

EMERGING VISION INC

Form 10-K

April 15, 2010

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, 2009

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.)

520 Eighth Avenue, 23rd Floor
New York, NY 10018
(Address and Zip Code of Principal Executive Offices)

Registrant's telephone number, including area code: (646) 737-1500

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

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):

Yes__

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. []

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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, 2009, was \$15,888,308.

Number of shares outstanding as of April 15, 2010:

128,810,601 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 certain information from the registrant's definitive Proxy Statement for its Annual Meeting of Shareholders to be held during 2010.

Part I

Item 1. Business

GENERAL

As used in this Annual Report on Form 10-K, references to the “Company”, “we”, “us”, or “our” refer to Emerging Vision, Inc. and its subsidiaries.

We operate 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, we operate 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 members. Emerging Vision, Inc. 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.” We also operate 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. We fill 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.

Most Sterling Stores carry a large selection of ophthalmic eyeglass frames, sunglasses, ophthalmic and contact lenses and accessories. We 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, we attempt to negotiate a system-wide discount on such 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.

The Retail Store division currently derives its revenue 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 derived from its franchised stores.

As of December 31, 2009, there were 135 Sterling Stores in operation, consisting of 6 Company-owned stores and 129 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, 2009 and 2008:

	December 31,	
	2009	2008
I. COMPANY-OWNED STORES:		
Company-owned stores	6	5
Company-owned stores managed by franchisee	-	1
Total	6	6

(* Existing store locations: New Jersey (1), New York (3) Pennsylvania (1), and Virginia (1).

	December 31,	
	2009	2008
II. FRANCHISED STORES:	129	133

(* Existing store locations: California (40), Delaware (3), Florida (1), Illinois (1), Kentucky (2), Louisiana (2), Maryland (9), New Jersey (6), New York (39), North Dakota (3), Pennsylvania (8), Virginia (4), Washington D.C. (1), West Virginia (1), Wisconsin (7), and the U.S. Virgin Islands (2)

FRANCHISE SYSTEM

An integral part of our franchise system includes providing a high level of marketing, training and administrative support to our franchisees. We provide “grand opening” assistance for each new franchised location by consulting with our 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, our 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 our sales and profitability. Further, on an ongoing basis, we provide training through regional and national seminars, offer assistance in marketing and advertising programs and promotions, offer online communication, franchisee group discussion as well as updated training modules and product information through our interactive Franchisee Intranet, and consult 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, we have 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, we negotiate and execute cooperative advertising programs with our 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 us, 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 us a non-recurring, initial franchise fee of \$20,000. For each franchisee entering into agreements for more than one location, we charge a non-recurring, initial franchise fee of \$15,000 for the second location, and \$10,000 for each location in excess of two. We charge 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 us 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, 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 and/or on national promotions and campaigns.
- 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 2009, we reacquired the assets of (as well as possession of) two franchised stores. Substantially all of the assets located in such stores were voluntarily surrendered and transferred back to us in connection with the termination of the related Franchise Agreements. In certain instances, we may re-convey the assets of such a store to a new franchisee, requiring the new franchisee to enter into our then current form of Franchise Agreement. However, we review each store's historical performance to consider if we 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, 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, 2009, Combine had 801 members that made one or more purchases in December 2009.

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, 2009 TOG had 545 members that made one or more purchases in December 2009.

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. We believe 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. We believe that convenience of store locations and hours of operation are key factors in attracting managed care business. As we increase our presence within markets hawse have already entered, we believe we will be more attractive to managed care payers.

MARKETING AND ADVERTISING

Our 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 us and certain of our franchisees. Examinations by licensed optometrists are generally available on the premises of, or directly adjacent to, substantially all Sterling Stores.

We continually prepare and revise our 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. We are 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 customers.

We annually budget 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 our segregated advertising fund accounts, which we maintain for advertising, promotional and public relation programs. In most cases, we permit 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. Certain of our major competitors offer promotional incentives to their customers and, in response thereto, we generally offers the same or similar incentives to its customers. Many of these competitors have greater resources than us, which opens them to more favorable discounts on an assortment of goods/services than we can get based on its purchasing power.

We believe 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 and the participation in third-party managed care provider programs.

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 our optical purchasing group businesses offer. In addition, certain groups offer a different arrangement of services and products than our purchasing 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 we must satisfy to conduct our 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 us from computing our 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 us differ among our various health care provider affiliations.

We are also subject to certain regulations adopted under the Federal Occupational Safety and Health Act with respect to our in-store laboratory operations. We believe that we are in material compliance with all such applicable laws and regulations.

As a franchisor, we are subject to various registration and disclosure requirements imposed by the Federal Trade Commission and by many states in which we conduct franchising operations. We believe that we are materially in compliance with all such applicable laws and regulations.

We 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 of the Company, which is licensed as a single-service HMO.

ENVIRONMENTAL REGULATION

Our business activities are not significantly affected by environmental regulations, and no material expenditures are anticipated in order for us to comply with any such environmental regulations. However, we are 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 we believe we are in material compliance.

EMPLOYEES

As of March 30, 2010, we employed approximately 124 individuals, of which approximately 56% 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. We consider our labor relations with our associates to be in good standing and have not experienced any interruption of our operations due to disagreements.

Item 1A. Risk Factors

An investment in our 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 our common stock. Prospective investors should consider the following risk factors, among others, before making an investment decision.

- The current U.S. and global economic conditions have affected and will continue to affect our 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 has led to and might continue to 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 us to forecast future operating results and cash flows from operations.

