchise Segment

	For the Year Ended December 31 (in thousands):			
	2008	2007	$ Change	% Change
Net Revenues:				
Royalties	$ 6,211	$ 6,626	$ (415)	(6.3%)
Franchise and other related fees	299	241	58	24.1%
Net revenues	6,510	6,867	(357)	(5.2%)
Selling, General and Administrative Expenses:				
Salaries and related benefits	1,070	1,210	(140)	(11.6%)
Professional fees	513	641	(128)	(20.0%)
Convention related expenses	389	384	5	1.3%
Rent and related overhead	351	415	(64)	(15.4%)
Bad debt	247	139	108	77.7%
Depreciation and amortization	127	93	34	36.6%
Other general and administrative costs	195	157	38	24.2%
Total selling, general and administrative expenses	2,892	3,039	(147)	(4.8%)
Operating Income	3,618	3,828	(210)	(5.5%)
Other Income (Expense):				
Interest on franchise notes receivable	24	35	(11)	(31.4%)
Other income	27	46	(19)	(41.3%)
Gain on settlement of litigation	-	1,012	(1,012)	-
Interest expense, net	(45)	(24)	(21)	(87.5%)
Total operating income	6	1,069	(1,063)	(99.4%)
Income before provision for (benefit from) income taxes	$ 3,624	$ 4,897	$ (1,273)	(26.0%)

Franchise royalties decreased approximately $415,000, or 6.3%, to $6,211,000 for the year ended December 31, 2008, as compared to $6,626,000 for the year ended December 31, 2007. Management believes this decrease was due to current economic conditions, and a decrease in royalties generated from franchise store audits of $54,000 for the year ended December 31, 2008, which audits were conducted over an equivalent sample size of franchise locations for each period audited. Additionally, franchise sales during both of the comparable periods decreased approximately $4,442,000, or 5.2%, which led to a decrease royalty income, and on average, there were 5 fewer stores in operation during fiscal 2008. On average, 5 fewer stores would have lead to a decrease of approximately $220,000 of royalties. As of December 31, 2008 and 2007, there were 133 and 146 franchised stores in operation, respectively.

Franchise and other related fees (which include initial franchise fees, renewal fees, conversion fees and store transfer fees) increased approximately $58,000, or 24.1%, to $299,000 for the year ended December 31, 2008, as compared to $241,000 for the year ended December 31, 2007. This fluctuation was primarily attributable to 6 franchise agreement renewals ($70,000), 2 independent store conversions ($20,000), and 10 new franchise agreements ($186,000) in 2008, as compared to 2 franchise agreement renewals ($20,000), 6 independent store conversions ($55,000), and 10 new franchise agreements ($161,000) in 2007. In the future, franchise fees are likely to fluctuate depending on the timing of franchise agreement expirations, new store openings and franchise store transfers.

Operating expenses of the franchise segment decreased approximately $147,000, or 4.8%, to $2,892,000 for the year ended December 31, 2008, as compared to $3,039,000 for the year ended December 31, 2007. This decrease was partially a result of decreases to rent and related overhead of $64,000 due to reductions of back office expenses such as new phone services (the Company changed to voice-over-IP services in the 4th quarter of 2007), professional fees of $128,000, inclusive of legal fees of $49,000 relating to proactive litigation to enforce franchise agreements during the three months ended March 31, 2007, and salaries and related benefits of $140,000 partially due to a decrease in medical and dental insurance premiums in May 2008. These decreases were offset, in part, by increases in bad debt due to recoveries of $100,000 relating to a litigation settlement during the three months ended March 31, 2007. Additionally, the franchise segment incurred travel, training, and related costs ($22,000 plus the associated employees' time) related to the installation of the Company's new Point-of-Sale computer system (initiated March 2008).

Other income decreased approximately $1,063,000, or 99.4%, to $6,000 for the year ended December 31, 2008, as compared to $1,069,000 for the year ended December 31, 2007 mainly due to a favorable litigation settlement that occurred in November 2007. The settlement included a cash payment to the Company, in the amount of $1,270,000 (less certain costs and expenses incurred in the litigation, including attorney fees of $258,000), thus generating $1,012,000 of other income.

