EMERGING VISION INC
Form 10-K
April 16, 2002

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

FORM 10-K

X Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, for the fiscal year ended December 31, 2001.

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _______ to _______.

Commission File Number: 1-14128

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

New York	11-3096941
(State of Incorporation)	(IRS Employer Identification Number)

100 Quentin Roosevelt Boulevard
Garden City, NY 11530
Telephone Number: (516) 390-2100
(Address and Telephone Number of
Principal Executive Offices)

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

TITLE
Common Stock, par value $0.01 per share

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

Yes X No ___

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

The aggregate market value of the Registrant's Common Stock, par value $0.01 per share (the "Common Stock") held by non-affiliates of the Registrant as of April 8, 2002, (based upon the closing price of $0.08 per share as quoted on the OTC Bulletin Board) was approximately $1,711,100. For purposes of this computation, the shares of Common Stock held by directors, executive officers and principal shareholders owning more than 5% of the Registrant's outstanding Common Stock and for which a Schedule 13G was filed, were deemed to be stock held by affiliates. As of April 8, 2002, there were approximately 21,388,750 outstanding shares of Common Stock held by non-affiliates.

As of April 8, 2002, there were outstanding 27,004,972 shares of the Registrant's Common Stock and 2.51 shares of the Registrant's Senior Convertible Preferred Stock, par value $0.01 per share (convertible into an aggregate of 334,667 shares of the Registrant's Common Stock).

Item 1. Business

General

Emerging Vision, Inc. (the "Registrant" and, together with its subsidiaries, hereinafter the "Company" or "Emerging") is 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 herein as "Sterling Stores"). The Registrant was incorporated under the laws of the State of New York in January 1992 and, in July 1992, purchased substantially all of the assets of Sterling Optical Corp., a New York corporation then a debtor-in-possession under Chapter 11 of the U.S. Bankruptcy Code.

In March 2001, the Board of Directors decided that the Company should focus its efforts and resources on growing its retail optical business and, as a result, approved a plan to discontinue all other operations then being conducted by the Company. In connection with this decision, the Company completed its plan of disposal of substantially all of the net assets of Insight Laser Centers, Inc. ("Insight Laser") - which operated three laser vision correction centers in the New York metropolitan area; Insight Laser Centers N.Y.I, Inc. (the "Ambulatory Center") - owner of the assets of an ambulatory surgery center located in Garden City, New York; and the yet-to-be-developed Internet Division - which was to provide a web-based portal being designed to take advantage of business-to-business opportunities in the optical industry, for which the Company simply ceased further development and discontinued the operations of.

In early 2001, the Company closed two of its three Insight Laser locations and, in an effort to pursue a sale of the remaining net assets, and continued to operate the one remaining location from its center located in Trump Tower in New York City. The Company was unable to secure a favorable deal to sell the remaining net assets, and in November 2001, the Trump Tower location was closed as well, thereby completely ceasing operations of Insight Laser.

On May 31, 2001, the Company sold the net assets of the Ambulatory Center to the owner of the license required to operate the center. The Company remains a guarantor of certain liabilities and future obligations associated with the Ambulatory Center.

Store Operations

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

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

The Company sells the assets of certain of its Company-owned stores to qualified franchisees, and, in certain instances, realizes a profit on the conveyance of the assets of such stores. Through these sales, along with the opening of new stores by qualified franchisees, the Company seeks to create a stream of royalty payments based upon a percentage of the gross revenues of the franchised locations, and grow the Sterling Optical brand name. The Company currently derives its retail optical store revenues principally from the sale of eye care products and services at Company-owned stores, and ongoing royalty fees based upon a percentage of the gross revenues of its franchised stores.

As of December 31, 2001, there were 203 Sterling Stores in operation, consisting of 34 Company-owned stores (including 9 stores being managed by franchisees), and 169 franchised stores (including 1 store being managed by the Company on behalf of the franchisee thereof). The Company continually seeks to expand both its Company-owned and franchised store operations. Sterling Stores are located in 24 states, the District of Columbia, Canada, and the U.S. Virgin Islands.

The following chart sets forth the breakdown of Sterling Stores in operation as of December 31, 2001 and 2000:

	December 31, 2001(*)	December 31, 2000
I. COMPANY-OWNED STORES:		
Company-owned stores........................	25	20
Company-owned stores managed by franchisees..	9	12
Total..................	34	32

(*)Existing store locations: California (3), Illinois (3), Iowa (1), Kentucky (1), Minnesota (4), Missouri (2), Nebraska (1), New York (15), North Dakota (1), Pennsylvania (1), Virginia (1) and Wisconsin (1).

II. FRANCHISED STORES:

Franchised stores	168	198
Franchised stores managed by the Company	1	3
Total	169	201

(*)Existing store locations: California (27), Colorado (1), Connecticut (1), Delaware (5), Florida (2), Illinois (2), Kentucky (2), Maryland (20), Massachusetts (1), Minnesota (1), Montana (1), Nevada (1), New Jersey (8), New York (45), North Dakota (5), Ontario, Canada (3), Pennsylvania (15), South Dakota (1), Texas (2), Virginia (8), Washington, D.C. (2), West Virginia (1), Wisconsin (13), and the U.S. Virgin Islands (2).

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; however, some Sterling Stores are located on the ground floor of office buildings or other commercial structures, 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.

In response to the eyewear market becoming increasingly fashion-oriented during the past decade, most Sterling Stores carry a large selection of designer eyeglass frames. The Company continually test-markets various brands of sunglasses, ophthalmic lenses, contact lenses and designer frames. Small quantities of these items are usually purchased for selected stores that test customer response and interest. If a product test is successful, the Company attempts to negotiate a system-wide preferred vendor discount for the product in an effort to maximize system-wide sales and profits.

Franchise System

An integral part of the Company's franchise system includes providing what the Company believes to be a high level of marketing, financial, training and administrative support to its franchisees. The Company provides "grand opening" assistance for each new franchised location by consulting with its franchisees with respect to store design, fixture and equipment requirements and sources, inventory selection and sources, and marketing and promotional programs. Specifically, the Company's grand opening assistance helps to establish business plans and budgets, provides preliminary store designs and plan approval prior to construction of a franchised store, and provides training, an operations manual and a comprehensive business review to aid the franchisee in attempting to maximize its sales and profitability. Further, on an ongoing basis, the Company provides training through regional seminars, offers assistance in marketing and advertising programs and promotions, and consults with its franchisees as to their management and operational strategies and business plans.

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

Franchise Agreements. Each franchisee enters into a franchise agreement (the "Franchise Agreement") with the Company, the material terms of which generally 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"), and those entering into agreements for more than one location) must pay the Company a non-recurring, initial franchise fee of $20,000. The Company charges each franchisee of a Converted Store a non-recurring, initial franchise fee of $10,000 per location. For each franchisee entering into agreements for more than one location, the Company charges a non-recurring, initial franchise fee of $15,000 for the second location, and $10,000 for each location in excess of two.

(c) Ongoing Royalties. Franchisees are obligated to pay the Company ongoing royalties in an amount equal to a percentage (generally 8%) of the gross revenues generated by their Sterling Store. Franchisees of Converted Stores, however, pay ongoing royalties, on their store's historical average base sales, at reduced rates increasing (in most cases) from 2% to 6% for the first three years of the term of the Franchise Agreement. In addition, most of the Franchise Agreements acquired by the Company from Singer Specs, Inc. (the "Singer Franchise Agreements") provide for ongoing royalties calculated at 7% of gross revenues. Franchise Agreements entered into prior to January 1994 provide for the payment of ongoing royalties on a monthly basis, while those entered into after January 1994 provide for their payment on a weekly basis, in each case, based upon the gross revenues for the preceding period. Gross revenues generally include all revenues generated from the operation of the Sterling Store in question, excluding refunds to customers, sales taxes, a limited amount of bad debts and, to the extent required by state law, fees charged by independent optometrists.