- Our common stock is trading on the OTC Bulletin Board (“OTCBB”). The OTCBB is generally considered a less efficient market that does not have national exposure to prospective shareholders. As such, shareholders are likely to find it more difficult to trade our common stock on the OTCBB.
- The application of the "penny stock rules" could reduce the liquidity and, therefore, the market price of our common stock. On April 9, 2010, the last reported sales price of our common stock was \$0.08. Because the trading price of our common stock is less than \$5.00 per share and no longer trades on NASDAQ, our common stock comes within the definition of a "penny stock." The “penny stock rules” impose additional sales practice requirements on broker-dealers who sell our 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 our securities and may affect the ability of shareholders to resell our common stock.
- Dr. Alan Cohen, our Chairman of its Board of Directors, and, together with his immediate family members, one of our significant shareholders, owns, operates, manages and/or is otherwise involved with other companies in the retail optical industry, which are in competition with our Sterling Stores and/or Combine Members, and may result in potential conflicts. Until March 1, 2008, Dr. Cohen and his brother Dr. Robert Cohen were officers and directors of and together with members of their immediate families, were the sole shareholders of Cohen Fashion Optical, Inc. (“CFO, Inc.”), which company operated and franchised retail optical stores similar to Sterling Stores and Combine Member locations in the States of Connecticut, Florida, Massachusetts, New Hampshire, New Jersey, New York and Puerto Rico. Effective March 1, 2008, CFO, Inc. sold substantially all of its assets to Cohen Fashion Optical, LLC (“CFO, LLC”), a Kentucky limited liability company, which continues to operate and offer franchises for retail optical stores primarily under the name Cohen’s Fashion Optical. Although, Dr. Alan Cohen does not own any interest in or participate in the management of CFO, LLC, Dr. Cohen is an executive officer and director of Real Optical, LLC and CFO Retail, Inc. (collectively “REAL”), and he and members of his immediate family are principal members and shareholders of said companies. REAL is a franchisee of CFO, LLC and operates retail optical stores in the States of Connecticut, Florida, New Jersey and New York similar to Sterling Stores and Combine Member locations. As of December 31, 2009, REAL was the franchisee of 16 Cohen’s Fashion Optical stores, and was also managing an additional store on behalf of CFO, LLC. In the future, REAL may open 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 our competing Sterling Stores and/or from Combine Members.

Dr. Cohen is also an executive officer of, and he, together with members of his immediate family, are principal members of General Vision Services, LLC (“GVS”) and Vision World, LLC (“Vision World”). GVS operates retail optical stores located in the New York metropolitan area. GVS does not offer franchises, however, in connection with the transaction between CFO LLC, and CFO, Inc., GVS agreed that all of its stores, including any stores to be opened in the future, would be operated as franchisees of CFO, LLC. GVS stores are similar to, and compete with, the Sterling Stores and/or Combine Members being operated in the same areas. As of December 31, 2009, GVS was the franchisee of CFO, LLC, and was operating 10 stores under the name General Vision Services. Furthermore, both GVS and Vision World solicit and administer third party benefit programs, through their network of company-owned

and independent retail optical stores. It is possible that additional GVS or Vision World Stores, or other retail optical stores, which provide services under third party benefit plans administered by GVS or Vision World, may, in the future, be located near one or more of our Sterling Stores and/or Combine Member locations, and may compete directly with such locations.

Additionally, we jointly participate in certain third party benefit plans with GVS and certain Sterling Stores and GVS stores participate as providers under third party benefit plans obtained by us or GVS and, in all likelihood, will continue to do so in the future.

A possible consequence of Dr. Cohen's interests in REAL, GVS, Vision World and their respective affiliates is that conflicts of interest may arise, as described above, and when business opportunities in our line of business are presented to them, whether in his capacity as member of our 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 us and our shareholders, we have adopted a Corporate Code of Ethics (which can be accessed on our website at 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 our 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. In addition, Dr. Robert Cohen serves as President of CFO, LLC.

- We significantly depend on the ability and experience of certain members of its management, and their departure may prevent or delay the successful execution of our business plan. We rely on the skills of certain members of our senior management team to guide its operations, the loss of whom could have an adverse effect on our operations. We currently have an employment agreement with Mr. Glenn Spina, our Chief Executive Officer, through November 2012; however, no 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.
- We have no control over 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 our revenues from these stores. We rely, in substantial part, on franchisees, Combine Members and TOG Members for revenues. Since we do 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. We, together with a substantial number of franchisees, have 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. We compete with many types of eyewear providers, which may prevent us 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, we and our franchisees generally service local markets and, therefore, competition varies substantially from one location or geographic area to another. If we are not successful in dealing with competition, we will not be able to increase or maintain our customer base or market share.

- We 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 our 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, we have 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 we believe that Sterling Stores provide quality service and products at competitive prices, several of the large retail optical chains have greater financial resources. Therefore, we may not be able to continue to deliver cost efficient products in the event of aggressive pricing by competitors, which would reduce our 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, we 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 our 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 our franchisees.
- We are subject to a variety of federal, state and local laws, rules and regulations that affect the health care industry, which may affect our ability to generate revenues or subject us to additional expenses. The regulatory requirements that the Company and our franchisees must satisfy to conduct our 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 our various health care provider affiliations.
- The Company and our franchisees are also subject to the requirements of HIPAA, which governs participation in managed care programs. We 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, we and our 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, we are subject to various registrations and disclosure requirements imposed by the Federal Trade Commission and by many of the states in which we conduct franchising operations. The Federal Occupational Safety and Health Act regulates our in-store laboratory operations. Although we believe that we are in material compliance with all applicable laws and/or regulations, we may not be able to sustain compliance if these laws and/or regulations change in the future and, in that event, we may have to incur significant expenses to maintain compliance.
- If our 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.

- We may be exposed to significant risk from liability claims if it is unable to obtain insurance, at acceptable costs, to protect us against potential liability claims. The rendering of professional eye care services entails an inherent risk of professional malpractice and other similar claims. We do 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 we and our employed or affiliated optometrists, we may become subject to professional malpractice actions or claims under various theories relating to the professional services provided by these individuals. We may not be able to continue to obtain adequate liability insurance at reasonable rates, in which event; our insurance may not be adequate to cover claims asserted against us, thus, potentially decreasing our future cash position and potentially jeopardizing our ability to continue operations.
- Our operations and success are highly dependent upon health care providers, and we may be unable to enter into favorable arrangements with these providers. Certain states prohibit us from employing optometrists to render professional services. Accordingly, the success of our operations as full-service eye care providers depends upon our 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 shareholders' ownership of our common stock. As of December 31, 2009, we had 12,563,967 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 shareholders' percentage ownership of the Company's common stock. In addition, if we acquire new companies through the issuance of common or preferred stock, percentages of ownership will be further diluted.
- Our potential limitation on the use of our 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 our tax attributes, we amended our by-laws to provide the Board of Directors with the ability to void certain transactions in our securities that may impair or limit the future utilization of our tax attributes, including our net operating loss carry-forwards. However, there can be no assurance that we have been, or will in the future be, successful in preventing an event which could materially impair or limit our utilization of our 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, the District of Columbia and the U.S. Virgin Islands. Currently, 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, our Sterling Stores and Combine Member locations, or could cause Combine Members to leave Combine because they view Sterling Stores

