

Edgar Filing: EMERGING VISION INC - Form 10-Q

EMERGING VISION INC
Form 10-Q
August 14, 2008

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

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for

Commission file number: 1-14128

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

NEW YORK (State or other jurisdiction of incorporation or organization)

11-3096941 (I.R.S. Employer Identification No.)

100 Quentin Roosevelt Boulevard Garden City, NY 11530 (Address and zip code of principal executive

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by S

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer,

Large accelerated filer

Accelerated filer

Non accelerated filer

Smaller reporting company

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

Yes

No

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

TABLE OF CONTENTS

PAGE

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Consolidated Condensed Balance Sheets as of June 30, 2008 and December 31, 2007

3

Consolidated Condensed Statements of Income for the Three and Six Months Ended June 30, 2008 and

4

Consolidated Condensed Statements of Cash Flows for the Three and Six Months Ended June 30, 2008 and

5

Notes to Consolidated Condensed Financial Statements

6-15

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

16-26

Item 3. Quantitative and Qualitative Disclosures about Market Risk

27

Edgar Filing: EMERGING VISION INC - Form 10-Q

Item 4T. Controls and Procedures

27

PART II - OTHER INFORMATION

28

Item 1. Legal Proceedings

28

Item 1A. Risk Factors

28

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

28

Item 3. Defaults upon Senior Securities

28

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

28

Item 5. Other Information

28

Item 6. Exhibits

28-29

Signatures

30

Certification of Chief Executive Officer 31.1

Edgar Filing: EMERGING VISION INC - Form 10-Q

Certification of Chief Financial Officer 31.2

Certification of Chief Executive Officer and Chief Financial Officer

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS

	June 30,	December 31,
	2008	2007
	(unaudited)	(audited)
Current assets:		
Cash and cash equivalents	\$2,074	\$2,846
Franchise receivables, net of allowance of \$124 and \$147, respectively	1,820	1,842
Optical purchasing group receivables, net of allowance of \$60	7,367	4,840
Other receivables, net of allowance of \$7 and \$5, respectively	414	369
Current portion of franchise notes receivable, net of allowance of \$38	228	191
Inventories, net	409	466

Edgar Filing: EMERGING VISION INC - Form 10-Q

Prepaid expenses and other current assets
669 447

Deferred tax assets, current portion
615 600

Total current assets
13,596 11,601

Property and equipment, net
1,255 1,496

Franchise notes receivable
147 121

Deferred tax asset, net of current portion
1,324 1,074

Goodwill, net
4,249 4,237

Intangible assets, net
3,192 3,065

Other assets
254 271

Total assets
\$24,017 \$21,865

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities
\$4,526 \$5,607

Optical purchasing group payables
6,775 4,486

Accrual for store closings
268 300

Short-term debt
23 32

Related party obligations
399 404

Total current liabilities
11,991 10,829

Edgar Filing: EMERGING VISION INC - Form 10-Q

Long-term debt	4,415	4,424
Related party borrowings, net of current portion	719	770
Franchise deposits and other liabilities	392	442
Total liabilities	17,517	16,465

Commitments and contingencies

Shareholders' equity:

Preferred stock, \$0.01 par value per share; 5,000,000 shares authorized: Senior Convertible Pref	74	74
Common stock, \$0.01 par value per share; 150,000,000 shares authorized; 125,475,143 shares issued	1,254	1,254
Treasury stock, at cost, 182,337 shares	(204)	(204)
Additional paid-in capital	128,017	127,971
Accumulated comprehensive income	195	165
Accumulated deficit	(122,836)	(123,860)
Total shareholders' equity	6,500	5,400
Total liabilities and shareholders' equity	\$24,017	\$21,865

Table of Contents

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

EMERGING VISION, INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

For the Three Months Ended June 30,
For the Six Months Ended June 30,

2008

Edgar Filing: EMERGING VISION INC - Form 10-Q

2007
2008
2007

Revenues:

