
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2007.

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

(State or other jurisdiction of
incorporation or organization)

74-2337775

(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

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

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

Yes

No

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

Class
Common Stock, \$.01 par value

Outstanding at August 10, 2007
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 30, 2006	June 30, 2007
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,860	\$ 4,775
Accounts and notes receivable, net	9,341	9,662
Inventory, net	32,206	33,626
Deferred income taxes, net	988	988
Prepaid expenses and other	9,322	9,929
Total current assets	<u>65,717</u>	<u>58,980</u>
PROPERTY & EQUIPMENT, net	57,724	63,389
GOODWILL	523,301	523,377
OTHER ASSETS	8,392	8,073
DEFERRED INCOME TAXES, net	13,065	12,990
Total assets	<u>\$ 668,199</u>	<u>\$ 666,809</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 22,669	\$ 22,740
Current maturities of long-term debt	10,939	2,159
Deferred revenue	2,285	3,923
Accrued taxes	8,231	15,618
Accrued payroll expense	8,955	8,279
Accrued interest	7,157	6,673
Other accrued expenses	8,153	8,802
Total current liabilities	<u>68,389</u>	<u>68,194</u>
LONG TERM DEBT, less current maturities	277,707	256,991
DEFERRED RENT	725	2,649
Total liabilities	<u>346,821</u>	<u>327,834</u>
SHAREHOLDER'S EQUITY:		
Common stock	-	-
Additional paid-in capital	317,152	317,152
Retained earnings	4,226	21,823
Total shareholders' equity	<u>321,378</u>	<u>338,975</u>
	<u>\$ 668,199</u>	<u>\$ 666,809</u>

See Notes to Consolidated Financial Statements

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

(dollars in thousands)

The purchase method of accounting was used to record assets and liabilities assumed by the Company in the Highmark Acquisition. Such accounting generally results in increased depreciation and amortization recorded in future periods. Accordingly, the accompanying financial statements of the GGC 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.

	GGC Moulin		GGC Moulin	
	Predecessor	Company	Predecessor	Company
	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2006	June 30, 2007	July 1, 2006	June 30, 2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NET REVENUES:				
Optical sales	\$ 104,509	\$ 113,663	\$ 225,131	\$ 245,284
Management fee	541	682	1,516	1,546
Total net revenues	<u>105,050</u>	<u>114,345</u>	<u>226,647</u>	<u>246,830</u>
OPERATING COSTS AND EXPENSES:				
Cost of goods sold	35,609	39,128	75,424	80,387
Selling, general and administrative expenses	<u>56,523</u>	<u>61,549</u>	<u>114,132</u>	<u>123,761</u>
Total operating costs and expenses	<u>92,132</u>	<u>100,677</u>	<u>189,556</u>	<u>204,148</u>
INCOME FROM OPERATIONS	12,918	13,668	37,091	42,682
INTEREST EXPENSE, NET	<u>7,358</u>	<u>6,610</u>	<u>15,409</u>	<u>13,336</u>
INCOME BEFORE INCOME TAXES	5,560	7,058	21,682	29,346
INCOME TAX EXPENSE	<u>2,255</u>	<u>2,823</u>	<u>8,523</u>	<u>11,749</u>
NET INCOME	<u>\$ 3,305</u>	<u>\$ 4,235</u>	<u>\$ 13,159</u>	<u>\$ 17,597</u>

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 in the Highmark Acquisition. Such accounting generally results in increased depreciation and amortization recorded in future periods. Accordingly, the accompanying financial statements of the GGC 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.

	GGC Moulin Predecessor	Company
	Twenty-Six Weeks Ended	
	July 1, 2006	June 30, 2007
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 13,159	\$ 17,597
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,819	8,889
Amortization of debt issue costs	1,260	190
Deferred liabilities and other	4,438	3,562
Increase in operating assets and liabilities	5,423	4,562
Net cash provided by operating activities	<u>32,099</u>	<u>34,800</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(8,195)	(14,275)
Net cash used in investing activities	<u>(8,195)</u>	<u>(14,275)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on debt and capital leases	(1,441)	(29,610)
Dividend to parent	(20)	-
Net cash used in in financing activities	<u>(1,461)</u>	<u>(29,610)</u>
NET INCREASE (DECREASE) IN CASH	22,443	(9,085)
CASH AND CASH EQUIVALENTS, beginning of period	17,782	13,860
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 40,225</u>	<u>\$ 4,775</u>

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 fiscal year end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Certain reclassifications have been made to the prior period statements to conform to the current period presentation. Such reclassifications did not materially affect the Company's financial conditions, net income or cash flows.

