
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 April 4, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

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 No.)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

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 May 15, 2009
10,000 shares

EYE CARE CENTERS OF AMERICA, INC.
TABLE OF CONTENTS
FORM 10-Q REPORT
April 4, 2009
INDEX

Page
Number

Part I - Financial Information

Item 1. Financial Statements

Condensed Consolidated Balance Sheets at January 3, 2009
and April 4, 2009 (Unaudited) 2

Condensed Consolidated Statements of Operations for the
Thirteen Weeks Ended March 29, 2008 (Unaudited) and the Thirteen
Weeks Ended April 4, 2009 (Unaudited) 3

Condensed Consolidated Statements of Cash Flows for the
Thirteen Weeks Ended March 29, 2008 (Unaudited) and the Thirteen
Weeks Ended April 4, 2009 (Unaudited) 4

Notes to Condensed Consolidated Financial Statements 5-13

Item 2. Management's Discussion and Analysis of Financial Condition
and Results of Operations 14-24

Item 3. Quantitative and Qualitative Disclosures About Market Risk 24

Item 4T. Controls and Procedures 24

Part II - Other Information

Item 1. Legal Proceedings 25

Item 1A. Risk Factors 25

Item 6. Exhibits 26

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**EYE CARE CENTERS OF AMERICA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)

	January 3, 2009	April 4, 2009
		(Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,460	\$ 29,806
Accounts receivable, net	13,851	14,432
Inventory, net	33,884	34,820
Deferred income taxes, net	5,833	9,530
Prepaid expenses and other	9,509	10,039
Total current assets	<u>76,537</u>	<u>98,627</u>
PROPERTY & EQUIPMENT, net	76,520	80,932
GOODWILL	523,377	517,340
OTHER ASSETS	7,862	7,712
DEFERRED INCOME TAXES, net	13,469	13,469
Total assets	<u>\$ 697,765</u>	<u>\$ 718,080</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 28,652	\$ 29,410
Current maturities of long-term debt	1,957	1,807
Deferred revenue	3,919	3,902
Accrued taxes	12,200	18,333
Accrued payroll expense	9,600	10,104
Accrued interest	6,657	2,358
Other accrued expenses	7,318	7,683
Total current liabilities	<u>70,303</u>	<u>73,597</u>
LONG TERM DEBT, less current maturities	234,219	233,825
OTHER LONG-TERM LIABILITIES	8,809	9,210
Total liabilities	<u>313,331</u>	<u>316,632</u>
SHAREHOLDER'S EQUITY:		
Common stock	-	-
Additional paid-in capital	322,152	322,152
Retained earnings	62,282	79,296
Total shareholder's equity	<u>384,434</u>	<u>401,448</u>
	<u>\$ 697,765</u>	<u>\$ 718,080</u>

See Notes to Consolidated Financial Statements

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

(dollars in thousands)

	Thirteen Weeks Ended	
	March 29, 2008	April 4, 2009
	(Unaudited)	(Unaudited)
NET REVENUES:		
Optical sales	\$ 146,023	\$ 159,686
Management fee	928	777
Total net revenues	<u>146,951</u>	<u>160,463</u>
OPERATING COSTS AND EXPENSES:		
Cost of goods sold	47,601	54,405
Selling, general and administrative expenses	<u>69,016</u>	<u>73,036</u>
Total operating costs and expenses	<u>116,617</u>	<u>127,441</u>
INCOME FROM OPERATIONS	30,334	33,022
INTEREST EXPENSE, NET	<u>5,418</u>	<u>5,003</u>
INCOME BEFORE INCOME TAXES	24,916	28,019
INCOME TAX EXPENSE	<u>10,341</u>	<u>11,005</u>
NET INCOME	<u>\$ 14,575</u>	<u>\$ 17,014</u>

