EMERGING VISION INC
Form 10-Q
May 17, 2004

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

FORM 10-Q

(Mark one)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2004

OR

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

Commission file number: 1-14128

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

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

100 Quentin Roosevelt Boulevard
Garden City, New York 11530
(Address of Principal Executive Offices, including Zip Code)

(516) 390-2100
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ____ No X

As of May 14, 2004 there were 69,386,260 outstanding shares of the Registrant's Common Stock, par value $0.01 per share.

Item 1. Financial Statements

EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Data)

	Mar 2 (Una
ASSETS	
Current assets:	
Cash and cash equivalents	$
Franchise receivables, net of allowance of $872 and $844, respectively	
Other receivables, net of allowance of $103 and $118, respectively	
Current portion of franchise notes receivable, net of allowance of $209 and $241, respectively	
Inventories, net	
Prepaid expenses and other current assets	
Total current assets	
Property and equipment, net	
Franchise notes and other receivables, net of allowance of $532 and $541, respectively	
Goodwill	
Other assets	
Total assets	$
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities:	
Current portion of long-term debt	$
Accounts payable and accrued liabilities	
Accrual for store closings	
Related party borrowings	
Total current liabilities	
Long-term debt	
Related party borrowings	
Franchise deposits and other liabilities	
Contingencies (Note 5)	
Shareholders' deficit:	
Preferred stock, $0.01 par value per share; 5,000,000 shares authorized:	
Senior Convertible Preferred Stock, $100,000 liquidation preference per share; 1 share issued and outstanding	
Common stock, $0.01 par value per share; 150,000,000 shares authorized; 67,991,364 and 67,682,087 shares issued, respectively, and 67,809,027 and 67,499,750 shares outstanding, respectively	
Treasury stock, at cost, 182,337 shares	
Additional paid-in capital	1
Accumulated deficit	(1
Total shareholders' deficit	
Total liabilities and shareholders' deficit	$

===

The accompanying notes are an integral part of these consolidated balance sheets.

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

	For th
	200
Revenues:	
Net sales	$ 1,98
Franchise royalties	1,68
Other franchise related fees	5
Interest on franchise notes receivable	1
Other income	2
Total revenues	3,76
Costs and expenses:	
Cost of sales	27
Selling, general and administrative expenses	2,83
Interest expense	1
Total costs and expenses	3,12
Income from continuing operations before provision for income taxes	64
Provision for income taxes	
Income from continuing operations	64
Loss from discontinued operations	
Net income	$ 64
Per share information - basic and diluted (Note 3):	
Income from continuing operations	$ 0.0
Loss from discontinued operations	
Net income per share	$ 0.0
Weighted-average number of common shares outstanding:	
Basic	67,64
Diluted	85,85

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

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

	For t
	20
Cash flows from operating activities:	
Income from continuing operations	$
Adjustments to reconcile income from continuing operations to net cash used in operating activities:	
Depreciation and amortization	
Provision for doubtful accounts	
Amortization of debt discount	
Changes in operating assets and liabilities:	
Franchise and other receivables	
Inventories	
Prepaid expenses and other current assets	
Other assets	
Accounts payable and accrued liabilities	(
Franchise deposits and other liabilities	
Accrual for store closings	
Net cash used in operating activities	
Cash flows from investing activities:	
Franchise notes receivable issued	
Proceeds from franchise and other notes receivable	
Purchases of property and equipment	
Net cash provided by investing activities	
Cash flows from financing activities:	
Proceeds from borrowings	
Payments on borrowings	
Proceeds from issuance of common stock upon exercise of options and warrants	
Net cash used in financing activities	
Net cash used in continuing operations	
Net cash used in discontinued operations	
Net decrease in cash and cash equivalents	
Cash and cash equivalents - beginning of period	1,

Cash and cash equivalents - end of period	$ 1,
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest	$
Taxes	$

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

EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2004
(In Thousands, Except Share Data)

	Senior Convertible Preferred Stock		Comm
	Shares	Amount	Shares
BALANCE - DECEMBER 31, 2003 (Audited)......................	1	$ 74	67,682,08
Exercise of stock options and warrants.....................	-	-	309,27
Net income...	-	-	
BALANCE - MARCH 31, 2003 (Unaudited).......................	1	$ 74	67,991,36

The accompanying notes are an integral part of this consolidated statement.

EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT - (CONTINUED)
FOR THE THREE MONTHS ENDED MARCH 31, 2004
(In Thousands, Except Share Data)

	Treasury Stock, at cost		Additional Paid-In Capital	Ac
	Shares	Amount		
BALANCE - DECEMBER 31, 2003 (Audited)......................	182,337	$(204)	125,987	
Exercise of stock options and warrants.....................	-	-	12	
Net income...	-	-	-	
BALANCE - MARCH 31, 2004 (Unaudited).......................	182,337	$(204)	$125,999	$

The accompanying notes are an integral part of this consolidated statement.

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

NOTE 1 - BASIS OF PRESENTATION:

The accompanying Consolidated Financial Statements of Emerging Vision, Inc. and subsidiaries (collectively, the "Company") have been prepared in accordance with accounting principles generally accepted for interim financial statement presentation and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted for complete financial statement presentation. In the opinion of management, all adjustments for a fair statement of the results of operations and financial position for the interim periods presented have been included. All such adjustments are of a normal recurring nature. This financial information should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. There have been no changes in significant accounting policies since December 31, 2003.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the provision of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

No stock-based compensation cost is reflected in net income for the three months ended March 31, 2004 and 2003. The following table illustrates the effect on net income and net income per share as if the fair value method had been applied to all outstanding and unvested awards in each year presented:

	Th
	2004
Net income, as reported	$ 648
Deduct: Stock-based compensation expense determined under fair value method	(23
Pro forma	$ 625

Net income per share - basic and diluted, as reported	$ 0.01
Pro forma income (loss) - basic and diluted	$ 0.01

Revenue Recognition

The Company charges franchisees a nonrefundable initial franchise fee. Initial franchise fees are recognized at the time all material services required to be provided by the Company have been substantially performed. Continuing franchise royalty fees are based upon a percentage of the gross revenues generated by each franchised location and are recorded as earned, subject to meeting all of the requirements of SEC Staff Accounting Bulletin ("SAB") No. 103, "Update of Codification of Staff Accounting Bulletins," and SAB 104, "Revenue Recognition." SAB 103 supercedes SAB 101, "Revenue Recognition in Financial Statements," and replaced it, as well as other previously issued bulletins, with a codified format for the updated information. SAB 104 revised or rescinded portions of the interpretative guidance included in SAB 103.

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

Net sales - Represents sales from eye care products and related services;

Franchise royalties - Represents continuing franchise royalty fees based upon a percentage of the gross revenues generated by each franchised location;

Other franchise related fees - Represents the net gains realized from the sale of Company-owned store assets to franchisees; and certain fees collected by the Company under the terms of franchise agreements (including, but not limited to, initial franchise fees, transfer fees and renewal fees).

The Company recognizes revenues in accordance with SAB 103 and SAB 104. Accordingly, revenues are recorded when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the Company's price to the buyer is fixed or determinable, and collectibility is reasonably assured. To the extent that collectibility of royalties and/or interest on franchise notes is not reasonably assured, the Company recognizes such revenue when the cash is received.

The Company also follows the provisions of Emerging Issue Task Force ("EITF") Issue 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," and accordingly, accounts for discounts, coupons and promotions (that are offered to its customers) as a direct reduction of sales.

Reclassifications

Certain reclassifications have been made to prior years' consolidated financial statements to confirm to current year presentation.

NOTE 3 - PER SHARE INFORMATION:

In accordance with SFAS No. 128, "Earnings Per Share", basic net income per common share ("Basic EPS") is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding.