The acquisition of the Company (See footnote 2) was accounted for under the purchase method of accounting, as required by Statement of Financial Accounting Standards (SFAS) No.141, *Business Combinations*. The purchase price has been “pushed-down” and allocated to the assets and liabilities of the Company. Accordingly, the post-acquisition consolidated financial statements reflect a new basis of accounting. The Company's Consolidated Statements of Operations and Cash Flows for the thirteen weeks ending July1, 2006 and the twenty-six weeks ending July 1, 2006 reflect the operations of the Company prior to the acquisition. Hence, there is a blackline division on the financial statements, which is intended to signify that the reporting entities shown are not comparable.

The accompanying condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). The information reflects all normal and recurring adjustments which in the opinion of the Company's management are necessary for a fair presentation of the financial position of the Company and its results of operations for the interim periods set forth herein.

Operating results for the thirteen and twenty-six week periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ended December 29, 2007 ("fiscal 2007"). 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 30, 2006 ("fiscal 2006").

2. 2006 Merger Agreement

On April 25, 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 (the “Highmark Acquisition”). 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 transaction closed on August 1, 2006.

Prior to the transaction the company is referred to as the “GGC Moulin Predecessor” and subsequent to the transaction 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 and amortization recorded in future periods. Accordingly, the accompanying financial statements of the GGC Moulin 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.

The aggregate merger consideration paid to the shareholders of ECCA Holdings to redeem all common stock consisted of \$308.6 million in cash. HVHC incurred approximately \$8.6 million in transaction fees to consummate the transaction. 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 ECCA Holdings preferred stock held by the directors and employees of the Company was cancelled and settled out of the proceeds of the merger consideration discussed above.

The Highmark Acquisition was accounted for using the push-down method of accounting. Accordingly, a portion of the purchase price was preliminarily allocated to the tangible identifiable and intangible assets and liabilities acquired based on their estimated fair values with the balance of the purchase price, \$523.3 million included in goodwill. Approximately \$54.2 million of this goodwill will remain deductible for tax purposes.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition on August 1, 2006 (dollars in thousands):

Current Assets	\$ 91,509
Property and equipment	56,488
Goodwill	523,377
Trademark asset	7,658
Other assets	1,222
Deferred taxes	<u>13,197</u>
Total assets acquired	693,451
Current liabilities	63,804
Long-term debt	<u>312,495</u>
Total liabilities assumed	<u>376,299</u>
Net assets acquired	<u><u>317,152</u></u>

The Company continues to obtain information to refine the fair value of the assets acquired and the liabilities assumed. We obtained third-party valuations of our trademarks and our property and equipment. We utilized our experience in the retail real estate industry to review our leases for appropriate valuation. In accordance with the provisions of SFAS No. 142, no amortization of indefinite-lived assets or goodwill will be recorded. The Company expects that a final allocation of the purchase price will be completed in the third quarter of fiscal 2007.

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 \$2.1 million and \$1.8 million at December 30, 2006 and June 30, 2007, respectively.
- 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 \$2.1 million and \$2.2 million at December 30, 2006 and June 30, 2007, respectively.
- Goodwill represents approximately 78% 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 \$1.0 million, which is included in other accrued expenses, as of June 30, 2007 is adequate to cover future benefit payments for claims that occurred prior to June 30, 2007.

4. Related Party Transactions

GGC Moulin. In connection with the GGC Moulin 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, were to be compensated for the financial, investment banking, management advisory and other services performed for future financial, investment banking, management advisory and other services they performed on our behalf. Each advisory agreement was terminated in conjunction with the Highmark Acquisition.

We prepaid \$3.0 million to Golden Gate and \$1.5 million to Moulin on the date of the GGC Moulin 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 GGC Moulin Acquisition. During the twenty-six weeks ended July 1, 2006, we expensed approximately \$1.0 million related to the advisory arrangements and the remaining balance of \$1.6 million was written off at the time of the Highmark Acquisition.

Highmark. In connection with the Highmark Acquisition, we are wholly-owned by HVHC. HVHC also owns Davis Vision, Inc. (“Davis”), a national vision managed care and optical retail company, and Viva Optique, Inc. (“Viva”), an international designer and distributor of eyewear and sunwear. Prior to the Highmark Acquisition, we were doing business with both Davis and Viva and these relationships have continued. During the twenty-six weeks ended June 30, 2007, we recorded revenue of \$7.3 million related to managed care reimbursements due from Davis and have a \$0.3 million receivable related to these revenues at June 30, 2007. During the twenty-six weeks ended June 30, 2007, we recorded cost of goods sold of \$2.4 million related to products purchased from Viva that were sold to our customers and purchased subsequent to the Highmark Acquisition and purchased \$4.9 million through June 30, 2007. Through the first twenty-six weeks ended June 30, 2007, we paid Highmark and its affiliates \$0.8 million for management fees and other expenses.