Optical purchasing group sales				
	\$16,367	\$4,597	\$30,662	\$8,922
Franchise royalties				
	1,595	1,765	3,246	3,506
Retail sales - Company-owned stores				
	954	1,248	2,096	2,605
Membership fees - VisionCare of California				
	877	878	1,720	1,727
Franchise related fees and other revenues				
	18	75	248	128
Total revenue				
	19,811	8,563	37,972	16,888

Costs and operating expenses:

Cost of optical purchasing group sales				
	15,626	4,300	29,159	8,303
Cost of retail sales				
	246	364	511	682
Selling, general and administrative expenses				
	3,723	3,818	7,444	7,453
Total costs and operating expenses				
	19,595	8,482	37,114	16,438

Operating income				
	216	81	858	450

Other income (expense):

Interest on franchise notes receivable				
	7	12	14	23
Gain on sale of company-owned stores to franchisees				
	-	5	19	5
Other income				

Edgar Filing: EMERGING VISION INC - Form 10-Q

	25	12	54	47
Interest expense	(80)	(44)	(186)	(109)
Total other income (expense)	(48)	(15)	(99)	(34)

Income before income tax benefit	168	66	759	416
----------------------------------	-----	----	-----	-----

Income tax benefit	139	302	265	383
--------------------	-----	-----	-----	-----

Net income	307	368	1,024	799
------------	-----	-----	-------	-----

Comprehensive income:

Foreign currency translation adjustments	9	-	33	-
--	---	---	----	---

Comprehensive income	\$316	\$368	\$918	\$799
----------------------	-------	-------	-------	-------

Net income per share:

Basic	\$0.00	\$0.01	\$0.01	\$0.01
-------	--------	--------	--------	--------

Diluted	\$0.00	\$0.00	\$0.01	\$0.01
---------	--------	--------	--------	--------

Weighted-average number of common shares outstanding:

Basic	125,293	70,324	125,293	70,324
-------	---------	--------	---------	--------

Diluted	130,783	127,012	131,175	123,635
---------	---------	---------	---------	---------

Table of Contents The accompanying notes are an integral part of these consolidated condens

Edgar Filing: EMERGING VISION INC - Form 10-Q

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

For the Six Months Ended June 30,

2008
2007

Cash flows from operating activities:

Net income
\$1,024 \$799

Adjustments to reconcile net income to net cash (used in) provided by operating activities:

Depreciation and amortization
313 220

Provision for doubtful accounts
12 (1)

Deferred tax assets
(265) (422)

Gain on the sale of property and equipment
(19) (5)

Non-cash compensation charges related to options and warrants
46 73

Changes in operating assets and liabilities:

Franchise and other receivables
(42) (827)

Optical purchasing group receivables
(2,527) (936)

Inventories
4 (33)

Prepaid expenses and other current assets
(222) (108)

Other assets
(7) 182

Accounts payable and accrued liabilities
(1,081) 562

Optical purchasing group payables
2,289 771

Franchise deposits and other liabilities
(82) (88)

Edgar Filing: EMERGING VISION INC - Form 10-Q

Net cash (used in) provided by operating activities
(557) 187

Cash flows from investing activities:

Proceeds from franchise and other notes receivable
126 74

Costs associated with enhancing trademark value
(228) (60)

Franchise notes receivable issued
(20) (131)

Purchases of property and equipment
(21) (504)

Net cash used in investing activities
(143) (621)

Cash flows from financing activities:

Borrowings under credit facility
- 350

Payments on borrowings
(74) (349)

Net cash (used in) provided by financing activities
(74) 1

Net cash used in operations
(774) (433)

Effect of foreign exchange rate changes on cash
2 -

Net decrease in cash and cash equivalents
(772) (433)

Cash and cash equivalents - beginning of period
2,846 1,289

Cash and cash equivalents - end of period
\$2,074 \$856

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest

Edgar Filing: EMERGING VISION INC - Form 10-Q

\$158 \$25

Taxes

\$32 \$29

Non-cash investing and financing activities:

Accounts and notes receivable in connection with the sale of two Company-owned stores (inclusive of cash)
\$169 \$-

Table of Contents

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

EMERGING VISION, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
NOTE 1 - ORGANIZATION:

Business

Emerging Vision, Inc. and subsidiaries (collectively, the "Company") operates one of the largest eye care chains in the United States. As of June 30, 2008, there were 151 Retail Stores in operation, consisting of 142 franchised stores and 9 Company-owned stores.

