UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended July 1, 2006.

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number **33 - 70572**

EYE CARE CENTERS OF AMERICA, INC.

(Exact name of registrant as specified in its charter)

TEXAS	**74-2337775**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification number)

11103 WEST AVENUE
SAN ANTONIO, TEXAS 78213
(Address of principal executive offices, including zip code)
(210) 340-3531
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes_X_ No____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer____ Accelerated filer ____ Non-accelerated filer _X_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes ____ No _X_

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Class	Outstanding at September 13, 2006
Common Stock, $.01 par value	10,000 shares

EYE CARE CENTERS OF AMERICA, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EYE CARE CENTERS OF AMERICA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31, 2005	July 1, 2006
ASSETS		(Unaudited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,782	$ 40,225
Accounts and notes receivable, net	10,444	9,595
Inventory, net	30,642	29,830
Deferred income taxes, net	116	116
Prepaid expenses and other	10,158	10,233
Total current assets	69,142	89,999
PROPERTY & EQUIPMENT, net	50,525	50,798
GOODWILL	368,500	368,131
OTHER ASSETS	25,424	23,871
DEFERRED INCOME TAXES, net	16,271	13,218
Total assets	$ 529,862	$ 546,017
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 19,635	$ 19,477
Current maturities of long-term debt	1,654	1,646
Deferred revenue	3,900	3,501
Accrued payroll expense	8,605	8,065
Accrued interest	7,934	7,028
Other accrued expenses	9,786	14,820
Total current liabilities	51,514	54,537
LONG TERM DEBT, less current maturities	314,243	312,924
DEFERRED RENT	1,698	3,010
Total liabilities	367,455	370,471
SHAREHOLDERS' EQUITY:		
Common stock	-	-
Additional paid-in capital	158,447	158,447
Retained earnings	3,960	17,099
Total shareholders' equity	162,407	175,546
	$ 529,862	$ 546,017

See Notes to Consolidated Financial Statements

EYE CARE CENTERS OF AMERICA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)

The purchase method of accounting was used to record assets and liabilities assumed by the Company. Such accounting generally results in increased depreciation recorded in future periods. Accordingly, the accompanying financial statements of the Predecessor and the Company are not comparable in all material respects since those financial statements report financial position, results of operations and cash flows of these two separate entities. See Note 2.

	Company	**Company**	**Predecessor**	**Company**	**Company**
	Thirteen Weeks Ended	**Thirteen Weeks Ended**	**Fifty-Nine Day Period Ended**	**One Hundred Twenty-Three Day Period Ended**	**Twenty-Six Weeks Ended**
	July 2, 2005	**July 1, 2006**	**March 1, 2005**	**July 2, 2005**	**July 1, 2006**
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)
NET REVENUES:					
Optical sales	$ 98,574	$ 104,509	$ 74,839	$ 137,085	$ 225,131
Management fee	807	541	560	1,140	1,516
Total net revenues	99,381	105,050	75,399	138,225	226,647
OPERATING COSTS AND EXPENSES:					
Cost of goods sold	30,872	28,550	22,648	41,968	60,745
Selling, general and administrative expenses	58,272	63,582	42,226	78,114	128,811
Transaction expenses	-	-	15,642	-	-
Total operating costs and expenses	89,144	92,132	80,516	120,082	189,556
INCOME (LOSS) FROM OPERATIONS	10,237	12,918	(5,117)	18,143	37,091
INTEREST EXPENSE, NET	7,255	7,358	3,433	10,031	15,409
INCOME (LOSS) BEFORE INCOME TAXES	2,982	5,560	(8,550)	8,112	21,682
INCOME TAX EXPENSE (BENEFIT)	1,193	2,255	(1,676)	3,245	8,523
NET INCOME (LOSS)	1,789	3,305	(6,874)	4,867	13,159
LESS PREFERRED STOCK DIVIDENDS	-	-	1,493	-	-
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ 1,789	$ 3,305	$ (8,367)	$ 4,867	$ 13,159

See Notes to Consolidated Financial Statements

EYE CARE CENTERS OF AMERICA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

The purchase method of accounting was used to record assets and liabilities assumed by the Company. Such accounting generally results in increased depreciation recorded in future periods. Accordingly, the accompanying financial statements of the Predecessor and the Company are not comparable in all material respects since those financial statements report financial position, results of operations and cash flows of these two separate entities. See Note 2.

	Predecessor	Company	
	Fifty-Nine Day Period Ended March 1, 2005	One Hundred Twenty-Three Day Period Ended July 2, 2005	Twenty-Six Weeks Ended July 1, 2006
		(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (6,874)	$ 4,867	$ 13,159
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,683	4,731	7,819
Amortization of debt issue costs	309	1,040	1,260
Deferred liabilities and other	(1,713)	2,283	4,438
Deferred financing costs write-off	3,534	-	-
Increase in operating assets and liabilities	3,771	14,523	5,423
Net cash provided by operating activities	1,710	27,444	32,099
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment, net	(1,850)	(4,015)	(8,195)
Net cash used in investing activities	(1,850)	(4,015)	(8,195)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on debt and capital leases	(213,872)	(8,061)	(1,441)
Dividend to parent	-	-	(20)
Payments for refinancing fees	(16,925)	(599)	-
Proceeds from issuance of debt	314,712	-	-
Retirement of treasury stock	1,668	-	-
Retirement of preferred stock	(72,318)	-	-
Common stock buyback	(168,116)	-	-
Common stock sale, net	158,521	-	-
Net cash provided by (used in) in financing activities	3,670	(8,660)	(1,461)
NET INCREASE IN CASH	3,530	14,769	22,443
CASH AND CASH EQUIVALENTS, beginning of period	3,098	6,628	17,782
CASH AND CASH EQUIVALENTS, end of period	$ 6,628	$ 21,397	$ 40,225

See Notes to Consolidated Financial Statements

EYE CARE CENTERS OF AMERICA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The Condensed Consolidated Financial Statements of Eye Care Centers of America, Inc. which is referred to as the "Company", "we", "our" and "us" include all of our accounts, our wholly owned subsidiaries' accounts and certain private optometrists' accounts for whom we perform management services (the "ODs"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The Condensed Consolidated Balance Sheet for the year ended December 31, 2005 was derived from the audited financial statements as of that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. We believe that all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the thirteen week and twenty-six week periods ended July 1, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ended December 30, 2006 ("fiscal 2006"). For further information, refer to the consolidated financial statements and footnotes thereto included in the Eye Care Centers of America, Inc.'s annual report on Form 10-K for the year ended December 31, 2005 ("fiscal 2005").

2. Merger Agreement

On December 2, 2004, we entered into a definitive merger agreement pursuant to which Thomas H. Lee Partners agreed to sell all of its equity interests in us to ECCA Holdings Corporation ("ECCA Holdings"), a company controlled by Moulin Global Eyecare Holdings Limited, which we refer to as Moulin, and Golden Gate Capital, which we refer to as Golden Gate (the "Acquisition") for a purchase price of $450 million plus adjustments. Upon consummation of the agreement on March 1, 2005, we became a wholly owned subsidiary of ECCA Holdings, which was in turn is owned 56.5% by Offer High Investments, Ltd. a subsidiary of Moulin, 42.5% by Golden Gate and 1% by our management. In connection with the Acquisition, we issued $152 million aggregate principal amount of 10¾% Senior Subordinated Notes due February 15, 2015, which we refer to as the Initial Notes, and entered into a $190 million senior credit facility, which we refer to as ("the New Credit Facility"). The net proceeds from the Initial Notes together with borrowings under the New Credit Facility and a $172.7 million equity contribution from Moulin and Golden Gate were used to finance the Acquisition, including the permanent repayment of our old credit facility and the retirement of our 9⅛% Senior Subordinated Notes due 2008 and our Floating Interest Rate Subordinated Term Securities due 2008, which together we refer to as ("the Retired Notes"). All of these transactions together are collectively referred to as ("the transactions"); prior to the transactions the company is referred to as the "Predecessor" and subsequent to the transactions the company is referred to as the "Company". The purchase method of accounting was used to record assets and liabilities assumed by the Company. Such accounting generally results in increased depreciation recorded in future periods. Accordingly, the accompanying financial statements of the Predecessor and the Company are not comparable in all material respects since those financial statements report financial position, results of operations and cash flows of these two separate entities.