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. Income tax expense increased to \$11.7 million for the twenty-six weeks ended June 30, 2007 from \$8.5 million for the twenty-six weeks ended July 1, 2006. This increase is due to the increase in income before taxes in fiscal 2007.

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

	GGC Moulin	
	Predecessor	Company
	Twenty-Six Weeks Ended	
	July 1, 2006	June 30, 2007
	(Unaudited)	(Unaudited)
Cash paid for interest	\$ 15,904	\$ 14,123
Cash paid for taxes	\$ 480	\$ 4,490

7. Accounting Standards and Disclosures

From time to time, the Financial Accounting Standards Board ("FASB"), the SEC and other regulatory bodies seek to change accounting rules, including rules applicable to the Company's business and financial statements. The Company cannot assure you that future changes in accounting rules would not require it to make retrospective application to its financial statements.

In June, 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109 (SFAS 109). FIN 48 clarifies the application of SFAS 109 by defining criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in the financial statements. Additionally, FIN 48 provides guidance on the measurement, derecognition, classification and disclosure of tax positions, along with accounting for the related interest and penalties. Adoption of FIN 48, effective December 31, 2006, had no effect on the Company's financial position, results of operations and cash flows.

Upon the adoption of FIN 48, the Company had a \$2.0 million unrecognized tax benefit which, if recognized, would favorably impact the Company's effective tax rate. The unrecognized tax benefit is classified as Accrued Taxes in the condensed consolidated balance sheet. There was no adjustment for uncertain tax positions recognized in the second quarter of fiscal 2007 and the Company does not expect to record any material changes within the next twelve months. The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expenses. No interest and penalties related to uncertain tax positions were accrued at June 30, 2007.

An IRS audit of the fifty-nine day period ended March 1, 2005 was completed in fiscal 2006 with no material impact on income taxes. With the exception of this audit, the tax years 2003 through 2006 remain open to examination by the major taxing jurisdictions in which the Company operates.

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

The Notes (as defined later in this document) were issued by us and are guaranteed by all of our subsidiaries (the "Guarantor Subsidiaries") but are not guaranteed by the ODs. The subsidiaries are wholly owned by us and the guarantees are full, unconditional and joint and several.

Presented on the following pages are condensed consolidating financial statements for the Company (the issuer of the Notes), the subsidiary guarantors and the non-guarantor subsidiaries as of and for the twenty-six weeks ended June 30, 2007. The equity method has been used with respect to the Company's investments in its subsidiaries.

As of June 30, 2007, the guarantor subsidiaries include Enclave Advancement Group, Inc., ECCA Managed Vision Care, Inc., Visionworks, Inc. Visionary Retail Management, Inc., Visionary Properties, Inc., Vision World, Inc., Stein Optical, Inc., Eye DRx Retail Management, Inc., Visionary Lab Services, Ltd., EyeMasters of Texas, Ltd., EyeMasters, Inc., ECCA Management Services, Ltd., ECCA Distribution Services, Ltd., ECCA Enterprises, Inc., ECCA Management Investments, Inc., ECCA Management, Inc., EyeMasters of Texas Investments, Inc., EyeMasters of Texas Management, Inc., ECCA Distribution Investments, Inc., ECCA Distribution Management, Inc., Visionary Lab Investments, Inc., Visionary Lab Management, Inc., Dr. Mark Lynn & Associates, PLLC, Visionworks Holdings, Inc., Metropolitan Vision Services, Inc., Hour Eyes, Inc., Eye Care Holdings, Inc.

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 Guarantor 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.

