

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

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Moody's Investors Service upgraded the Speculative Grade Liquidity rating of Eye Care Centers of America ("ECCA") to SGL-2 from SGL-4. This concludes the rating review that commenced on May 4, 2006. The ratings were placed under review for upgrade on May 4, 2006 because of the announcement that HVHC Inc., a wholly-owned subsidiary of Highmark Inc. (insurance financial strength rating of Baa1), intends to acquire complete ownership of ECCA. Moody's had been concerned 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 that arose because of the pending liquidation of the company's Hong Kong-based controlling shareholder Moulin International Holdings Ltd. ("Moulin"). The improved liquidity rating recognizes that the potential change of control issues in the bank agreement and bond indenture will now be satisfactorily resolved as the bank lenders and subordinated noteholders did not exercise their option to put their debt back to the company.

The SGL-2 rating reflects Moody's expectation that internally generated cash flow will cover cash outflows for mandatory debt service, capital expenditures, cash taxes, and incremental working capital investment over the next twelve months now that the \$164 million term loan and the \$152 million senior subordinated note issue will not become immediately due and payable. Moody's anticipates that the company will generate around \$65 to \$70 million of EBITDA over the next four quarters, and annual cash outflows are forecasted at about \$28 million for cash interest expense, \$2 million for mandatory principal amortization on the Term Loan, and \$12 to \$15 million for gross capital investment. Cash tax payments are considerably less than GAAP tax accruals largely due to the deductibility of goodwill amortization for tax purposes. In a normal year, the company also supports sales growth by permanently investing several million dollars in net working capital. As of April 1, 2006, the company enjoys a good liquidity position with cash of \$33 million and \$22 million of availability under its \$25 million revolving credit facility (after \$3 million for letter of credit back up). Moody's expects the company will remain in compliance with its existing bank loan covenants, assuring continued access to its revolving credit facility, although usage will be minimal.

Eye Care Centers of America, Inc. ("ECCA"), with headquarters in San Antonio, Texas, operates 385 optical retailing stores under EyeMasters and other regional trade names. The company is being acquired by HVHC Inc., a wholly-owned subsidiary of Highmark Inc. (insurance financial strength rating of Baa1). Revenue for the twelve months ending April 1, 2006 was approximately \$414 million. The corporate family rating is B2.

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