As a result of the Acquisition, we incurred approximately $15.6 million of non-recurring expenses. These expenses consisted of professional fees incurred by the selling shareholders, premium paid to retire the Retired Notes and the write off of previously capitalized loan fees related to the Retired Notes and old credit facility.

The Acquisition was accounted for using the push-down method of accounting. Accordingly, a portion of the purchase price was allocated to the identifiable net assets acquired based on their estimated fair values with the balance of the purchase price, $368.1 million, included in goodwill. Approximately $54.2 million of this goodwill will remain deductible for tax purposes.

3. *Critical Accounting Policies*

Critical accounting policies are those that require us to make assumptions that are difficult or complex about matters that are uncertain and may change in subsequent periods, resulting in changes to reported results.

The majority of our accounting policies do not require us to make difficult, subjective or complex judgments or estimates or the variability of the estimates is not material. However, the following policies could be deemed critical. We have discussed these critical accounting policies with the audit committee of the Board of Directors.

- Accounts receivable are primarily from third party payors related to the sale of eyewear and include receivables from insurance reimbursements, optometrist management fees, credit card companies, merchandise, rent and license fee receivables. Our allowance for doubtful accounts requires significant estimation and primarily consists of amounts owed to us by third party insurance payors. This estimate is based on the historical ratio of collections to billings. Our allowance for doubtful accounts was $2.7 million at December 31, 2005 and July 1, 2006.

- Inventory consists principally of eyeglass frames, ophthalmic lenses and contact lenses and is stated at the lower of cost or market. Cost is determined using the weighted average method which approximates the first-in, first-out (FIFO) method. Our inventory reserves require significant estimation and are based on product with low turnover or deemed by us to be unsaleable. Our inventory reserve was $1.3 million and $1.6 million at December 31, 2005 and July 1, 2006, respectively.

- Goodwill represents approximately 67% of our assets and consists of the amount by which the purchase price exceeds the market value of acquired net assets. Goodwill must be tested for impairment at least annually using a “two-step” approach that involves the identification of reporting units and the estimation of fair values. This fair value estimation requires significant judgment by us.

- Valuation allowances for deferred tax assets reduce deferred tax assets when it is deemed more likely than not that some portion or all of the deferred tax assets will expire before realization of the benefit or that future deductibility is not probable due to taxable losses. Although realization is not assured due to historical taxable income and the probability of future taxable income, we believe it is more likely than not that all of the deferred tax asset will be realized.

- We maintain our own self-insurance group health plan. The plan provides medical benefits for participating employees. We have an employers' stop loss insurance policy to cover individual claims in excess of $200,000 per employee. The amount charged to health insurance expense is based on estimates obtained from an actuarial firm. We believe the accrued liability of approximately $1.1 million, which is included in other accrued expenses, as of July 1, 2006 is adequate to cover future benefit payments for claims that occurred prior to July 1, 2006.

4. Related Party Transactions

In connection with the recapitalization of the Company in 1998, we entered into a management agreement with THL Equity Advisors IV, LLC, or THL Advisors, dated as of April 24, 1998. We incurred approximately $81,000 for the fifty-nine day period ended March 1, 2005 for management and other consulting services. The management agreement was terminated in conjunction with the Acquisition.

During fiscal 1998, Bernard W. Andrews, one of our former directors and who was our Chief Executive Officer at the time, purchased $1.0 million of our common stock, which was paid for by the delivery by Mr. Andrews of a promissory note payable to us with an original principal amount of $1.0 million. Mr. Andrews' promissory note accrued interest at a fixed annual rate of 9.0% and was secured by 96,061 shares of our common stock held by Bernard W. Andrews Revocable Trust U/A. The promissory note plus all accrued interest was paid in full in conjunction with the Acquisition.

In connection with the Acquisition, we became a party to an advisory agreement with ECCA Holdings and an entity affiliated with Golden Gate, and a separate advisory agreement with ECCA Holdings and Moulin. Pursuant to each advisory agreement, Golden Gate, on the one hand, and Moulin, on the other hand, will be compensated for the financial, investment banking, management advisory and other services performed for future financial, investment banking, management advisory and other services they perform on our behalf. Each advisory agreement has a term of 10 years following the date on which the transactions are consummated, but will terminate on the date on which Golden Gate or Moulin, as the case may be, ceases to be a direct or indirect holder of equity interests of ECCA Holdings.

We prepaid $3.0 million to Golden Gate and $1.5 million to Moulin on the date of the Acquisition as compensation for advisory services to be rendered through the three-year period and 18-month period, respectively, immediately following the date of the Acquisition. Beginning 18 months after the consummation of the Acquisition, we will pay management fees of up to $500,000 per fiscal quarter to Moulin until the aggregate management fees paid to Moulin under its Advisory Agreement, including those paid upon consummation of the Acquisition, total $3.0 million, and thereafter we will pay management fees of up to $250,000 per fiscal quarter to each of Golden Gate and Moulin, subject to restrictions in (i) our New Credit Facility and (ii) the indenture governing the Notes. We have also agreed to reimburse each of Golden Gate and Moulin up to $125,000 annually for their out-of-pocket fees and expenses, including legal and accounting fees, incurred in connection with the provision of services to us, their ownership of equity securities of ECCA Holdings or the exercise of rights under the various agreements entered in connection with the Acquisition. In addition, we have agreed to pay certain additional transaction fees to each of them in the event we, ECCA Holdings or any of our subsidiaries completes any acquisition (whether by merger, consolidation, purchase of stock or assets or otherwise), debt or equity financing, sale of all or substantially all of our assets, change of control transaction or other similar transaction in an amount equal to 0.5% of the value of each such transaction.

During the twenty-six weeks ended July 1, 2006, we expensed approximately $1.0 million related to the above arrangements.

5. Income Taxes

We record income taxes under SFAS No. 109 using the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

6. Supplemental Disclosure of Cash Flow Information (dollars in thousands)

	Predecessor	Company	
	Fifty-Nine Day Period Ended March 1, 2005	One Hundred Twenty-Three Day Period Ended July 2, 2005 (Unaudited)	Twenty-Six Weeks Ended July 1, 2006 (Unaudited)
Cash paid for interest	$ 5,213	$ 3,724	$ 15,904
Dividends accrued on preferred stock	$ 1,493	$ -	$ -
Cash paid for taxes	$ 8	$ 635	$ 480

7. Stock Based Compensation (dollars in thousands)

We accounted for stock based compensation in accordance with APB 25. As all options were granted at fair market value, no compensation expense was recorded for options granted. The pro forma calculations include only the effects of 2002, 2003 and 2004 grants as all grants previous to 2002 were exercised or cancelled. As such the impacts are not necessarily indicative of the effects on reported net income of future years. No options were outstanding during the twenty-six week period ended July 1, 2006 as all options were cancelled in connection with the Acquisition. Our pro forma net income for the fifty-nine day period ended March 1, 2005 is as follows:

	Predecessor
	Fifty-Nine Day Period Ended March 1, 2005
Net loss	$ (6,874)
Fair value based method compensation expense	21
Pro forma net loss	$ (6,895)

8. Accounting Standards and Disclosures

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Intepretation No. 48, "Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109," ('FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company is required to adopt the provisions of FIN 48 during the first fiscal year beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on its consolidated results of operations and financial position.

9. Merger Agreement Subsequent Event

On May 1, 2006, HVHC, Inc. ("HVHC"), a subsidiary of Highmark Inc. ("Highmark"), and ECCA Holdings Corporation entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which ECCA Holdings was merged with a wholly-owned subsidiary of HVHC, with ECCA Holdings being the surviving corporation and becoming a wholly-owned subsidiary of HVHC. Eye Care Centers of America, Inc. is owned by ECCA Holdings and as a result of the merger became an indirect wholly-owned subsidiary of Highmark. The board of directors of both companies approved the merger as well as the shareholders of ECCA Holdings. The transaction closed on August 1, 2006.