Diluted net income per common share ("Diluted EPS") is computed by dividing the net income by the weighted-average number of common shares and dilutive common share equivalents and convertible securities then outstanding. SFAS No. 128 requires the presentation of both Basic EPS and Diluted EPS on the face of the Company's Consolidated Statements of Operations. Common stock equivalents totaling 7,715,139 and 9,062,323, respectively, were excluded from the computation for the three months ended March 31, 2004 and 2003, as their impact would have been anti-dilutive.

7

The following table sets forth the computation of basic and diluted per share information:

	For th
	2004
Numerator:	
Income from continuing operations	$ 64
Loss from discontinued operations	
Net income	$ 64
Denominator:	
Weighted-average common shares outstanding	67,64
Dilutive effect of:	
Stock options and warrants	18,21
Weighted-average common shares outstanding, assuming dilution	85,85
Basic and Diluted Per Share Information:	
Income from continuing operations	$ 0.0
Loss from discontinued operations	
Net income	$ 0.0

NOTE 4 - ACCRUAL FOR STORE CLOSINGS:

In accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," the Company records a liability for a cost associated with an exit or disposal activity when the liability is incurred. As of March 31, 2004, $77,000 remained accrued for store closings on the accompanying Consolidated Balance Sheet for the final store closure. The Company closed this store during the first quarter of 2004. No additional provision was provided during the three months ended March 31, 2004.

NOTE 5 - CONTINGENCIES:

Litigation

In 1999, Apryl Robinson commenced an action in Kentucky against, among others, the Company, seeking an unspecified amount of damages and alleging numerous claims, including fraud and misrepresentation. The claims that are the subject of this action were subsequently tried in an action in New York that resulted in a judgment in favor of the Company, and against Ms. Robinson and Dr. Larry Joel, a co-defendant in such action. Subsequently, Ms. Robinson and Dr. Joel filed for bankruptcy in Kentucky, and received a discharge from the trustee. Presently, there is a motion pending in the U.S. Bankruptcy Court to vacate Dr. Joel's discharge based upon, among other things, fraud on the Bankruptcy Court. A trial on this motion is anticipated to commence in mid 2004.

In 1999, Berenter Greenhouse and Webster, the advertising agency previously utilized by the Company, commenced an action, against the Company, in the New York State Supreme Court, New York County, for amounts alleged to be due for advertising and related fees. The amounts claimed by the plaintiff are in excess of $200,000. In response to this action, the Company filed counterclaims of approximately $500,000, based upon estimated overpayments allegedly made by the Company pursuant to the agreement previously entered into between the parties. As of the date hereof, these proceedings were still in the discovery stage.

8

In July 2001, the Company commenced an Arbitration Proceeding, in the Ontario Superior Court of Justice, against Eye-Site, Inc. and Eye Site (Ontario), Ltd., as the makers of two promissory notes (in the aggregate original principal amount of $600,000) made by one or more of the makers in favor of the Company, as well as against Mohammed Ali, as the guarantor of the obligations of each maker under each note. The notes were issued, by the makers, in connection with the makers' acquisition of a Master Franchise Agreement for the Province of Ontario, Canada, as well as their purchase of the assets of, and a Sterling Optical Center Franchise for, four of the Company's retail optical stores then located in Ontario, Canada. In response, the defendants counterclaimed for damages, in the amount of $1,500,000, based upon, among other items, alleged misrepresentations made by representatives of the Company in connection with these transactions. The Company believes that it has a meritorious defense to each counterclaim. As of the date hereof, these proceedings were in the discovery stage.

In February 2002, Kaye Scholer, LLP, the law firm previously retained by the Company as its outside counsel, commenced an action in the New York State Supreme Court seeking unpaid legal fees of approximately $122,000. As of the date hereof, the Company has answered the complaint in such action. The Company believes that it has a meritorious defense to such claim.

