

**Rating Action: Eye Care Centers of America, Inc.**

**MOODY'S LOWERS LIQUIDITY RATING OF EYE CARE CENTERS OF AMERICA TO SGL-4 AND AFFIRMS LONG-TERM RATINGS; OUTLOOK REMAINS NEGATIVE**

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**Approximately \$340 Million of Debt Affected.**

New York, October 13, 2005 -- Moody's Investors Service affirmed all long-term ratings of Eye Care Centers of America ("ECCA") and lowered the Speculative grade liquidity rating to SGL-4 from SGL-2. The rating outlook remains negative.

The following rating is lowered:

- Speculative grade liquidity rating to SGL-4 from SGL-2.

The following ratings are affirmed:

- Corporate family rating (previously called the senior implied rating) at B2,
- \$190 million senior secured bank loan at B2, and the
- \$152 million 10.75% senior subordinated notes (2015) at Caa1.

The lowered liquidity rating is prompted by the pending liquidation of the company's controlling shareholder Moulin International Holdings Ltd. ("Moulin") and Moody's concern that the existing debt amortization schedule would accelerate if all rated debt were put to the company per change of control provisions in the bank agreement and bond indenture. The timing for this potential change of control is unknown.

The negative rating outlook considers that long-term ratings would decline if the ownership issue is not satisfactorily resolved from the perspective of ECCA's creditors, the challenges in obtaining the anticipated gross margin improvements within a reasonable timeframe now that Moulin no longer will become an important supplier of eyeglass frames, and the high level of optical retailing competition. The inability to immediately repay the bank loan and senior subordinated notes, in the event that this becomes necessary, would cause all ratings to be lowered to default levels. Aside from satisfactory resolution of the ownership issue and cost-effective replacement of Moulin as an eyeglass frame supplier, the rating outlook could stabilize as lease adjusted leverage (funded debt plus 8 times rent to EBITDAR) approaches 6 times, fixed charge coverage exceeds 1.5 times, and the system profitably expands both from new store development and comparable store sales growth. Lease adjusted leverage is expected to equal around 6.5 times for 2005 and to modestly improve in 2006.

ECCA's long-term ratings reflect the high financial leverage and weak fixed charge coverage, Moody's belief that competitive pressures will remain strong as larger competitors such as Wal-Mart (senior unsecured rating of Aa2) and Luxottica (unrated; owner of Lenscrafters and Pearle Vision) compete in various price/service niches, and ongoing challenges in replacing Moulin as the primary eyeglass frame supplier. The relatively low operating margins for a specialty retailer and the seasonal nature of optical retailing, in which the first quarter accounts for a disproportionate share of sales and cash flow, also constrain the ratings. The potential for Golden Gate Capital, the other major shareholder of ECCA, to put its preferred stock to Moulin (or presumably its successor) in March 2009 could eventually become a concern.

However, the long-term ratings also recognize the potential economies of scale from the company's national position as the third-largest optical retailer, Moody's expectation that the company will use a portion of discretionary free cash flow to pay down debt, and the favorable demographic trends for vision correction as the U.S. population ages. Also benefiting the ratings are revenue diversity from operations in many geographies across the United States, the potential for increased traffic to the most important optical retailing chains as third-party vision care payment plans become more widespread, and the positive contribution from 96% of the company's stores.

The B2 rating of the senior secured credit facility (comprised of a \$25 million revolving credit facility and a \$165 million Term Loan B) recognizes the senior position of this debt class in the company's capital structure and considers that this debt is secured by substantially all of the company's assets. As defined in the bank agreement, an event of default would occur if Moulin ceases to own a majority of ECCA. In a hypothetical

default scenario, Moody's believes that the orderly liquidation value of easily monetizable assets such as accounts receivable and inventory would fall well below the existing bank loan commitment. Complete recovery would rely on the less easily predicted valuation for property, plant, and equipment and intangible assets. Moody's expects that the Revolving Credit Facility will mostly be used to bridge temporary cash flow timing differences. As of July 2, 2005, all of the revolving credit facility was available except for \$3 million reserved for Letters of Credit.

The Caa1 rating on the senior subordinated notes considers the guarantees of the company's non-optometric practice operating subsidiaries, as well as the contractual subordination to significant amounts of more senior obligations. As defined in the bond indenture, noteholders would have the option to put the notes back to ECCA if a change of control was to occur, including if Moulin, Golden Gate, and management collectively cease to own a majority of ECCA. More senior obligations include the bank loan, \$2 million of capital leases, and \$20 million of trade accounts payable. In a hypothetical default scenario, Moody's believes that recovery for this debt class would completely rely on residual enterprise value.

Pro-forma for the capital structure implemented with the March 2005 acquisition by Moulin, lease adjusted leverage equaled 6.6 times (based on gross rent without netting out sub-rental income) and fixed charge coverage was about 1.3 times for the twelve months ending July 2, 2005. Over the past several years, revenue has grown from a combination of healthy comparable store sales increases (up 3.8% in the first half of 2005) and new store openings. With Moulin as an important eyeglass frame supplier, ECCA's gross margin had been expected to improve by about 150 basis points over the next several years. Moody's had also anticipated that new store development would increase under Moulin's ownership and that internally generated cash flow would finance all capital investment. However, these long-term strategies are uncertain in Moody's view.

Eye Care Centers of America, Inc., with headquarters in San Antonio, Texas, operates 378 optical retailing stores under EyeMasters and other regional trade names. Sales for the twelve months ending July 2, 2005 were approximately \$407 million.

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