Company Store Segment

	For the Year Ended December 31 (in thousands):			
	2008	2007	$ Change	% Change
Net Revenues:				
Retail sales	$ 3,715	$ 5,393	$ (1,678)	(31.1%)
Cost of retail sales	932	1,469	(537)	36.6%
Gross margin	2,783	3,924	(1,141)	(29.1%)
Selling, General and Administrative Expenses:				
Salaries and related benefits	1,667	2,471	(804)	(32.5%)
Rent and related overhead	1,076	1,454	(378)	(26.0%)
Advertising	267	733	(466)	(63.6%)
Other general and administrative costs	200	295	(95)	(32.2%)
Total selling, general and administrative expenses	3,210	4,953	(1,743)	(35.2%)
Operating Loss	$ (427)	$ (1,029)	$ 602	58.5%

Retail sales for the Company store segment decreased approximately $1,678,000, or 31.1%, to $3,715,000 for the year ended December 31, 2008, as compared to $5,393,000 for the year ended December 31, 2007. This decrease was mainly attributable to fewer Company-owned store locations open during the comparable periods. As of December 31, 2008, there were 5 Company-owned stores, as compared to 11 Company-owned stores as of December 31, 2007. Over the last 12 months, the Company has closed 4 Company-owned locations and franchised 3 others that were part of the store count as of December 31, 2007. Those 7 stores generated retail sales of $2,919,000 for the year ended December 31, 2007, as compared to $1,155,000 for the year ended December 31, 2008. On a same store basis (for stores that operated as a Company-owned store during the entirety of both of the years ended December 31, 2008 and 2007), comparative net sales decreased approximately $138,000, or 5.7%, to $2,295,000 for the year ended December 31, 2008, as compared to $2,433,000 for the year ended December 31, 2007. Management believes that these decreases were a direct result of current economic conditions, and changes to key personnel, mainly optometrists, during the second quarter of 2008, which led to reduced exam fee revenues.

The Company-owned store's gross profit margin, which calculation did not include the exam fee revenues of $505,000 and $650,000 for the years ended December 31, 2008 and 2007, respectively, generated by such Company-owned

stores, increased by 2.0%, to 71.0%, for the year ended December 31, 2008, as compared to 69.0% for the year ended December 31, 2007. Management continues to work to improve the profit margin through increased training at the Company-store level and improved vendor partnerships, among other things, and anticipates these changes will result in improvements in the Company's gross profit margin in the future. The Company's gross margin may, however, fluctuate in the future depending upon the extent and timing of changes in the product mix in the Company-owned stores, competitive pricing, and promotional.

Operating expenses of the Company store segment decreased approximately $1,743,000, or 35.2%, to $3,210,000 for the year ended December 31, 2008, as compared to $4,953,000 for the year ended December 31, 2007. This decrease was mainly a result of having fewer Company-owned stores in operation during the year ended December 31, 2008. Additionally, the Company streamlined certain store payroll coverage in its stores to reduced salaries and related benefits, and enhanced the media plans for each store, which reduced advertising costs on a by-store basis.

VisionCare of California Segment

	For the Year Ended December 31 (in thousands):			
	2008	2007	$ Change	% Change
Net Revenues:				
Membership fees	$ 3,551	$ 3,513	$ 38	1.1%
Selling, General and Administrative Expenses:				
Salaries and related benefits	3,189	3,199	(10)	(0.3%)
Rent and related overhead	154	152	2	1.3%
Other general and administrative costs	172	153	19	12.4%
Total selling, general and administrative expenses	3,515	3,504	11	0.3%
Operating Income	36	9	27	300.0%
Other Income (Expense):				
Other income	8	29	(21)	(72.4%)
Total other income (expense)	8	29	(21)	(72.4%)
Income before provision for (benefit from) income taxes	$ 44	$ 38	$ 6	15.8%

Revenues generated by the Company's wholly-owned subsidiary, VisionCare of California, Inc. ("VCC"), a specialized health care maintenance organization licensed by the State of California Department of Managed Health Care, increased approximately $38,000, or 1.1%, to $3,551,000 for the year ended December 31, 2008, as compared to $3,513,000 for the year ended December 31, 2007. This increase was a direct result of an increase in the daily membership fee charged by VCC effective June 2008.