In May 2002, a class action was commenced in the California Superior Court, Los Angeles County, against the Company and VisionCare of California, Inc. ("VCC"), a wholly owned subsidiary of the Company, by Consumer Cause, Inc., seeking a preliminary and permanent injunction enjoining the defendants from their continued alleged violation of the California Business and Professions Code (the "California Code"), and restitution based upon the defendants' alleged illegal charging of dilation fees during the four year period immediately preceding the date of the plaintiff's commencement of such action. In its complaint, the plaintiff alleged that VCC's employment of licensed optometrists, as well as its operation (under the name Sterling VisionCare) of optometric offices in locations which are usually situated adjacent to the Company's retail optical stores located in the State of California, violated certain provisions of the California Code and was seeking to permanently enjoin VCC from continuing to operate in such manner. In November 2002, the plaintiffs filed an amended complaint removing VCC as a defendant in this action. In January 2003, on motion of the Company, the Court dismissed this action, with prejudice, and without liability to the Company. In April 2003, the plaintiff filed a Notice of Appeal of the decision of the lower court dismissing this action. In August 2003, the Company filed its reply brief, as supplemental on two occasions, opposing the plaintiff's appeal. In April, the Court of Appeals affirmed, in all respects, the lower court's dismissal of this action.

In October 2002, an action was commenced against the Company and its wholly owned subsidiary, Sterling Vision of Eastland, Inc. (the "Tenant"), in the North Carolina General Court of Justice, in which Charlotte Eastland Mall, LLC, as the Landlord of the Tenant's former Sterling Optical Center located in Charlotte, North Carolina, is seeking, among other things, damages against the Company, in the approximate amount of $81,000, under its Limited Guaranty of the Tenant's obligations under the Lease for such Center. The Company believes that it has a meritorious defense to such action. As of the date hereof, these proceedings were in the discovery stage. However, in April 2004, the Company filed a motion for summary judgment in this action. A decision with respect to such motion is currently pending.

In November 2002, ADD of North Dakota, ADD of Jamestown, Inc., each former franchisees of the Company, and Aron Dinesen, their principal shareholder, commenced an action against the Company, in the United States District Court, District of North Dakota, Southeastern Division, alleging, among other things, that the Company breached certain of its obligations under each of their respective Franchise Agreements. In response thereto, the defendant asserted counterclaims based upon the defendants alleged breach of each such franchise agreement and of certain of the other agreements executed by the defendants in connection therewith. The Company believes that it has a meritorious defense to plaintiffs' claims in such action. As of the date hereof, these proceedings were in the discovery stage. However, in April 2004, the Company filed a motion for summary judgment, which motion is currently pending.

On May 20, 2003, Irondequoit Mall, LLC commenced an action against the Company and Sterling Vision of Irondequoit, Inc. alleging, among other things, that the Company had breached its obligations under its guaranty of the lease for the former Sterling Optical store located in Rochester, New York. The defendants believe that they have a meritorious defense to such action. As of the date hereof, these proceedings were in the discovery stage.

9

In October 2003, Developers Diversified Realty Corporation ("DDRC") commenced an action against the Company, in the District Court of the County of Wapello, State of Iowa, in which DDRC, as the Landlord of the Company's former Sterling Optical store located in Ottumwa, Iowa, is seeking, among other things, damages against the Company, in the approximate amount of $200,000, under the lease for such store. In May 2004, the Company reached a settlement, in principal, of this action, which currently contemplates that the Company would pay DDRD the aggregate sum of $120,000 in consideration for DDRD's dismissal of the action, with prejudice, and the exchange of mutual general releases. There can be no assurance, however, that such a settlement will actually be consummated.

In October 2003, Luzerne Optical Laboratories, Ltd. ("Luzerne") commenced an action against the Company in the Court of Common Pleas of the County of Luzerne, State of Pennsylvania, which action was thereafter removed to the Federal Court, Middle District of Pennsylvania. In this action, plaintiff seeks to recover, from the Company, the approximate sum of $240,000 for certain laboratory services allegedly provided to the Company. The Company believes that is has a meritorious defense to such action. As of the date hereof, these proceedings were in the discovery stage.