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 Members 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.
- We rely heavily on computer systems in managing financial results. We are 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 our 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 us. Additionally, certain of our 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. We are 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 us and may pose greater risks associated with maintaining internal controls as the systems are integrated.
- Our leasing space for a majority of our Sterling Stores could expose us to possible liabilities and losses. Our 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 we decide to close the location, we may still be required to pay the base rent, taxes and other rental charges for the balance of the lease.
- We may be unable to service our debt obligations. In connection with the purchases of Combine and TOG, along with other debt obligations, we have approximately \$5,325,000 of outstanding debt as of December 31, 2009. If we are unable to generate sufficient cash flows from operations in the future, we may be unable to make principal and 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 our Revolving Line of Credit Note and Credit Agreement (the "Credit Agreement") with Manufacturers and Traders Trust Company ("M&T") was \$4,506,854 as of March 31, 2010. The Company and M&T entered into a new Credit Agreement effective March 31, 2010, which agreement provides, among other things, that all unpaid principal will be due on April 30, 2011. The Company also executed a \$1,000,000 Libor Term Note in favor of M&T, dated as of March 31, 2010, which note commits us to pay twelve, equal monthly principal payments of \$83,333, plus interest, by April 30, 2011. We currently cannot guarantee that we will be able to make such monthly principal payments, nor can we guarantee that we will be able to pay the remaining principal balance due under the Credit Agreement on or before April 30, 2011. Additionally, we cannot guarantee that M&T will refinance on favorable terms, if at all.

- We have been able to utilize the earnings from the operations of Combine to support the repayment of its related party debt with the previous owner and current President of Combine ("COM President"). Management believes it will continue to be able to utilize the earnings of Combine to repay the remaining amounts due, however, commencing on September 29, 2010, and expiring September 28, 2016; COM President may put back to us 2,187,500 options at a put price per share of \$0.32 (\$700,000). We believe we may need additional financing

should COM President decide to put back such options and are currently exploring certain options to enable us to make such payment. However, there can be no assurance that we will find financing or that such financing will be on terms favorable to us.

- We are 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. We have not implemented a hedging strategy to potentially reduce foreign currency risk.

Item 1B. Unresolved Staff Comments

Not applicable to smaller reporting companies.

Item 2. Properties

Our headquarters, consisting of approximately 5,200 square feet, are located in an office building situated at 520 Eight Avenue, 23rd Floor, New York, NY 10018, under a lease that expires in June 2020. This facility houses our 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 2015.

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 is currently month-to-month.

TOG's headquarters, consisting of approximately 2,600 square feet, are located in an office building situated at 1000 Simcoe Street North, Oshawa, Ontario L1G 4W4, under a lease that expires in October 2012.

We lease the space occupied by all of our Company-owned Sterling Stores and certain of our franchised Sterling Stores. The remaining leases for our franchised Sterling Stores are held in the names of the respective franchisees, of which we hold a collateral assignment on certain of those leases. We do not hold any of the leases, nor do we 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

In August 2006, we filed an action against For Eyes Optical Company ("For Eyes" or "Defendant") in the District Court of the State of California, San Jose County in response to allegations by For Eyes of trademark infringement for our use of the trademark "Site For Sore Eyes". We claimed, among other things, that (i) there is no likelihood of confusion between our and Defendant's mark, and that we had not infringed, and was not infringing, Defendant's mark; (ii) we were 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 was generic and should be cancelled. For Eyes, in its Answer, asserted defenses to our claims, and asserted counterclaims against us, including, among others, that (i) we had infringed For Eyes' mark; (ii) we wrongfully obtained a trademark registration for its mark and that said registration should be cancelled; and (iii) the acts of us constituted a breach of the aforementioned settlement agreement. For Eyes sought injunctive relief, cancellation of our trademark registration, trebled monetary damages, payment of any profits made by us in

respect of the use of such trade name, and costs and attorney fees. In December 2009, this action was settled, the terms of the settlement included our expanded use of the Site for Sore Eyes trademark to the remainder of California and in Washington and Oregon. The parties also exchanged mutual general releases

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

None

PART II

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

Our 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 sales prices for our Common Stock for each quarterly period of the last two years is as follows:

Quarter Ended:	2009		2008	
	High	Low	High	Low
March 31	\$0.19	\$0.08	\$0.25	\$0.17
June 30	\$0.19	\$0.10	\$0.21	\$0.16
September 30	\$0.20	\$0.10	\$0.20	\$0.12
December 31	\$0.15	\$0.06	\$0.19	\$0.06

The approximate number of shareholders of record of our Common Stock as of March 16, 2010 was 272.

There was one shareholder of record of our Senior Convertible Preferred Stock as of March 31, 2010.

Historically, we have not paid dividends on its Common Stock, and have no intention to pay dividends on our 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 our future operations and growth.

Although we have not paid dividends, if we do in the future, those dividend payments could cause an event of default pursuant to our credit facility. Such credit facility is described in Item 7 of this Report.

Information regarding our equity compensation plans as of December 31, 2009 is disclosed in Item 12 of this Report, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Item 6. Selected Financial Data

Not applicable for smaller reporting companies.

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

This Annual Report on Form 10-K (the "Report") contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Report may not occur. Generally, these statements relate to our business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, financing plans, projected or anticipated benefits from acquisitions that we may make, or projections involving anticipated revenues, earnings or other aspects of our operating results or financial position, and the outcome of any contingencies. Any such forward-looking statements are based on current expectations, estimates and projections of management. We intend for these forward-looking statements to be

covered by the safe-harbor provisions for forward-looking statements. Words such as “may,” “will,” “expect,” “believe,” “anticipate,” “project,” “plan,” “intend,” “estimate,” and “continue,” and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond the Company’s control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors that could cause actual results to differ materially from those set forth or implied by any forward-looking statements include, but are not limited to, those detailed in Item 1A. Risk Factors of this Report, as well as other risks and uncertainties discussed in our reports filed with the Securities and Exchange Commission. Copies of these filings are available at www.sec.gov.

