EMERGING VISION INC
Form 10-K
March 31, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2010

Commission file number: 1-14128

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:
Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):
Yes__ No __

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

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

Large accelerated filer_ Accelerated filer__
Non-accelerated filer_ Smaller reporting company X
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2010, was $4,707,769.

Number of shares outstanding as of March 31, 2011:

125,392,806 shares of Common Stock, par value $0.01 per share

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference certain information from the registrant’s definitive Proxy Statement for its Annual Meeting of Shareholders to be held during 2011.

Part I

Item 1. Business

GENERAL

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

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

RETAIL STORE OPERATIONS

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

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

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

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

As of December 31, 2010, there were 130 Sterling Stores in operation, consisting of 11 Company-owned stores (inclusive of one store operated by a third party pursuant to a management agreement) and 119 franchised stores. Sterling Stores are located in 14 states, the District of Columbia and the U.S. Virgin Islands.

The following chart sets forth the breakdown of Sterling Stores in operation as of December 31, 2010 and 2009:

	December 31,	
I. COMPANY-OWNED STORES:	2010*	2009
Company-owned stores	10	6
Company-owned stores managed by franchisee	1	-
Total	11	6

(*) Existing store locations: Illinois (1), Maryland (1), New York (5) Pennsylvania (1), Virginia (1) and Wisconsin (2).

	December 31,	
	2010*	2009
II. FRANCHISED STORES:	119	129

(*) Existing store locations: California (40), Delaware (3), Florida (1), Kentucky (2), Louisiana (1), Maryland (8), New Jersey (7), New York (34), North Dakota (3), Pennsylvania (7), Virginia (4), Washington D.C. (1), West Virginia (1), Wisconsin (5), and the U.S. Virgin Islands (2)

FRANCHISE SYSTEM

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

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

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

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

b. Initial Fees. Generally, franchisees (must pay us a non-recurring, initial franchise fee of $20,000. For each franchisee entering into more than one franchise agreement, we charge a non-recurring, initial franchise fee of $15,000 for the second location, and $10,000 for each location in excess of two. We charge each franchisee of a Converted Store (an independent location converting to a Sterling Store) or Limited Access Facility (locations that have limited public access) a non-recurring, initial franchise fee of $10,000 per location.

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

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

e. Termination. Franchise Agreements may be terminated if a franchisee has defaulted on its payment of monies due us, or in its performance of the other terms and conditions of the Franchise Agreement. During 2010, we reacquired the assets of (as well as possession of) six franchised stores. Substantially all of the assets located in such stores were voluntarily surrendered and transferred back to us in connection with the termination of the related Franchise Agreements. In certain instances, we may re-convey the assets of such a store to a new franchisee, requiring the new franchisee to enter into our then current form of Franchise Agreement. However, we review each store's historical performance to consider if we will continue to operate such store (as a Company-owned location) without re-conveying the assets of such store to a new franchisee. As of December 31, 2010, all six such stores remained Company-owned locations (inclusive of one store operated by a third party pursuant to a management agreement).

OPTICAL PURCHASING GROUP BUSINESS

The Optical Purchasing Group Business is divided into two units. The U.S. unit, Combine, was based in the state of Florida through August 2010, at which time it was relocated and has been based in our New York corporate offices. Combine operates an optical purchasing group business, which provides its members ("Combine Members") with optical products and services at discounted prices. Combine Members are typically independent optical retailers. There were 814 and 879 Combine Members that made one or more purchases during each of the quarters ended December 31, 2010 and 2009, respectively.

TOG, which is based in Ontario, Canada, is one of the leading optical purchasing groups in Canada. TOG also provides its members ("TOG Members") with optical products and services at discounted prices. TOG Members are typically independent optical retailers. TOG also operates a credit reference business within the optical industry in Canada, which allows TOG to selectively service only the most credit-worthy retailers. There were 548 and 544 TOG Members that made one or more purchases during the quarter ended December 31, 2010 and 2009, respectively.