(d) Advertising Fund Contributions. Most franchisees must make ongoing contributions to one of two advertising funds (the "Advertising Fund") equal to a percentage of their store's gross revenues. Except for the Singer Franchise Agreements, which generally provide for contributions equal to 7% of gross revenues, for Franchise Agreements entered into prior to August 1993, the rate of contribution is generally 4% of the store's gross revenues, while Franchise Agreements entered into after August 1993 generally provide for contributions equal to 6% of the store's gross revenues. Generally, 50% of these funds are expended at the direction of each individual franchisee (for the particular Sterling Store in question), with the balance being expended on joint advertising campaigns for all franchisees located within specific geographic areas.

(e) Financing. The Company generally has financed a majority of the acquisition price of the assets (other than inventory) of Company-owned stores sold to franchisees, to be repaid over a period of seven years, together with interest at the rate of 12% per annum. The Company generally does not finance the initial, non-recurring franchise fee or rent security deposits, which are generally required under a franchisee's sublease. The purchase price is generally based upon the historical and projected cash flow of the Sterling Store in question. However, the Company has, on occasion, financed (and may in the future finance) up to 100% of the acquisition price of a franchised store. Substantially all such financing is personally guaranteed by the franchisee (or, if a corporation, by the principals owning in excess of an aggregate of 51%

thereof) and is generally secured by all of the assets of the Sterling Store in question, including subsequently acquired assets and the proceeds thereof. From time to time, certain franchisees obtain financing from third parties. In such cases, the Company generally subordinates its security interest in the assets of the franchised location to the security interests granted to the provider of such financing.

(f) Termination. Franchise Agreements may be terminated if the 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 2001, 25 franchised stores were closed, and the assets of (as well as possession of) an additional 13 franchise stores were reacquired by the Company. Substantially all of the assets located in such stores were voluntarily surrendered and transferred back to the Company in connection with the termination of the related Franchise Agreements. In such instances, it is generally the Company's intention to re-convey the assets of such a store to a new franchisee, requiring the new franchisee to enter into the Company's then current form of Franchise Agreement. Subsequent to December 31, 2001, the Company repossessed 2 franchised locations and currently operates them as Company-owned stores.

Marketing and Advertising

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

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The Company continually prepares and revises its in-store, point-of-purchase displays, which provide various promotional messages to customers upon their arrival at Sterling Stores. Both Company-owned and most franchised Sterling Stores participate in advertising and in-store promotions, which include visual merchandising techniques to draw attention to the products displayed in the Sterling Store in question. The Company is also in the process of refining its interactive web site, which further markets the "Sterling" and "Site for Sore Eyes" brands in an effort to increase traffic to its stores and, in many instances, also uses direct mail advertising to reach prospective, as well as existing, consumers.

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

Insight Managed Vision Care

Managed care is a substantial and growing segment of the retail optical business. Under the trade name "Insight Managed Vision Care," the Company promotes the use of its Sterling Stores through the ongoing development of its managed care network. The Company, through Insight Managed Vision Care, markets to payers (e.g. health maintenance organizations, preferred provider organizations, insurance companies, Taft-Hartley unions, and mid-sized to large companies) that offer eye care benefits to their covered participants. When Sterling Stores provide services or products to a covered participant, it is generally at a discount from the everyday advertised retail price. Typically, participants will be eligible for greater eye care benefits at Sterling Stores than those offered at eye care providers that are not participating in a managed care program. The Company believes that the additional customer traffic generated by covered participants, along with purchases by covered participants above and beyond their eye care benefits, more than offsets the reduced gross margins being realized on these sales. The Company believes that convenience of store locations and hours of operation are key factors in attracting managed care business. As the Company increases its presence within markets it has already entered as well as expands into new markets, it believes it will be more attractive to managed care payors due to the additional Sterling Stores being operated by the Company and its franchisees.

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 individual opticians, optometrists and ophthalmologists who provide professional services and may, in connection therewith, dispense prescription eyewear. As retailers of prescription eyewear generally service local markets, competition varies substantially from one location or geographic area to another. Since 1994, certain major competitors of the Company have been offering promotional incentives to their customers and, in response thereto, the Company generally offers the same or similar incentives to its customers.

The Company believes that the principal competitive factors in the retail optical business are convenience of location, on-site availability of professional eye examinations, rapid service, quality and consistency of product and service, price, product warranties, a broad selection of merchandise and the participation in third-party, managed care provider programs. The Company believes that it competes favorably in each of these areas.

Government Regulation

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

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

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

Environmental Regulation

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

Employees

As of April 8, 2002, the Company employed approximately 238 individuals, of which approximately 77% were employed on a full-time basis. Except for those individuals employed at Company-owned Sterling Stores located in the New York metropolitan area, and except for those individuals employed by the Registrant's wholly-owned subsidiary, Insight IPA of New York, Inc. (which solicits managed care provider agreements in the State of New York), of which there were none, no employees are covered by any collective bargaining agreement. The Company considers its labor relations with its associates to be in good standing and has not experienced any interruption of its operations due to disagreements. Additionally, the Company has employment agreements with two of its key executives.

Item 2. Properties

The Company's headquarters, consisting of approximately 7,000 square feet, are located in an office building situated at 100 Quentin Roosevelt Boulevard, Garden City, New York 11530, under a sublease that expires in November 2006. This facility houses the Company's principal executive and administrative offices.

The Company leases the space occupied by all of its Company-owned Sterling Stores and the majority of its franchised Sterling Stores. The remaining leases for its franchised Sterling Stores, are held in the names of the respective franchisees thereof.

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

Item 3. Legal Proceedings

Information with respect to the Company's legal proceedings required by Item 103 of Regulation S-K is set forth in Notes 2 and 12 to the Consolidated Financial Statements included in Item 8 of this Report, and is incorporated by reference herein

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

There were no matters submitted to a vote by the Company's shareholders during the fourth quarter ended December 31, 2001.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Registrant's Common Stock was listed on the OTC Bulletin Board under the trading symbol "ISEE.OB" as of August 23, 2001, and was previously listed on the Nasdaq National Market System. 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 sales prices for the Registrant's Common Stock for each quarterly period of the last two years, is as follows:

	2001		2000	
Quarter Ended:	High	Low	High	Low
March 31	$0.72	$0.22	$15.13	$5.44
June 30	$0.37	$0.19	$8.19	$1.88
September 30	$0.80	$0.13	$2.63	$0.94
December 31	$0.14	$0.06	$1.50	$0.19

The approximate number of shareholders of record of the Company's Common Stock as of April 8, 2002, was 328.

The number of shareholders of record of the Company's Senior Convertible Preferred Stock as of April 8, 2002, was 2.

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

Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following Selected Financial Data has been derived from the audited consolidated financial statements of the Company and should be read in conjunction with those statements, which are included in this Report. The consolidated financial statements have been examined and reported on by Arthur Andersen LLP, independent public accountants, with respect to the years ended

December 31, 2001, 2000, 1999 and 1998. The consolidated financial statements for the year ended December 31, 1997 were audited by Deloitte & Touche LLP, independent public accountants.