Operating expenses of the VCC segment remained consistent with last year's expenses, increasing only $11,000 to $3,515,000 for the year ended December 31, 2008, as compared to $3,504,000 for the year ended December 31, 2007. Most of the individual "line item" expenses for VCC remained consistent year over year.

Corporate Overhead Segment

	For the Year Ended December 31 (in thousands):			
	2008	2007	$ Change	% Change
Selling, General and Administrative Expenses:				
Salaries and related benefits	$ 2,119	$ 2,164	$ (45)	(2.1%)
Professional fees	609	489	120	24.5%
Insurance	276	247	29	11.7%

Rent and related overhead		192		607	(415)	(68.4%)
Travel and related expenses		173		228	(55)	(24.1%)
Compensation expense		88		113	(25)	(22.1%)
Bad debt expense		30		140	(110)	(78.6%)
Other general and administrative costs		159		102	57	55.9%
Total selling, general and administrative expenses		3,646		4,090	(444)	(10.9%)
Operating (Loss) Income	$	(3,646)	$	(4,090)	$ 444	10.9%

There were no revenues generated by the corporate overhead segment.

Operating expenses decreased approximately $444,000, or 10.9%, to $3,646,000 for the year ended December 31, 2008, as compared to $4,090,000 for the year ended December 31, 2007. This decrease was partially a result of decreases to salaries and related benefits of $45,000 related to decreases, in May 2008, in the Company's medical and dental insurance premiums, rent and related overhead expenses of $415,000 due to a favorable litigation settlement in 2008 ($87,000 less than the Company anticipated) as well as $236,000 of expenses related to that same litigation that was accrued for during December 2007, the phone changes described above in the Franchise segment discussion, as well as decreases in office expenses such as office supplies and postage, compensation expense of $25,000 related to the vesting of certain options granted during the 3rd quarter of 2007, and bad debt expense of $110,000 related to the write-off of certain managed care receivables.

Other Segment

	For the Year Ended December 31 (in thousands):					
		2008		2007	$ Change	% Change
Net Revenues:						
Commissions	$	96	$	-	$ 96	-
Other		23		-	23	-
Net revenues		119		-	119	-
Selling, General and Administrative Expenses:						
Advertising		95		126	(31)	(24.6%)
Salaries and related benefits		30		2	28	1400.0%
Convention related expenses		-		37	(37)	-
Other general and administrative costs		65		52	13	25.0%
Total selling, general and administrative expenses		190		217	(27)	(12.4%)
Operating Loss	$	(71)	$	(217)	$ 146	67.3%

Revenues generated by the other segment include approximately $96,000 of commission income and credit card residuals for the year ended December 31, 2008, respectively. Additionally, there were revenues generated from employee purchases of optical products as defined under the Company's optical benefit plan. The Company began generating commission revenues in January 2008 under operations of the Company that do not fall within one of the other operating segments. Those operations ceased during the 2nd half of fiscal 2008.

Operating expenses of the other segment related to the operations that began in January 2008, as described above, however, the Company began advertising and promoting such operations during the 4th quarter of 2007 including exhibiting at the Vision Expo West trade show in October 2007.

Use of Non-GAAP Performance Indicators

The following section expands on the financial performance of the Company detailing the Company's EBITDA. EBITDA is calculated as net earnings before interest, taxes, depreciation and amortization. The Company refers to EBITDA because it is a widely accepted financial indicator of a company's ability to service or incur indebtedness.

EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles, is not necessarily indicative of cash available to fund all cash flow needs, should not be considered an alternative to net income or to cash flow from operations (as determined in accordance with GAAP) and should not be considered an indication of our operating performance or as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures for other companies.