See Notes to Consolidated Financial Statements

EYE CARE CENTERS OF AMERICA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Thirteen Weeks Ended	
	March 29, 2008	April 4, 2009
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 14,575	\$ 17,014
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,573	4,912
Amortization of debt issue costs	81	110
Deferred liabilities and other	858	384
Increase in operating assets and liabilities	4,578	3,796
Net cash provided by operating activities	24,665	26,216
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(7,641)	(9,269)
Net cash used in investing activities	(7,641)	(9,269)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on debt	(546)	(601)
Net cash used in in financing activities	(546)	(601)
NET INCREASE IN CASH	16,478	16,346
CASH AND CASH EQUIVALENTS, beginning of period	5,637	13,460
CASH AND CASH EQUIVALENTS, end of period	\$ 22,115	\$ 29,806

See Notes to Consolidated Financial Statements

EYE CARE CENTERS OF AMERICA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The Unaudited Condensed Consolidated Financial Statements of Eye Care Centers of America, Inc. which is referred to as the “Company,” “we,” “our” and “us” herein, include all of our accounts, our wholly owned subsidiaries’ accounts and the accounts of certain private optometrists’ 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.

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 week periods ended March 29, 2008 and April 4, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending January 2, 2010 (“fiscal 2009”). 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 January 3, 2009 (“fiscal 2008”).

2. 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 of the Company.

- 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 \$2.4 million at January 3, 2009 and \$2.5 million at April 4, 2009, respectively.
- Inventory consists principally of eyeglass frames, ophthalmic lenses and contact lenses and is stated at the lower of cost or market value. 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 historical losses, product with low turnover or

deemed by us to be unsaleable. Our inventory reserve was \$2.4 million at January 3, 2009 and \$2.9 million at April 4, 2009.

- Goodwill represents approximately 72% 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. Our annual test is performed in the fourth quarter each year unless there is an impairment indicator before that time.
- 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 through our parent company, HVHC, Inc. The plan provides medical benefits for participating employees. We have an employers' stop loss insurance policy to cover individual claims in excess of \$250,000 per employee. The amount charged to health insurance expense is based on estimates obtained from actuaries with our ultimate parent organization, Highmark Inc. (“Highmark”). We believe the accrued liability of approximately \$1.1 million and \$2.4 million, which is included in other accrued expenses as of January 3, 2009 and April 4, 2009, respectively, is adequate to cover future benefit payments for claims that occurred prior to the period end.

3. Related Party Transactions

On August 1, 2006, ECCA Holdings Corporation (“ECCA Holdings”) was merged with a wholly-owned subsidiary of HVHC Inc. (“HVHC”), a subsidiary of Highmark Inc. (“Highmark”), 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. In June 2007, we began contracting the administration of the Company’s self-insured employees’ health insurance through Highmark. We paid Highmark and its affiliates \$1.0 million and \$0.2 million for management fees during the thirteen weeks ended March 29, 2008 and April 4, 2009, respectively, and the Company incurred \$2.5 million and \$1.3 million in employee health claims during the thirteen weeks ended March 29, 2008 and April 4, 2009, respectively, that were administered and paid for by Highmark. In addition we paid \$0.2 million and \$0.5 million for administrative and other expenses during the thirteen weeks ended March 29, 2008 and April 4, 2009, respectively.

HVHC also owns Davis Vision, Inc. (together with its subsidiaries, “Davis”), a national vision managed care and optical retail company, and Viva Optique, Inc. (together with its subsidiaries, “Viva”), an international designer and distributor of eyewear and sunwear. In January 2009, HVHC began contracting the administration of all the self-insured employees’ health insurance for the Company, Davis and Viva through Highmark. We paid \$4.5 million in claims and administrative fees to HVHC during the thirteen weeks ended April 4, 2009. We paid Highmark and its affiliates \$2.7 million for insurance claims and administrative expenses during the thirteen weeks ended March 29, 2008

We recorded revenue of \$4.9 million and \$6.5 million, during the thirteen weeks ended March 29, 2008 and April 4, 2009, respectively, related to managed care reimbursements due from Davis and

have a receivable of \$1.4 million and \$2.7 million, related to these revenues for the periods ended January 3, 2009 and April 4, 2009, respectively. In addition, in January 2009, we began contracting the administration of the Company's self-insured employees' vision plan through Davis. We paid \$0.2 million in claims and administrative fees to Davis during the thirteen weeks ended April 4, 2009.