The aggregate merger consideration paid to the shareholders of ECCA Holdings to redeem all common stock consisted of $313.7 million in cash. The purchase price is subject to a final adjustment defined by the Merger Agreement. We obtained a waiver on our New Credit Facility (defined later in this document) for the change of control provisions related to the Merger Agreement. In addition, we concluded a mandatory change of control offer on our Notes (defined later in this document) on August 11, 2006 without any redemptions.

In connection with the closing of the Merger Agreement, all common stock held by the directors and employees of the Company was cancelled and settled out of the proceeds of the merger consideration discussed above.

10. Condensed Consolidating Information (Unaudited) (dollars in thousands)

The Notes were issued by us and are guaranteed by all of our subsidiaries but are not guaranteed by ODs. The subsidiaries are wholly owned by us and the guarantees are full, unconditional and joint and several. The following condensed consolidating financial information presents (i) our financial position, results of operations and cash flows, as parent, as if we accounted for our subsidiaries using the equity method, (ii) the subsidiaries, and (iii) ODs. There were no transactions between the subsidiaries during any of the periods presented. Separate financial statements of the subsidiaries are not presented herein as we do not believe that such statements would be material to investors.

Consolidating Balance Sheets
For the Year Ended December 31, 2005

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
ASSETS					
Current assets:					
Cash and cash equivalents	$ 73	$ 17,012	$ 697	$ -	$ 17,782
Accounts and notes receivable	162,042	49,251	3,200	(204,049)	10,444
Inventory	-	28,760	1,882	-	30,642
Deferred income taxes, net	116	-	-	-	116
Prepaid expenses and other	1,653	8,461	44	-	10,158
Total current assets	163,884	103,484	5,823	(204,049)	69,142
Property and equipment	-	50,459	66	-	50,525
Intangibles	261,242	107,195	88	(25)	368,500
Other assets	24,855	569	-	-	25,424
Deferred income taxes, net	16,271	-	-	-	16,271
Investment in subsidiaries	8,251	-	-	(8,251)	-
Total Assets	$ 474,503	$ 261,707	$ 5,977	$ (212,325)	$ 529,862
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	$ 9	$ 219,285	$ 4,390	$ (204,049)	$ 19,635
Current portion of long-term debt	1,237	417	-	-	1,654
Deferred revenue	-	3,448	452	-	3,900
Accrued payroll expense	-	8,218	387	-	8,605
Accrued interest	7,934	-	-	-	7,934
Other accrued expenses	1,803	6,329	1,654	-	9,786
Total current liabilities	10,983	237,697	6,883	(204,049)	51,514
Long-term debt, less current maturities	312,843	1,400	-	-	314,243
Deferred rent	-	1,582	116	-	1,698
Total liabilities	323,826	240,679	6,999	(204,049)	367,455
Shareholders' equity (deficit):					
Common stock	-	-	-	-	-
Additional paid-in capital	162,690	(994)	(3,224)	(25)	158,447
Accumulated equity (deficit)	(12,013)	22,022	2,202	(8,251)	3,960
Total shareholders' equity (deficit)	150,677	21,028	(1,022)	(8,276)	162,407
	$ 474,503	$ 261,707	$ 5,977	$ (212,325)	$ 529,862

Condensed Consolidating Statements of Income

For the One Hundred Twenty-Three Day Period Ended July 2, 2005

	Parent	Subsidiaries	ODs	Eliminations	Company
Revenues:					
Optical sales	$ -	$ 115,142	$ 21,943	$ -	$ 137,085
Management fees	-	8,971	-	(7,831)	1,140
Equity earnings in subsidiaries	6,632	-	-	(6,632)	-
Total net revenues	6,632	124,113	21,943	(14,463)	138,225
Operating costs and expenses:					
Cost of goods sold	-	37,808	4,160	-	41,968
Selling, general and administrative expenses	(8,310)	74,448	19,807	(7,831)	78,114
Total operating costs and expenses	(8,310)	112,256	23,967	(7,831)	120,082
Income from operations	14,942	11,857	(2,024)	(6,632)	18,143
Interest expense, net	6,701	3,330	-	-	10,031
Income tax expense	3,374	(129)	-	-	3,245
Net income	$ 4,867	$ 8,656	$ (2,024)	$ (6,632)	$ 4,867

Condensed Consolidating Statements of Income

For the Fifty-Nine Day Period Ended March 1, 2005

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Predecessor
Revenues:					
Optical sales	$ -	$ 57,670	$ 17,169	$ -	$ 74,839
Management fees	-	5,328	-	(4,768)	560
Equity earnings in subsidiaries	4,220	-	-	(4,220)	-
Total net revenues	4,220	62,998	17,169	(8,988)	75,399
Operating costs and expenses:					
Cost of goods sold	-	19,504	3,144	-	22,648
Selling, general and administrative expenses	102	33,961	12,931	(4,768)	42,226
Transaction expenses	15,642	-	-	-	15,642
Total operating costs and expenses	15,744	53,465	16,075	(4,768)	80,516
Income from operations	(11,524)	9,533	1,094	(4,220)	(5,117)
Interest expense, net	182	3,251	-	-	3,433
Income tax expense	(4,832)	3,156	-	-	(1,676)
Net income (loss)	$ (6,874)	$ 3,126	$ 1,094	$ (4,220)	$ (6,874)

Condensed Consolidating Statements of Income
For the Thirteen Weeks Ended July 2, 2005

	Parent	Subsidiaries	ODs	Eliminations	Company
Revenues:					
Optical sales	$ -	$ 82,421	$ 16,153	$ -	$ 98,574
Management fees	-	6,213	-	(5,406)	807
Equity earnings in subsidiaries	10,660	-	-	(10,660)	-
Total net revenues	10,660	88,634	16,153	(16,066)	99,381
Operating costs and expenses:					
Cost of goods sold	-	27,971	2,901	-	30,872
Selling, general and administrative expenses	729	48,579	14,370	(5,406)	58,272
Total operating costs and expenses	729	76,550	17,271	(5,406)	89,144
Income from operations	9,931	12,084	(1,118)	(10,660)	10,237
Interest expense, net	6,999	256	-	-	7,255
Income tax expense	1,143	50	-	-	1,193
Net income	$ 1,789	$ 11,778	$ (1,118)	$ (10,660)	$ 1,789

Condensed Consolidating Statements of Cash Flows
For the One Hundred Twenty Three Days Ended July 2, 2005

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
Cash flows from operating activities:					
Net income	$ 4,867	$ 8,656	$ (2,024)	$ (6,632)	$ 4,867
Adjustments to reconcile net income to net					
Cash provided by (used in) operating activities:					
Depreciation and amortization	-	4,731	-	-	4,731
Amortization of debt issue costs	80	960	-	-	1,040
Deferred liabilities and other	3,696	(1,396)	(17)	-	2,283
Tax benefit on option payments	-	-	-	-	-
Deferred financing costs write-off	(3,534)	3,534	-	-	-
Equity earnings in subsidiaries	4,220	-	-	(4,220)	-
Increase in operating assets and liabilities	6,500	6,328	1,695	-	14,523
Net cash provided by operating activities	15,829	22,813	(346)	(10,852)	27,444
Cash flows from investing activities:					
Acquisition of property and equipment	-	(4,015)	-	-	(4,015)
Payments for new subsidiaries					-
Net cash used in investing activities	-	(4,015)	-	-	(4,015)
Cash flows from financing activities:					
Payments on debt and capital leases	(7,985)	(76)	-	-	(8,061)
Payments for refinancing fees	3,605	(4,204)	-	-	(599)
Net cash used in financing activities	(4,380)	(4,280)	-	-	(8,660)
Net increase in cash and cash equivalents	11,449	14,518	(346)	(10,852)	14,769
Cash and cash equivalents at beginning of period	5,501	729	398	-	6,628
Cash and cash equivalents at end of period	$ 16,950	$ 15,247	$ 52	$ (10,852)	$ 21,397

Condensed Consolidating Statements of Cash Flows
For the Fifty-Nine Day Period Ended March 1, 2005