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

COMPARISON OF OPERATING SEGMENT RESULTS FOR THE YEAR ENDED DECEMBER 31, 2009, AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2008

Consolidated Segment Results

Our total revenue decreased approximately \$9,686,000, or 13.5%, to \$62,123,000 for the year ended December 31, 2009, as compared to \$71,809,000 for the year ended December 31, 2008. This decrease was mainly a result of the decrease in Optical Purchasing Group revenues during the comparable periods due to current economic trends in the U.S. and Canadian economies as well as currency fluctuations between the U.S. and Canadian dollars. Additionally, we experienced a decrease in the average number of Company-owned stores in operation from 7.8 for the year ended December 31, 2008 compared to 5 for the year ended December 31, 2009, and a decrease in the average number of franchise locations in operation from 141 for the year ended December 31, 2008 compared to 131 for the year ended December 31, 2009, which resulted in decreased revenues for the Company-store and franchise segments.

Our total costs, and selling, general and administrative expenses decreased approximately \$7,079,000, or 10.0% to \$63,981,000 for the year ended December 31, 2009, as compared to \$71,060,000 for the year ended December 31, 2008. The decreases in Optical Purchasing Group cost of sales were a direct result of the currency fluctuations described above. Additionally, we made an effort to streamline certain corporate office administrative functions and expenses during 2009, including the elimination of in-house counsel and moving franchise business development to a commission based structure. Selling, general and administrative expenses also decreased due to the reduction of certain administrative job functions and the decrease in the number of stores in operations during 2009. These decreases were offset, in part, by a charge to share-based compensation expense of \$700,000 due to the recognition of 2,187,500 options that the President of Combine can put back to us at a price per share of \$0.32, and a \$702,000 impairment charge on Combine’s goodwill and certain intangible assets, which was a result of the decline in Combine’s estimated future cash flows expected to be generated from such assets.

Optical Purchasing Group Business Segment

	For the Year Ended December 31 (in thousands):			
	2009	2008	\$ Change	% Change
Net Revenues:				
Optical purchasing group sales	\$50,677	\$57,935	\$(7,258)	(12.5 %)
Cost of optical purchasing group sales	48,290	55,177	(6,887)	(12.5 %)
Gross margin	2,387	2,758	(371)	(13.5 %)
Selling, General and Administrative Expenses:				
Goodwill and intangible asset impairment	702	-	702	n/a
Compensation expense	700	-	700	n/a
Salaries and related benefits	452	455	(3)	(0.7 %)
Depreciation and amortization	306	303	3	1.0 %
Credit card and bank fees	263	277	(14)	(5.1 %)
Rent and related overhead	249	260	(11)	(4.2 %)
Bad debt expense	263	112	151	134.8 %
Professional fees	191	38	153	402.6 %
Other general and administrative costs	27	78	(51)	(65.4 %)
Total selling, general and administrative expenses	3,153	1,523	1,630	107.0 %
Operating (Loss) Income	(766)	1,235	(2,001)	(162.0 %)
Other Income (Expense):				
Other income	4	-	4	n/a
Interest expense, net	(169)	(260)	91	35.0 %
Total other expense	(165)	(260)	95	36.5 %
(Loss) income before provision for income taxes	\$(931)	\$975	\$(1,906)	(195.5 %)

Optical Purchasing Group revenues decreased approximately \$7,258,000, or 12.5%, to \$50,677,000 for the year ended December 31, 2009, as compared to \$57,935,000 for the year ended December 31, 2008. This decrease was due to a generally weaker economy that began to affect Combine in the 2nd half of 2008 and carried through into 2009. As of December 31, 2009, there were 801 members that made purchases in December 2009, as compared to 842 members that made one or more purchases in December 2008. Individually, TOG revenues decreased approximately \$4,658,000, or 11.2%, to \$37,026,000 for the year ended December 31, 2009, as compared to \$41,684,000 for the year ended December 31, 2008. These decreases were mainly due to the fluctuation of the foreign currency exchange rate between the Canadian and U.S. Dollar. The rate averaged \$0.94 for every Canadian Dollar during fiscal 2008, as compared to \$0.87 for every Canadian Dollar during fiscal 2009. Additionally, similar to the U.S. economy, the Canadian economy experienced a downturn beginning in the 2nd half of 2008. Combine revenues decreased approximately \$2,842,000, or 17.5%, to \$13,388,000 for the year ended December 31, 2009, as compared to \$16,230,000 for the year ended December 31, 2008 for the reasons described above.

Costs of Optical Purchasing Group sales decreased approximately \$6,887,000, or 12.5% to \$48,290,000 for the year ended December 31, 2009, as compared to \$55,177,000 for the year ended December 31, 2008. Individually, TOG's cost of sales decreased approximately \$4,453,000, or 11.1%, to \$35,520,000 for the year ended December 31, 2009, as compared to \$39,973,000 for the year ended December 31, 2008. Combine's cost of sales decreased approximately \$2,602,000, or 17.1%, to \$12,577,000 for the year ended December 31, 2009, as compared to \$15,179,000 for the year ended December 31, 2008. Both of these decreases were a direct result of, and proportionate to, the revenue

fluctuations described above.

Operating expenses of the Optical Purchasing Group segment increased approximately \$1,630,000, or 107.0%, to \$3,153,000 for the year ended December 31, 2009, as compared to \$1,523,000 for the year ended December 31, 2008. This increase was mainly a result of a \$702,000 impairment of goodwill and certain intangible assets, which was a result of the decline in Combine's estimated future cash flows expected to be generated from such assets, and a \$700,000 non-cash compensation charge incurred in September 2009. Combine's President may put back to the Company 2,187,500 options at a put price per share of \$0.32. Combine incurred bad debt on certain member receivables during the year ended December 31, 2009 of approximately \$148,000 as certain members went out of business due to the current economic conditions. TOG also incurred bad debt of \$115,000 related to one member who went out of business. Additionally, Combine and TOG engaged the services of consultants (\$10,000 per month) in May 2009 to enhance vendor programs designed to encourage greater spending by the members while achieving greater profit margins. These increases were offset, in part, by a decrease in certain of TOG's operating expenses due to the fluctuation of the foreign currency exchange rate as described above.

Interest expense related to the Optical Purchasing Group segment decreased approximately \$91,000, or 35.0%, to \$169,000 for the year ended December 31, 2009, as compared to \$260,000 for the year ended December 31, 2008. This decrease was related to a decrease in the interest rates on the borrowings under our Credit Facility with M&T. Additionally, as Combine continues to pay down its related party debt (the debt associated with the purchase financing with the previous owner and current President of Combine), we continue to incur less interest.