	(In thousands except for per share		
	Year Ended		
Statement of Operations Data:	2001	2000	1999
System-wide sales (1)	$ 124,589	$ 128,775	$ 140,3
Total revenues	$ 20,619	$ 23,058	$ 29,5
Loss from continuing operations	$ (5,088)	$ (14,628)	$ (2,6
Income (loss) from discontinued operations	$ 1,312	$ (15,533)	$ 4
Loss on disposal of discontinued operations	$ -	$ (8,831)	$
Net loss	$ (3,776)	$ (38,992)	$ (2,2
Per Share Information - basic and diluted			
Loss from continuing operations	$ (0.19)	$ (2.04)	$ (0.
Income (loss) from discontinued operations	$ 0.05	$ (0.66)	$ 0.
Loss on disposal of discontinued operations	$ -	$ (0.37)	$
Net loss per share	$ (0.14)	$ (3.07)	$ (0.
Weighted-average common shares outstanding	26,409	23,627	15,2
Balance Sheet Data:			
Working capital (deficit)	$ (1,758)	$ (3,987)	$ (4,7
Total assets	11,057	22,531	30,3
Total debt	1,299	754	7,3

Sterling Store Data:	(In thousands except for		
	Year Ended Dec		
	2001	2000	1999
Company-owned stores bought, opened or reacquired	15	3	11
Company-owned stores sold or closed	(10)	(13)	(16)
Company-owned stores at end of period	25	20	30
Company-owned stores being managed by Franchisees at end of period	9	12	6

Franchised stores being managed by Company at end of period	1	3	5
Franchised stores at end of period	169	201	218

Average sales per store: (2)			
Company-owned stores	$ 518	$ 396	$ 420
Franchised stores	$ 564	$ 546	$ 495
Average franchise royalties per franchised store (2)	$ 43	$ 42	$ 38

(1) System-wide sales represent combined retail sales generated by Company-owned and franchised stores, as well as revenues generated by VCC.

(2) Average sales per store and average franchise royalties per franchised store are computed based upon the weighted-average number of Company-owned and franchised stores in operation, respectively, for each of the specified periods. For periods of less than a year, the averages have been annualized.

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

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

Results of Operations

For the Year Ended December 31, 2001 compared to December 31, 2000

Net sales for Company-owned stores, including revenues generated by VCC, a specialized health care maintenance organization licensed by the State of

California Department of Managed Health Care, decreased by $467,000, or 3.9%, to $11,648,000 for the year ended December 31, 2001, as compared to $12,115,000 for the comparable period in 2000. On a same store basis (for stores that operated as a Company-owned store during the entirety of both of the years ended December 31, 2001 and 2000), comparative net sales decreased by $1,043,000, or 14.5%, to $6,129,000 for the year ended December 31, 2001, as compared to $7,172,000 for the comparable period in 2000. While, on average, there were more Company-owned stores in operation during 2001 as compared to 2000, the Company experienced a decline in sales during the last quarter of 2001. Management believes that this decline was a direct result of the general economic downturn experienced as a result of the tragic events of September 11, 2001, especially in light of the fact that the nearly 50% of Company-owned stores operate in the State of New York.

Franchise royalties decreased by $1,217,000, or 13.3%, to $7,860,000 for the year ended December 31, 2001, as compared to $9,077,000 for the comparable period in 2000. This decrease was a result of the fact that there were fewer franchised stores in operation during 2001 as compared to 2000. As of December 31, 2001, there were 169 franchised stores in operation, as compared to 201 as of December 31, 2000.

Net gains and fees on the conveyance of Company-owned store assets to franchisees (which includes renewal fees and the fees related to the transfer of store ownership from one franchisee to another) decreased by $158,000, or 53.0%, to $140,000 for the year ended December 31, 2001, as compared to $298,000 for the comparable period in 2000. This decrease was due to the fact that the Company did not convey to franchisees (and thus did not realize a gain on) any assets of Company-owned stores during the year ended December 31, 2001. In 2000, however, the Company conveyed the assets of 3 Company-owned stores to franchisees. The $140,000 reflected for the year ended December 31, 2001 relates solely to transfer and renewal fees.

Interest on franchise notes receivable decreased by $263,000, or 21.7%, to $947,000 for the year ended December 31, 2001, as compared to $1,210,000 for the comparable period in 2000. This decrease was principally due to the fact that several franchise notes matured during 2001.

Other income decreased by $334,000, or 93.3%, to $24,000 for the year ended December 31, 2001, as compared to $358,000 for the comparable period in 2000. This decrease was primarily a result of a decrease in the amount of interest income earned by the Company, due to lower average cash balances on hand in its banks during 2001, as compared to 2000.

The Company's gross profit margin increased by 5.5%, to 73.6% for the year ended December 31, 2001, as compared to 68.1% for the comparable period in 2000. This increase was a result of improved inventory management and control, improved purchasing at lower average product costs, and better discounts obtained in 2001 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.

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Selling, general and administrative expenses decreased by $11,870,000, or 36.6%, to $20,361,000 for the year ended December 31, 2001, as compared to $31,260,000 for the comparable period in 2000. This decrease was primarily due to the the fact that the Company recorded increased charges of $10,260,000 during the year ended December 31, 2000, related to the Company's provision for doubtful accounts associated with accounts and notes receivable due from franchisees, along with certain receivables from franchisees for advertising expenditures that the Company incurred on their behalf, while the Company incurred no such charges during the year ended December 31, 2001. As discussed in the prior year, the increased charges in 2000 were a direct result of a change in management philosophy, policy, direction, and related courses of action resulting from a change in the Company's senior management personnel subsequent to December 31, 2000, to take back franchise stores and/or reevaluate notes receivable due from various problem franchisees. During 2001, the Company did not incur similar charges, as management carefully monitored and managed its franchise receivables and notes. Additionally, due to corporate downsizing and improved scheduling in its Company-owned stores, the Company reduced salary and related expenses by approximately $1,500,000. Finally, there was a decrease in depreciation and amortization of approximately $350,000 due to the full depreciation in the prior year of certain of the Company's property and equipment.

Provision for store closings was $964,000 for the year ended December 31, 2001. No such provision was provided for the year ended December 31, 2000. In 2001, management made the decision to close 11 of its Company-owned stores. In connection therewith, the Company recorded a provision based on the expected net proceeds, if any, to be generated from the disposition of the store's assets, as compared to the carrying value (after consideration of impairment, if any) of such store's assets and the estimated costs (including lease termination costs and other expenses) that will be incurred in the closing of the stores.

Non-cash charges for issuance of warrants and induced conversion of warrants decreased by $201,000, or 54.9%, to $165,000 for the year ended December 31, 2001, from $366,000 for the comparable period in 2000. This decrease was principally due to the fact that there were no induced conversions of warrants during 2001. The 2001 charges relate solely to the issuance of common shares in consideration for consulting services. Furthermore, the Company has outstanding contingent warrants that become exercisable upon the achievement, by the Company, of certain predetermined EBITDA targets. Due to these contingencies, the future valuation of the contingent warrants, if and when they become exercisable, will result in charges to the Company's results of operations in future periods. The significance of these charges, if any, will be dependent upon the fair market value of the Company's common stock at the time that the respective EBITDA targets are achieved.

Loss from the operation of franchised stores managed by the Company decreased by $460,000, or 73.4%, to approximately $167,000 for the year ended December 31, 2001, as compared to approximately $627,000 for the comparable period in 2000. As of December 31, 2001, there was only one store that the Company was managing on behalf of a franchisee, as opposed to the three stores the Company was managing on behalf of franchisees as of December 31, 2000.