Principles of Consolidation

The Consolidated Condensed Financial Statements include the accounts of Emerging Vision, Inc. and its subsidiaries.

Basis of Presentation

The accompanying Consolidated Condensed Financial Statements of the Company have been prepared on a historical cost basis. Effective January 1, 2008, the Company changed its basis of presentation for its business segment to the LIFO method.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Share-Based Compensation

The Company accounts for share-based compensation in accordance with the fair value method provisions of SFAS No. 123R. Share-based compensation cost of approximately \$41,000 and \$69,000 is reflected in selling, general and administrative expenses. On May 7, 2008, the Company's Compensation Committee granted an aggregate of 625,000 common stock options to employees. There were no common stock option grants to any of the Company's employees, or warrant grants to employees.

Revenue Recognition
The Company recognizes revenues in accordance with the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 107. The Company derives its revenues from the following five principal sources:

Optical purchasing group sales - Represents product pricing extended to the Company's optical purchasing group members.
Franchise royalties - Represents continuing franchise royalty fees based upon a percentage of the Company's optical purchasing group sales.
Retail sales - Company-owned stores - Represents sales from eye care products and related services.
Membership fees - VisionCare of California - Represents membership fees generated by VisionCare of California.
Franchise related fees and other revenues - Represents certain franchise fees collected by the Company.
The Company also follows the provisions of Emerging Issue Task Force ("EITF") Issue 01-09, "Accounting for Certain Franchise Fees." Comprehensive Income

The Company follows the provisions of SFAS No. 130, "Reporting Comprehensive Income," which establishes the criteria for reporting comprehensive income. Foreign Currency Translation

The financial position and results of operations of TOG were measured using TOG's local currency.

Edgar Filing: EMERGING VISION INC - Form 10-Q

Income Taxes

Effective January 1, 2007, the Company adopted the provisions of FASB's Interpretation ("FIN") No. 48, "Revenue Recognition - Uncertainty of Tax Positions". The Company recognizes interest and penalties related to uncertain tax positions as a reduction of income. The Company operates in multiple tax jurisdictions within the United States of America and Canada.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates.

Reclassification

Certain reclassifications have been made to prior year's consolidated condensed financial statements.

NOTE 3 - PER SHARE INFORMATION:

In accordance with SFAS No. 128, "Earnings Per Share", basic earnings per share of common stock (EPS) is calculated as follows. The following table sets forth the computation of basic and diluted per share information:

For the Three Months Ended June 30,
For the Six Months Ended June 30,

2008

2007
2008
2007

Numerator:

Net income (in thousands):

\$307 \$368 \$1,024 \$799

Denominator:

Weighted-average shares of common stock outstanding

125,293 70,324 125,293 70,324

Dilutive effect of stock options, warrants and restricted stock

5,490 56,688 5.882 53,312

Weighted-average shares of common stock outstanding, assuming dilution

130,783 127,012 131,175 123,636

Net income per share:

Basic

\$0.00 \$0.01 \$0.01 \$0.01

Diluted

\$0.00 \$0.00 \$0.01 \$0.01

NOTE 4 - CREDIT FACILITY:

On August 8, 2007, the Company entered into a Revolving Line of Credit Note and Credit Agreement with a financial institution. On August 10, 2007, the Company borrowed \$3,609,423 to fund the purchase price payable in connection with the acquisition of a subsidiary.

Edgar Filing: EMERGING VISION INC - Form 10-Q

NOTE 5 - SEGMENT REPORTING

Business Segments

Operating segments are organized internally primarily by the type of services provided, and in accordance with the nature of the products sold. The Optical Purchasing Group Business segment consists of the operations of Combine, acquired in 2007. The Franchise segment consists of 142 franchise locations as of June 30, 2008. Revenues generated by the Franchise segment are reported net of royalties. The Company Store segment consists of 8 Company-owned retail optical stores as of June 30, 2008. The VisionCare of California ("VCC") segment consists of optometric services provided to patients. The Corporate Overhead segment consists of expenses not allocated to one of the other segments. The Other segment includes revenues and expenses from other business activities that do not fall into any of the other segments. Certain business segment information is as follows (in thousands):