In December 2003, Westminster Mall Company commenced an action against the Company and Sterling Vision of Westminster, Inc., the Company's wholly-owned subsidiary, in the District Court of the County of Jefferson, State of Colorado, in which the plaintiff, as the Landlord of the Company's former Sterling Optical store located in Westminster, Colorado, is seeking, among other things, damages against such subsidiary under the lease for such store, and against the Company under its guaranty of such lease, in the approximate amount of $229,000. The Company believes that it has a meritorious defense to such action. As of the date hereof, these proceedings were in the discovery stage.

In April 2004, Rubloff Hastings, LLC commenced an action against the Company, in the District Court of Adams County, Nebraska, in which the plaintiff, as the Landlord of the Company's former Sterling Optical store located in Hastings, Nebraska, is seeking, among other things, damages under the Company's lease for the store in the approximate amount of $59,000. The Company believes that it has a meritorious defense to such action. The Company's time to answer the plaintiff's complaint has not yet expired.

In April 2004, Jean Sundstrom, a franchisee of the Company, commenced an action, in the Wisconsin Circuit Court, Winebago County, against the Company alleging, among other things, that the Company breached certain of its obligations under her franchise agreement. The Company has counterclaims against the plaintiff based upon the plaintiff's alleged breach of such franchise agreement and of certain of the other agreements executed by the plaintiff. The Company believes that it has a meritorious defense to plaintiffs' claims in such action. The Company's time to answer plaintiff's complaint has not yet expired. In addition, the Company commenced, in May 2004, a separate action against plaintiff in the Supreme Court, Nassau County, New York, by expedited procedure, alleging a breach, by plaintiff, of her obligations under certain promissory notes given, by plaintiff, to the Company. The plaintiff's (as defendant in such New York action) time to respond to the Company's action has not yet expired.

In addition to the foregoing in the ordinary course of business, the Company is a defendant in certain lawsuits alleging various claims incurred, certain of which claims are covered by various insurance policies, subject to certain deductible amounts and maximum policy limits. In the opinion of management, the resolution of these claims should not have a material adverse effect, individually or in the aggregate, upon the Company's business or financial condition. Other than as set forth above, management believes that there are no other legal proceedings, pending or threatened, to which the Company is, or may be, a party, or to which any of its properties are or may be subject to, which, in the opinion of management, will have a material adverse effect on the Company. Additionally, with respect to the landlord-tenant actions described herein, the Company has already accounted for the estimated possible costs (including possible judgments) associated with such actions as part of accounts payable and accrued liabilities, and the accrual for store closings as of March 31, 2004.

Additionally, with respect to the landlord-tenant actions described herein, the Company has already accounted for the estimated possible costs (including possible judgments) associated with such actions as part of accounts payable and accrued liabilities, and the accrual for store closures as of March 31, 2004.

Guarantees

As of March 31, 2004, the Company was a guarantor of certain leases of retail optical stores franchised and subleased to its franchisees. In the event that all of such franchisees defaulted on their respective subleases, the Company would be obligated for aggregate lease obligations of approximately $4,112,000. The Company continually evaluates the credit-worthiness of its franchisees in order to determine their ability to continue to perform under their respective subleases. Additionally, in the event that a franchisee defaults under its sublease, the Company has the right to take over operation of the respective location.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Report contains certain forward-looking statements and information relating to the Company that are/is based on the beliefs of the Company's management, as well as assumptions made by, and information currently available to, the Company's management. When used in this Report, the words "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events, are not guarantees of future performance and are subject to certain risks and uncertainties. These risks and uncertainties may include, among other items: potential conflicts of interest that could occur with certain of our directors; the retention of certain members of our management team; our inability to control the management of our franchised stores; the effects of new state, local and federal regulations that affect the health care industry; our ability to continue to enter favorable arrangements with health care providers; increased competition from other eyewear providers; the acceptance of refractive laser surgery; product demand and market acceptance risks; the effect of economic conditions; the impact of competitive products, services and pricing; product development, commercialization and technological difficulties; our ability, or lack thereof, to secure additional financing in the future, if necessary, due to the potential lack of liquidity of our common stock; the 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, based on certain changes in ownership that have occurred or could in the future occur; the possibility that we will be unable to successfully execute our business plan; and the outcome of pending and future litigation. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as "anticipated", "believed", "estimated", or "expected". The Company does not intend to update these forward-looking statements.