Franchise Segment

	For the Year Ended December 31 (in thousands):			
	2009	2008	\$ Change	% Change
Net Revenues:				
Royalties	\$5,502	\$6,211	\$(709)	(11.4 %)
Franchise and other related fees	218	299	(81)	(27.1 %)
Net revenues	5,720	6,510	(790)	(12.1 %)
Selling, General and Administrative Expenses:				
Salaries and related benefits	1,404	1,070	334	31.2 %
Professional fees	572	513	59	11.5 %
Convention related expenses	202	389	(187)	(48.1 %)
Rent and related overhead	567	351	216	61.5 %
Bad debt	409	247	162	65.6 %
Depreciation and amortization	227	127	100	78.7 %
Other general and administrative costs	383	195	188	96.4 %
Total selling, general and administrative expenses	3,764	2,892	872	30.2 %
Operating Income	1,956	3,618	(1,662)	(45.9 %)
Other Income (Expense):				
Interest on franchise notes receivable	28	24	4	16.7 %
Other (expense) income	(91)	27	(118)	(437.0 %)
Interest expense, net	(49)	(45)	(4)	(8.9 %)
Total operating income	(112)	6	(118)	(1,966.7 %)
Income before provision for income taxes	\$1,844	\$3,624	\$(1,780)	(49.1 %)

Franchise royalties decreased approximately \$709,000, or 11.4%, to \$5,502,000 for the year ended December 31, 2009, as compared to \$6,211,000 for the year ended December 31, 2008. Franchise sales decreased approximately

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\$4,226,000, or 5.3%, for the year ended December 31, 2009, as compared to the year ended December 31, 2008. This led to decreased royalty income of approximately \$338,000 for the year ended December 31, 2009, mainly due to 10 fewer operational stores, on average, during 2009. As of December 31, 2009 and 2008, there were 129 and 133 franchised stores in operation, respectively.

Franchise and other related fees (which include initial franchise fees, renewal fees, conversion fees and store transfer fees) decreased approximately \$81,000, or 27.1%, to \$218,000 for the year ended December 31, 2009, as compared to \$299,000 for the year ended December 31, 2008. This fluctuation was primarily attributable to 9 franchise agreement renewals (\$91,000), 1 independent store conversion (\$10,000), and 6 new franchise agreements (\$117,000) in 2009, as compared to 6 franchise agreement renewals (\$70,000), 2 independent store conversions (\$20,000), and 10 new franchise agreements (\$186,000) in 2008. In the future, franchise fees are likely to fluctuate depending on the timing of franchise agreement expirations, new store openings, franchise store transfers, and the approval of the Franchise Disclosure Document, which is renewed annually in April.

Operating expenses of the franchise segment increased approximately \$872,000, or 30.2%, to \$3,764,000 for the year ended December 31, 2009, as compared to \$2,892,000 for the year ended December 31, 2008. This increase was partially a result of increases in; professional fees, as we began utilizing outside counsel to administer franchise agreement transactions (during fiscal 2008 we employed in-house counsel to handle such work), rent and related overhead, as we reallocated certain expenses from the corporate segment to the franchise segment as well as \$125,000 due to rent subsidies the we have provided on certain franchise locations during fiscal 2009, which were not provided during fiscal 2008, and bad debt expense, mainly due to the write-off of franchise receivables on two stores that were abandoned by such franchisee during 2009. Additionally, the franchise segment incurred travel, training, and related costs associated with the installation of our new Point-of-Sale computer system (initiated March 2008). These increases were offset, in part, by a decrease in certain salaries and related expenses, including the restructuring our franchise business development department to receive commission-based compensation. We also had a decrease in the costs associated with our trade shows. In 2008, we exhibited at both Vision Expo East and West, at a significant cost. In 2009, we did not exhibit at either of those trade shows.

Other (expense) income decreased approximately \$118,000, or 1,966.7%, to (\$112,000) for the year ended December 31, 2009, as compared to \$6,000 for the year ended December 31, 2008, mainly due to losses we incurred repossessing or selling franchise locations during fiscal 2009.

Company Store Segment

	For the Year Ended December 31 (in thousands):			
	2009	2008	\$ Change	% Change
Net Revenues:				
Retail sales	\$1,859	\$3,210	\$(1,351)	(42.1 %)
Exam fees	338	505	(167)	(33.1 %)
Net revenues	2,197	3,715	(1,518)	(40.9 %)
Cost of retail sales	627	932	(305)	(32.7 %)
Gross margin	1,570	2,783	(1,213)	(43.6 %)
Selling, General and Administrative Expenses:				
Salaries and related benefits	1,214	1,667	(453)	(27.2 %)
Rent and related overhead	924	1,076	(152)	(14.1 %)
Advertising	107	267	(160)	(59.9 %)
Other general and administrative costs	130	200	(70)	(35.0 %)
Total selling, general and administrative expenses	2,375	3,210	(835)	(26.0 %)
Operating Loss	\$(805)	\$(427)	\$(378)	(88.5 %)

Net revenues for the Company store segment decreased approximately \$1,518,000, or 40.9%, to \$2,197,000 for the year ended December 31, 2009, as compared to \$3,715,000 for the year ended December 31, 2008. This decrease was mainly attributable to fewer Company-owned store locations, on average, open during the comparable periods. As of December 31, 2009 and 2008, respectively, there were 6 Company-owned stores in operation (inclusive of one store operated by a franchisee under the terms of a management agreement as of December 31, 2008). During the 2nd half of 2008, we closed two Company-owned locations that generated revenues during a significant portion of fiscal 2008. The two stores generated retail sales of \$668,000 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 the years ended December 31, 2009 and 2008), comparative net sales decreased approximately \$335,000, or 14.1%, to \$2,063,000 for the year ended December 31, 2009, as compared to \$2,398,000 for the year ended December 31, 2008. The decrease was partially a result of us reserving, beginning in January 2009, the total amount of managed care receivables generated by such stores and recognizing the income on such receivables when cash receipts are recovered. Additionally, management believes that the decreases were a direct result of current economic conditions, as well as the loss of a key optometrist in the 2nd quarter of 2009, which led to reduced exam fee revenues in one of the locations.

The Company-owned store's gross profit margin decreased by 3.1%, to 69.3%, for the year ended December 31, 2009, as compared to 71.0% for the year ended December 31, 2008. The decrease was due, in part, to the decrease in managed care revenues as described above, as well as the effects of the current economy, which has caused us to offer stronger discounts to customers, thus, decreasing overall margins. These factors were, offset, in part, by an improvement on gross profit margins with respect to certain vendor programs initiated during the 4th quarter of 2008 that have helped improve our lab/lens costs. 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 our gross profit margin in the future. Our gross margin may, however, fluctuate in the future depending upon the extent and timing of changes in the product mix in such stores, competitive pricing, and certain one-time sales promotions.