Combine and TOG both utilize their membership count to obtain better discounts on such products and services from various optical vendors than independent optical retail members could obtain on their own.

INSIGHT MANAGED VISION CARE

We, under the trade name "Insight Managed Vision Care," contract with payers (i.e. health maintenance organizations, preferred provider organizations, insurance companies, Taft-Hartley unions, and mid-sized to large companies) who offer eye care benefits to their covered participants. When Sterling Stores provide services or products to a covered participant, it is generally at a discount from the everyday advertised retail price. Typically, participants will be eligible for greater eye care benefits at Sterling Stores than those offered at eye care providers that are not participating in a managed care program. We believe that the additional customer traffic generated by covered participants, along with purchases by covered participants above and beyond their eye care benefits, more than offsets the reduced gross margins being realized on these sales. We believe that convenience of store locations and hours of operation are key factors in attracting managed care business. As we increase our presence within markets we have already entered, we believe we will be more attractive to managed care payers.

MARKETING AND ADVERTISING

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

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

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

COMPETITION

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

We believe that the principal competitive factors in the retail optical business are convenience of location, on-site availability of professional eye examinations, rapid service, quality and consistency of product and service, price, product warranties, a broad selection of merchandise and the participation in third-party managed care provider programs.

There are other optical purchasing group businesses both in the United States and Canada that offer the same type of services and vendor discounts that our optical purchasing group businesses offer. In addition, certain groups offer additional or different services and products than what our optical purchasing groups provide.

GOVERNMENT REGULATION

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

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

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

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

ENVIRONMENTAL REGULATION

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

EMPLOYEES

As of February 27, 2011, we employed approximately 150 individuals, of which approximately 59% were employed on a full-time basis. No employees are covered by any collective bargaining agreement. At franchised store locations, employees are hired and governed by the franchisee, not us. We consider our labor relations with our associates to be in good standing and have not experienced any interruption of our operations due to disagreements.

Item 1A. Risk Factors

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

- The current U.S. and global economic conditions have affected and are likely to continue to affect our results of operations and financial position.

The current economic conditions have resulted in decreased revenues, retail store count, operating income and cash flow. This downturn has lead to and might continue to lead to a reduction of certain overhead expenses as well as stronger restrictions on customer credit. These uncertainties about future economic conditions make it difficult for us to forecast future operating results and cash flows from operations.

- Our common stock trades on the OTC Bulletin Board, which makes it more difficult for shareholders to buy and sell shares of our common stock.

Our common stock is trading on the OTC Bulletin Board (“OTCBB”). The OTCBB is generally considered a less efficient market that does not have national exposure to prospective shareholders. As such, shareholders are likely to find it more difficult to trade our common stock on the OTCBB.

- The application of the "penny stock rules" could reduce the liquidity and, therefore, the market price of our common stock.

On March 29, 2011, the last reported sales price of our common stock was $0.09. Because the trading price of our common stock is less than $5.00 per share and no longer trades on NASDAQ, our common stock comes within the definition of a "penny stock." The “penny stock rules” impose additional sales practice requirements on broker-dealers who sell our securities to persons other than established customers and accredited investors, generally those with assets in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 together with their spouse. Before a broker-dealer can sell a penny stock, the Securities and Exchange Commission (the “SEC”) rules require the firm to first approve the customer for the transaction in question and receive from the customer a written agreement to such transaction. The firm must furnish the customer a document describing the risks of investing in penny stocks. The broker-dealer must also advise the customer of the current market quotation, if any, for the penny stock and the compensation the firm and its broker will receive for the trade. Finally, the firm must send monthly account statements showing the market value of each penny stock held in the customer’s account. These additional burdens imposed on broker-dealers may restrict the ability of broker-dealers to sell our securities and may affect the ability of shareholders to resell our common stock.

- The Chairman of our Board of Directors has ownership of and/or is directly involved in the operations of certain other retail optical companies, which are in competition with our Sterling Stores and Combine Members. This competition may result in conflicts of interest.