Interest expense decreased by $389,000, or 90.0%, to $43,000 for the year ended December 31, 2001, as compared to $432,000 for the comparable period in 2000. This decrease resulted from a decrease in long-term debt during the year ended December 31, 2001, as compared to the comparable period in 2000.

For the Year Ended December 31, 2000 compared to December 31, 1999

Net sales for Company-owned stores, including revenues generated by VCC, a specialized health care maintenance organization licensed by the State of California Department of Managed Health Care, decreased by approximately $5,486,000, or 31.2%, to $12,115,000 for the year ended December 31, 2000, as compared to $17,601,000 for the comparable period in 1999. This decrease was principally due to a lower number of stores in operation for the year ended December 31, 2000, as compared to the comparable period in 1999, as described below. As of December 31, 2000, there were 233 Sterling Stores in operation, consisting of 32 Company-owned stores (including 12 Company-owned stores being managed by franchisees) and 201 franchised stores (including 3 franchised stores being managed by the Company on behalf of franchisees), as compared to 254 Sterling Stores in operation for the comparable period in 1999, consisting of 36 Company-owned stores (including 6 Company-owned stores being managed by franchisees) and 218 franchised stores (including 5 stores being managed by the Company on behalf of franchisees). On a same store basis (for stores that operated as a Company-owned store during the entirety of both of the years ended December 31, 2000 and 1999), comparative net sales decreased by $257,000, or 3.8%, to $6,524,000 for the year ended December 31, 2000, as compared to $6,781,000 for the comparable period in 1999.

Franchise royalties decreased by $278,000, or 3.0%, to $9,077,000 for the year ended December 31, 2000, as compared to $9,355,000 for the comparable period in 1999. This decrease was a result of fewer franchised stores in operation throughout fiscal year 2000, as compared to fiscal year 1999.

Net gains and fees on the conveyance of Company-owned store assets to franchisees, including renewal fees and the fees related to the transfer of ownership from one franchisee to another, decreased by $369,000, or 55.3%, to $298,000 for the year ended December 31, 2000, as compared to $667,000 for the comparable period in 1999. This decrease was principally due to the conveyance of the assets of 3 Company-owned stores to franchisees during the year ended December 31, 2000, as compared to the conveyance of the assets of 13 Company-owned stores to franchisees during the comparable period in 1999. Management believed that this decrease was principally due to the Company's original decision to sell the assets of its Sterling Optical division (which was subsequently reversed), which was believed to negatively impact the marketability of Sterling Stores to independent franchisees.

Interest on franchise notes receivable decreased by $255,000, or 17.4%, to $1,210,000 for the year ended December 31, 2000, as compared to $1,465,000 for the comparable period in 1999. This decrease was principally due to reductions of the principal balance of several franchisees notes and fewer notes being generated during fiscal 2000.

Other income (primarily initial franchise fees) decreased by $134,000, or 27.2%, to $358,000 for the year ended December 31, 2000, as compared to $492,000 for the comparable period in 1999, due to fewer stores being franchised during fiscal year 2000.

The Company's gross profit margin decreased by 4.3%, to 68.1% for the year ended December 31, 2000, as compared to 72.4% for the comparable period in 1999, due to the mix of products being sold in Company-owned stores during each respective period.

Selling, general and administrative expenses increased by $8,782,000, or 37.2%, to $32,391,000 for the year ended December 31, 2000, as compared to $23,609,000 for the comparable period in 1999. This increase was primarily related to an increase of approximately $5,960,000 in the provision for doubtful accounts associated with accounts and notes receivable due from franchisees. This increase was a direct result of a change in management philosophy, policy, direction, and related courses of action resulting from a change in the Company's senior management personnel subsequent to year-end, to take back franchise stores and/or reevaluate notes receivable due from various problem franchisees, the number of which increased in 2000 as compared to prior years. In this regard, the Company took back 7 franchised store locations immediately subsequent to December 31, 2000. The increase in selling, general and administrative expenses also includes approximately $4,300,000 of losses related to receivables from franchisees for advertising expenditures that the Company incurred on their behalf in the current period and in prior years, all of which was determined in fiscal year 2000 to be unrealizable, or not collectible, by the Company's new senior management. Another factor leading to the increase in selling, general and administrative expense was the impairment charges of approximately $1,131,000 primarily related to certain fixed assets at the corporate headquarters that the Company deemed to no longer have future use, and the write-off of the capitalized web development costs associated with the 1-800 Anylens business that was sold in the November 2000. Offsetting these increases was a decrease of approximately $2,200,000 in Company-owned store related operating costs due to the reduction in the number of Company-owned stores in operation for the year ended December 31, 2000, as compared to the comparable period in 1999.

Warrant issuance and induced conversion costs decreased by $2,005,000, or 84.67%, to $366,000 for the year ended December 31, 2000, from $2,371,000 for the comparable period in 1999. This decrease was principally due to the incurrence, during fiscal year 1999, of $2,000,000 of expenses related to the Company's issuance of 2,500,000 warrants, all of which vested immediately.

Loss from the operation of franchised stores managed by the Company increased by approximately $22,000, or 3.6%, to $627,000 for the year ended December 31, 2000, as compared to $605,000 for the comparable period in 1999.

Interest expense decreased by $398,000, or 48.0%, to $432,000 for the year ended December 31, 2000, as compared to $830,000 for the comparable period in 1999. This decrease resulted from a decrease in long-term debt during the year ended December 31, 2000, as compared to the comparable period in 1999.

Loss from discontinued operations represents the net loss from the operations of the Company's Internet Division, Insight Laser and Ambulatory Center of $19,573,000, $1,083,000 and $3,708,000, respectively. The loss attributable to the Internet Division included a net operating loss of $15,409,000 (which primarily included charges for web-site development costs of approximately $11,800,000, approximately $800,000 related to professional fees, and approximately $1,300,000 related to salaries and wages), a non-cash impairment charge of $711,000 on the expected disposal of certain assets, $1,660,000 for estimated future liabilities and costs resulting from the decision to dispose, and $1,700,000 related to the estimated operating losses of the Internet Division through the end of April 2001 (the anticipated disposal date). The loss attributable to Insight Laser included net operating losses of $169,000, a non-cash impairment charge of $803,000 on the expected disposal of certain assets and $111,000 for estimated future losses and

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liabilities through the anticipated disposal date. The loss for the Ambulatory Center included net operating income of $31,000, offset by a non-cash impairment charge of $2,594,000 on the expected disposal of certain assets, and $1,145,000 for estimated future losses and liabilities through the anticipated disposal date.

Liquidity and Capital Resources

For the year ended December 31, 2001, cash flows used in operating activities were $5,703,000, as compared to cash flows used in operating activities of $1,915,000 for the year ended December 31, 2000. Approximately $3,977,000 of the cash flows used in 2001 related to one-time liabilities that arose as a result of the Company's plan of disposal of its discontinued operations, and payment of those liabilities is reflected in the outflow of $5,365,000 related to accounts payable and accrued liabilities. Other factors leading to the increased cash used in operating activities were the $5,088,000 loss from continuing operations, offset by a decrease in franchise and other receivables of $1,007,000, an increase in the accrual for store closings of $964,000, charges of $930,000 related to long-lived assets, and depreciation and amortization of $1,351,000.

For the year ended December 31, 2001, cash flows provided by investing activities were $1,616,000, principally due to the proceeds received on its franchise notes receivable, offset in part by limited capital expenditures made by the Company during 2001.

For the year ended December 31, 2001, cash flows provided by financing activities were $544,000, principally due to $750,000 of proceeds received in connection with short-term loans provided to the Company by two related parties, Horizon Investors Corp. ("Horizon") and Broadway Partners LLC ("Broadway").