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Predecessor
Cash flows from operating activities:					
Net income	$ (6,874)	$ 3,126	$ 1,094	$ (4,220)	$ (6,874)
Adjustments to reconcile net income to net					
Cash provided by (used in) operating activities:					
Depreciation and amortization	-	2,683	-	-	2,683
Amortization of debt issue costs	8	301	-	-	309
Deferred liabilities and other	(1,904)	167	24	-	(1,713)
Deferred financing costs write-off	3,534				3,534
Equity earnings in subsidiaries	(4,220)	-	-	4,220	-
Increase/(decrease) in operating assets and liabilities	2,731	1,602	(562)	-	3,771
Net cash provided by operating activities	(6,725)	7,879	556	-	1,710
Cash flows from investing activities:					
Acquisition of property and equipment	-	(1,850)	-	-	(1,850)
Net cash used in investing activities	-	(1,850)	-	-	(1,850)
Cash flows from financing activities:					
Payments on debt and capital leases	(213,819)	(53)	-	-	(213,872)
Payments for refinancing fees	(16,925)	-	-	-	(16,925)
Proceeds from issuance of debt	314,712	-	-	-	314,712
Retirement of treasury stock	1,668	-	-	-	1,668
Retirement of preferred stock	(72,318)	-	-	-	(72,318)
Common stock buyback	(168,116)	-	-	-	(168,116)
Common stock sale, net	158,521	-	-	-	158,521
Net cash used in financing activities	3,723	(53)	-	-	3,670
Net increase in cash and cash equivalents	(3,002)	5,976	556	-	3,530
Cash and cash equivalents at beginning of period	2,582	337	179	-	3,098
Cash and cash equivalents at end of period	$ (420)	$ 6,313	$ 735	$ -	$ 6,628

Condensed Consolidating Balance Sheet
July 1, 2006

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
ASSETS					
Current assets:					
Cash and cash equivalents	$ 650	$ 39,393	$ 182	$ -	$ 40,225
Accounts and notes receivable	144,386	51,865	1,357	(188,013)	9,595
Inventory	-	27,925	1,905	-	29,830
Deferred income taxes	116	-	-	-	116
Prepaid expenses and other	824	9,363	46	-	10,233
Total current assets	145,976	128,546	3,490	(188,013)	89,999
Property and equipment	-	50,732	66	-	50,798
Intangibles	260,874	107,195	87	(25)	368,131
Other assets	23,204	667	-	-	23,871
Deferred income taxes	13,218	-	-	-	13,218
Investment in subsidiaries	39,141	-	-	(39,141)	-
Total assets	$ 482,413	$ 287,140	$ 3,643	$ (227,179)	$ 546,017
LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)					
Current liabilities:					
Accounts payable	$ 10	$ 206,613	$ 867	$ (188,013)	$ 19,477
Current portion of long-term debt	1,238	408	-	-	1,646
Deferred revenue	-	3,058	443	-	3,501
Accrued payroll expense	-	7,546	519	-	8,065
Accrued interest	7,028	-	-	-	7,028
Other accrued expenses	6,854	7,142	824	-	14,820
Total current liabilities	15,130	224,767	2,653	(188,013)	54,537
Long-term debt, less current maturities	311,720	1,204	-	-	312,924
Deferred rent	-	2,710	300	-	3,010
Total liabilities	326,850	228,681	2,953	(188,013)	370,471
Shareholders' equity/(deficit)					
Common stock	-	-	-	-	-
Additional paid-in capital	162,690	(994)	(3,224)	(25)	158,447
Accumulated equity/(deficit)	(7,127)	59,453	3,914	(39,141)	17,099
Total shareholders' equity/(deficit)	155,563	58,459	690	(39,166)	175,546
	$ 482,413	$ 287,140	$ 3,643	$ (227,179)	$ 546,017

Condensed Consolidating Statements of Income
For the Twenty-Six Weeks Ended July 1, 2006

	Parent	Subsidiaries	ODs	Eliminations	Company
Revenues:					
Optical sales	$ -	$ 177,590	$ 47,541	$ -	$ 225,131
Management fees	-	16,512	-	(14,996)	1,516
Equity earnings in subsidiaries	39,141	-	-	(39,141)	-
Total net revenues	39,141	194,102	47,541	(54,137)	226,647
Operating costs and expenses:					
Cost of goods sold	-	52,043	8,702	-	60,745
Selling, general and administrative expenses	1,508	103,748	38,551	(14,996)	128,811
Total operating costs and expenses	1,508	155,791	47,253	(14,996)	189,556
Income from operations	37,633	38,311	288	(39,141)	37,091
Interest expense, net	15,982	(573)	-	-	15,409
Income tax expense	8,492	13	18	-	8,523
Net income	$ 13,159	$ 38,871	$ 270	$ (39,141)	$ 13,159

Condensed Consolidating Statements of Income
For the Thirteen Weeks Ended July 1, 2006

	Parent	Subsidiaries	ODs	Eliminations	Company
Revenues:					
Optical sales	$ -	$ 82,750	$ 21,759	$ -	$ 104,509
Management fees	-	8,374	-	(7,833)	541
Equity earnings in subsidiaries	14,024	-	-	(14,024)	-
Total net revenues	14,024	91,124	21,759	(21,857)	105,050
Operating costs and expenses:					
Cost of goods sold	-	24,744	3,806	-	28,550
Selling, general and administrative expenses	759	51,158	19,498	(7,833)	63,582
Total operating costs and expenses	759	75,902	23,304	(7,833)	92,132
Income from operations	13,265	15,222	(1,545)	(14,024)	12,918
Interest expense, net	7,736	(378)	-	-	7,358
Income tax expense	2,224	852	(821)	-	2,255
Net income	$ 3,305	$ 14,748	$ (724)	$ (14,024)	$ 3,305

Condensed Consolidating Statements of Cash Flows
For the Twenty Six-Weeks Ended July 1, 2006

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
Cash flows from operating activities:					
Net income	$ 13,159	$ 38,871	$ 270	$ (39,141)	$ 13,159
Adjustments to reconcile net income to net					
Cash provided by (used in) operating activities:					
Depreciation and amortization	-	7,819	-	-	7,819
Amortization of debt issue costs	1,261	(1)	-	-	1,260
Deferred liabilities and other	3,422	841	175	-	4,438
Equity earnings in subsidiaries	(39,141)	-	-	39,141	-
Increase/(decrease) in operating assets and liabilities	23,133	(16,750)	(960)	-	5,423
Net cash provided by operating activities	1,834	30,780	(515)	-	32,099
Cash flows from investing activities:					
Acquisition of property and equipment	-	(8,195)	-	-	(8,195)
Net cash used in investing activities	-	(8,195)	-	-	(8,195)
Cash flows from financing activities:					
Payments on debt and capital leases	(1,237)	(204)	-	-	(1,441)
Dividend to parent	(20)	-	-	-	(20)
Net cash used in financing activities	(1,257)	(204)	-	-	(1,461)
Net increase in cash and cash equivalents	577	22,381	(515)	-	22,443
Cash and cash equivalents at beginning of period	73	17,012	697	-	17,782
Cash and cash equivalents at end of period	$ 650	$ 39,393	$ 182	$ -	$ 40,225

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We are the third largest operator of optical retail stores in the United States as measured by revenue. We currently operate 385 stores in 36 states, including 319 directly-owned stores and 66 stores owned by an optometrist's professional entity (an "OD PC"), which we manage under long-term management agreements. Our consolidated financial information includes the results of our 319 directly-owned stores, as well as the results of 53 of the 66 stores operated by an OD PC. The remaining 13 stores operated by an OD PC are not consolidated and we recognize as management fee revenue only the cash flows we earn pursuant to the terms of management agreements for those 13 OD PC-operated stores.

Our net revenues are comprised of optical sales, net of discounts and promotions, from our 372 consolidated stores as well as management fees from the 13 stores owned by OD PCs that are not consolidated in our results. Optical sales include sales of frames, lenses (including lens treatments), contact lenses and eyeglass warranties at all of our 372 consolidated stores, as well as the professional fees of the optometrists at 181 of the stores. These 181 stores include 85 stores where the optometrist is our employee or an independent contractor, the 53 stores operated by an OD PC that are consolidated in our results and the 43 stores with independent optometrists for whom we provide management services. The management fees from the 13 unconsolidated OD PC-operated stores are based on the performance of the stores.

