

Rating Action: Eye Care Centers of America, Inc. (Old)

MOODY'S CONFIRMS EYE CARE CENTERS OF AMERICA'S EXISTING RATINGS; RATES THE PROPOSED SENIOR CREDIT FACILITY B2 AND THE PROPOSED SENIOR SUBORDINATED NOTES Caa1; OUTLOOK CHANGED TO NEGATIVE

Approximately \$340 Million of Rated Debt Affected.

New York, January 18, 2005 -- Moody's Investors Service confirmed the ratings of Eye Care Centers of America (ECCA), concluding the review that was initiated on December 8, 2004 following the company's announcement of an acquisition by Moulin and Golden Gate Capital. Moody's also assigned a new B2 rating to the proposed \$190 million senior secured credit facility and a Caa1 rating to the proposed \$150 million 9% senior subordinated notes due 2015. Outlook has been changed to negative.

The following ratings have been confirmed:

Senior implied rating at B2;

Senior unsecured issuer rating at B3;

\$25 million secured revolving credit facility at B2;

\$55 million secured Term loan A at B2;

\$62 million secured Term loan B at B2;

\$100 million senior subordinated notes due 2008 at Caa1;

\$50 million senior subordinated notes due 2008 at Caa1

The following ratings have been assigned:

\$165 million senior secured Term loan B at B2;

\$25 million senior secured revolving credit facility at B2;

\$150 million senior subordinated notes due 2015 at Caa1

The ratings confirmations reflect expectations that the acquisition of ECCA by Moulin will be facilitated without a material impact to ECCA's operating performance, with the expected cost savings from the transaction partially offsetting the increased financial leverage. The company's ratings benefit from good market shares in its key operating regions as well as strong value and service strategy. However, the ratings are constrained by the company's modest, albeit improving, operating margins, and the formidable competitive threat posed by the recent merger of the number one and two optical retailers. Pursuant to the transaction the company's adjusted leverage will deteriorate to 6.5x from 5.4x while interest coverage will decline to 1.9x from 2.2x.

The negative rating outlook incorporates the increased financial risks and challenges posed by a cross

border relationship and supply arrangement.

The newly rated senior secured credit facilities and the senior subordinated notes are part of the financing package to consummate the transaction valued at \$450 million. These securities will be issued by Eye Care Centers of America, the principal operating entity. Proceeds from the term loan B, the senior subordinated note, \$1.5 million of common stock and the \$161.5 million of unrated preferred stock (\$91.5 million to Moulin and \$70 million to Golden Gate Capital) are expected to be used to repay the \$130 million aggregate outstanding balances on the subordinated notes (\$20 million was redeemed in 2002), outstanding amounts under the aggregate \$117 million term loans A and B, outstanding amounts on the revolver and buy out the existing financial sponsor. The ratings on the revolver, term loans and senior subordinated notes will be withdrawn upon the restructuring of the bank facility and tendering of the notes.

The financing package includes the issuance of perpetual PIK preferred stock with an option granted to Golden Gate to put its interest to Moulin at the end of four years. In the event Moulin cannot satisfy the put, Golden Gate can force an auction of ECCA. The value of the put option at the end of the four year period is in excess of \$145 million, or roughly one-third of Moulin's current total assets. Because of its perpetual maturity and non-cash paying features, Moody's views the preferred stock more as quasi equity, although we are cognizant of the potential disruption the put option could place on the company.

The purchasers, Moulin International Holding Ltd., a Hong Kong based eye frame manufacturer, and Golden Gate Capital, a private equity firm located in San Francisco, will own 56% and 43%, respectively, of ECCA. Moulin, with 44 years of operating history, is the largest Asian and third largest global eye frame manufacturer. Moulin's existing and future product development strategy is primarily focused in the mid-market, value segment.

Moody's does not expect the company to alter its current operating strategy as a result of this acquisition. ECCA seeks to differentiate itself by a strategy of added value and services to its customers. The generally favorable demographic trend arising from an aging population and the increased role of managed care programs provide a good foundation for the company to pursue its strategy. Managed care optical plans have grown in popularity. Although they pressure pricing, they are also likely to increase traffic to larger chains that provide a broader scope of locations, market position, and information systems.

The B2 rating of the senior secured credit facilities reflects their senior position in ECCA's capital structure and upstream guarantees from domestic subsidiaries, but the ratings are constrained by the modest level of tangible assets relative to the secured debt. Covenants include a maximum leverage ratio, minimum interest coverage ratio and maximum capital spending. The B2 rating on the revolving credit facility and the term loan B are set at the senior implied rating because these facilities constitute a substantial portion of the funded debt of the company.

The Caa1 rating on the senior subordinated notes is notched two ratings levels from the B2 senior implied, reflecting the unsecured and subordinate position of the securities in the capital structure. They are guaranteed by each guarantor of the senior secured credit facilities but on a senior subordinated basis. If Golden Gate forces an auction of ECCA after the fourth anniversary of the note issuance that results in a change of control, the note holders have the right to require the company to purchase such notes at 101% of the principal plus accrued and unpaid interest. Provisions in the indenture are expected to restrict additional indebtedness, dividends, investments, liens, asset sales, affiliate transactions, and mergers and acquisitions.

Moody's will consider stabilizing the ratings if ECCA is able to successfully manage its relationship/supply arrangement with Moulin and derive the projected cost savings, which would improve operating margins and decrease leverage (adjusted leverage would need to decrease below 6.0x and operating margins would have to start approaching 11.5%). ECCA's ability to compete successfully with the recently merged #1 and #2 competitors is also an important consideration in stabilizing the ratings. Negative ratings actions could be considered if the relationship/supply arrangement with Moulin results in operating problems or if the company exhibits a reversal of business strategy or a change in financial policy. Moody's expects 2005 operating margins (EBIT/revenue) to approximate 11%. Adjusted leverage (funded debt plus 8x rent/EBITDAR), for 2005 is expected to be between 6.0x and 6.5x.

Eye Care Centers of America, Inc., headquartered in San Antonio, Texas, operates 377 stores in the U.S.

under the EyeMasters and other regional trade names. Sales for 2004 were approximately \$290 million.

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