Dr. Alan Cohen, our Chairman of the Board of Directors, and, together with his immediate family members, one of our significant shareholders, owns, operates, manages and/or is otherwise involved with other companies in the retail optical industry, which are in competition with our Sterling Stores and/or Combine Members, and may result in potential conflicts. Until March 1, 2008, Dr. Cohen and his brother Dr. Robert Cohen were officers and directors of and together with members of their immediate families, were the sole shareholders of Cohen Fashion Optical, Inc. (“CFO, Inc.”), which company operated and franchised retail optical stores similar to Sterling Stores and Combine Member locations in the States of Connecticut, Florida, Massachusetts, New Hampshire, New Jersey, New York and Puerto Rico. Effective March 1, 2008, CFO, Inc. sold substantially all of its assets to Cohen Fashion Optical, LLC

("CFO, LLC"), a Kentucky limited liability company, which continues to operate and offer franchises for retail optical stores primarily under the name Cohen's Fashion Optical. Although, Dr. Alan Cohen does not own any interest in or participate in the management of CFO, LLC, Dr. Cohen is an executive officer and director of Real Optical, LLC and CFO Retail, Inc. (collectively "REAL"), and he and members of his immediate family are principal members and shareholders of said companies. REAL is a franchisee of CFO, LLC and operates retail optical stores in the States of Connecticut, Florida, New Jersey and New York similar to Sterling Stores and Combine Member locations. As of December 31, 2010, REAL was the franchisee of 16 Cohen's Fashion Optical stores, and was also managing an additional store on behalf of CFO, LLC. In the future, REAL may open additional stores that are located in the same areas as Sterling Stores and/or Combine Member locations. These competing businesses could reduce the revenues generated at our competing Sterling Stores and/or from Combine Members.

Dr. Cohen is also an executive officer of, and he, together with members of his immediate family, are principal members of General Vision Services, LLC ("GVS") and Vision World, LLC ("Vision World"). GVS operates retail optical stores located in the New York metropolitan area. GVS does not offer franchises, however, in connection with the transaction between CFO LLC, and CFO, Inc., GVS agreed that all of its stores, including any stores to be opened in the future, would be operated as franchisees of CFO, LLC. GVS stores are similar to, and compete with, the Sterling Stores and/or Combine Members being operated in the same areas. As of December 31, 2010, GVS was the franchisee of CFO, LLC, and was operating 5 stores under the name General Vision Services. Furthermore, both GVS and Vision World solicit and administer third party benefit programs, through their network of company-owned and independent retail optical stores. It is possible that additional GVS or Vision World Stores, or other retail optical stores, which provide services under third party benefit plans administered by GVS or Vision World, may, in the future, be located near one or more of our Sterling Stores and/or Combine Member locations, and may compete directly with such locations.

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

A possible consequence of Dr. Cohen's interests in REAL, GVS, Vision World and their respective affiliates is that conflicts of interest may arise, as described above, and when business opportunities in our line of business are presented to them, whether in his capacity as member of our Board or as a shareholder, officer and director in these other entities. While there can be no assurance as to the manner in which corporate opportunities presented to Dr. Cohen will be allocated, by him, among the various competing business entities in which he is involved, as a supplement to the common law fiduciary duties to which all directors owe us and our shareholders, we have adopted a Corporate Code of Ethics (which can be accessed on our website at www.emergingvision.com) to which Dr. Cohen must adhere, which, in part, establishes guidelines as to how potential conflicts of interest are to be handled.

Dr. Robert Cohen, who served on our Board of Directors until he resigned on March 5, 2008 and who is still a shareholder of the Company, also owns, operates, manages and/or is otherwise involved with the same companies that Dr. Alan Cohen is involved in. In addition, Dr. Robert Cohen serves as President of CFO, LLC.

- We significantly depend on the ability and experience of certain members of our management team, and their departure may prevent or delay the successful implementation and execution of our business plan.