Results of Operations

For the Three Months Ended March 31, 2004, as Compared to the Comparable Period in 2003

Net sales for Company-owned stores, including revenues generated by the Company's wholly-owned subsidiary, VisionCare of California, Inc. ("VCC"), a specialized health care maintenance organization licensed by the State of California Department of Managed Health Care, decreased by approximately $103,000, or 4.9%, to $1,987,000 for the three months ended March 31, 2004, as compared to $2,090,000 for the comparable period in 2003. This decrease was primarily due to a decrease in Company-owned store sales due to a lower average number in operation during the same comparable periods, offset, in part, by an increase in membership fees generated by VCC during the three months ended March 31, 2004, as compared to the same period in 2003.

As of March 31, 2004, there were 168 stores in operation, consisting of 11 Company-owned stores (including 3 Company-owned stores being managed by franchisees) and 157 franchised stores, as compared to 178 stores in operation as of March 31, 2003, consisting of 18 Company-owned stores (including 7 Company-owned stores being managed by franchisees) and 160 franchised stores. On a same store basis (for those stores that the Company will continue to operate as Company-owned stores), comparative net sales decreased by $65,000, or 6.4%, to $961,000 for the three months ended March 31, 2004, as compared to $1,026,000 for the comparable period in 2003. The Company increased advertising promotions in such stores, which led to a decrease in total sales while not affecting profitability.

Franchise royalties increased by $85,000, or 5.3%, to $1,686,000 for the three months ended March 31, 2004, as compared to $1,601,000 for the comparable period in 2003. This increase was primarily a result of a slight increase in franchise sales for the stores that were open during both of the comparable periods.

Other franchise related fees (which includes initial franchise fees, renewal fees and fees related to the transfer of store ownership from one franchisee to another) decreased by $127,000, or 70.2%, to $54,000 for the three months ended March 31, 2004, as compared to $181,000 for the comparable period in 2003. This decrease was a direct result of the Company entering into seven new franchise agreements for the three months ended March 31, 2003 compared to two for the comparable period in 2004.

12

Interest on franchise notes receivable decreased by $32,000, or 65.3%, to $17,000 for the three months ended March 31, 2004, as compared to $49,000 for the comparable period in 2003. This decrease was primarily due to numerous franchise notes maturing during the past 12 months with only one new note being generated during the three-month period ended March 31, 2004.

Excluding revenues generated by the Company's wholly-owned subsidiary, VisionCare of California, Inc., the Company's gross profit margin increased by 2.7%, to 74.2%, for the three months ended March 31, 2004, as compared to 71.5% for the comparable period in 2003. This increase was mainly a result of improved inventory management and control, improved purchasing at lower average product costs, and improved discounts obtained from certain of the Company's vendors. In the future, the Company's gross profit margin may fluctuate depending upon the extent and timing of changes in the product mix in Company-owned stores, competitive pricing, and promotional incentives.

Selling, general and administrative expenses decreased by $127,000, or 4.3%, to $2,833,000 for the three months ended March 31, 2004, as compared to $2,960,000 for the comparable period in 2003. This decrease was primarily due to management's continuing plan to reduce administrative expenses, where necessary and feasible, and to close non-profitable Company-owned stores. Included were decreases to salaries and related expenses of $163,000, offset, in part by increases in professional fees of $40,000 and facility and overhead charges of $19,000.

Interest expense decreased by $45,000, to $16,000, for the three months ended March 31, 2004, as compared to $61,000 for the comparable period in 2003. This decrease was primarily due to the amortization of the discount associated with certain financing, during the entire three months ended March 31, 2003.