EBITDA Reconciliation

	For the Year Ended December 31 (in thousands):			
	2008	2007	$ Change	% Change
EBITDA Reconciliation:				
Net (loss) income	$ (88)	$ 426	$ (514)	(120.7%)
Interest	346	289	57	19.7%
Provision for (benefit from) income taxes	591	(251)	842	(335.5%)
Depreciation and amortization	654	523	131	25.0%
EBITDA	$ 1,503	$ 987	$ 516	52.3%

The Company also incurred other non-cash charges that effected earnings including compensation expenses related to the grant of common stock options of $88,000 and $112,000 for the years ended December 31, 2008 and 2007, respectively, and general and property taxes of $12,000 and $37,000 for the years ended December 31, 2008 and 2007, respectively. EBITDA increased $516,000, or 52.3%, to $1,503,000 for the year ended December 31, 2008, as compared to $987,000 for the year ended December 31, 2007 mainly due to income before the provision for income taxes. This increase was offset, in part, by the net gain on settlement of ligation during the quarter ended September 30, 2007 of $1,012,000.

Management has provided an EBITDA calculation to provide a greater level of understanding of the Company's performance had it not been for certain significant non-cash charges. These charges, such as depreciation and amortization, and compensation expense, are included in selling, general and administrative expenses on the Consolidated Statements of Operations and Comprehensive (Loss) Income.

Cash Flows from EBITDA

	For the Year Ended December 31, 2008		
	Original	EBITDA	Difference
Cash flows from operating activities:			
Net loss	$ (88)	$ 1,503	$ 1,591
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	654	-	(654)
Provision for doubtful accounts	462	462	-
Deferred tax assets	520	-	(520)
Disposal of property and equipment	250	250	-
Non-cash compensation charges related to options and warrants	88	88	-
Changes in operating assets and liabilities:			
Franchise and other receivables	(513)	(513)	-
Optical purchasing group receivables	619	619	-
Inventories	144	144	-
Prepaid expenses and other current assets	(96)	(96)	-
Other assets	37	37	-
Accounts payable and accrued liabilities	(1,271)	(1,342)	(71)
Optical purchasing group payables	(751)	(751)	-
Accrual for store closings	(154)	(154)	-
Franchise deposits and other liabilities	(132)	(132)	-
Net cash (used in) provided by operating activities	(231)	115	346
Cash flows from investing activities:			
Franchise notes receivable issued	(117)	(117)	-
Proceeds from franchise and other notes receivable	216	216	-
Purchases of property and equipment	(344)	(344)	-
Costs associated with defending trademark value	(601)	(601)	-
Net cash used in investing activities	(846)	(846)	-
Cash flows from financing activities:			
Borrowings under credit facility	950	950	-
Payments on related party obligations and other debt	(438)	(784)	(346)
Net cash provided by used in financing activities	512	166	(346)
Net decrease in cash before effect of foreign exchange rate changes	(565)	(565)	-
Effect of foreign exchange rate changes	(191)	(191)	-
Net decrease increase in cash and cash equivalents	(756)	(756)	-
Cash and cash equivalents – beginning of year	2,846	2,846	-
Cash and cash equivalents – end of year	$ 2,090	$ 2,090	$ -

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2008, the Company had working capital of $1,116,000 and cash on hand of $2,090,000.

During the year ended December 31, 2008, cash flows used in operating activities were $231,000. This was principally due to a decrease in optical purchasing group payables of $751,000 due to decreased optical purchasing group sales, as well as a decrease in accounts payable and accrued expenses of $1,271,000, partially due to the decrease in the number of Company-owned stores in operation leading to reduction in product purchased, and a decrease in the accrual for store closings of $154,000 as the Company settled certain landlord related litigation. These were offset, in part, by other non-cash expenses of $1,974,000 and an increase in optical purchasing group receivables of $619,000 for reasons described above. The Company believes it will continue to improve its operating cash flows through the implementation of the Company's new Point-of-Sales system to improve the franchise sales reporting process, the addition of new franchise locations, its current and future acquisitions, and continued efficiencies as it relates to corporate overhead expenses.

For the year ended December 31, 2008, cash flows used in investing activities were $846,000 mainly due to an increase in intangible assets for legal costs associated with defending one of the Company's trademarks offset by proceeds received on certain franchise promissory notes and capital expenditures related to improvements to the Company's IT infrastructure. Management does not anticipate any major capital expenditures over the next 12 months, other than normal expenditures to continue to enhance the Company's technology infrastructure and the Company's internal controls. However, Management does not know the extent of the legal costs associated with the continuance of litigation in defending one of the Company's trademarks as the litigation is still in the discovery phase.