We rely on the skills of certain members of our senior management team to guide its operations, the loss of whom could have an adverse effect on our operations. We currently have an employment agreement with Mr. Glenn Spina, our Chief Executive Officer, through November 2012; however, no other member of senior management has an employment agreement. Accordingly, the loss of their services could prevent or delay the successful execution of its business plan and attainment of profitability.

- We have no control over the management of most of the Sterling Stores, nor do we control any of the Combine or TOG Members. These stores may be managed by unsuccessful franchisees, Combine Members and/or TOG

Members, which would reduce our revenues generated from these locations.

We rely, in substantial part, on franchisees, Combine Members and TOG Members for revenues. Since we do not control the management of these locations, it is possible that a franchisee/owner may not have the business acumen or financial resources to successfully operate his or her franchised Sterling Store, Combine Member location and/or TOG Member location. We, together with a substantial number of franchisees, have recently experienced a significant decrease in sales, mainly due to current economic conditions, generated from the operation of Sterling Stores, and cannot predict what will happen with the economy in the future. If a substantial number of franchisees, Combine Members and/or TOG Members experience a future decline in their sales and/or are ultimately not successful; revenues from franchisees, Combine Members and/or TOG Members would decrease. Some of the factors that could lead to future decline in sales, include, among others: decreased spending by consumers, continuing current economic climate, increased competition by large discount eyewear chains, which increases the need for franchisees, Combine Members and/or TOG Members to provide more aggressive promotional sales, thus decreasing their profit margins; and the limitations of vision care benefits available under medical and third party benefit plans.

- We operate in a highly competitive market, and many of our competitors have much greater resources, which may make it difficult for us to remain competitive.

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

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

- The optical industry as a whole, including us, has experienced a reduction in profit margins.

We often offer incentives to our customers, which lower profit margins. At times when major competitors offer significantly lower prices for their products, it then becomes in our best interest to do the same. Certain of the major competitors offer promotional incentives to their customers including free eye exams, "50% Off" on designer frames and "Buy One, Get One Free" eye care promotions. In response to these promotions, we have offered the same or similar incentives to its customers. This practice has resulted in lower profit margins and these competitive promotional incentives may further reduce revenues, gross margins and cash flows. Although we believe that Sterling Stores provide quality service and products at competitive prices, several of the large retail optical chains have greater financial resources. Therefore, we may not be able to continue to deliver cost efficient products in the event of aggressive pricing by competitors, which would reduce our profit margins, net income and cash flow.

- As refractive laser surgery gains market acceptance, we may lose revenue from traditional eyewear customers.

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

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- We are subject to a variety of federal, state and local laws, rules and regulations that affect the health care industry, which may affect our ability to generate revenues or subject us to additional expenses.

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

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

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

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

- We may be exposed to significant risk from liability claims if we are unable to obtain insurance, at acceptable costs, to protect us against potential liability claims.

The rendering of professional eye care services entails an inherent risk of professional malpractice and other similar claims. We do not influence or control the practice of optometry by the optometrists that it employs or affiliates with, nor does it have responsibility for their compliance with certain regulatory and other requirements directly applicable to these individual professionals. As a result of the relationship between our employed or affiliated optometrists and us, we may become subject to professional malpractice actions or claims under various theories relating to the professional services provided by these individuals. We may not be able to continue to obtain adequate liability insurance at reasonable rates, in which event; our insurance may not be adequate to cover claims asserted against us, thus, potentially decreasing our future cash position and potentially jeopardizing our ability to continue operations.

- The viability of most of our Sterling Stores and most of our Combine and TOG Members remains dependent on our relationship with optometrists and/or ophthalmologists.

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

providers on satisfactory terms, or these agreements may not be profitable, which would reduce the revenues the Company, its franchisees, Combine Members and/or TOG Members could generate from their operations.

- Certain events could result in a dilution of shareholders' ownership of our common stock.