**Condensed Consolidating Balance Sheets
For the Year Ended December 30, 2006**

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 279	\$ 12,994	\$ 587	\$ -	\$ 13,860
Accounts and notes receivable	132,638	49,376	2,345	(175,018)	9,341
Inventory	-	30,318	1,888	-	32,206
Deferred income taxes, net	988	-	-	-	988
Prepaid expenses and other	-	9,274	48	-	9,322
Total current assets	133,905	101,962	4,868	(175,018)	65,717
Property and equipment	-	57,658	66	-	57,724
Intangibles	416,019	107,195	87	-	523,301
Other assets	8,101	292	(1)	-	8,392
Deferred income taxes, net	13,065	-	-	-	13,065
Investment in subsidiaries	51,803	-	-	(51,803)	-
Total Assets	<u>\$ 622,893</u>	<u>\$ 267,107</u>	<u>\$ 5,020</u>	<u>\$ (226,821)</u>	<u>\$ 668,199</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	\$ 9	\$ 192,896	\$ 4,782	\$ (175,018)	\$ 22,669
Current portion of long-term debt	10,510	429	-	-	10,939
Deferred revenue	-	1,574	711	-	2,285
Accrued payroll expense	-	8,071	884	-	8,955
Accrued taxes	7,061	926	244	-	8,231
Accrued interest	7,157	-	-	-	7,157
Other accrued expenses	63	7,764	326	-	8,153
Total current liabilities	24,800	211,660	6,947	(175,018)	68,389
Long-term debt, less current maturities	276,715	992	-	-	277,707
Deferred rent	-	714	11	-	725
Total liabilities	<u>301,515</u>	<u>213,366</u>	<u>6,958</u>	<u>(175,018)</u>	<u>346,821</u>
Shareholders' equity (deficit):					
Common stock	-	-	-	-	-
Additional paid-in capital	317,152	-	-	-	317,152
Accumulated equity (deficit)	4,226	53,741	(1,938)	(51,803)	4,226
Total shareholders' equity (deficit)	<u>321,378</u>	<u>53,741</u>	<u>(1,938)</u>	<u>(51,803)</u>	<u>321,378</u>
	<u>\$ 622,893</u>	<u>\$ 267,107</u>	<u>\$ 5,020</u>	<u>\$ (226,821)</u>	<u>\$ 668,199</u>

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

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated 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	<u>39,141</u>	<u>194,102</u>	<u>47,541</u>	<u>(54,137)</u>	<u>226,647</u>
Operating costs and expenses:					
Cost of goods sold	-	57,561	17,863	-	75,424
Selling, general and administrative expenses	1,508	98,230	29,390	(14,996)	114,132
Total operating costs and expenses	<u>1,508</u>	<u>155,791</u>	<u>47,253</u>	<u>(14,996)</u>	<u>189,556</u>
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	<u>\$ 13,159</u>	<u>\$ 38,871</u>	<u>\$ 270</u>	<u>\$ (39,141)</u>	<u>\$ 13,159</u>

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

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated 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	<u>14,024</u>	<u>91,124</u>	<u>21,759</u>	<u>(21,857)</u>	<u>105,050</u>
Operating costs and expenses:					
Cost of goods sold	-	27,374	8,235	-	35,609
Selling, general and administrative expenses	759	48,528	15,069	(7,833)	56,523
Total operating costs and expenses	<u>759</u>	<u>75,902</u>	<u>23,304</u>	<u>(7,833)</u>	<u>92,132</u>
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	<u>\$ 3,305</u>	<u>\$ 14,748</u>	<u>\$ (724)</u>	<u>\$ (14,024)</u>	<u>\$ 3,305</u>

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	<u>1,834</u>	<u>30,780</u>	<u>(515)</u>	<u>-</u>	<u>32,099</u>
Cash flows from investing activities:					
Acquisition of property and equipment	<u>-</u>	<u>(8,195)</u>	<u>-</u>	<u>-</u>	<u>(8,195)</u>
Net cash used in investing activities	<u>-</u>	<u>(8,195)</u>	<u>-</u>	<u>-</u>	<u>(8,195)</u>
Cash flows from financing activities:					
Payments on debt and capital leases	(1,237)	(204)	-	-	(1,441)
Dividend to parent	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20)</u>
Net cash used in financing activities	<u>(1,257)</u>	<u>(204)</u>	<u>-</u>	<u>-</u>	<u>(1,461)</u>
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	<u>\$ 650</u>	<u>\$ 39,393</u>	<u>\$ 182</u>	<u>\$ -</u>	<u>\$ 40,225</u>