We purchased \$2.7 million and \$4.0 million of frame product from Viva during the thirteen weeks ended March 29, 2008 and April 4, 2009, respectively. We recorded cost of goods sold related to products purchased from Viva that were sold to our customers of \$2.8 million and \$2.2 million, during the thirteen weeks ended March 29, 2008 and April 4, 2009, respectively. We had a related payable to Viva of \$1.7 million and \$2.1 million as of January 3, 2009 and April 4, 2009, respectively.

4. Income Taxes

We record income taxes under SFAS No. 109, "Accounting for Income Taxes" (issued by the Financial Accounting Standards Board ("FASB")) 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 \$11.0 million for the thirteen weeks ended April 4, 2009 from \$10.3 million for the thirteen weeks ended March 29, 2008. This increase is mainly due to the increase in income before taxes.

In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on our expected annual income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. This includes recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns to the extent pervasive evidence exists that they will be realized in future periods. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which are expected to be in effect in the years in which the temporary differences are expected to reverse. Items qualifying or discrete are separately recognized in the quarter in which they occur.

The Company adopted the provisions of FASB Interpretation 48 "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" ("FIN 48") on December 31, 2006. At January 3, 2009 and April 4, 2009, the Company had approximately \$3.9 million of gross liabilities related to unrecognized tax benefits which would affect our effective tax rate if recognized. The Company does not expect that there will be any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

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 2008 remain open to examination by the Internal Revenue Service. Additionally, the Company operates in multiple taxing jurisdictions and is subject to various state income tax examinations for the 2003 through 2008 calendar tax years. The Company is not currently under any state income tax examinations.

At the time of the Highmark Acquisition in August 2006, the Company had approximately \$15.1 million of unamortized deferred financing costs related to its previously issued debt. The Company appropriately recorded the fair value of debt at the acquisition date; however, did not recognize the long term deferred tax asset related to the continuing amortization expense that was deductible for income tax purposes. The Company has adjusted Goodwill by \$6 million to reflect the unamortized balance of this tax asset at April 4, 2009. The adjustment does not affect net income for any period.

5. Accounting Standards and Disclosures

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”), and expands disclosures about fair value measurements. For financial assets and liabilities, this statement is effective for fiscal periods beginning after November 15, 2007 and does not require any new fair value measurements. In February 2008, FASB Staff Positions No. 157-1 and No. 157-2 were issued, delaying the effective date of FASB Statement No. 157 to fiscal years ending after November 15, 2008 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted SFAS No. 157 on December 30, 2007 and there was no material effect on the consolidated financial statements. The Company adopted SFAS No. 157-2 on January 4, 2009 and there was no material effect on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51” (“SFAS No. 160”). SFAS No. 160 requires that a noncontrolling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated financial statements. It also requires consistency in the manner of reporting changes in the parent’s ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. The Company adopted SFAS No. 160 on January 4, 2009 and there was no effect on the consolidated financial statements as we hold controlling interest in all our subsidiaries.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141(R)”). SFAS No. 141(R) retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. In general, the statement: 1) broadens the guidance of SFAS No. 141, extending its applicability to all events where one entity obtains control over one or more other businesses; 2) broadens the use of fair value measurements used to recognize the assets acquired and liabilities assumed; 3) changes the accounting for acquisition related fees and restructuring costs incurred in connection with an acquisition; and 4) increases required disclosures. The Company adopted SFAS No. 141(R) on January 4, 2009 and there was no material effect on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (“SFAS No. 161”). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of: 1) how and why an entity uses derivative instruments; 2) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and 3) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted SFAS No. 161 on January 4, 2009 and there was no effect on the consolidated financial statements as we have no derivatives or hedging activity.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1 which amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" and APB No. 28, "Interim Financial Reporting" and requires the Company to include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. This statement is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company will apply the provisions of this statement for periods ending after

June 15, 2009 and does not expect this statement to have a material effect on its consolidated financial statements.