Liquidity and Capital Resources

As of March 31, 2004, the Company had negative working capital of $929,000 and cash on hand of $1,333,000. During the three months ended March 31, 2004, the Company's used $91,000 of cash in its operating activities. This usage was a result of a decrease in accounts payable and accrued liabilities of $762,000, offset, in part, by income from continuing operations of $648,000.

For the three months ended March 31, 2004, cash flows provided by investing activities were $69,000, as compared to $75,000 for the comparable period in 2003. This was principally due to proceeds received on the Company's franchise notes receivable, offset, in part, by limited capital expenditures.

For the three months ended March 31, 2004, cash flows used in financing activities were $28,000, principally due to the repayment of the Company's debt and related party borrowings.

The Company plans to continue to improve its cash flows during 2004 by improving store profitability through increased monitoring of store-by-store operations, continuing to implement reductions of administrative overhead expenses where necessary and feasible, actively supporting development programs for franchisees, and adding new franchised stores to the system. Management believes that with the successful execution of the aforementioned plans to improve cash flows, its existing cash and the collection of outstanding receivables, there will be sufficient liquidity available for the Company to continue in operation through the second quarter of 2005. However, there can be no assurance that the Company will be able to successfully execute the aforementioned plans.

Future Contractual Obligations

The Company has an employment agreement with one of its key employees, which extends through February 2005. The employment agreement provides for certain base compensation and other miscellaneous benefits. The employment agreement also provides for an incentive bonus based upon the Company's achievement of certain EBITDA targets, as defined. The aggregate future annual base compensation relating to this employment agreement for the years ending December 31, 2004 and 2005 is approximately $282,000 and $33,000, respectively.

The Company leases locations for both its Company-owned and franchised stores, as well as its executive and administrative offices. The following table shows the Company's minimum future rental payments for Company-owned stores, executive and administrative offices, as well as for stores leased by the Company and subleased to franchisees (in thousands):

	Total Lease Obligations	Sublease Rentals	Net Com Obligat

April 1, 2004 - March 31, 2005	$ 5,375	$ 4,821	$
April 1, 2005 - March 31, 2006	3,409	2,879	
April 1, 2006 - March 31, 2007	2,421	2,056	
April 1, 2007 - March 31, 2008	1,794	1,619	
April 1, 2008 - March 31, 2009	1,334	1,184	
Thereafter	2,892	2,597	
	$ 17,225	$ 15,156	$ 2,

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company presently has outstanding certain equity instruments with beneficial conversion terms. Accordingly, the Company, in the future, could incur non-cash charges to equity (as a result of the exercise of such beneficial conversion terms), which would have a negative impact on future per share calculations.

The Company believes that the level of risk related to its cash equivalents is not material to the Company's financial condition or results of operations.

Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

Based on their evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, the Co-Chief Operating Officers (each of whom are Principal Executive Officers, and one of whom is also the Company's Chief Financial Officer) have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Co-Chief Operating Officers, as appropriate to allow timely decisions regarding required disclosure.

b) Changes in Internal Controls

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In April 2004, the Company made its final payment under the settlement with Preit-Rubin and the action was dismissed with prejudice.

In April, the Court of Appeals affirmed, in all respects, the lower court's dismissal of Consumer Cause, Inc.'s action against the Company.

In April 2004, the Company made its final payment under the settlement with Wells Fargo and the action was dismissed with prejudice.

In April 2004, General Electric Capital Corporation's ("GECC") action against the Company was settled, the terms of which provide that the Company will pay to GECC the aggregate sum of $85,000, in consideration for GECC's dismissal of the action, with prejudice, and the exchange of mutual general releases.

In May 2004, the Company reached a settlement, in principal, of Developers Diversified Realty Corporation's ("DDRC") action, which currently contemplates that the Company would pay DDRD the aggregate sum of $120,000 in consideration for DDRD's dismissal of the action, with prejudice, and the exchange of mutual general releases. There can be no assurance, however, that such a settlement will actually be consummated.