Condensed Consolidating Balance Sheet
June 30, 2007

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 479	\$ 4,076	\$ 220	\$ -	\$ 4,775
Accounts and notes receivable	85,026	54,130	1,622	(131,116)	9,662
Inventory	-	31,536	2,090	-	33,626
Deferred income taxes	988	-	-	-	988
Prepaid expenses and other	221	9,662	46	-	9,929
Total current assets	<u>86,714</u>	<u>99,404</u>	<u>3,978</u>	<u>(131,116)</u>	<u>58,980</u>
Property and equipment	-	63,323	66	-	63,389
Intangibles	416,095	107,195	87	-	523,377
Other assets	7,744	329	-	-	8,073
Deferred income taxes	12,990	-	-	-	12,990
Investment in subsidiaries	96,123	-	-	(96,123)	-
Total assets	<u>\$ 619,666</u>	<u>\$ 270,251</u>	<u>\$ 4,131</u>	<u>\$ (227,239)</u>	<u>\$ 666,809</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 15	\$ 154,465	\$ (624)	\$ (131,116)	\$ 22,740
Current portion of long-term debt	1,650	509	-	-	2,159
Deferred revenue	-	2,719	1,204	-	3,923
Accrued taxes	15,814	(2,482)	2,286	-	15,618
Accrued payroll expense	-	7,526	753	-	8,279
Accrued interest	6,673	-	-	-	6,673
Other accrued expenses	262	8,383	157	-	8,802
Total current liabilities	<u>24,414</u>	<u>171,120</u>	<u>3,776</u>	<u>(131,116)</u>	<u>68,194</u>
Long-term debt, less current maturities	256,277	714	-	-	256,991
Deferred rent	-	2,625	24	-	2,649
Total liabilities	<u>280,691</u>	<u>174,459</u>	<u>3,800</u>	<u>(131,116)</u>	<u>327,834</u>
Shareholders' equity					
Common stock	-	-	-	-	-
Additional paid-in capital	317,152	-	-	-	317,152
Accumulated equity	21,823	95,792	331	(96,123)	21,823
Total shareholders' equity	<u>338,975</u>	<u>95,792</u>	<u>331</u>	<u>(96,123)</u>	<u>338,975</u>
	<u>\$ 619,666</u>	<u>\$ 270,251</u>	<u>\$ 4,131</u>	<u>\$ (227,239)</u>	<u>\$ 666,809</u>

Condensed Consolidating Statement of Operations
For the Thirteen Weeks Ended June 30, 2007

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
Revenues:					
Optical sales	\$ -	\$ 89,932	\$ 23,731	\$ -	\$ 113,663
Management fees	-	(238)	-	920	682
Equity earnings in subsidiaries	14,616	-	-	(14,616)	-
Total net revenues	14,616	89,694	23,731	(13,696)	114,345
Operating costs and expenses:					
Cost of goods sold	-	30,609	8,519	-	39,128
Selling, general and administrative expenses	844	53,016	6,769	920	61,549
Total operating costs and expenses	844	83,625	15,288	920	100,677
Income from operations	13,772	6,069	8,443	(14,616)	13,668
Interest expense, net	6,714	(104)	-	-	6,610
Income tax expense	2,823	(613)	613	-	2,823
Net income	\$ 4,235	\$ 6,786	\$ 7,830	\$ (14,616)	\$ 4,235

Condensed Consolidating Statement of Operations
For the Twenty-Six Weeks Ended June 30, 2007

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
Revenues:					
Optical sales	\$ -	\$ 193,020	\$ 52,264	\$ -	\$ 245,284
Management fees	-	15,719	-	(14,173)	1,546
Equity earnings in subsidiaries	44,320	-	-	(44,320)	-
Total net revenues	44,320	208,739	52,264	(58,493)	246,830
Operating costs and expenses:					
Cost of goods sold	-	61,545	18,842	-	80,387
Selling, general and administrative expenses	1,359	106,969	29,606	(14,173)	123,761
Total operating costs and expenses	1,359	168,514	48,448	(14,173)	204,148
Income from operations	42,961	40,225	3,816	(44,320)	42,682
Interest expense, net	13,615	(279)	-	-	13,336
Income tax expense	11,749	(1,547)	1,547	-	11,749
Net income	\$ 17,597	\$ 42,051	\$ 2,269	\$ (44,320)	\$ 17,597

Condensed Consolidating Statements of Cash Flows
For the Twenty-Six Weeks Ended June 30, 2007

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
Cash flows from operating activities:					
Net income	\$ 17,597	\$ 42,051	\$ 2,269	\$ (44,320)	\$ 17,597
Adjustments to reconcile net income to net Cash provided by (used in) operating activities:					
Depreciation and amortization	280	8,609	-	-	8,889
Amortization of debt issue costs	190	-	-	-	190
Deferred liabilities and other	-	3,056	506	-	3,562
Equity earnings in subsidiaries	(44,320)	-	-	44,320	-
Increase/(decrease) in operating assets and liabilities	55,866	(48,162)	(3,142)	-	4,562
Net cash provided by (used in) operating activities	<u>29,613</u>	<u>5,554</u>	<u>(367)</u>	<u>-</u>	<u>34,800</u>
Cash flows from investing activities:					
Acquisition of property and equipment	-	(14,275)	-	-	(14,275)
Net cash used in investing activities	<u>-</u>	<u>(14,275)</u>	<u>-</u>	<u>-</u>	<u>(14,275)</u>
Cash flows from financing activities:					
Payments on debt and capital leases	(29,413)	(197)	-	-	(29,610)
Net cash used in financing activities	<u>(29,413)</u>	<u>(197)</u>	<u>-</u>	<u>-</u>	<u>(29,610)</u>
Net decrease in cash and cash equivalents	200	(8,918)	(367)	-	(9,085)
Cash and cash equivalents at beginning of period	<u>279</u>	<u>12,994</u>	<u>587</u>	<u>-</u>	<u>13,860</u>
Cash and cash equivalents at end of period	<u>\$ 479</u>	<u>\$ 4,076</u>	<u>\$ 220</u>	<u>\$ -</u>	<u>\$ 4,775</u>