Operating expenses of the Company store segment decreased approximately \$835,000, or 26.0%, to \$2,375,000 for the year ended December 31, 2009, as compared to \$3,210,000 for the year ended December 31, 2008. This decrease was mainly a result of having fewer Company-owned stores, on average, in operation during the year ended December 31, 2009. Additionally, we streamlined store staffing to reduce salaries and related benefits, we no longer employ a key optometrist as noted above, and we 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):			
	2009	2008	\$ Change	% Change
Net Revenues:				
Membership fees	\$3,521	\$3,551	\$(30)	(0.8)%
Selling, General and Administrative Expenses:				
Salaries and related benefits	3,149	3,189	(40)	(1.3)%
Rent and related overhead	166	154	12	7.8%
Other general and administrative costs	207	172	35	20.3%
Total selling, general and administrative expenses	3,522	3,515	7	0.2%
Operating (Loss) Income	(1)	36	(37)	(102.8)%
Other Income (Expense):				
Other income	33	8	25	312.5%
Total other income (expense)	33	8	25	312.5%

Income before provision for income taxes	\$32	\$44	\$(12))	(27.3	%)
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Revenues generated by our wholly-owned subsidiary, VCC, a specialized health care maintenance organization licensed by the State of California Department of Managed Health Care, decreased approximately \$30,000, or 0.8%, to \$3,521,000 for the year ended December 31, 2009, as compared to \$3,551,000 for the year ended December 31, 2008. This decrease was a direct result of a decrease in revenues generated at Site for Sore Eyes franchise locations of approximately \$1,361,000, or 6.6%, from fiscal 2008, which led to a decrease in membership fee revenues. This offset the 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 by a modest \$7,000 to \$3,522,000 for the year ended December 31, 2009, as compared to \$3,515,000 for the year ended December 31, 2008. A decrease in doctors' salaries and related benefits was offset, in part, by an increase in the cost of insurance (approximately \$21,000) and an increase in bad debt expense (approximately \$26,000) due to certain new managed care plans that VCC contracted with during fiscal 2009.

Corporate Overhead Segment

	For the Year Ended December 31 (in thousands):			
	2009	2008	\$ Change	% Change
Selling, General and Administrative Expenses:				
Salaries and related benefits	\$1,246	\$2,119	\$(873)	(41.2 %)
Professional fees	708	609	99	16.3 %
Insurance	187	276	(89)	(32.2 %)
Rent and related overhead	103	192	(89)	(46.4 %)
Travel and related expenses	-	173	(173)	(100.0 %)
Compensation expense	-	88	(88)	(100.0 %)
Bad debt expense	-	30	(30)	(100.0 %)
Other general and administrative costs	-	159	(159)	(100.0 %)
Total selling, general and administrative expenses	2,244	3,646	(1,402)	(38.5 %)
Operating (Loss) Income	(2,244)	(3,646)	1,402	38.5 %
Other Income (Expense):				
Other expense	(78)	-	78	n/a
Total other income (expense)	(78)	-	78	n/a
Loss before provision for income taxes	\$(2,322)	\$(3,646)	\$1,324	36.3 %

There were no revenues generated by the corporate overhead segment.

Operating expenses decreased approximately \$1,402,000, or 38.5%, to \$2,244,000 for the year ended December 31, 2009, as compared to \$3,646,000 for the year ended December 31, 2008. This decrease was due in part to decreases to salaries and related benefits of \$873,000 due, in part, to decreases, in May 2008 in our medical and dental insurance premiums and the utilization in January 2009 of outside counsel to handle all franchise agreement transactions (included in professional fees). During fiscal 2008, we utilized an "in-house" counsel, which expenses were included in salaries and related benefits. Additionally, we reallocated certain rent and related overhead expenses to the franchise segment due to certain overhead reductions that occurred in the first quarter of 2009, we incurred compensation expense of approximately \$88,000 during fiscal 2008 due to the granting of stock options to our directors (there were no such grants during fiscal 2009), and we absorbed the entire increase in medical and dental benefits of VCC in the first quarter of 2008.

Other expenses of approximately \$78,000 for the year ended December 31, 2009 was mainly a result of the loss on the disposal of certain property and equipment due to the relocation of our corporate office in March of 2010.

Other Segment

	For the Year Ended December 31 (in thousands):			
	2009	2008	\$ Change	% Change
Net Revenues:				
Commissions	\$8	\$96	\$(88)	(91.7 %)
Other	-	2	(2)	(100.0 %)
Net revenues	8	98	(90)	(91.8 %)
Selling, General and Administrative Expenses:				
Advertising	-	95	(95)	(100.0 %)
Salaries and related benefits	-	30	(30)	(100.0 %)
Other general and administrative costs	5	40	(35)	(87.5 %)
Total selling, general and administrative expenses	5	165	(160)	(97.0 %)
Operating Income (loss)	\$3	\$(67)	\$70	104.5 %

Revenues generated by the other segment decreased approximately \$90,000, or 91.8%, to \$8,000 for the year ended December 31, 2009, as compared to \$98,000 for the year ended December 31, 2008. We began generating commission revenues in January 2008 under operations 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 decreased approximately \$160,000, or 97.0%, to \$5,000 for the year ended December 31, 2009, as compared to \$165,000 for the year ended December 31, 2008. The decrease was due to the cease in operations as described above.

Use of Non-GAAP Performance Indicators

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

Management has provided an EBITDA calculation to provide a greater level of understanding of our performance had it not been for certain significant non-cash charges, many of which were incurred as a result of the acquisitions of Combine and TOG. These charges, such as depreciation and amortization, and interest expense, are included in selling, general and administrative expenses on the Consolidated Statements of Operations and Comprehensive Loss.

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):			
	2009	2008	\$ Change	% Change

EBITDA Reconciliation:				
Net loss	\$(2,523	) \$(88	) \$(2,435	) (2,767.0 %)
Interest	218	346	(128	) (37.0 %)
Provision for income taxes	344	591	(247	) (41.8 %)
Depreciation and amortization	599	654	(55	) (8.4 %)
EBITDA	\$(1,362	) \$1,503	\$(2,865	) (190.6 %)

We also incurred other non-cash charges that affected earnings including compensation expenses related to common stock options and warrants of approximately \$700,000 and \$88,000 for the year ended December 31, 2009 and 2008, respectively.