6. Subsequent Event

On April 8, 2009, Highmark agreed to acquire \$65.4 million of ECCA's 10 3/4% Senior Subordinated Notes due 2015 (the "Notes") from certain funds and/or accounts managed and/or advised by DDJ Capital Management, LLC for a purchase price equal to the principal amount thereof, plus accrued interest to the purchase date. The transaction was consummated on April 14, 2009.

7. Condensed Consolidating Information

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 exchanged 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 were issued by us and are guaranteed by all of our subsidiaries (the "Guarantor Subsidiaries"), but are not guaranteed by the ODs. The Guarantor 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 Guarantor Subsidiaries and the non-guarantor subsidiaries as of and for the thirteen weeks ended April 4, 2009. The equity method has been used with respect to the Company's investments in its subsidiaries.

As of April 4, 2009, 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., Visionworks Holdings, Inc., Metropolitan Vision Services, Inc., Hour Eyes, Inc., and 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) the 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 Sheet
For the Year Ended January 3, 2009
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 782	\$ 11,868	\$ 810	\$ -	\$ 13,460
Accounts and notes receivable	66,648	9,978	(218)	(62,557)	13,851
Inventory	-	31,718	2,166	-	33,884
Deferred income taxes, net	5,833	-	-	-	5,833
Prepaid expenses and other	-	9,461	48	-	9,509
Total current assets	<u>73,263</u>	<u>63,025</u>	<u>2,806</u>	<u>(62,557)</u>	<u>76,537</u>
Property and equipment	-	76,520	-	-	76,520
Intangibles	416,095	107,195	87	-	523,377
Other assets	7,572	291	(1)	-	7,862
Deferred income taxes, net	13,469	-	-	-	13,469
Investment in subsidiaries	<u>177,370</u>	<u>-</u>	<u>-</u>	<u>(177,370)</u>	<u>-</u>
Total Assets	<u>\$ 687,769</u>	<u>\$ 247,031</u>	<u>\$ 2,892</u>	<u>\$ (239,927)</u>	<u>\$ 697,765</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	\$ 45,240	\$ 43,668	\$ 2,301	\$ (62,557)	\$ 28,652
Current portion of long-term debt	1,650	307	-	-	1,957
Deferred revenue	-	2,852	1,067	-	3,919
Accrued taxes	-	11,079	1,121	-	12,200
Accrued payroll expense	13,814	(4,918)	704	-	9,600
Accrued interest	5,911	746	-	-	6,657
Other accrued expenses	<u>379</u>	<u>6,569</u>	<u>370</u>	<u>-</u>	<u>7,318</u>
Total current liabilities	66,994	60,303	5,563	(62,557)	70,303
Long-term debt, less current maturities	234,168	51	-	-	234,219
Other long-term liabilities	<u>2,173</u>	<u>6,585</u>	<u>51</u>	<u>-</u>	<u>8,809</u>
Total liabilities	<u>303,335</u>	<u>66,939</u>	<u>5,614</u>	<u>(62,557)</u>	<u>313,331</u>
Shareholders' equity (deficit):					
Common stock	-	-	-	-	-
Additional paid-in capital	322,152	-	-	-	322,152
Accumulated equity (deficit)	<u>62,282</u>	<u>180,092</u>	<u>(2,722)</u>	<u>(177,370)</u>	<u>62,282</u>
Total shareholders' equity (deficit)	<u>384,434</u>	<u>180,092</u>	<u>(2,722)</u>	<u>(177,370)</u>	<u>384,434</u>
	<u>\$ 687,769</u>	<u>\$ 247,031</u>	<u>\$ 2,892</u>	<u>\$ (239,927)</u>	<u>\$ 697,765</u>