As of June 30,

As of December 31,

2008

2007

Total Assets:

Optical Purchasing Group Business

\$14,746 \$11,682

Franchise

4,063 4,507

Company Store

1,036 1,301

VisionCare of California

628 568

Corporate Overhead

3,358 3,731

Other

186 76

Total assets

\$24,017 \$21,865

For the Three Months Ended June 30,

For the Six Months Ended June 30,

2008

2007

2008

2007

Edgar Filing: EMERGING VISION INC - Form 10-Q

Net Revenues:

Optical Purchasing Group Business	\$16,367	\$4,597	\$30,662	\$8,922
-----------------------------------	----------	---------	----------	---------

Franchise	1,605	1,840	3,406	3,634
-----------	-------	-------	-------	-------

Company Store	954	1,248	2,096	2,605
---------------	-----	-------	-------	-------

VisionCare of California	877	878	1,720	1,727
--------------------------	-----	-----	-------	-------

Corporate Overhead	-	-	-	-
--------------------	---	---	---	---

Other	8	-	88	-
-------	---	---	----	---

Net revenues	\$19,811	\$8,563	\$37,972	\$16,888
--------------	----------	---------	----------	----------

Income (Loss) before Income Tax Benefit:

Optical Purchasing Group Business	\$319	\$95	\$640	\$186
-----------------------------------	-------	------	-------	-------

Franchise	985	1,005	2,168	2,137
-----------	-----	-------	-------	-------

Company Store	(186)	(175)	(203)	(266)
---------------	-------	-------	-------	-------

VisionCare of California	4	16	6	25
--------------------------	---	----	---	----

Corporate Overhead	(898)	(875)	(1,785)	(1,666)
--------------------	-------	-------	---------	---------

Other	(56)	-	(67)	-
-------	------	---	------	---

Income before income tax benefit	\$168	\$66	\$759	\$416
----------------------------------	-------	------	-------	-------

Depreciation and Amortization:

Optical Purchasing Group Business	\$77	\$39	\$153	\$77
-----------------------------------	------	------	-------	------

Franchise	27	20	55	42
-----------	----	----	----	----

Company Store	16	28	35	53
---------------	----	----	----	----

Edgar Filing: EMERGING VISION INC - Form 10-Q

VisionCare of California				
	5	3	11	6
Corporate Overhead				
	27	20	55	42
Other				
	4	-	4	-
Total depreciation and amortization				
	\$156	\$110	\$313	\$220

Interest Expense:

Optical Purchasing Group Business				
	\$67	\$32	\$159	\$87
Franchise				
	-	-	-	-
Company Store				
	-	-	-	-
VisionCare of California				
	-	-	-	-
Corporate Overhead				
	13	12	27	22
Other				
	-	-	-	-
Total interest expense				
	\$80	\$44	\$186	\$109

The following table shows certain unaudited pro forma results of the Company, assuming the Company
 For the Three Months Ended June 30,
 For the Six Months Ended June 30,

2008	
	2007
	2008
	2007

Net Revenues:

Edgar Filing: EMERGING VISION INC - Form 10-Q

Optical Purchasing Group Business				
	\$16,367	\$15,937	\$30,662	\$28,665
Franchise				
	1,605	1,840	3,406	3,634
Company Store				
	954	1,248	2,096	2,605
VisionCare of California				
	877	878	1,720	1,727
Corporate Overhead				
	-	-	-	-
Other				
	8	-	88	-
Net revenues				
	\$19,811	\$19,903	\$37,972	\$36,631

Income (Loss) before Income Tax Benefit:

Optical Purchasing Group Business				
	\$319	\$210	\$640	\$485
Franchise				
	985	1,005	2,168	2,137
Company Store				
	(186)	(175)	(203)	(266)
VisionCare of California				
	4	16	6	25
Corporate Overhead				
	(898)	(875)	(1,785)	(1,666)
Other				
	(56)	-	(67)	-
Income before income tax benefit				
	\$168	\$181	\$759	\$715