Commencing on September 29, 2010, and expiring September 28, 2016, Combine's President may put back to us 2,187,500 options at a put price per share of \$0.32, which would result in a charge to share-based compensation expense of \$700,000. During the year ended December 31, 2009, we recognized such charge.

The Company also incurred a non-cash charge of \$702,000 that related to an impairment of goodwill and certain intangible assets, which was a result of the decline in Combine's estimated future cash flows expected to be generated from such assets.

Cash Flows from EBITDA

	For the Year Ended December 31, 2009			
	Original	EBITDA	Difference	
Cash flows from operating activities:				
Net loss	\$(2,523	) \$(660	) \$1,863
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	599	-	(599)
Provision for doubtful accounts	729	729	-	
Provision for inventory loss	31	31	-	
Deferred tax assets	344	-	(344)
Disposal of property and equipment	87	87	-	
Loss on sale of Company-owned store assets	73	73	-	
Goodwill and intangible assets impairment	702	-	(702)
Non-cash compensation charges related to put option liability	700	700	-	
Changes in operating assets and liabilities:				
Franchise and other receivables	(458	) (458) -	
Optical purchasing group receivables	(636	) (636) -	
Notes receivable	54	54	-	
Inventories	(18	) (18) -	
Prepaid expenses and other current assets	96	96	-	
Other assets	(33	) (33) -	
Accounts payable and accrued liabilities	304	304	-	
Optical purchasing group payables	627	627	-	
Accrual for store closings	(146	) (146) -	
Franchise deposits and other liabilities	(48	) (48) -	
Net cash provided by operating activities	484	702	218	
Cash flows from investing activities:				

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Purchases of property and equipment	(153)	(153)	-
Costs associated with enhancing trademark value	(145)	(145)	-
Net cash used in investing activities	(298)	(298)	-
Cash flows from financing activities:			
Borrowings under credit facility	150	150	-
Payments under credit facility	(600)	(766)	(166)
Payments on related party obligations and other debt	(367)	(419)	(52)
Net cash used in financing activities	(817)	(1,035)	(218)
Net decrease in cash before effect of foreign exchange rate changes	(631)	(631)	-
Effect of foreign exchange rate changes	117	117	-
Net decrease increase in cash and cash equivalents	(514)	(514)	-
Cash and cash equivalents – beginning of year	2,090	2,090	-
Cash and cash equivalents – end of year	\$1,576	\$1,576	\$-

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2009, we had a working capital deficit of \$1,725,000 and cash on hand of \$1,576,000.

During the year ended December 31, 2009, cash flows provided by operating activities were \$484,000. This was principally due to the net loss and other non-cash expenses of \$742,000, an increase in optical purchasing group payables of \$627,000 due to increased optical purchasing group sales in December 2009, and an increase in accounts payable and accrued liabilities of \$304,000 due, in part, to the addition of one additional Company-owned location as of December 31, 2009. This was offset, in part, by an increase in optical purchasing group receivables of \$636,000, also due to increased optical purchasing group sales, as well as an increase in franchise receivables of \$458,000 due to pending franchise agreement settlements that will occur during the 1st quarter of 2010. We hope to continue to improve our operating cash flows through the continued implementation of our Point-of-Sales (“POS”) system to improve the franchise sales reporting process, the addition of new franchise locations, future acquisitions, new vendor programs, and continued efficiencies as it relates to corporate overhead expenses.

For the year ended December 31, 2009, cash flows used in investing activities were \$298,000 due to the litigation costs incurred to enhance our Site for Sore Eyes trademark and capital expenditures related to improvements to our IT infrastructure and the implementation of the POS system. Management does anticipate certain capital expenditures over the next 12 months, including expenditures to continue to implement the POS system within the Franchise community, due to the relocation of our corporate office in March 2010, and to enhance our technology infrastructure and related internal controls. Such improvements to the IT infrastructure could include the relocation of Combine’s operations from Florida to New York, which could result in capital expenditures of approximately \$100,000. Additionally, we settled the For Eyes lawsuit, which settlement will reduce future litigation costs to enhance the Site for Sore Eyes trademark.

For the year ended December 31, 2009, cash used in financing activities was \$817,000 due to the repayment of our related party borrowings and repayment on the Credit Facility totaling \$967,000, offset by additional borrowings under our Credit Facility of \$150,000. The Company and M&T entered into a new Credit Agreement, effective March 31, 2010, which agreement, provides, among other things, that all unpaid principal will be due on or before April 30, 2011. The Company also executed a \$1,000,000 Libor Term Note in favor of M&T, dated as of March 31, 2010, which note commits us to pay twelve equal, monthly principal payments of \$83,333, plus interest, by April 30, 2011. Although we believe that we will be able to make such monthly payments, we currently cannot guarantee that we will be able to do so, nor can we guarantee that we will be able to pay the remaining principal balance due under the Credit Agreement on or before April 30, 2011. Additionally, we do not know if we will be able to extend or refinance the debt, and cannot guarantee that extending or refinancing the debt will be on terms favorable to us.

We have been able to utilize the earnings from the operations of Combine to support the repayment of our related party debt with the previous owner and current President of Combine (“COM President”). Management believes we will continue to be able to utilize the earnings of Combine to repay the remaining amounts due, however, commencing on September 29, 2010, and expiring September 28, 2016, COM President may put back to us 2,187,500 options at a put price per share of \$0.32 (\$700,000). We believe we may need additional financing should COM President decide to put back such options and are currently exploring certain options available to make such payment. However, there can be no assurance that we will find financing or that such financing will be on terms favorable to us.

PLAN OF OPERATION

Based on our 2010 forecasts, which are derived from industry performance and historical data, as well as other assumptions management believes to be reasonable, we believe that the Company should be able to generate sufficient

cash flows from operations to pay the outstanding debt in accordance with the terms of the new Credit Agreement, while maintaining compliance with the financial covenants, as amended, for fiscal 2010. Management intends to implement the restructuring of certain departments that will significantly reduce payroll and the related overhead costs. The restructuring should allow management to focus on the implementation of better controls over the Company-owned locations, including increased store support and training, improved vendor discounts and targeted advertising, which should result in greater efficiencies and greater profit within those stores.