Condensed Consolidating Statement of Operations
For the Thirteen Weeks Ended March 29, 2008
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
Revenues:					
Optical sales	\$ -	\$ 115,985	\$ 30,038		\$ 146,023
Management fees	-	11,433		(10,505)	928
Total net revenues	-	127,418	30,038	(10,505)	146,951
Operating costs and expenses:					
Cost of goods sold	-	36,840	10,761		47,601
Selling, general and administrative expenses	1,434	59,131	18,956	(10,505)	69,016
Total operating costs and expenses	1,434	95,971	29,717	(10,505)	116,617
Income from operations	(1,434)	31,447	321	-	30,334
Interest expense, net	5,449	(31)	-	-	5,418
Income tax expense	10,341	-	-	-	10,341
Equity earnings in subsidiaries	31,799			(31,799)	-
Net income	<u>\$ 14,575</u>	<u>\$ 31,478</u>	<u>\$ 321</u>	<u>\$ (31,799)</u>	<u>\$ 14,575</u>

Condensed Consolidating Statements of Cash Flows
For the Thirteen Weeks Ended March 29, 2008
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
Cash flows from operating activities:					
Net income	\$ 14,575	\$ 31,478	\$ 321	\$ (31,799)	\$ 14,575
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	77	4,496	-	-	4,573
Amortization of debt issue costs	81	-	-	-	81
Deferred liabilities and other	-	787	71	-	858
Equity earnings in subsidiaries	(31,799)	-	-	31,799	-
Increase/(decrease) in operating assets and liabilities	17,461	(12,312)	(571)	-	4,578
Net cash provided by (used in) operating activities	<u>395</u>	<u>24,449</u>	<u>(179)</u>	<u>-</u>	<u>24,665</u>
Cash flows from investing activities:					
Acquisition of property and equipment	-	(7,641)	-	-	(7,641)
Net cash used in investing activities	<u>-</u>	<u>(7,641)</u>	<u>-</u>	<u>-</u>	<u>(7,641)</u>
Cash flows from financing activities:					
Payments on debt and capital leases	(413)	(133)	-	-	(546)
Net cash used in financing activities	<u>(413)</u>	<u>(133)</u>	<u>-</u>	<u>-</u>	<u>(546)</u>
Net increase (decrease) in cash and cash equivalents	(18)	16,675	(179)	-	16,478
Cash and cash equivalents at beginning of period	(53)	5,211	479	-	5,637
Cash and cash equivalents at end of period	<u>\$ (71)</u>	<u>\$ 21,886</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 22,115</u>

Condensed Consolidating Balance Sheet
April 4, 2009
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 568	\$ 28,460	\$ 778	\$ -	\$ 29,806
Accounts and notes receivable	56,609	16,654	483	(59,314)	14,432
Inventory	-	32,494	2,326	-	34,820
Deferred income taxes	9,530	-	-	-	9,530
Prepaid expenses and other	17	9,973	49	-	10,039
Total current assets	<u>66,724</u>	<u>87,581</u>	<u>3,636</u>	<u>(59,314)</u>	<u>98,627</u>
Property and equipment	-	80,914	18	-	80,932
Goodwill	410,058	107,195	87	-	517,340
Other assets	7,419	294	(1)	-	7,712
Deferred income taxes	13,469	-	-	-	13,469
Investment in subsidiaries	212,005	-	-	(212,005)	-
Total assets	<u>\$ 709,675</u>	<u>\$ 275,984</u>	<u>\$ 3,740</u>	<u>\$ (271,319)</u>	<u>\$ 718,080</u>
LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	\$ 46,208	\$ 40,008	\$ 2,508	\$ (59,314)	\$ 29,410
Current portion of long-term debt	1,650	157	-	-	1,807
Deferred revenue	(1)	2,792	1,111	-	3,902
Accrued taxes	22,480	(4,519)	372	-	18,333
Accrued payroll expense	-	9,009	1,095	-	10,104
Accrued interest	1,618	740	-	-	2,358
Other accrued expenses	288	7,039	356	-	7,683
Total current liabilities	<u>72,243</u>	<u>55,226</u>	<u>5,442</u>	<u>(59,314)</u>	<u>73,597</u>
Long-term debt, less current maturities	233,812	13	-	-	233,825
Other long-term liabilities	2,172	6,982	56	-	9,210
Total liabilities	<u>308,227</u>	<u>62,221</u>	<u>5,498</u>	<u>(59,314)</u>	<u>316,632</u>
Shareholder's equity (deficit)					
Common stock	-	-	-	-	-
Additional paid-in capital	322,152	-	-	-	322,152
Retained earnings	79,296	213,763	(1,758)	(212,005)	79,296
Total shareholders' equity (deficit)	<u>401,448</u>	<u>213,763</u>	<u>(1,758)</u>	<u>(212,005)</u>	<u>401,448</u>
	<u>\$ 709,675</u>	<u>\$ 275,984</u>	<u>\$ 3,740</u>	<u>\$ (271,319)</u>	<u>\$ 718,080</u>

