RESEARCH

Recovery Report:

Eye Care Centers Of America Inc.'s Secured Financing

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(**Editor's Note:** This recovery report has been updated to reflect the recently announced changes to Standard & Poor's recovery scale.)

The rating on Eye Care Centers of America Inc.'s $190 million secured bank financing has been raised to 'BB-', two notches above the corporate credit rating, from 'B', while the recovery rating was revised to '1', indicating expectations of very high (90% to 100%) recovery in the event of a payment default, from '3'. The bank facility comprises a $25 million revolving credit due 2010 and a $165 million term loan B due 2012. The rating changes reflect a revision in the multiple used in Standard & Poor's Ratings Services' enterprise valuation to 5.0x from 3.5x, as well as the revision of our recovery scale.

The likelihood of default for the issues is reflected in the issuer's corporate credit rating of B/Positive/--, which has not changed. However, with the introduction of our new issue rating framework, which now incorporates recoveries in all secured issue-level ratings, the secured issue rating has been raised to reflect the facilities' very high recovery prospects.

The borrower is Eye Care Centers of America Inc., and the loan has a downstream guarantee from holding company ECCA Holdings Corp. and upstream guarantees from the borrower's direct and indirect domestic subsidiaries. The credit facility is secured by a first-priority security interest in substantially all assets of the borrower, including the capital stock of its subsidiaries. The facility contains covenants including a minimum-interest-coverage ratio and a maximum ratio of total consolidated adjusted debt to EBITDAR. We expect Eye Care to have adequate cushion under these covenants.

Our simulated default scenario assumes an increasingly competitive optical retail market, with larger competitors offering steep discounts to gain market share. This environment would cause a significant decline in sales and profitability at Eye Care. However, given the company's satisfactory position in many of its markets, we believe Eye Care would remain a viable business and could be reorganized.

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