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 400 stores in 36 states, including 332 directly-owned stores and 68 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 332 directly-owned stores, as well as the results of 55 of the 68 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 387 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 387 consolidated stores, as well as the professional fees of the optometrists at 197 of the stores. These 197 stores include 99 stores where the optometrist is our employee or an independent contractor, the 55 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 and doctor payroll. Selling, general and administrative expenses primarily include retail 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 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. The period-to-period comparison of financial results is not necessarily indicative of future results.

	<u>GGC Moulin</u>		<u>GGC Moulin</u>	
	<u>Predecessor</u>	<u>Company</u>	<u>Predecessor</u>	<u>Company</u>
	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>July 1,</u>	<u>June 30,</u>	<u>July 1,</u>	<u>June 30,</u>
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Statement of Income Data:				
NET REVENUES:				
Optical sales	99.5	%	99.4	%
Management fee	0.5		0.6	
Total net revenues	100.0		100.0	
OPERATING COSTS AND EXPENSES:				
Cost of goods sold	34.1	*	34.4	*
Selling, general and administrative expenses	54.1	*	54.2	*
Total operating costs and expenses	87.7		88.0	
INCOME FROM OPERATIONS	12.3		12.0	
INTEREST EXPENSE, NET	7.1		5.8	
INCOME TAX EXPENSE	2.1		2.5	
NET INCOME	3.1	%	3.7	%

* 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 June 30, 2007 Compared to the Thirteen Weeks Ended July 1, 2006.

Net Revenues. Net revenues increased to \$114.3 million for the thirteen weeks ended June 30, 2007 from \$105.1 million for the thirteen weeks ended July 1, 2006. The increase in revenues compared to the second quarter of fiscal 2006 was primarily driven by a 5.7% increase in comparable store sales and new store openings. Net revenues attributable to new stores in the second quarter of fiscal 2007 were \$1.5 million. Comparable transactions increased by 4.3% and average ticket increased by 1.4% compared to the second quarter of fiscal 2006. The increase in transactions was driven by the continued increase in the sale of premium lenses, strong acceptance of our value offering and \$1.1 million from our participation in a new managed vision care contract through our sister company, Davis Vision, Inc. The new Federal Employees Dental and Vision Insurance Program (FEDVIP) commenced on December 31, 2006 which provides supplemental dental and vision benefits to federal employees, retirees and their dependents. Davis Vision was selected by the Blue Cross and Blue Shield Association to administer vision benefits under the FEP BlueVision program. In addition, we opened twelve new stores in the second quarter of

fiscal 2007. Nine of the new stores opened were in Chicago. We expect by the end of the third quarter to have opened nineteen stores in the Chicago market.

Gross Profit. Gross profit increased to \$74.5 million for the thirteen weeks ended June 30, 2007 from \$68.9 million for the thirteen weeks ended July 1, 2006. Gross profit as a percentage of optical sales decreased to 65.6% for the thirteen weeks ended June 30, 2007 from 65.9% for the thirteen weeks ended July 1, 2006. This decrease was largely the result of an increase in lab payroll expenditures.

Selling General & Administrative Expenses (SG&A). SG&A increased to \$61.5 million for the thirteen weeks ended June 30, 2007 from \$56.5 million for the thirteen weeks ended July 1, 2006. SG&A, as a percentage of optical sales, increased to 54.2% for the thirteen weeks ended June 30, 2007 from 54.1% for the thirteen weeks ended July 1, 2006. This percentage increase was largely due to an increase in retail payroll expenditures as compared to the second quarter of fiscal 2006. This increase was related to our entry into the Chicago market and the non-recurring expenses for personnel training and occupancy. Increased depreciation expense related to the Highmark Acquisition's asset revaluation furthered the increase in SG&A. These increased expenditures were offset by the leveraging of advertising and overhead expenditures during the second quarter of fiscal 2007.

Net Interest Expense. Net interest expense decreased to \$6.6 million for the thirteen weeks ended June 30, 2007 from \$7.4 million for the thirteen weeks ended July 1, 2006. This decrease was primarily due to lower outstanding debt balances as compared to the second quarter of fiscal 2006.

Income Tax Expense. Income tax expense increased from \$2.3 million for the thirteen weeks ended July 1, 2006 to \$2.8 million for the thirteen weeks ended June 30, 2007 primarily due to the \$1.5 million increase in income before taxes.