Condensed Consolidating Statement of Operations
For the Thirteen Weeks Ended April 4, 2009
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
Revenues:					
Optical sales	\$ -	\$ 126,356	\$ 33,330	\$ -	\$ 159,686
Management fees	-	11,486	-	(10,709)	777
Total net revenues	-	137,842	33,330	(10,709)	160,463
Operating costs and expenses:					
Cost of goods sold	-	40,450	13,955	-	54,405
Selling, general and administrative expenses	1,613	63,724	18,408	(10,709)	73,036
Total operating costs and expenses	1,613	104,174	32,363	(10,709)	127,441
Income from operations	(1,613)	33,668	967	-	33,022
Interest expense, net	5,002	1	-	-	5,003
Income tax expense	11,005	-	-	-	11,005
Equity earnings in subsidiaries	34,634	-	-	(34,634)	-
Net income	<u>\$ 17,014</u>	<u>\$ 33,667</u>	<u>\$ 967</u>	<u>\$ (34,634)</u>	<u>\$ 17,014</u>

Condensed Consolidating Statements of Cash Flows
For the Thirteen Weeks Ended April 4, 2009
(in thousands)
(unaudited)

	Parent	Guarantor Subsidiaries	ODs	Eliminations	Consolidated Company
Cash flows from operating activities:					
Net income	\$ 17,014	\$ 33,667	\$ 967	\$ (34,634)	17,014
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	100	4,835	(23)	-	4,912
Amortization of debt issue costs	110	-	-	-	110
Deferred liabilities and other	-	335	49	-	384
Equity earnings in subsidiaries	(34,634)	-	-	34,634	-
Increase/(decrease) in operating assets and liabilities	17,609	(12,788)	(1,025)	-	3,796
Net cash provided by (used in) operating activities	<u>199</u>	<u>26,049</u>	<u>(32)</u>	<u>-</u>	<u>26,216</u>
Cash flows from investing activities:					
Acquisition of property and equipment	-	(9,269)	-	-	(9,269)
Net cash used in investing activities	<u>-</u>	<u>(9,269)</u>	<u>-</u>	<u>-</u>	<u>(9,269)</u>
Cash flows from financing activities:					
Payments on debt and capital leases	(413)	(188)	-	-	(601)
Net cash used in financing activities	<u>(413)</u>	<u>(188)</u>	<u>-</u>	<u>-</u>	<u>(601)</u>
Net increase (decrease) in cash and cash equivalents	(214)	16,592	(32)	-	16,346
Cash and cash equivalents at beginning of period	782	11,868	810	-	13,460
Cash and cash equivalents at end of period	<u>\$ 568</u>	<u>\$ 28,460</u>	<u>\$ 778</u>	<u>\$ -</u>	<u>\$ 29,806</u>