Our operating costs and expenses are comprised of costs of goods sold and selling, general and administrative expenses. Cost of goods sold primarily includes the cost of eyeglass frames, ophthalmic lenses, contact lenses, lab manufacturing costs and buying, warehousing, distribution, shipping and delivery costs. Selling, general and administrative expenses primarily include retail payroll, doctor payroll, occupancy, overhead, advertising and depreciation. Occupancy, overhead and depreciation are less variable relative to sales levels than other components of selling, general and administrative expenses.

In this management's discussion and analysis we use the terms "gross profit," "gross margin," "comparable store sales," "comparable transaction volume" and "average ticket price" to compare our period-over-period performance. Gross profit is defined as optical sales less cost of goods sold in a period. Gross margin is defined as gross profit as a percentage of optical sales in a period. Comparable store sales is calculated by comparing net revenues for a period to net revenues of the equivalent prior period for all stores open at least twelve months during such prior period. Comparable transaction volume is based on the number of comparable store sales in a period. Average ticket price is calculated by dividing comparable net revenues by comparable transaction volume in a period.

We believe that the key driver of our performance is our ability to grow revenue without increasing costs at the same rate by (i) increasing comparable transaction volume by offering value and convenience, (ii) actively managing our store base in targeted markets and (iii) pursuing fee-for-service funded managed vision care relationships. Our performance is also affected by general economic conditions and consumer confidence.

We primarily grow optical sales by offering value and convenience to our customers. Since fiscal 2001, we have focused on our value strategy, which includes a promotion of two complete pairs of single vision eyewear for $99. We believe our value strategy results in increased comparable transaction volume and also believe it encourages customers to purchase higher margin lenses, lens treatments and accessories, which increases average ticket price.

We also grow optical sales and leverage costs through selective store base expansion by opening new stores in targeted markets. Until a new store matures, its operating costs as a percentage of optical sales are generally higher than that of an established store. Accordingly, the expense related to opening new stores adversely affects our results in that period. Over the longer term, opening a new store in an existing market allows us to leverage existing advertising, field management and overhead to mitigate margin pressure. When entering a new market, we seek to achieve sufficient market penetration to generate brand awareness and economies of scale in advertising, field management and overhead. Consistent with our strategic objectives, we believe the opportunity exists to open approximately 15 new stores in fiscal 2006 and 25 new stores in fiscal 2007 in existing and new markets. We also manage costs by closing stores that do not meet our performance expectations. Store openings and store closures affect period over period comparisons.

We have made a strategic decision to pursue fee-for-service funded managed vision care plans. Fee-for-service funded managed vision care plans consist of insurance relationships where we receive set fees for services provided to participants of a plan as opposed to capitated funded managed vision care plans where we receive a set fee per plan participant to provide any and all services requested by participants of such plan. Under a fee-for-service funded managed vision care plan we benefit from participants' utilization of the plan, whereas under a capitated funded managed vision care plan we bear risk related to the level at which participants utilize such plan. Substantially all of our current funded managed vision care plans are fee-for-service funded managed vision care plans. Our managed vision care plans also include discount managed vision care plans where participants receive a set discount on eye care products. We believe that participation in managed vision care plans will continue to benefit us and other large optical retail chains with strong local market shares, broad geographic coverage and sophisticated management information and billing systems. We expect that optical revenues derived from managed vision care plans will continue to account for approximately 30% of our net revenues, but that the percentage attributable to fee-for-service funded managed vision care plans will increase as revenues from discount managed vision care plans decline. While the average ticket price on products purchased under managed vision care plans is typically slightly lower than a non-managed vision care sale, managed vision care plan transactions generally earn comparable operating profit margins as they require less promotional spending and advertising support. We believe that the increased volume resulting from managed vision care plans also compensates for the lower average ticket price.

Results of Operations

The following table sets forth the percentage relationship to net revenues of certain income statement data. In order to provide the most beneficial performance comparison, the period January 2, 2005 to March 1, 2005 of the Predecessor and the period March 2, 2005 to July 2, 2005 of the Company have been combined to represent a total twenty-six week period. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	July 2, 2005		July 1, 2006		July 2, 2005		July 1, 2006	
Statement of Income Data:								
NET REVENUES:								
Optical sales	99.2	%	99.5	%	99.2	%	99.3	%
Management fee	0.8		0.5		0.8		0.7	
Total net revenues	100.0		100.0		100.0		100.0	
OPERATING COSTS AND EXPENSES:								
Cost of goods sold	31.3	*	27.3	*	30.5	*	27.0	*
Selling, general and administrative expenses	59.1	*	60.8	*	56.8	*	57.2	*
Transaction expenses	0.0		0.0		7.3		0.0	
Total operating costs and expenses	89.7		87.7		93.9		83.6	
INCOME FROM OPERATIONS	10.3		12.3		6.1		16.4	
INTEREST EXPENSE, NET	7.3		7.1		6.3		6.8	
INCOME TAX EXPENSE	1.2		2.1		0.7		3.8	
NET INCOME (LOSS)	1.8	%	3.1	%	(0.9)	%	5.8	%

* Percentages based on optical sales only

The following is a discussion of certain factors affecting our results of operations and our liquidity and capital resources. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this document.

The Thirteen Weeks Ended July 1, 2006 Compared to the Thirteen Weeks Ended July 2, 2005.

Net Revenues. Net revenues increased to $105.1 million for the thirteen weeks ended July 1, 2006 from $99.4 million for the thirteen weeks ended July 2, 2005. The increase in revenues compared to the second quarter of fiscal 2005 was primarily driven by a 4.6% increase in comparable store sales and new store openings. Net revenues attributable to new stores in the second quarter of fiscal 2006 were $1.7 million. Comparable transactions increased by 1.8% and average ticket increased by 2.8% compared to the second quarter of fiscal 2005. The increase in average ticket was the result of a continued increase in the sale of premium lenses. Total managed vision care sales increased by 5.4% compared to the second quarter of fiscal 2005. The growth in managed vision care was primarily due to an increase in plans offered by our two largest managed vision care partners. The growth is from both new and existing accounts which they administer. In addition, we opened four new stores and closed three stores in the second quarter of fiscal 2006.

Gross Profit. Gross profit increased to $76.0 million for the thirteen weeks ended July 1, 2006 from $67.7 million for the thirteen weeks ended July 2, 2005. Gross profit as a percentage of optical sales increased to 72.7% for the thirteen weeks ended July 1, 2006 from 68.7% for the thirteen weeks ended July 2, 2005. This increase was largely the result of the sale of lower cost frames purchased from China resulting in approximately $1.2 million in savings for the quarter and an increase in the sales mix of higher margin premium lenses. Also, margin was positively impacted by the increase in the sales mix of high margin value and private label frames.

Selling General & Administrative Expenses (SG&A). SG&A increased to $63.6 million for the thirteen weeks ended July 1, 2006 from $58.3 million for the thirteen weeks ended July 2, 2005. SG&A, as a percentage of optical sales, increased to 60.8% for the thirteen weeks ended July 1, 2006 from 59.1% for the thirteen weeks ended July 2, 2005. This percentage increase was primarily due to increased overhead and depreciation expenditures. Overhead expenditures increased due to higher compensation as a result of our improvement in earnings over last year. Depreciation increased from the application of purchase accounting which resulted in higher values placed on our fixed assets.

Net Interest Expense. Net interest expense increased to $7.4 million for the thirteen weeks ended July 1, 2006 from $7.3 million for the thirteen weeks ended July 2, 2005. This increase was primarily due to an increase in interest rates as compared to the second quarter of fiscal 2005.

Income Tax Expense. Income tax expense increased to $2.3 million for the thirteen weeks ended July 1, 2006 from $1.2 million for the thirteen weeks ended July 2, 2005. The effective tax rate for the thirteen weeks ended July 1, 2006 was consistent with the effective tax rate for the thirteen weeks ended July 2, 2005.

Net Income. Net income increased to $3.3 million for the thirteen weeks ended July 1, 2006 from $1.8 million for the thirteen weeks ended July 2, 2005. This was primarily as a result of increased sales.

The Twenty-Six Weeks Ended July 1, 2006 Compared to the Twenty-Six Weeks Ended July 2, 2005.