As of December 31, 2001, the Company had negative working capital of $1,758,000, and cash on hand of $1,053,000. As discussed above, the Company utilized approximately $3,977,000 of cash in connection with one-time liabilities associated with its plan of disposal of its discontinued operations.

On January 23, 2002, the Company secured two separate financing arrangements, as follows:

Secured Term Note

The Company entered into a secured term note for $1,000,000 with an independent financial institution. This note is repayable in 24 equal monthly installments of $41,666, and bears interest as defined (4.95% at the inception of the note). The note is fully collateralized/guaranteed by a $1,000,000 certificate of deposit posted by Horizon, a related party, at the same financial institution.

Credit Facility

The Company entered into an agreement with Horizon to borrow up to a maximum of $1,000,000. This credit facility bears interest at the prime rate plus 1% (5.5% as of the date of the loan agreement), provided for an initial advance of $300,000, requires minimum incremental advances of $150,000, matures on January 22, 2004, requires ratable monthly principal and interest payments of each borrowing, amortizable through the maturity date of the facility, is fully collateralized by the Company's qualifying franchise notes (as referenced by a pledge agreement), and requires the payment of a facility fee of 2% per annum, payable monthly, on the unused portion of the credit facility.

Simultaneous with obtaining the above financing, the Company repaid outstanding related party borrowings due to Horizon and Broadway totaling $750,000, plus interest. In consideration for providing access to the credit facility and guaranteeing the term note, the Company granted Horizon an aggregate of 2,500,000 warrants (1,750,000 of which were immediately exercisable, with the balance vesting in quarterly increments of 250,000, beginning April 22, 2002, so long as any amounts remain unpaid under the secured term note and/or credit facility). Each warrant has a five-year term and provides for an exercise price of $0.01. The fair value of the warrants issued was approximately $234,000. As of April 8, 2002, remaining availability under the credit facility was approximately $700,000.

The Company believes that, in the furtherance of its business strategies, the Company's immediate future capital requirements will include the renovating and/or remodeling of certain Company-owned stores, terminating the leases of and closing certain non-profitable Company-owned stores, the upgrading of management information systems for Company-owned and franchised stores, and improved support services for its franchise system.

The Company plans to attempt to improve its cash flows during 2002 by improving store profitability through increased monitoring of store-by-store operations, closing non-profitable Company-owned stores, implementing reductions of administrative overhead expenses, where necessary and feasible, actively supporting development programs for franchisees, and seeking additional financing, if necessary and available. Management believes that with the successful execution of its business plan (including the aforementioned activities), its existing cash on hand, the collection of outstanding receivables, and the availability under its existing credit facility, sufficient liquidity will be available for the Company to continue in operation at least through the end of the first quarter of 2003. However, there can be no assurance that the Company will be able achieve the aforementioned plans, or that any additional financing, if needed, will be available.

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Management's Discussion of Critical Accounting Policies

High-quality financial statements require rigorous application of high-quality accounting policies. Management believes that its policies related to revenue recognition, legal contingencies, allowances on franchise, notes and other receivables, and accruals for store closings and costs of disposal of discontinued operations are critical to an understanding of the Company's 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.

Recently Issued Accounting Pronouncements

Goodwill

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and other Intangible Assets". SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently, if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life).

The Company has adopted SFAS No. 142 effective January 1, 2002 and, accordingly, goodwill will no longer be amortized. In accordance with the SFAS No. 142, goodwill will be evaluated periodically for impairment. The Company is currently evaluating the effect of adoption, if any.

Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses the financial and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This statement is effective for fiscal years beginning after June 15, 2001. The Company is currently evaluating the effect of adoption of SFAS No. 143 on its financial position and results of operations, but does not expect its impact to be material.

Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30 "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". The Statement retains the fundamental provisions of SFAS No. 121 for recognition and measurement of impairment, but amends the accounting and reporting standards for segments of a business to be disposed of. The provisions of this statement are required to be adopted no later than fiscal years beginning after December 31, 2001, with early adoption encouraged. The Company is currently evaluating the impact of the adoption of SFAS No. 144.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Registrant presently has outstanding certain equity instruments with beneficial conversion terms. Accordingly, the Registrant, 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 is exposed to market risks from potential changes in interest rates as they relate to the Company's investments in highly liquid marketable securities and borrowings under its credit facility. The Company believes that the amount of risk as it relates to its investments and any such borrowings is not material to the Company's financial condition or results of operations. The Company does not expect to use interest rate swaps or other instruments to hedge its borrowings under its credit facility.

Item 8. Financial Statements and Supplementary Data

TABLE OF CONTENTS

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Emerging Vision, Inc.:

We have audited the accompanying consolidated balance sheets of Emerging Vision, Inc. (a New York corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for the three years ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emerging Vision, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the three years ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Melville, New York
April 8, 2002

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

ASSETS

Current assets:
- Cash and cash equivalents
- Franchise receivables, net of allowance of $3,095 and $3,521, respectively
- Other receivables, net of allowance of $171 and $323, respectively
- Current portion of franchise notes receivable
- Inventories, net
- Prepaid expenses and other current assets

Total current assets

Property and equipment, net
Franchise notes and other receivables, net of allowance of $3,326 and $3,019, respectively
Goodwill, net
Other assets
Net assets of discontinued operations

Total assets

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:
- Current portion of capital lease obligations
- Accounts payable and accrued liabilities
- Accrual for store closings
- Related party borrowings (Note 13)
- Net liabilities of discontinued operations

Total current liabilities

Capital lease obligations

Excess of fair value of assets acquired over cost

Franchise deposits and other liabilities

Commitments and contingencies (Note 12)

Shareholders' equity
Preferred stock, $.01 par value per share; 5,000,000 shares authorized:
Senior Convertible Preferred Stock, $100,000 liquidation preference per share; 3 shares issued and outstanding
Common stock, $.01 par value per share; 50,000,000 shares authorized; 27,187,309 and 25,559,231 shares issued, respectively, and 27,004,972 and 25,382,230 shares outstanding, respectively
Treasury stock, at cost, 182,337 and 177,001 shares, respectively
Additional paid-in capital
Accumulated deficit

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

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

	F
	200
Revenues:	
Net sales	$ 11,
Franchise royalties	7,
Net gains and fees from the conveyance of Company-owned store assets to franchisees	
Interest on franchise notes receivable	
Other income	
	20,
Costs and expenses:	
Cost of sales	3,
Selling, general and administrative expenses	20,
Loss from franchised stores operated under management agreements	
Provision for store closings (Note 8)	
Charges related to long-lived assets	
Non-cash charges for issuance of common stock, warrants and induced conversions of warrants	
Interest expense	

	25,
Loss from continuing operations before provision for income taxes	(5,
Provision for income taxes	
Loss from continuing operations	(5,
Discontinued operations: (Note 2)	
Income (loss) from discontinued operations	1,
Loss on disposal of discontinued operations	
Income (loss) from discontinued operations	1,
Net loss	$ (3,
Per share information - basic and diluted: (Note 4)	
Loss from continuing operations	$ (0
Income (loss) from discontinued operations	0
Loss on disposal of discontinued operations	
Net loss per share	$ (0
Weighted-average number of common shares outstanding - basic and diluted	26,

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

EMERGING VISION, INC. AND SUB
CONSOLIDATED STATEMENTS OF SHAREHO
FOR THE YEARS ENDED DECEMBER 31, 200
(In Thousands, Except Share