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

Forward-Looking Statements

Some statements in this quarterly report are forward-looking statements. Forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this filing that are not historical facts. Many statements under the captions "Summary," "Risk factors," "Management's discussion and analysis of financial condition and results of operations," "Business," and elsewhere in this filing 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 filing, 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;
- The adequacy and perception of our customer service;
- The ability to hire, train, energize and retain qualified sales associates, managerial and other employees;
- The ability to secure and protect trademarks and other intellectual property rights;
- Exposure to the risks associated with terrorist activities and natural disasters;
- Franchise claims by optometrists;
- 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;
- Changes in the costs of manufacturing, labor and advertising;
- The ability of our suppliers to timely produce and deliver frames, lenses and contact lenses;
- The risks and uncertainties associated with reliance on foreign vendors, including the impact of work stoppages, transportation delays and other interruptions, political or civil instability, imposition of and changes in tariffs and import and export controls such as quotas, changes in governmental policies in or towards foreign countries, currency exchange rates and other similar factors;

- Exposure to liability claims if we are unable to obtain adequate insurance;
- Changes in general industry and market conditions and growth rates;
- The extent of financial difficulties that may be experienced by our customers;
- 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;
- The performance, implementation and integration of management information systems;
- Our ability to open new stores and the financial impact derived from those openings; and
- Our ability to implement and maintain our merchandising and marketing business strategy.

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.

Some of these risks, uncertainties, assumptions and other factors can be found in our filings with the Securities and Exchange Commission, including the factors discussed under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended January 3, 2009 (“2008 Form 10-K”) and any update thereto in our Forms 10-Q.

Introduction

The following management’s discussion and analysis (“MD&A”) section is intended to help the reader better understand our results of operations and financial condition. This section is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes thereto contained elsewhere in this report and our MD&A section, financial statements and accompanying notes to financial statements in our 2008 Form 10-K.

We are the third largest operator of optical retail stores in the United States as measured by revenue. We currently operate 432 stores in 36 states, including 363 directly-owned stores and 69 stores owned by a professional corporation or other entity owned by an optometrist (an “OD PC”), which we manage under long-term management agreements. Our consolidated financial information includes the results of our 363 directly-owned stores, as well as the results of 56 of the 69 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 419 consolidated stores as well as management fee 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 419 consolidated stores, as well as the professional

fees of the optometrists at 220 of the stores. These 220 stores include 114 stores where the optometrist is our employee or an independent contractor, the 56 stores operated by an OD PC that are consolidated in our results and the 50 stores with independent optometrists for whom we provide management services. The management fee 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 and expenses. 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 MD&A section 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 the fiscal year ended December 29, 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 opened 9 new stores during the thirteen weeks ended April 4, 2009 and we believe the opportunity exists to open approximately 11 additional new stores in fiscal 2009 in existing markets. We opened 22 new stores in fiscal 2008, 8 of those locations opening during the thirteen weeks ended March 29, 2008. 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 participation in 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 plan participation is in fee-for-service funded managed vision care plans. Our participation in managed vision care plans also includes 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.

	Thirteen Weeks Ended			
	March 29, 2008		April 4, 2009	
Statement of Income Data:				
NET REVENUES:				
Optical sales	99.4	%	99.5	%
Management fee	0.6		0.5	
Total net revenues	<u>100.0</u>		<u>100.0</u>	
OPERATING COSTS AND EXPENSES:				
Cost of goods sold	32.6	*	34.1	*
Selling, general and administrative expenses	47.3	*	45.7	*
Total operating costs and expenses	<u>79.4</u>		<u>79.4</u>	
INCOME FROM OPERATIONS	20.6		20.6	
INTEREST EXPENSE, NET	3.7		3.1	
INCOME TAX EXPENSE	<u>7.0</u>		<u>6.9</u>	
NET INCOME	<u><u>9.9</u></u>	%	<u><u>10.6</u></u>	%

* Percentages based on optical sales only

The Thirteen Weeks Ended April 4, 2009 Compared to the Thirteen Weeks Ended March 29, 2008.