Net Revenues. Net revenues increased to $226.6 million for the twenty-six weeks ended July 1, 2006 from $213.6 million for the twenty-six weeks ended July 2, 2005. The increase in revenues compared to the first two quarters of fiscal 2005 was primarily driven by a 5.0% increase in comparable store sales and new store openings. Net revenues attributable to new stores opened after the second quarter of fiscal 2005 were $3.1 million. Comparable transactions increased by 2.4% and average ticket increased by 2.6% compared to the first two quarters of fiscal 2005. The increase in average ticket was the result of a continued increase in the sale of premium lenses. Total managed vision care sales increased by 3.3% compared to the first two quarters of fiscal 2005. The growth in managed vision care was primarily due to an increase in plans offered by our two largest managed vision care partners. The growth is from both new and existing accounts which they administer. In addition, we opened nine stores and closed four stores in the first two quarters of fiscal 2006.

Gross Profit. Gross profit increased to $164.4 million for the twenty-six weeks ended July 1, 2006 from $147.3 million for the twenty-six weeks ended July 2, 2005. Gross profit as a percentage of optical sales increased to 73.0% for the twenty-six weeks ended July 1, 2006 as compared to 69.5% for the twenty-six weeks ended July 2, 2005. This increase was largely the result of the sale of lower cost frames purchased from China resulting in approximately $2.6 million in savings for the first two quarters and an increase in the sales mix of higher margin premium lenses. Also, margin was positively impacted by the increase in the sales mix of high margin value and private label frames.

Selling General & Administrative Expenses (SG&A). SG&A increased to $128.8 million for the twenty-six weeks ended July 1, 2006 from $120.3 million for the twenty-six weeks ended July 2, 2005. SG&A, as a percentage of optical sales, increased to 57.2% for the twenty-six weeks ended July 1, 2006 from 56.8% for the twenty-six weeks ended July 2, 2005. This percentage increase was primarily due to increased overhead and depreciation expenditures. Overhead expenditures increased due to higher compensation as a result of our improvement in earnings over last year. Depreciation increased from the application of purchase accounting which resulted in higher values placed on our fixed assets.

Transaction Expenses. Transaction expenses were $15.6 million for the twenty-six weeks ended July 2, 2005, all of which were incurred in the period ended March 1, 2005. There were no transaction expenses for the twenty-six weeks ended July 2, 2005. The transaction expenses relate to the acquisition of us by Moulin Global Eyecare Holdings Limited and Golden Gate Capital, which we refer to as the "Acquisition", which occurred during the first quarter of fiscal 2005, and include seller expenses, management bonuses, write off of debt financing costs and call premium on the old notes.

Net Interest Expense. Net interest expense increased to $15.4 million for the twenty-six weeks ended July 1, 2006 from $13.5 million for the twenty-six weeks ended July 2, 2005. This increase was primarily due to an increase in interest rates as compared to the first two quarters of fiscal 2005 and increased borrowings subsequent to the Acquisition.

Income Tax Expense. Income tax expense increased to $8.5 million for the twenty-six weeks ended July 1, 2006 from $1.6 million for the twenty-six weeks ended July 2, 2005. The effective tax rate for the twenty-six weeks ended July 1, 2006 was 40.0%. The effective tax rate for the twenty-six weeks ended July 2, 2005 was affected by our transaction expenses and their tax deductibility.

Net Income (Loss). Net income was $13.2 for the twenty-six weeks ended July 1, 2006 compared to a net loss of $2.0 million for the twenty-six weeks ended July 2, 2005. The loss was primarily a result of the transaction expenses.

Liquidity and Capital Resources

Our capital requirements are driven principally by our obligations to service debt and to fund the following costs:

- Construction of new stores
- Repositioning of existing stores
- Purchasing inventory and equipment
- Leasehold improvements

The amount of capital available to us will affect our ability to service our debt obligations and to continue to grow our business through expanding the number of stores and increasing comparable store sales.

Sources of Capital

Our short-term and long-term liquidity needs arise primarily from: (i) interest payments primarily related to our New Credit Facility and the Notes; (ii) capital expenditures, including those for opening new stores; and (iii) working capital requirements as may be needed to support our business. We intend to fund our operations, interest expense, capital expenditures and working capital requirements principally from cash from operations. We are a holding company with no direct operations. Our principal assets are the equity interests we hold in our subsidiaries. As a result, we are dependent upon dividends and other payments from our subsidiaries to generate the cash necessary to fund our operations, interest expense, capital expenditures and working capital requirements. There are currently no restrictions on the ability of our subsidiaries to transfer funds to us.

Cash flows from operating activities provided net cash of $32.1 million for the twenty-six weeks ended July 1, 2006 and $29.2 million for the twenty-six weeks ended July 2, 2005. Our other sources of working capital are cash on hand and funding from our revolving credit facility. As of July 1, 2006, we had $40.2 million of cash available to meet our obligations. We had $25.0 million of borrowings available under the $25.0 million revolving portion of our New Credit Facility, excluding $2.7 million letters of credit outstanding.

Payments on debt and issuance of debt and equity transactions related to the Acquisition have been our principal financing activities. Cash flows used in financing activities were $1.5 million for the twenty-six weeks ended July 1, 2006. Cash flows used in financing activities were $5.0 million for the twenty-six weeks ended July 2, 2005.

Our working capital primarily consists of cash and cash equivalents, accounts receivable, inventory, accounts payable and accrued expenses and was $35.5 million as of July 1, 2006. Our working capital was $17.6 million as of December 31, 2005.

Capital expenditures were $8.2 million for the twenty-six weeks ended July 1, 2006 compared to $5.9 million for the twenty-six weeks ended July 2, 2005. Capital expenditures for all of 2006 are projected to be approximately $15.4 million. Of the planned 2006 capital expenditures, approximately $6.1 million is related to commitments for new stores and approximately $9.3 million is expected to be for improvement of existing facilities and systems.

Based upon current operations, we believe that our cash flows from operations, together with borrowings that are available under the $25.0 million revolving credit facility portion of our new senior credit facility, will be adequate to meet our anticipated requirements for working capital, capital expenditures and scheduled principal and interest payments through the next twelve months. Our ability to satisfy our financial covenants under our new senior credit facility, meet our debt service obligations and reduce our debt will be dependent on our future performance, which in turn, will be subject to general economic conditions and to financial, business, and other factors, including factors beyond our control. We believe that our ability to repay amounts outstanding under our new senior credit facility and the notes at maturity will likely require additional financing, which may not be available to us on acceptable terms, if at all. A portion of our debt bears interest at floating rates; therefore, our financial condition is and will continue to be affected by changes in prevailing interest rates.

Long-Term Debt

Credit Facility

In December 2002, the Company entered into a credit agreement which provided for $117.0 million in term loans and $25.0 million in revolving credit facilities (the Old Credit Facility). In connection with the Acquisition, we entered into a new senior secured credit facility which consists of (i) the $165.0 million term loan facility (the Term Loan Facility); and (ii) the $25.0 million secured revolving credit facility (the Revolver and together with the Term Loan Facility, the New Credit Facility). The borrowings of the New Credit Facility together with the net proceeds from the offering of the Initial Notes and the equity investment of Moulin and Golden Gate were used to pay a cash portion of the purchase price of the Acquisition, to repay debt outstanding under the Old Credit Facility, to retire the Retired Notes, pay the related tender premium and accrued interest and to pay the related transaction fees and expenses. Thereafter, the New Credit Facility is available to finance working capital requirements and general corporate purposes.

Amortization payments. Prior to the maturity date, funds borrowed under the Revolver may be borrowed, repaid and re-borrowed, without premium or penalty. The term loan facility began amortizing in the third quarter of fiscal 2005 and will continue through the date of maturity in fiscal 2012 according to the following schedule:

Year	Amount (in millions)
2006	$ 0.83
2007	1.65
2008	1.65
2009	1.65
2010	1.65
2011	1.65
2012	153.86
	$ 162.94

Interest. Our borrowings under the New Credit Facility bear interest at a floating rate, which can either be, at our option, a base rate or a Eurodollar rate, in each case plus an applicable margin. The base rate is defined as the higher of (i) the JPMorgan Chase Bank prime rate or (ii) the federal funds effective rate, plus one half percent (0.5%) per annum. The Eurodollar rate is defined as the rate for Eurodollar deposits for a period of one, two, three, six, nine or twelve months (as selected by us). The applicable margins are:

Facility	Base Rate Margin	Eurodollar Margin
Term Loan Facility	2.00%	3.00%
Revolver	1.75%	2.75%

The applicable margin for borrowings under our Revolver will be determined pursuant to a pricing grid based on the attainment of certain leverage ratios. The applicable margins for borrowings under the Term Loan Facility are not subject to adjustment.