For the year ended December 31, 2008, cash flows provided by financing activities were $512,000 due to additional borrowings in the 4th quarter of 2008 under the Company's Credit Facility of $950,000, offset by the repayment of the Company's related party borrowings to Combine Optical Management Corporation. The Company will continue to repay such borrowings with cash flows generated by the current operations. In April 2010, the Company's Credit Facility will expire and all outstanding borrowings will be due. The Company is currently exploring all options available to enable it make such payment.

CREDIT FACILITY

On August 8, 2007, the Company entered into a Revolving Line of Credit Note and Credit Agreement (the "Credit Agreement") with M&T, establishing a revolving credit facility (the "Credit Facility"), for aggregate borrowings of up to $6,000,000, to be used for general working capital needs and certain permitted acquisitions. This Credit Facility replaced the Company's previous revolving line of credit facility with M&T, established in August 2005. The initial term of the Credit Facility was to expire in August 2009, however, on April 1, 2009, M&T agreed to extend the maturity date of the Credit Facility to April 1, 2010. All sums drawn by the Company under the Credit Facility are repayable, interest only, on a monthly basis, commencing on the first day of each month during the term of the Credit Facility, calculated at the variable rate of three hundred (300) basis points in excess of LIBOR, and all principal drawn by the Company is payable on April 1, 2010. All other terms of the Credit Facility remained the same.

On August 10, 2007, the Company borrowed $3,609,423 to fund the purchase price payable in connection with the acquisitions of TOG and COC, and borrowed $400,000 for general working capital requirements. The Credit Facility includes various financial covenants including minimum net worth, maximum funded debt and debt service ratio requirements. As of December 31, 2008, the Company had outstanding borrowings of $5,306,854 under the Credit Facility, which amount was included in Long-term Debt on the accompanying Consolidated Balance Sheet, and was utilizing $500,000 of the Credit Facility to hold a letter of credit in favor of a key vendor of Combine to ensure payment of any outstanding invoices not paid by Combine. The Company was not in compliance with one of the financial covenants, however, on April 1, 2009, M&T granted the Company a waiver and agreed that such covenant was now in compliance as of December 31, 2008. Additionally, the Company had $193,146 available under the Credit Facility for future borrowings.

OFF-BALANCE SHEET ARRANGEMENTS

An off-balance sheet arrangement is any contractual arrangement involving an unconsolidated entity under which a company has (a) made guarantees, (b) a retained or a contingent interest in transferred assets, (c) any obligation under certain derivative instruments or (d) any obligation under a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to the company, or engages in leasing, hedging, or research and development services within the company.

The Company does not have any off-balance sheet financing or unconsolidated variable interest entities, with the exception of certain guarantees on leases. We refer the reader to the Notes to the Consolidated Financial Statements included in Item 8 of this Report for information regarding the Company's lease guarantees.

MANAGEMENT'S DISCUSSION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

High-quality financial statements require rigorous application of high-quality accounting policies. Management believes that its policies related to revenue recognition, legal contingencies and allowances on franchise, notes and other receivables are critical to an understanding of the Company's consolidated financial statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain.

Management's estimate of the allowances on receivables is based on historical sales, historical loss levels, and an analysis of the collectibility of individual accounts. To the extent that actual bad debts differed from management's estimates by 10 percent, consolidated net income would be an estimated $46,000 and $30,000 higher/lower for each of the years ended December 31, 2008 and 2007, respectively, depending upon whether the actual write-offs are greater or less than estimated.

Management's estimate of the valuation allowance on deferred tax assets is based on whether it is more likely than not that the Company's net operating loss carry-forwards will be utilized. Factors that could impact estimated utilization of the Company's net operating loss carry-forwards are the success of its stores and franchisees, and the optical purchasing groups, the Company's operating efficiencies and the effects of Section 382 of the Internal Revenue Code of 1986, as amended, based on certain changes in ownership that have occurred, or could occur in the future. To the extent that management lowered its valuation allowance on deferred tax assets by 10 percent, consolidated net income would be an estimated $1,460,000 and $1,563,000 higher/lower for the years ended December 31, 2008 and 2007, respectively.