	Series B Convertible Preferred Stock		Senior C Preferr
	Shares	Amount	Shares
BALANCE - DECEMBER 31, 1998..............................	-	$ -	35
Issuance of common shares upon induced conversion of Senior Convertible Preferred Stock................	-	-	(14)
Issuance of common shares to vendors and franchisees.......	-	-	-
Acquisition of RBG Consulting, Ltd.........................	-	-	-
Issuance of common shares upon exercise of warrants........	-	-	-
Charge for payments related to stock price guarantees......	-	-	-
Dividends on Senior Convertible Preferred Stock............	-	-	-

Issuance of warrants for consulting services..............	-	-	-
Charge related to reductions in exercise price of warrants.	-	-	-
Net loss..	-	-	-
BALANCE - DECEMBER 31, 1999...............................	-	-	21
Issuance of common shares upon induced conversion of Senior Convertible Preferred Stock................	-	-	(18)
Exercise of stock options and warrants....................	-	-	-
Issuance of common shares for consulting services..........	-	-	-
Issuance of Series B Convertible Preferred Stock...........	1,677,570	-	-
Issuance of warrants in connection with Series B Convertible Preferred Stock.................	-	-	-
Accretion of dividends on Series B Convertible Preferred Stock..................................	-	11,743	-
Issuance of common shares upon conversion of Series B Convertible Preferred Stock.........................	(1,677,570)	(11,743)	-
Issuance of common shares to franchisees...................	-	-	-
Issuance of warrants and options for consulting services...	-	-	-
Equity contribution related to extinguishment of debt to related party...............................	-	-	-
Acquisition of treasury shares............................	-	-	-
Net loss..	-	-	-
BALANCE - DECEMBER 31, 2000...............................	-	-	3
Issuance of common shares for consulting services (Note 14)	-	-	-
Acquisition of treasury shares (Note 14)..................	-	-	-
Net loss..	-	-	-
BALANCE - DECEMBER 31, 2001...............................	-	$ -	3

The accompanying notes are an integral part of these consolidated st

EMERGING VISION, INC. AND SUB
CONSOLIDATED STATEMENTS OF SHAREHO
FOR THE YEARS ENDED DECEMBER 31, 200
(In Thousands, Except Share

	Treasury Stock, at cost Shares	Amount	Additional Paid-In Capital	A
BALANCE - DECEMBER 31, 1998................................	-	$ -	$ 46,036	$
Issuance of common shares upon induced conversion of Senior Convertible Preferred Stock.................	-	-	5,035	
Issuance of common shares to vendors and franchisees........	-	-	249	
Acquisition of RBG Consulting, Ltd.........................	-	-	640	
Issuance of common shares upon exercise of warrants.........	-	-	995	
Charge for payments related to stock price guarantees.......	-	-	(386)	
Dividends on Senior Convertible Preferred Stock............	-	-	83	
Issuance of warrants for consulting services...............	-	-	2,000	
Charge related to reductions in exercise price of warrants..	-	-	371	
Net loss..	-	-	-	

BALANCE - DECEMBER 31, 1999	-	-	55,023	
Issuance of common shares upon induced conversion of Senior Convertible Preferred Stock	-	-	23,812	
Exercise of stock options and warrants	-	-	7,672	
Issuance of common shares for consulting services	-	-	9,798	
Issuance of Series B Convertible Preferred Stock	-	-	6,239	
Issuance of warrants in connection with Series B Convertible Preferred Stock	-	-	4,379	
Accretion of dividends on Series B Convertible Preferred Stock	-	-	-	
Issuance of common shares upon conversion of Series B Convertible Preferred Stock	-	-	11,709	
Issuance of common shares to franchisees	-	-	-	
Issuance of warrants and options for consulting services	-	-	94	
Equity contribution related to extinguishment of debt to related party	-	-	727	
Acquisition of treasury shares	177,001	(203)	-	
Net loss	-	-	-	
BALANCE - DECEMBER 31, 2000	177,001	(203)	119,453	
Issuance of common shares for consulting services (Note 14)	-	-	473	
Acquisition of treasury shares (Note 14)	5,336	(1)	-	
Net loss	-	-	-	
BALANCE - DECEMBER 31, 2001	182,337	$(204)	$119,926	$

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

EMERGING VISION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	For
	2001
Cash flows from operating activities:	
Net loss from continuing operations	$ (5,0
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:	
Depreciation and amortization	1,3
Provision for doubtful accounts	1
Provision for inventories	1
Net gains from the conveyance of Company-owned store assets to franchisees	
Accrued interest	
Amortization of excess of fair value of assets acquired over cost	(3

Non-cash compensation charges related to options and warrants	1
Charges related to long-lived assets	9
Changes in operating assets and liabilities:	
Franchise and other receivables	1,0
Inventories	1
Prepaid expenses and other current assets	3
Other assets	
Accounts payable and accrued liabilities	(5,3
Franchise deposits and other liabilities	(1
Accrual for store closings	9
Net cash used in operating activities	(5,7
Cash flows from investing activities:	
Franchise notes receivable issued	
Proceeds from franchise and other notes receivable	1,9
Purchases of property and equipment	(3
Proceeds from conveyance of property and equipment	
Net cash provided by (used in) investing activities	1,6
Cash flows from financing activities:	
Payments related to stock price guarantees	
Proceeds from the exercise of stock options and warrants	
Proceeds from borrowings	7
Payments on borrowings	(2
Net proceeds from the issuance of Series B Convertible Preferred Stock	
Acquisition of treasury shares	
Net cash provided by (used in) financing activities	5
Net cash (used in) provided by continuing operations	(3,5
Net cash (used in) provided by discontinued operations	(6
Net (decrease) increase in cash and cash equivalents	(4,1
Cash and cash equivalents - beginning of year	5,2
Cash and cash equivalents - end of year	$ 1,0
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	$
Taxes	$
Non-cash investing and financing activities:	
Franchise store assets reacquired	$ 5
Issuance of common shares for consulting services	1
Issuance of common shares to settle vendor payable related to discontinued operations	3
Extinguishment of related party debt	
Preferred stock dividend paid in common shares	

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

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

NOTE 1 - ORGANIZATION AND BUSINESS:

Business

Emerging Vision, Inc. and subsidiaries (the "Company"), is one of the largest chains of retail optical stores and one of the largest franchise optical chains in the United States, based upon domestic sales and the number of locations of Company-owned and franchised stores (collectively referred to herein as "Sterling Stores"). The Company 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.

On March 28, 2001, the Board of Directors decided that the Company should focus its efforts and resources on growing its retail optical business and, as a result, approved a plan to discontinue all other operations then being conducted by the Company (Note 2). In connection with this decision, during 2001, the Company completed its plan of disposal of substantially all of the net assets of Insight Laser Centers, Inc. ("Insight Laser") - which operated three laser vision correction centers in the New York metropolitan area, Insight Laser Centers N.Y.I, Inc. (the "Ambulatory Center") - the owner of the assets of an ambulatory surgery center located in Garden City, New York, and its Internet Division - which was to provide a web-based portal being designed to take advantage of business-to-business opportunities in the optical industry.

As of December 31, 2001, there were 203 Sterling Stores in operation, consisting of 34 Company-owned stores (including 9 stores being managed by franchisees), and 169 franchised stores (including 1 franchised store being managed by the Company on behalf of the franchisee - Note 3). As discussed in Note 8, the Company anticipates closing 11 of its non-profitable Company-owned stores during 2002.