In addition to paying interest on outstanding principal under the New Credit Facility, we are required to pay a commitment fee to the lenders under the Revolver in respect of the unutilized commitments thereunder at a rate equal to 0.50%. We will also pay customary letter of credit fees.

Security and guarantees. The New Credit Facility is secured by a valid first-priority perfected lien or pledge on (i) 100% of the capital stock of each of our present and future direct and indirect domestic subsidiaries, (ii) 65% of the capital stock of each of our future first-tier foreign subsidiaries, (iii) 100% of the capital stock of Eye Care Centers of America, Inc. and (iv) substantially all our present and future property and assets and those of each guarantor, subject to certain exceptions. Our obligations under the New Credit Facility are guaranteed by each of our existing and future direct and indirect domestic subsidiaries and ECCA Holdings.

Covenants. The New Credit Facility documentation contains customary affirmative and negative covenants and financial covenants. During the term of the New Credit Facility, the negative covenants restrict our ability to do certain things, including but not limited to:

- incur additional indebtedness, including guarantees;
- create, incur, assume or permit to exist liens on property and assets;
- make loans and investments and enter into acquisitions and joint ventures;
- engage in sales, transfers and other dispositions of our property or assets;
- prepay, redeem or repurchase our debt (including the notes), or amend or modify the terms of certain material debt (including the notes) or certain other agreements;
- declare or pay dividends to, make distributions to, or make redemptions and repurchases from, equity holders; and
- agree to restrictions on the ability of our subsidiaries to pay dividends and make distributions.

The following financial covenants are included:

- maximum consolidated leverage ratio;
- maximum capital expenditures; and
- minimum rent-adjusted interest coverage ratio.

As of July 1, 2006 we were in compliance with all of our financial covenants.

Mandatory prepayment. We are required to make a mandatory annual prepayment of the Term Loan Facility in an amount equal to 75% of excess cash flows as defined in the New Credit Facility, which percentage we expect to be reduced upon our achieving certain consolidated leverage ratios. In addition, we are required to make a mandatory prepayment of the Term Loan Facility with:

- 100% of the net cash proceeds of any property or asset sale or casualty, subject to certain exceptions and reinvestment rights;
- 100% of the net cash proceeds of certain debt issuances, subject to certain exceptions; and
- 50% of the net cash proceeds from the issuance of additional equity interests, subject to certain exceptions.

Mandatory prepayments will be applied to the Term Loan Facility, first to the scheduled installments of the term loan occurring within the next 12 months in direct order of maturity, and second, ratably to the remaining installments of the term loan. We may voluntarily repay outstanding loans under the New Credit Facility at any time without premium or penalty, other than customary “breakage” costs with respect to Eurodollar loans.

In connection with the borrowings made under the New Credit Facility, we incurred approximately $8.2 million in debt issuance costs. These amounts are classified within other assets in the accompanying balance sheets and are being amortized over the life of the New Credit Facility. The unamortized amount of debt issuance costs as of July 1, 2006 related to the New Credit Facility was $6.4 million.

Notes

On February 4, 2005, we issued $152.0 million aggregate principal amount of our 10 3/4% Senior Subordinated Notes (the "Initial Notes") due 2015. The Company filed a registration statement with the Securities and Exchange Commission with respect to an offer to exchange the Initial Notes for notes which have terms substantially identical in all material respects to the Initial Notes, except such notes are freely transferable by the holders thereof and are issued without any covenant regarding registration (the "Notes"). The registration statement was declared effective on September 26, 2005. The exchange period ended October 31, 2005. The Notes are the only notes of the Company which are currently outstanding.

The Notes:

- are general unsecured, senior subordinated obligations of the Company;
- are limited to an aggregate principal amount of $152.0 million, subject to our ability to issue additional notes;
- mature on February 15, 2015;
- are represented by one or more registered notes in global form, but in certain circumstances may be represented by notes in definitive form ;
- are subordinated in right of payment to all existing and future Senior Indebtedness of the Company, including the New Credit Facility;
- rank equally in right of payment to any future Senior Subordinated Indebtedness of the Company;
- are unconditionally guaranteed on a senior subordinated basis by each existing Subsidiary of the Company and any future Restricted Subsidiary of the Company that is not a Foreign Subsidiary;
- are effectively subordinated to any future Indebtedness and other liabilities of Subsidiaries of the Company that are not guaranteeing the notes;
- may default in the event there is a failure to make an interest or principal payment under the New Credit Facility.

Interest. Interest on the Notes compounds semi-annually and:

- accrues at the rate of 10.75% per annum;
- accrues from the date of original issuance or, if interest has already been paid, from the most recent interest payment date;
- is payable in cash semi-annually in arrears on February 15 and August 15, commencing on August 15, 2005;
- is payable to the holders of record on the February 1 and August 1 immediately preceding the related interest payment dates; and
- is computed on the basis of a 360-day year comprised of twelve 30-day months.

Optional redemption. At any time prior to February 15, 2010, the Company may redeem all or part of the Notes upon not less than 30 nor more than 60 days' prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) the Applicable Premium as of the date of redemption, plus (iii) accrued and unpaid interest on the notes, if any, to the date of redemption (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On and after February 15, 2010, the Company may redeem all or, from time to time, a part of the notes upon not less than 30 nor more than 60 days' notice, at the following redemption prices (expressed as a percentage of principal amount) plus accrued and unpaid interest on the notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period beginning on February 15 of the years indicated below:

YEAR	**REDEMPTION PRICE**
2010	105.375%
2011	103.583%
2012	101.792%
2013 and thereafter	100.000%

Covenants. The Notes contain customary affirmative and negative covenants including but not limited to:

- payment of securities
- limitation on indebtedness;
- limitation on restricted payments;
- limitation on liens;
- initial and future subsidiary guarantors;
- change of control.

In connection with the borrowings made under the Initial Notes, we incurred approximately $10.3 million in debt issuance costs. These amounts are classified within other assets in the accompanying balance sheets and are being amortized over the life of the notes. The unamortized amount of debt issuance costs as of July 1, 2006 related to the notes was $8.9 million.

In 1998, we issued 300,000 shares of a new series of preferred stock (the "Preferred Stock"), par value $.01 per share. Dividends on shares of the Preferred Stock were cumulative from the date of issue (whether or not declared). Such dividends accrued on a daily basis from the original date of issue at an annual rate per share equal to 13% of the original purchase price per share, with such amount compounded annually. In conjunction with the Acquisition, we redeemed all 300,000 shares of the Preferred Stock at $100 per share plus all accumulated and unpaid dividends.

Contractual Obligations. We are committed to make cash payments in the future on the following types of agreements:

- Long term debt; and
- Operating leases for stores and office facilities.

The following table reflects a summary of our contractual obligations as of July 1, 2006:

	Payments due by period				
	Total	Less than 1 yr	1 to 3 yrs	4 to 5 yrs	More than 5 yrs
Long Term Debt (1)	$ 312,958	$ 1,238	$ 3,300	$ 3,300	$ 305,120
Capital Lease Obligations	1,612	408	1,153	51	-
Operating Leases (2)	157,971	34,230	58,856	34,523	30,362
Interest on Long-Term Debt Obligations (3)	218,926	29,326	58,255	57,727	73,618
Total Future Principal Payments on Contractual Obligations	$ 691,467	$ 65,202	$ 121,564	$ 95,601	$ 409,100

(1) Does not include interest payable on outstanding long-term debt obligations, including 10.75% annual interest on $152.0 million aggregate principal amount of notes and interest on approximately $165.0 million of floating rate debt under our new senior credit facility. See "Description of new senior credit facility-Interest." Does not include mandatory annual prepayments of the term loan facility based on defined excess cash flows. See "Description of new senior credit facility-Mandatory prepayment."

(2) Our operating leases generally have a 10-year duration. We renew approximately 40 to 50 operating leases annually. Rental payments on leases to be renewed could be subject to change.