This will be dependent on changes to streamline our infrastructure as described above. However, if a material adverse change in the financial position of the Company's should occur, or if actual sales or expenses are substantially different than what has been forecasted, the Company's liquidity and ability to obtain further financing to fund future operating and capital requirements could be negatively impacted.

During the next 12 months, we intend to actively seek and investigate possible business opportunities with the intent to secure additional and/or alternative financing to refinance or extend our debt. We do not intend to restrict our search to any specific financial institution.

CREDIT FACILITY

On August 8, 2007, the Company entered into a Revolving Line of Credit Note and Credit Agreement with M&T, establishing a revolving credit facility (the "Credit Facility"), for aggregate borrowings of up to \$6,000,000, which was subsequently amended on November 11, 2009 to \$5,750,000. On March 31, 2010, the Company extended and modified the Credit Facility and entered into a Non-Revolving Line of Credit Note and Credit Agreement (the "Credit Agreement"), which is secured by substantially all of the assets of the Company. The Credit Agreement expires on April 30, 2011. The Credit Agreement includes a Letter of Credit limit of \$745,067, of which the Company is utilizing the entire \$745,067 to hold letters of credit in favor of two key vendors of Combine to ensure payment of any outstanding invoices not paid by Combine, as well as in favor of the landlord of the Company's corporate office for the rent security deposit. Additionally, the Company had outstanding borrowings of \$3,506,854 as of March 31, 2010, which is 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 fifty (350) basis points in excess of LIBOR with a minimum rate of 4.5%, with all unpaid principal due on April 30, 2011.

The Company also executed a \$1,000,000 Libor Term Note (the "Term Note") in favor of M&T, dated as of March 31, 2010, which provides for twelve equal, monthly principal payments of \$83,333, plus interest, due on the last day of each month during the term of the Term Note, which matures on April 30, 2011. The interest is calculated at the variable rate of three hundred fifty (350) basis points in excess of LIBOR (unless converted by M&T to a base rate) with a minimum rate of 4.5%. In connection with the Term Note, the Company paid \$200,000 to M&T on March 31, 2010 to reduce the outstanding borrowings.

As of December 31, 2009, the Company had outstanding borrowings of \$4,856,854 under the Credit Facility, of which \$1,100,000 was included in Short-term Debt and \$3,756,854 was included in Long-term Debt on the accompanying Consolidated Balance Sheet. The Credit Facility also included various financial covenants as of December 31, 2010 including minimum net worth, maximum funded debt and debt service ratio requirements. As of December 31, 2009, the Company was not in compliance with these financial covenants. However, M&T granted the Company a waiver of the covenant as of March 31, 2010. In connection with the modified Credit Agreement, new financial covenants were established including minimum net worth to be tested quarterly, effective March 31, 2010, and annually at December 31, 2010, minimum EBITDA to be tested quarterly, effective June 30, 2010, and no net losses to be tested quarterly, effective March 31, 2010.

Although M&T has continued to work with the Company in regards to extending the Credit Facility and has continued to grant waivers of covenant violations, the Company is no longer able to borrow under the terms of the modified Credit Agreement. As such, the Company is currently exploring and will continue to explore certain options available to it to refinance such debt, prior to April 2011. The Company may not be able to extend or refinance the debt, and it cannot guarantee that extending or refinancing the debt will be on terms favorable to the Company.

OFF-BALANCE SHEET ARRANGEMENTS

We do 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.

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, deferred tax assets, legal contingencies, impairment on goodwill and intangible assets, and allowances on franchise, notes and other receivables are critical to an understanding of our 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 collectability of individual accounts. To the extent that actual bad debts differed from management's estimates by 10 percent, consolidated net loss would be an estimated \$73,000 and \$46,000 higher/lower for the years ended December 31, 2009 and 2008, 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 our net operating loss carry-forwards will be utilized. Factors that could impact estimated utilization of our net operating loss carry-forwards are the success of its stores and franchisees, and the optical purchasing groups, our 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 loss and net income would be an estimated \$1,640,000 and \$1,460,000 lower/higher for the years ended December 31, 2009 and 2008, respectively.

We recognize 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, our price to the buyer is fixed or determinable, and collectability is reasonably assured. To the extent that collectability of royalties and/or interest on franchise notes is not reasonably assured, we recognize 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 loss would be an estimated \$281,000 and \$193,000 higher for the years ended December 31, 2009 and 2008, 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 along with various qualitative tests. To the extent that management needed to impair its goodwill or certain intangible assets by an additional 10 percent, consolidated net loss would be an estimated \$649,000 and \$734,000 lower for the years ended December 31, 2009 and 2008, respectively.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2009, FASB issued guidance which is included in ASC 105, “Generally Accepted Accounting Principles.” This guidance modifies the Generally Accepted Accounting Principles (“GAAP”) hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 1, 2009, the FASB ASC is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. This guidance is effective for financial statements issued for reporting periods that end after September 15, 2009. Where possible, FASB references have been replaced with ASC references.

In June 2009, we adopted the provisions of FASB’s changes to ASC 855, Subsequent Events. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. Specifically, ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. The adoption of ASC 855 had no impact on the Company’s financial statements since management already followed a similar approach prior to the adoption of this standard.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

Item 8. Financial Statements and Supplementary Data

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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 sheets of Emerging Vision, Inc. (a New York corporation) and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for each of the years 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 audits.

We conducted our audits 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. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2009 and 2008, and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

/S/ ROSEN SEYMOUR SHAPSS MARTIN & COMPANY LLP

New York, New York
April 15, 2010

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

ASSETS	December 31,	
	2009	2008
Current assets:		
Cash and cash equivalents	\$1,576	\$2,090
Franchise receivables, net of allowance of \$188 and \$140, respectively	1,665	1,744
Optical purchasing group receivables, net of allowance of \$155 and \$172, respectively	4,594	4,221
Other receivables, net of allowance of \$15 and \$7, respectively	237	322
Current portion of franchise notes receivable, net of allowance of \$42 and \$29, respectively	221	107
Inventories, net	309	322
Prepaid expenses and other current assets	447	543
Deferred tax assets	276	351
Total current assets	9,325	9,700
Property and equipment, net	872	1,191
Franchise notes receivable	290	302
Deferred tax assets, net of current portion	534	803
Goodwill	3,651	4,127
Intangible assets, net	2,839	3,218
Other assets	238	296
Total assets	\$17,749	\$19,637
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$4,564	\$4,362
Optical purchasing group payables	4,336	3,709
Accrual for store closings	-	146
Put option liability – related party		