Basis of Presentation

The Consolidated Financial Statements reflect the operations of the Company's retail optical store division as continuing operations. The results of operations and cash flows of Insight Laser, the Ambulatory Center and the Internet Division are reflected as discontinued operations in accordance with Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". The remaining net liabilities of those segments of the Company's business have been separately stated on the accompanying Consolidated Balance Sheets as net assets or liabilities of discontinued operations, and are classified depending on their expected realization and/or settlement date.

Management's Liquidity Plans

As of December 31, 2001, the Company had negative working capital of $1,758,000, and cash on hand of $1,053,000. During 2001, the Company's operating activities used approximately $5,703,000 of cash, of which approximately

$3,977,000 related to one-time liabilities that arose as a result of the Company's plan of disposal (Note 2).

The Company plans to attempt to improve its cash flows during 2002 by improving store profitability through increased monitoring of store-by-store operations, closing non-profitable Company-owned stores, implementing reductions of administrative overhead expenses, where necessary and feasible, actively supporting development programs for franchisees, and by seeking additional financing, if necessary and available. Management believes that with its plans to attempt to improve cash flows as discussed above, its existing cash, the collection of outstanding receivables, and the availability under its existing credit facility (Note 19), there will be sufficient liquidity available to the Company to continue in operation until at least the end of the first quarter of 2003. There can be no assurance, however, that the Company will be able achieve the aforementioned plans, or that any financing will be available.

NOTE 2 - DISCONTINUED OPERATIONS:

As discussed in Note 1, in March 2001, the Company's Board of Directors decided to discontinue the operations of the Internet, Insight Laser and Ambulatory Center divisions. The Company successfully completed its plan of disposal of the assets of these segments in 2001; accordingly, the remaining results of operations and cash flows have been reflected as discontinued operations in the accompanying consolidated financial statements. As of December 31, 2001 and 2000, respectively, net liabilities of $235,000 and $2,166,000 related to these discontinued operations were segregated on the accompanying Consolidated Balance Sheets.

In connection with its original plan of disposal, the Company, as of December 31, 2000, recorded an initial provision of approximately $8,116,000 for costs associated with the plan. This provision included estimates of future operating losses, known and anticipated expenses associated with the sale of the net assets of these divisions, and an estimate of loss upon disposition. As of December 31, 2000, approximately $4,719,000 of this provision was accrued as part of accounts payable and accrued liabilities on the accompanying Consolidated Balance Sheet.

Internet Division

During 2001, in connection with discontinuing the operations of the Internet Division, the Company incurred an aggregate of approximately $805,000 in severance payments to all of the Internet Division's personnel located in its Dallas, Texas office, and approximately $1,298,000 of operating costs. Included in such severance payments were payments of $277,000 and $205,000, respectively, to Mr. Gregory Cook, the Company's former President and Chief Executive Officer, and Mr. James Ewer, the Company's former Senior Vice-President of Operations. Additionally, on March 23, 2001, the Company issued to each of Mssrs. Cook and Ewer, fully-vested stock options to purchase 250,000 shares of the Company's Common Stock at an exercise price of $0.25, the fair market value on the date of grant.

On April 24, 2001, the Company and Ms. Sara V. Traberman, the former Chief Financial Officer of the Company, settled her claim for severance benefits (which, in accordance with the terms of her Employment Agreement with the Company, called for a cash settlement in the approximate amount of $1,300,000, and the immediate vesting of the 400,000 stock options previously granted to her under the Agreement, all as a result of the failure of the Company to sell its non-Internet related assets by March 1, 2001) for a lump sum payment of $750,000, plus the issuance of fully-vested stock options to purchase 125,000 shares of the Company's Common Stock at an exercise price of $0.29, the fair market value on the date of grant.

On July 5, 2001, the Company and each of Rare Medium Group, Inc. and Rare Medium, Inc. (collectively, "Rare") entered into a Settlement Agreement and Mutual Release whereby the Company's dispute with Rare regarding their respective obligations under the Company's various agreements with Rare (pertaining to the development and implementation of the e-commerce business and strategies of the Company's previously abandoned Internet Division) was settled, and each of the parties was released from substantially all of its respective obligations under the various agreements between the parties (including, but not limited to, the $3.00 price protection guarantee afforded Rare with respect to the 1,000,000 shares of the Company's Common Stock previously issued to Rare under the agreements (the "Existing Shares"), all in exchange for the Company's payment to Rare of $375,000, the Company's issuance to Rare of an additional 1,000,000 shares of its Common Stock (which the Company was required to attempt to register for resale under the Securities Act of 1933, as amended (the "Act")), and the Company's agreement not to impede Rare's ability to sell the Existing Shares, all of which were previously registered under the Act. As this settlement amount was accrued as of December 31, 2000, no charge to the accompanying Consolidated Statement of Operations was required in 2001.

Additionally, the Company successfully settled certain claims related to its Internet Division for less than the amounts originally accrued. As a result, at various times during 2001, the Company reevaluated its total accrual related to the discontinuance of the operations of its Internet Division and, accordingly, reversed approximately $610,000 of such accrual into earnings.

Insight Laser

In early 2001, the Company closed two of its three Insight Laser locations and, in an effort to pursue a sale of the remaining net assets, continued to operate from its flagship center located in Trump Tower in New York City. The Company was unsuccessful in its attempts to sell the business and net assets of Insight Laser and, in September 2001, made a decision to cease all operations, effective as of November 30, 2001, and attempt to settle all of Insight Laser's liabilities in connection therewith (including lease termination costs and employee-related severance costs), as well as to thereafter liquidate the assets thereof. As a result of this decision not to sell such assets, the Company accrued an additional $425,000 related to the discontinuance of the operations of Insight Laser.

Ambulatory Center

On May 31, 2001, the Company and the owner/licensee of the Ambulatory Center reached an agreement whereby the Company sold and transferred its assets then located in the Ambulatory Center to a limited liability company owned, in principal part, by the owner/licensee thereof. In consideration of the sale and transfer, the purchaser assumed the Ambulatory Center's liabilities (subject to certain limitations), released the Company from its obligations under the lease for the premises of the Ambulatory Center (except in limited circumstances), agreed to the termination of the Administrative Services and Consulting Agreement whereby the Company rendered services to the owner/licensee in connection with the operation of the Ambulatory Center, and agreed to the termination of the Purchase Agreement whereby an affiliate of the Company had agreed to purchase the New York State License (Certificate of Need) for the Ambulatory Center. As a result, the Company reversed into earnings, $887,000 of the previously accrued $1,145,000 of liabilities related to the Ambulatory Center. For the year ended December 31, 2001, the Company incurred approximately $62,000, related to the aforementioned guarantee of certain liabilities of the Ambulatory Center. Additionally, as of December 31, 2001, the Company has accrued an additional $104,000 related to such estimated guaranty liabilities for 2002.

The reversal of $1,497,000 of amounts previously accrued for the Internet Division and Ambulatory Center, offset by the aforementioned additional accrual of $425,000 for Insight Laser, is reflected in income from discontinued operations on the accompanying Consolidated Statement of Operations for the year ended December 31, 2001. As of December 31, 2001, approximately $141,000 related to discontinued operations remains accrued as part of accounts payable and accrued liabilities on the accompanying Consolidated Balance Sheet.