Net Income. Net income increased to \$4.2 million for the thirteen weeks ended June 30, 2007 compared from \$3.3 million for the thirteen weeks ended July 1, 2006.

The Twenty-Six Weeks Ended June 30, 2007 Compared to the Twenty-Six Weeks Ended July 1, 2006.

Net Revenues. Net revenues increased to \$246.8 million for the twenty-six weeks ended June 30, 2007 from \$226.6 million for the twenty-six weeks ended July 1, 2006. The increase in revenues compared to the first twenty-six weeks of fiscal 2006 was primarily driven by a 6.3% increase in comparable store sales and new store openings. Net revenues attributable to new stores in the first twenty-six weeks of fiscal 2007 were \$1.6 million. Comparable transactions increased by 5.2% and average ticket increased by 1.1% compared to the first twenty-six weeks of fiscal 2006. The increase in transactions was driven by the continued increase in the sale of premium lenses, strong acceptance of our value offering and \$4.4 million from our participation in a new managed vision care contract through our sister company, Davis Vision, Inc. The new Federal Employees Dental and Vision Insurance Program (FEDVIP) commenced on December 31, 2006 which provides supplemental dental and vision benefits to federal employees, retirees and their dependents. Davis Vision was selected by the Blue Cross and Blue Shield Association to administer vision benefits under the FEP BlueVision program. Total managed vision care sales decreased by 1.1% compared to the first twenty-six of fiscal 2006. In addition, we opened fourteen new stores in the first twenty-six weeks of fiscal 2007.

Gross Profit. Gross profit increased to \$164.9 million for the twenty-six weeks ended June 30, 2007 from \$149.7 million for the twenty-six weeks ended July 1, 2006. Gross profit as a percentage of optical sales increased to 67.2% for the twenty-six weeks ended June 30, 2007 from 66.5% for the twenty-six weeks

ended July 1, 2006. This increase was largely the result of an increase in the sales mix of high margin private label and value frames.

Selling General & Administrative Expenses (SG&A). SG&A increased to \$123.8 million for the twenty-six weeks ended June 30, 2007 from \$114.1 million for the twenty-six weeks ended July 1, 2006. SG&A, as a percentage of optical sales, decreased to 50.4% for the twenty-six weeks ended June 30, 2007 from 50.7% for the twenty-six weeks ended July 1, 2006. This percentage decrease was largely due to an increase in optical sales while amounts spent on certain components such as advertising and occupancy remained relatively stable compared to the first twenty-six weeks of fiscal 2006. The leveraging of advertising and occupancy expenses was offset by the non-recurring expenses related to our entry into the Chicago market and increased depreciation expense related to the Highmark Acquisition's asset revaluation furthered the increase in SG&A.

Net Interest Expense. Net interest expense decreased to \$13.3 million for the twenty-six weeks ended June 30, 2007 from \$15.4 million for the twenty-six weeks ended July 1, 2006. This decrease was primarily due to lower outstanding debt balances as compared to the second quarter of fiscal 2006.

Income Tax Expense. Income tax expense increased from \$8.5 million for the twenty-six weeks ended July 1, 2006 to \$11.7 million for the twenty-six weeks ended June 30, 2007 primarily due to the \$7.7 million increase in income before taxes.

Net Income. Net income increased to \$17.6 million for the twenty-six weeks ended June 30, 2007 compared from \$13.2 million for the twenty-six weeks ended July 1, 2006.

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 \$34.8 million for the twenty-six weeks ended June 30, 2007 and \$32.1 million for the twenty-six weeks ended July 1, 2006. Our other sources of working capital are cash on hand and funding from our revolving credit facility. As of June 30, 2007, we had \$4.8 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 \$2.6 million letters of credit outstanding.

Payments on debt and issuance of debt and equity transactions related to the acquisition and merger have been our principal financing activities. Cash flows used in financing activities were \$29.6 million for the twenty-six weeks ended June 30, 2007 and were solely related to the payment of debt. Cash flows used in financing activities were \$1.5 million for the twenty-six weeks ended July 1, 2006.

Our working capital primarily consists of cash and cash equivalents, accounts receivable, inventory, accounts payable and accrued expenses and was a deficit of \$9.2 million as of June 30, 2007. Our working capital was a deficit of \$2.7 million as of December 30, 2006. The decrease in working capital is primarily due to our use of excess cash to reduce our outstanding debt through voluntary prepayments of our Credit Facility.