(3) Represents interest payable on outstanding long-term debt obligations, including 10.75% annual interest on $152.0 million aggregate principal amount of notes and 8.0% annual interest on $162.9 million of floating rate debt under our new senior credit facility. The assumed 8.0% interest on the new senior credit facility represents rates at July 1, 2006. The new senior credit facility has quarterly principal payments of $412,000 and a final payment of $153,862,500 due March 1, 2012.

Off-balance sheet arrangements. As of July 1, 2006 our only off-balance sheet arrangements were letters of credit, in the amount of $2.7 million, issued under our old credit facility primarily to insurance companies and remain outstanding under our New Credit Facility.

Future Capital Resources. Based upon current operations, anticipated cost savings and future growth, we believe that our cash flow from operations, together with borrowings currently available under the Revolver, are adequate to meet our anticipated requirements for working capital, capital expenditures and scheduled principal and interest payments through the next twelve (12) months. Our ability to satisfy our financial covenants under the New Credit Facility to meet our debt service obligations and to reduce our debt will depend on our future performance, which in turn, will be subject to general economic conditions and to financial, business, and other factors, including factors beyond our control. In the event we do not satisfy our financial covenants set forth in the New Credit Facility, we may attempt to renegotiate the terms of the New Credit Facility with our lenders for further amendments to, or waivers of, the financial covenants of the New Credit Facility. We believe that our ability to repay the New Credit Facility at maturity will likely require additional financing. We cannot assume that additional financing will be available to us. A portion of our debt bears interest at floating rates; therefore, our financial condition is and will continue to be affected by changes in prevailing interest rates.

Seasonality and Quarterly Results

Our sales fluctuate seasonally. Historically, our highest sales and earnings occur in the first and third fiscal quarters; however, the opening of new stores may affect seasonal fluctuations. Hence, quarterly results are not necessarily indicative of results for the entire year.

Forward-Looking Statements

Certain statements contained herein constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this report regarding our financial position, business strategy, budgets and plans and objectives of management for future operations are forward-looking statements. These forward-looking statements may relate to, among other things, our future performance generally, business development activities, strategy, projected synergies, future capital expenditures, financing sources and availability and the effects of regulation and competition. When used in this report, the words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” “may,” “will” or “should” or, in each case, their negative and similar expressions are generally intended to identify forward-looking statements although not all forward-looking statements contain such identifying words.

You should not place undue reliance on these forward-looking statements, which reflect our management’s view and various assumptions only as of the date of this report. Because these forward-looking statements involve risks and uncertainties, many of which are beyond our control, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our assumptions, plans, objectives, expectations and intentions with respect to the following:

- our competitive environment;
- the cost and effect of legal, tax or regulatory proceedings;
- changes in general economic conditions;
- changes to our regulatory environment;
- our ability to maintain our relationships with optometrists;
- franchise claims by optometrists;
- our ability to build and maintain managed vision care plans;
- reduction of third-party reimbursement;
- technological advances in vision care;
- conflicts of interest between our controlling shareholders and noteholders;
- failure to realize anticipated cost savings;
- exposure to liability claims if we are unable to obtain adequate insurance;
- changes in general industry and market conditions and growth rates;

- loss of key management personnel;
- changes in accounting policies applicable to our business;
- the impact of unusual items resulting from the implementation of new business strategies, acquisitions and divestitures or future restructuring activities;
- our substantial indebtedness;
- restrictions imposed on our business by the terms of our indebtedness;
- our ability to fund our capital requirements;
- long-term impact of laser surgery on the optical industry;
- our ability to open new stores and the financial impact derived from those openings.

In light of these risks, uncertainties and assumptions, the forward-looking statements and events discussed in this report might not occur. You should assume the information appearing in this report is accurate only as of the date on the front cover of this report, as our business, financial condition, results of operations and prospects may have changed since that date. Unless required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Additional information regarding these factors and others that could cause our actual results to differ materially from our expectations is included in our annual report on Form 10-K for the year ended December 31, 2005. The information appearing under "Risk Factors" on Form 10-K is incorporated by reference into and made a part of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks. Market risk is the potential loss arising from adverse changes in market prices and rates. We do not enter into derivative or other financial instruments for trading or speculative purposes. There have been no material changes in our market risk during the first quarter of fiscal 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2005.

Our primary market risk exposure is interest rate risk. As of July 1, 2006, approximately $162.9 million of our long-term debt bore interest at variable rates. Accordingly, our net income is affected by changes in interest rates. For every one hundred basis point change in the average interest rate under our $162.9 million in long-term borrowings, our annual interest expense would change by approximately $1.6 million.

In the event of an adverse change in interest rates, we could take actions to mitigate our exposure. However, due to the uncertainty of the actions that would be taken and their possible effects, this analysis assumes no such actions.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon such evaluation, such officers have concluded that our disclosure controls and procedures are effective as of the end of such period.

There has been no change in our internal controls over financial reporting that occurred during the twenty-six weeks ended July 1, 2006 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a party to routine litigation in the ordinary course of our business. There have been no such pending matters, individually or in the aggregate that we believe to be material to our business or our financial condition that have arisen during the second quarter of fiscal 2006. For further discussion, refer to our annual report on Form 10-K for the year ended December 31, 2005.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" starting on page 22 of our Annual Report on Form 10-K for the year ended December 31, 2005, filed with Securities Exchange Commission on March 27, 2006.

ITEM 5. OTHER INFORMATION

New Board of Directors. We have elected five new board members to replace all of our previous board members. The newly elected board members are Dr. Kenneth R. Melani, Dr. David A. Blandino, Ms. Nanette P. DeTurk, Mr. Robert C. Gray and Mr. William C. Springer.

Vision Service Plan. Vision Service Plan ("VSP") is a managed vision care network that accounts for approximately $5.0 in annual revenues. We were removed from that network in September, 2005. In October 2005, a Kentucky court ordered injunction was issued preventing VSP from removing us from the network until further ordered by the court. In September 2006, the matter was resolved in our favor allowing us to remain in the VSP network.

Change of Accountants. The Board of Directors of the Company has approved the engagement of Price Waterhouse Coopers as its independent registered public accounting firm for the fiscal year ending December 30, 2006. At the same meeting, the Board of Directors of the Company approved the resignation of Ernst & Young as its independent registered public accounting firm of the Company effective October 6, 2006.

The reports of Ernst & Young on the Company's financial statements for the past two fiscal years did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. In connection with the audits of the Company's financial statements for each of the two fiscal years ended January 1, 2005 and December 31, 2005 and in the subsequent interim period through October 6, 2006, there were no disagreements with Ernst & Young on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of Ernst & Young would have caused Ernst & Young to make reference to the matter in their report. Ernst & Young has furnished the Company with a letter stating it agrees with the above statements.

Exhibits and Reports on Form 8-K

(a) The following documents are filed as part of this report.

31.1	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(b) The Company filed a report on Form 8-K dated May 1, 2006 under Item 8.01.. Other Events that reported the Company entered into a merger Agreement with HVHC, Inc., a subsidiary of Highmark Inc., pursuant to which the Company will be merged with a wholly-owned subsidiary of HVHC, Inc. The Company filed a report on Form 8-K dated May 12, 2006 under Item 8.01. Other Events that reported the Company had announced the commencement of a cash tender offer for its outstanding 10 ¾% Senior Subordinated Notes due 2015. The Company filed a report on Form 8-K dated May 26, 2006 under Item 8.01. Other Events that reported the Company had announced the expiration of a cash tender offer for its outstanding 10 ¾% Senior Subordinated Notes due 2015. The Company filed a report on Form 15 dated August 4, 2006 that reported the Company terminated its registration under Section 12(g) of the Securities Exchange Act of 1934. The Company filed a report on Form 8-K dated August 3, 2006 under Item 8.01. Other Events that reported the Company completed the previously announced merger Agreement with HVHC, Inc., a subsidiary of Highmark Inc., becoming a wholly-owned subsidiary of HVHC, Inc.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EYE CARE CENTERS OF AMERICA, INC.

Date: October 06, 2006

by: /s/ Douglas C. Shepard

Douglas C. Shepard
Executive Vice President and Chief Financial Officer