In April 2004, Rubloff Hastings, LLC commenced an action against the Company, in the District Court of Adams County, Nebraska, in which the plaintiff, as the Landlord of the Company's former Sterling Optical store located in Hastings, Nebraska, is seeking, among other things, damages under the Company's lease for the store in the approximate amount of $59,000. The Company believes that it has a meritorious defense to such action. The Company's time to answer the plaintiff's complaint has not yet expired.

In April 2004, Jean Sundstrom, a franchisee of the Company, commenced an action, in the Wisconsin Circuit Court, Winebago County, against the Company alleging, among other things, that the Company breached certain of its obligations under her franchise agreement. The Company has counterclaims against the plaintiff based upon the plaintiff's alleged breach of such franchise agreement and of certain of the other agreements executed by the plaintiff. The Company believes that it has a meritorious defense to plaintiffs' claims in such action. The Company's time to answer plaintiff's complaint has not yet expired. In addition, the Company commenced, in May 2004, a separate action against plaintiff in the Supreme Court, Nassau County, New York, by expedited procedure, alleging a breach, by plaintiff, of her obligations under certain promissory notes given, by plaintiff, to the Company. The plaintiff's (as defendant in such New York action) time to respond to the Company's action has not yet expired.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

31.1 Certification of Co-Chief Operating Officer and Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14

31.2 Certification of Co-Chief Operating Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14

31.3 Certification of Co-Chief Operating Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14

32.1 Certification of Co-Chief Operating Officers and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

B. Reports on Form 8-K

On February 17, 2004, the Company filed a Report on Form 8-K regarding the issuance of a press release, on February 16, 2004, regarding the rescission of units and warrants in connection with the Company's Rights Offering.

On April 6, 2004, the Company filed a Report on Form 8-K regarding the issuance of a press release, on April 6, 2004, correcting the press release issued on February 16, 2004 and that it would not be restating its quarterly financials.

SIGNATURES

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

EMERGING VISION, INC.
(Registrant)

BY: /s/ Christopher G. Payan

Christopher G. Payan
Senior Vice President,
Co-Chief Operating Officer and
Chief Financial Officer
(Co-Principal Executive Officer and
Principal Financial Officer)

BY: /s/ Brian P. Alessi

Brian P. Alessi
Corporate Controller and Treasurer
(Principal Accounting Officer)

Dated: May 17, 2004

Exhibit 31.1

I, Christopher G. Payan, certify that:

1. I have reviewed this Form 10-Q of Emerging Vision, Inc.;

2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 17, 2004

/s/ Christopher G. Payan

Christopher G. Payan
Co-Chief Operating Officer and
Chief Financial Officer
(Co-Principal Executive Officer and
Principal Financial Officer)

Exhibit 31.2

I, Myles S. Lewis, certify that:

1. I have reviewed this Form 10-Q of Emerging Vision, Inc.;

2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 17, 2004

/s/ Myles S. Lewis

Myles S. Lewis
Co-Chief Operating Officer
(Co-Principal Executive Officer)

Exhibit 31.3

I, Samuel Z. Herskowitz, certify that:

1. I have reviewed this Form 10-Q of Emerging Vision, Inc.;

2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 17, 2004

/s/ Samuel Z. Herskowitz

Samuel Z. Herskowitz
Co-Chief Operating Officer
(Co-Principal Executive Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICERS AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Emerging Vision, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 17, 2004

/s/ Christopher G. Payan

Christopher G. Payan
Co-Chief Operating Officer and
Chief Financial Officer
(Co-Principal Executive Officer and
Principal Financial Officer)

/s/ Myles S. Lewis

Myles S. Lewis
Co-Chief Operating Officer
(Co-Principal Executive Officer)

/s/ Samuel Z. Herskowitz

Samuel Z. Herskowitz
Co-Chief Operating Officer
(Co-Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.