The Company recognizes revenues in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." Accordingly, revenues are recorded when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the Company's price to the buyer is fixed or determinable, and collectibility is reasonably assured. To the extent that collectibility of royalties and/or interest on franchise notes is not reasonably assured, the Company recognizes such revenues when the cash is received. To the extent that revenues that were recognized on a cash basis were recognized on an accrual basis, consolidated net income would be an estimated $193,000 and $187,000 higher for the years ended December 31, 2008 and 2007, respectively.

Management's performs an annual impairment analysis to determine the fair value of goodwill and certain intangible assets. In determining the fair value of such assets, management uses a variety of methods and assumptions including a discounted cash flow analysis, consultation with third party consultants and various qualitative tests. To the extent that management needed to impair its goodwill or certain intangible assets by 10 percent, consolidated net income would be an estimated $620,000 and $560,000 lower for the years ended December 31, 2008 and 2007, respectively.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2008, the FASB issued FASB Staff Position ("FSP") No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, which removed leasing transactions accounted for under FAS No. 13 and related guidance from the scope of FAS No. 157. Also in February 2008, the FASB issued FSP No.157-2, Partial Deferral of the Effective Date of Statement 157, which deferred the effective date of FASB No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Company does not anticipate any impact of adopting FSP 157-1 and FSP 157-2 on its financial position, cash flows, and results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133. SFAS 161 requires enhanced disclosure related to derivatives and hedging activities and thereby seeks to improve the transparency of financial reporting. Under SFAS 161, entities are required to provide enhanced disclosures relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133 for all financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not anticipate any impact of adopting SFAS 161 on its financial position, cash flows, and results of operations.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for fiscal years beginning after December 31, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently assessing the impact that FSP 142-3 will have on its financial position, cash flows, and results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not anticipate any impact of adopting SFAS 162 on its financial position, cash flows, and results of operations.

In May 2008, the FASB issued FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ("APB 14-1"). APB 14-1 requires that issuers of convertible debt instruments that, upon conversion, may be settled fully or partially in cash must separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and is to be applied retrospectively to all past periods presented, even if the instrument has matured, converted, or otherwise been extinguished as of APB 14-1 effective date. The Company is currently assessing the impact APB 14-1 will have on its financial position, cash flows, and results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

This Annual Report does not include information described under Item 7 of Form 10-K pursuant to the rules of the Securities and Exchange Commission that permit "smaller reporting companies" to omit such information.

Item 8. Financial Statements and Supplementary Data

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Information required by schedules called for under Regulation S-X is either not applicable or is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Emerging Vision, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Emerging Vision, Inc. (a New York corporation) and subsidiaries (the "Company") as of December 31, 2008, and the related consolidated statements of operations and comprehensive (loss) income, shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emerging Vision, Inc. and subsidiaries as of December 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/S/ ROSEN SEYMOUR SHAPSS MARTIN & COMPANY LLP

New York, New York
April 8, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Emerging Vision, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Emerging Vision, Inc. (a New York corporation) and subsidiaries (the "Company") as of December 31, 2007, and the related consolidated statements of operations and comprehensive (loss) income, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emerging Vision, Inc. and subsidiaries as of December 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/S/ MILLER, ELLIN & COMPANY LLP

New York, New York

March 20, 2008

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

ASSETS	December 31,	
	2008	2007
Current assets:		
Cash and cash equivalents	$ 2,090	$ 2,846
Franchise receivables, net of allowance of $140 and $147, respectively	1,744	1,842
Optical purchasing group receivables, net of allowance of $172 and $60, respectively	4,221	4,840
Other receivables, net of allowance of $7 and $5, respectively	322	369
Current portion of franchise notes receivable, net of allowance of $29 and $38, respectively	107	191
Inventories	322	466
Prepaid expenses and other current assets	543	447
Deferred tax asset	351	600
Total current assets	9,700	11,601
Property and equipment, net	1,191	1,493
Franchise notes receivable, net	302	121
Deferred tax asset, net of current portion	803	1,074
Goodwill	4,127	4,127
Intangible assets, net	3,218	