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

As of and for the Years Ended December 31:

	Internet Division	Insight Laser	Ambulatory Center	Total
2001				
Net revenues	$ -	$ 1,004	$ 72	$ 1,076
Net income (loss) *	$ 563	$ (47)	$ 796	$ 1,312
Current assets	$ -	$ -	$ -	$ -
Total assets	$ -	$ -	$ -	$ -
Current liabilities	$ 145	$ 90	$ -	$ 235
Net assets (liabilities)	$ (145)	$ (90)	$ -	$ (235)
2000				
Net revenues	$ 108	$ 2,610	$ 753	$ 3,471
Net loss	$(19,573)	$ (1,083)	$ (3,708)	$(24,364)
Current assets	$ 36	$ 13	$ 10	$ 59
Total assets	$ 36	$ 953	$ 10	$ 999
Current liabilities	$ 1,208	$ 1,857	$ -	$ 3,065
Net assets (liabilities)	$ (1,172)	$ (1,004)	$ 10	$ (2,166)

* Net income results from the reversal of accruals associated with the Company's plan of disposal.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of such financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates made by management include, but are not limited to, allowances on franchise, notes and other receivables, and accruals for store closings and costs of disposal of discontinued operations.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Emerging Vision, Inc. and its operating subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated in consolidation.

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Company-Managed Stores

The Company accounts for the results of operations of certain franchised Sterling Stores operated by the Company under management agreements in accordance with Emerging Issues Task Force Issue 97-2 ("EITF 97-2"), "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements." In accordance with EITF 97-2, the results of operations of Company-managed stores are shown on a net basis, and are classified as a loss from franchised stores operated under management agreements in the accompanying Consolidated Statements of Operations.

For the years ended December 31, 2001, 2000 and 1999, the Company managed 1, 3 and 5 Sterling Stores, respectively, for franchisees, under management agreements entered into with each such franchisee. These management agreements generally provide for the operation of the Sterling Store in question, by the Company, with all operating decisions primarily being made by the Company. The Company owns the inventory at these locations and is responsible for the collection of all revenues and the payment of all associated expenses. For the years ended December 31, 2001, 2000 and 1999, these stores generated revenues of $216,000, $1,382,000 and $1,524,000, respectively, and net losses of $167,000, $627,000 and $605,000, respectively. Subsequent to December 31, 2001, due to the significant operating losses being incurred, the Company terminated its single outstanding management agreement with the franchisee of the Sterling Store in question, recovered the assets of such store, and entered into a termination agreement with the landlord thereof for the lease of the location. The cost of this termination amounted to approximately $80,000.

Revenue Recognition

The Company generally 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.

The Company recognizes revenues in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." 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.

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

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

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

Net gains from the conveyance of Company-store assets to franchisees - Represents the net gains from the sale of Company-owned store assets to franchisees; and

Interest on franchise notes - Represents interest charged to franchisees pursuant to promissory notes issued in connection with a franchisee's acquisition of the assets of a Sterling Store or a qualified refinancing of a franchisee's obligations to the Company.

The Company also follows the provisions of EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including 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.

Cash and Cash Equivalents

Cash represents cash on hand at Company-owned stores and cash on deposit with financial institutions. All highly liquid investments with an original maturity (from date of purchase) of three months or less, are considered to be cash equivalents. The Company's cash equivalents are invested in various investment-grade, money market accounts.

Fair Value of Financial Instruments

As of December 31, 2001, the carrying values of the Company's financial instruments, such as cash and cash equivalents, accounts and notes receivable and long-term debt, approximated their fair values, based on their short-term maturities and the nature of these instruments.

Inventories

Inventories are stated at the lower of cost or market value, and consist primarily of contact lenses, ophthalmic lenses, eyeglass frames and sunglasses.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation is recorded on a straight-line basis over the estimated useful lives of the respective classes of assets.

Goodwill

Through December 31, 2001, goodwill was being amortized, on a straight-line basis, over its estimated useful life of 20 years, and accumulated amortization on goodwill was approximately $1,275,000 and $1,007,000 as of December 31, 2001 and 2000, respectively.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." This Statement provides that goodwill and intangible assets with indefinite lives should no longer be amortized, but should be reviewed, at least annually, for impairment. This Statement is effective for fiscal years beginning after December 15, 2001. In accordance with the adoption of SFAS No. 142, beginning January 1, 2002, the Company will cease amortizing its existing net goodwill of $1,266,000, resulting in the exclusion of approximately $268,000 of amortization expense for the year ended December 31, 2002. The Company believes that its existing goodwill will likely not be impaired based upon the fact that the Company is one reporting unit - a retail optical business (Note 1).

Impairment of Long-Lived Assets

The Company follows the provisions of SFAS No. 121, "Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of". This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, but amends the prior accounting and reporting standards for segments of a business to be disposed of. The Company periodically evaluates its long-lived assets (on a store-by-store basis) based on, among other factors, the estimated, undiscounted future cash flows expected to be generated from such assets in order to determine if an impairment exists. For the year ended December 31, 2001, the Company recorded impairment charges of $574,000 for stores it will continue to operate, and wrote off $356,000 of long-lived assets related to stores that management has made the decision to close (Note 8). For the year ended December 31, 2000, the Company recorded impairment charges of $1,131,000 related to certain corporate long-lived assets that it no longer had use for, along with the capitalized web development costs associated with the development of the website for its 1-800 Anylens business (Note 13). These amounts were reflected in the Consolidated Statements of Operations for the years ended December 31, 2001 and 2000, and a new basis, if any, for the impaired assets was established. There were no impairment charges recorded in 1999.

Comprehensive Income

The Company follows the provisions of SFAS No. 130, "Reporting Comprehensive Income," which establishes rules for the reporting of comprehensive income and its components. For the years ended December 31, 2001, 2000 and 1999, the Company's operations did not give rise to items includible in comprehensive loss that were not already included in net loss. Therefore, the Company's comprehensive loss is the same as its net loss for all periods presented.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under the asset and liability method specified by SFAS No. 109, the deferred income tax amounts included in the Consolidated Balance Sheets are determined based on the differences between the financial statement and tax basis of assets and liabilities, as measured by the enacted tax rates, that will be in effect when these differences reverse. Differences between assets and liabilities for financial statement and tax return purposes are principally related to inventories and the depreciable lives of assets.

Stock-Based Compensation

The Company follows the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 25)" in connection with stock-based compensation granted to employees and directors of the Company. The Company provides the required pro forma disclosures, as if the fair value method of SFAS No. 123, "Accounting for Stock Based Compensation," was adopted (Note 15). Stock-based compensation granted to non-employees is accounted for using the provisions of SFAS No. 123.

Concentration of Credit Risk

The Company operates retail optical stores in North America, predominantly in the United States, and its receivables are primarily from franchisees that also operate retail optical stores in the United States.

Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes annual and interim reporting standards for an enterprise's operating segments, and related disclosures about its products, services, geographic areas and major customers. For the years ended December 31, 2001, 2000 and 1999, the Company's continuing operations were classified into one principal industry segment - retail optical (Note 1). All other segments have been reflected as discontinued operations. Accordingly, the disclosures required by SFAS No. 131 have not been provided.

Reclassifications

Certain reclassifications have been made to prior years' financial statements to conform to the current year presentation.

New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement addresses the financial and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs, and applies to legal obligations associated with the retirement of long-lived assets that result from acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for fiscal years beginning after June 15, 2001. The Company is currently evaluating the effect of the adoption of SFAS No. 143 on its financial position and results of operations, but does not expect its impact to be material.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," which requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement supersedes SFAS No. 121 and APB No. 30, retains the fundamental provisions of SFAS No. 121 for recognition and measurement of impairment, but amends the accounting and reporting standards for segments of a business to be disposed of. The provisions of this Statement are required to be adopted no later than fiscal years beginning after December 31, 2001. The Company is currently evaluating the effect of the adoption of SFAS No. 144 on its financial posi