

**Spec Grade Liquidity Assmt: Eye Care Centers of America, Inc.**

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Moody's Investors Service updated the rationale for the SGL-4 Speculative Grade Liquidity rating of Eye Care Centers of America ("ECCA").

The weak liquidity rating of SGL-4 is prompted by the pending liquidation of the company's Hong Kong-based 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. Moody's notes that the liquidators of Moulin have asked for Chapter 15 protection under U.S. bankruptcy code in which Moulin's creditors would be prevented from moving against ECCA while Moulin is restructuring in a foreign court. There has been no public update regarding the potential change of control at ECCA, including clarification of the uncertain timing, since Moody's last comment in October 2005. Otherwise, Moody's expects that the company will remain in compliance with bank loan covenants that allow borrowings on the revolving credit facility.

Moody's expects that cash flow (as measured by EBITDA) will cover cash outflows for mandatory debt service, capital expenditures, cash taxes, and incremental working capital investment over the next twelve months, assuming that the \$165 million term loan and \$150 million senior subordinated note issue do not become immediately due and payable. Moody's anticipates that the company will generate around \$60 to \$65 million of EBITDA over the next four quarters, and annual cash outflows are forecasted at about \$28 million of cash interest expense, \$2 million of mandatory principal amortization on the Term Loan, and gross capital investment of \$12 to \$15 million. In a normal year, the company also supports sales growth by permanently investing several million dollars in net working capital. As of December 2005, the company had \$18 million of cash and the entire \$25 million revolving credit facility available (except for \$3 million in letters of credit).

Eye Care Centers of America, Inc., with headquarters in San Antonio, Texas, operates 380 optical retailing stores under EyeMasters and other regional trade names. Revenue for the twelve months ending Dec. 31, 2005 was approximately \$406 million. The corporate family rating is B2.

**Contacts**

**Analyst**

Richard Baldwin/New York  
William L. Hess/New York

**Phone**

1.212.553.1653

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