As of December 31, 2010, we had 18,510,519 shares that were reserved for issuance under outstanding warrants, options and senior convertible preferred stock. The exercise and conversion prices, as the case may be, of common stock equivalents range from $0.05 to $0.75 per share. If converted or exercised, these securities will result in a dilution of shareholders' percentage ownership of the Company's common stock. In addition, if we acquire new companies through the issuance of common or preferred stock, percentages of ownership will be further diluted.

- Applicable tax rules could prohibit us from being able to utilize our net operating loss carry-forwards ("NOLs"), thereby decreasing net income and cash flows.

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

- The acquisition of Combine Buying Group may create competition with our Sterling Stores.

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

- We are dependent upon a limited number of vendors to provide our members with a broad spectrum of product purchasing options. If these vendors cease to do business with us or do not meet our demands, either in volume or quantity, then we could be materially harmed.

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

- We rely heavily on computer systems in managing financial results and day-to-day operations. Any damage or interruption in such systems could cause us delays in financial reporting and difficulties in managing day-to-day operations exposing us to additional operating expenses.

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

- As we guarantee certain of our Sterling Store leases, we are exposed to ongoing lease liability and the potential for future losses should one of those Sterling Stores shut down operations.

Our leases are generally for 10 years. Many of the leases provide for annual increases over the term of the lease in addition to the costs associated with insurance, taxes, repairs, maintenance and utilities. If an existing Sterling Store becomes non-profitable and we decide to close the location, we may still be required to pay the base rent, taxes and other rental charges for the balance of the lease.

- To maintain ongoing operations, we will need to extend the term on our current credit facility, or find alternative financing. Additionally, we may be unable to service our current debt obligations with cash flows from operations.

In connection with the purchases of Combine and TOG, along with other debt obligations, we have approximately $3,824,000 of outstanding debt as of December 31, 2010. If we are unable to generate sufficient cash flows from operations in the future, we may be unable to make principal and interest payments on such borrowings when they become due and may need to refinance all or a portion of the existing debt, or obtain additional financing.

Additionally, the amount outstanding on our Non-Revolving Line of Credit Note and Credit Agreement (the “Credit Agreement”) with Manufacturers and Traders Trust Company (“M&T”) was $3,206,854 as of March 31, 2011. We entered into an Amended, Modified, Extended and Restated Non-Revolving Line of Credit Note and Credit Agreement (the “Restated Credit Agreement”) with M&T, effective March 31, 2011, which agreement provides, among other things, that all unpaid principal will be due on May 30, 2012. We also executed a $500,000 Term Note in favor of M&T, dated as of March 31, 2011, which note commits us to pay twelve, equal monthly principal payments of $41,667, plus interest, by April 30, 2012, and executed a new Revolving Line of Credit Note and Credit Agreement (the “Revolving Credit Agreement”) in favor of M&T, dated as of March 31, 2011, which allows us to borrow up to $100,000. We currently cannot guarantee that we will be able to pay the remaining principal balance due under the Restated Credit Agreement on or before May 30, 2012. Additionally, we cannot guarantee that M&T will refinance on favorable terms, if at all.

Although M&T has agreed to allow us to borrow an additional $100,000, we are no longer able to borrow under the Restated Credit Agreement. As such, we are currently exploring and will continue to explore certain financing options available to us to generate additional working capital.

Prior to fiscal 2010, we had defaulted on certain financial covenants due to poor earnings. As such, we had to obtain multiple waivers from M&T on such financial covenants. The Restated Credit Agreement continues to require us to comply with certain financial covenants, which we believe we will be able to; however, based on the history, there is no guarantee we can comply with such covenants. If we cannot remain compliant with the financial covenants, M&T could declare an event of default under the terms of the Restated Credit Agreement and accelerate the Credit Facility.

- Due to the pending litigation with Neil Glachman and Combine Optical Management Corporation, we may need additional financing should the result of such litigation be unfavorable to us.