Capital expenditures were \$14.3 million for the twenty-six weeks ended June 30, 2007 compared to \$8.2 million for the twenty-six weeks ended July 1, 2006. Capital expenditures for all of 2007 are projected to be approximately \$20.4 million. Of the planned 2007 capital expenditures, approximately \$11.9 million is related to commitments for new stores and approximately \$8.5 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 March 2005, the Company entered into a credit agreement which provided for \$165.0 million in term loans (the Term Loan Facility) and \$25.0 million in revolving credit facilities (the Revolver and together with the Term Loan Facility, the Credit Facility). The borrowings of the Credit Facility together with the net proceeds from the offering of the Initial Notes (defined herein) and the equity investment of Moulin and Golden Gate were used to pay a cash portion of the purchase price of the GGC Moulin Acquisition, to repay debt outstanding under an existing 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 Credit Facility is available to finance working capital requirements and general corporate purposes.

On December 21, 2006, we obtained an amendment and consent to the credit agreement. The amendment primarily reduced the interest rate on the credit agreement as well as changed several covenants. A prepayment of \$25.0 million in principal was made in conjunction with the lenders' approval on December 21, 2006 and a prepayment of \$9.0 million in principal was made in conjunction with the filing of the Fiscal 2006 10-K.

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 continues through the date of maturity in fiscal 2012 according to the following schedule:

Year	Amount (in millions)
2007	0.83
2008	1.65
2009	1.65
2010	1.65
2011	1.65
2012	100.27
	<u>\$ 107.70</u>

Interest. Our borrowings under the 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	1.50%	2.50%
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 Credit Facility, we are required to pay a commitment fee to the lenders under the Revolver in respect of the unutilized commitments thereunder. We will also pay customary letter of credit fees.

Security and guarantees. The 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 Credit Facility are guaranteed by each of our existing and future direct and indirect domestic subsidiaries and ECCA Holdings.

Covenants. The Credit Facility documentation contains customary affirmative and negative covenants and financial covenants. During the term of the 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 June 30, 2007 we were in compliance with all of our financial covenants.

Mandatory prepayment. Our mandatory prepayment for Fiscal 2006 was waived by the December 2006 amendment which required a \$25 million prepayment at the time of the amendment, as well as a \$9.0 million prepayment in March 2007. We also made voluntary prepayments of \$10.0 million in both March and June 2007. 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 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 Credit Facility at any time without premium or penalty, other than customary “breakage” costs (as defined in the Term Loan Agreement) with respect to Eurodollar loans.

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 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 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:

<u>YEAR</u>	<u>REDEMPTION PRICE</u>
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. In conjunction with the Highmark Acquisition, the unamortized amount of debt issuance costs was included in goodwill and thus is no longer being amortized.

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 June 30, 2007:

	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)	\$ 257,949	\$ 1,650	\$ 3,300	\$ 3,300	\$ 249,699
Capital Lease Obligations	1,201	509	692	-	-
Operating Leases (2)	166,136	36,410	56,475	36,017	37,234
Interest on Long-Term Debt Obligations (3)	168,082	24,874	49,351	46,834	47,023
Total Future Principal Payments on Contractual Obligations	<u>\$ 593,368</u>	<u>\$ 63,443</u>	<u>\$ 109,818</u>	<u>\$ 86,151</u>	<u>\$ 333,956</u>

(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 \$107.7 million of floating rate debt under our senior credit facility. See "Credit Facility-Interest." Does not include mandatory annual prepayments of the term loan facility based on defined excess cash flows. See "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 \$107.7 million of floating rate debt under our new senior credit facility. The assumed 8.0% interest on the senior credit facility represents rates at June 30, 2007. The senior credit facility has quarterly principal payments of \$412,500 and a final payment of \$100,275,000 due March 1, 2012.

Off-balance sheet arrangements. As of June 30, 2007 our only off-balance sheet arrangements were letters of credit, in the amount of \$2.6 million, issued under our credit facility primarily to insurance companies.

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 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 Credit Facility, we may attempt to renegotiate the terms of the Credit Facility with our lenders for further amendments to, or waivers of, the financial covenants of the Credit Facility. We believe that our ability to repay the 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;
- the availability of correction alternatives to prescription eyeglasses
- conflicts of interest between our controlling shareholders and noteholders;
- 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 risk associated with 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 30, 2006. 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 second quarter of fiscal 2007. 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 30, 2006.

Our primary market risk exposure is interest rate risk. As of June 30, 2007, approximately \$107.7 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 \$107.7 million in long-term borrowings, our annual interest expense would change by approximately \$1.1 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 June 30, 2007 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 2007. For further discussion, refer to our annual report on Form 10-K for the year ended December 30, 2006.

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 30, 2006, filed with the Securities and Exchange Commission on March 26, 2007.

Exhibits

(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.
- 32.2 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 did not file a report on Form 8-K during the thirteen weeks ended June 30, 2007.

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: August 14, 2007

Douglas C. Shepard
Executive Vice President and Chief Financial Officer