We have been able to utilize the earnings from the operations of Combine to support the repayment of its related party debt with Neil Glachman, the previous owner and former President of Combine. On September 29, 2010, Mr. Glachman sent notice informing us that he was exercising his Put Right pursuant to his Option Agreement and demanding the associated payment of $700,000. Additionally, on October 6, 2010, we received notice from attorneys representing Combine Optical Management Corporation (“COMC”) demanding the acceleration and immediate payment of the promissory notes (approximately $336,000). Due to the pending litigation with Mr. Glachman and COMC, as described in Note 12, we have not recognized the exercise nor have we made any payments under the promissory notes, although both amounts are reflected on the Consolidated Balance Sheets. We may need additional financing should the outcome of the ligation be unfavorable to us, and we are currently exploring certain options to enable us to make such payment, if necessary. However, there can be no assurance that we will find financing or that such financing will be on terms favorable to us.

- The Canadian/US dollar exchange rate exposes us to foreign currency risks.

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

Item 1B. Unresolved Staff Comments

Not applicable to smaller reporting companies.

Item 2. Properties

Our headquarters, consisting of approximately 5,200 square feet, is located in an office building situated at 520 Eight Avenue, 23rd Floor, New York, NY 10018, under a lease that expires in June 2020. This facility houses our principal executive and administrative offices as well as the operations of Combine.

VCC's headquarters, consisting of approximately 1,050 square feet, are located in an office building situated at 9625 Black Mountain Road, Suite 311, San Diego, California 92126, under a lease that expires in March 2015.

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

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

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

Item 3. Legal Proceedings

In March 2010, Shoppes at Isla Verde, Ltd. commenced an action against the Company and its subsidiary Sterling Vision of Royal Palm Beach, Inc., in the Circuit Court of the State of Florida, Palm Beach County, alleging, among other things, that the Company had breached its obligations under its lease for the former Sterling Optical store located in Wellington, Florida. The Company believes that it has a meritorious defense to such action. As of the date hereof, these proceedings were in the discovery stage. The Company has recorded an accrual for probable losses in the event that the Company shall be held liable in respect of plaintiff's claims, and the Company does not believe that it is reasonably possible that such loss would exceed the amount accrued.

In June 2010, the Company and its subsidiary, Combine (collectively referred to as the "Company"), filed an action in the United States District Court for the Southern District of Florida against Neil Glachman (former President of Combine, referred to as "Glachman"), COMC (which is owned by Glachman), James Lashenick (former bookkeeper of Combine) and various entities which Glachman purportedly owns and/or operates (collectively referred to as the "Defendants"). The Company claims, amongst other things, that (i) Glachman and COMC breached the terms of the Asset Purchase Agreement with the Company ("APA"); (ii) Glachman breached his Employment Agreement and his common law fiduciary duty of loyalty; and (iii) the various Glachman entities, COMC and Mr. Lashenick aided such breach of fiduciary duty. The Defendants, in their Answer, asserted defenses to the Company's claims, and Glachman and COMC asserted counterclaims against the Company, including, amongst others, that the Company (i) breached

the Security Agreement executed in connection with the APA; (ii) anticipatorily breached the APA; and (iii) breached the Employment Agreement with Glachman by terminating him. The Defendants seek injunctive relief, as well as monetary damages, assurances of the Company's obligation of payment on Glachman's $700,000 Put Option, assurances of the Company's obligation of payment under the terms of the $225,000 promissory note that was due October 1, 2010, and costs and attorney fees. The Company has not recorded an accrual for a loss in this action, as the Company does not believe it is probable that the Company will be held liable in respect of Defendant's counterclaims, however, the Company has accrued for the $700,000 Put Option and $225,000 promissory note payment, both of which are included in the accompanying Consolidated Condensed Balance Sheets as of December 31, 2010. The Company believes that it has a meritorious defense to such counterclaims. As of the date hereof, these proceedings were in the discovery stage.

Item 4. Reserved

PART II

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

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

	2010		2009
Quarter Ended:	High	Low	High