Net Revenues. Net revenues increased to \$160.5 million for the thirteen weeks ended April 4, 2009 from \$147.0 million for the thirteen weeks ended March 29, 2008. The increase in revenues compared to the first quarter of fiscal 2008 was primarily driven by a 5.5% increase in comparable store sales and new store openings. Net revenues attributable to new stores in the first quarter of fiscal 2009 were \$0.6 million. The increase in net revenues attributable to the effect of new stores opened in fiscal 2008 being open in the first quarter of fiscal 2009 was \$6.1 million. Comparable transactions increased by 0.2% and average ticket price increased by 5.3% compared to the first quarter of fiscal 2008. The increase in average ticket price was primarily driven by the continued increase in the sale of premium lenses and lens treatments. Total managed vision care sales increased by 9.8%, or \$5.8 million. In addition, we opened 9 new stores in the first quarter of fiscal 2009 compared to 8 new stores in the first quarter of fiscal 2008.

Gross Profit. Gross profit increased to \$105.3 million for the thirteen weeks ended April 4, 2009 from \$98.4 million for the thirteen weeks ended March 29, 2008. Gross profit as a percentage of optical sales decreased to 65.9% for the thirteen weeks ended April 4, 2009 from 67.4% for the thirteen weeks ended March 29, 2008. The decrease in gross profit as a percentage of optical sales was largely the result of the increase in the sale of lower margin specialty lenses and the increase in doctor payroll expenses.

Selling General & Administrative Expenses (SG&A). SG&A increased to \$73.0 million for the thirteen weeks ended April 4, 2009 from \$69.0 million for the thirteen weeks ended March 29, 2008. SG&A, as a percentage of optical sales decreased to 45.7% for the thirteen weeks ended April 4, 2009 from 47.3% for the thirteen weeks ended March 29, 2008. This percentage decrease was largely due to the Company's leveraging of overhead and occupancy costs associated with our favorable comparable store sales increase as well as from expense control initiatives including salaries, wages and advertising.

Net Interest Expense. Net interest expense decreased to \$5.0 million for the thirteen weeks ended April 4, 2009 from \$5.4 million for the thirteen weeks ended March 29, 2008. This decrease was primarily due to lower interest rates on the portion of our debt that has variable interest rates.

Income Tax Expense. Income tax expense increased to \$11.0 million for the thirteen weeks ended April 4, 2009 from \$10.3 million for the thirteen weeks ended March 29, 2008, primarily due to a \$3.1 million increase in income before taxes. Our effective tax rate was 39.3% for the thirteen weeks ended April 4, 2009 and 41.5% for the thirteen weeks ended March 29, 2008.

Net Income. Net income increased to \$17.0 million for the thirteen weeks ended April 4, 2009 compared to \$14.6 million for the thirteen weeks ended March 29, 2008.

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;
- New lab and distribution facilities; and
- Purchasing inventory and equipment

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 Credit Facility (as defined below) 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 payments, capital expenditures and working capital requirements principally from cash from operations and HVHC capital contributions. 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 payments, 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 \$26.2 million for the thirteen weeks ended April 4, 2009 and \$24.7 million for the thirteen weeks ended March 29, 2008. Our other sources of working capital are cash on hand and funding from the revolving portion of our Credit Facility (as defined below). As of April 4, 2009, we had \$29.8 million of cash available to meet our obligations. We had \$25.0 million of borrowings available under the \$25.0 million Revolver (as defined below) revolving portion of our Credit Facility, excluding \$2.6 million letters of credit outstanding.

Payment on debt has been our principal financing activity. Cash flows used in financing activities were \$0.6 million for the thirteen weeks ended April 4, 2009 and \$0.5 million for the thirteen weeks ended March 29, 2008, and related solely to the payment of debt.

Our working capital primarily consists of cash and cash equivalents, accounts receivable, inventory, accounts payable and accrued expenses and was \$25.0 million as of April 4, 2009. Our working capital was \$6.2 million as of January 3, 2009. The increase in working capital is primarily due to accumulation of cash as we have made no voluntary prepayments of our Credit Facility during the first quarter of fiscal 2009.

Capital expenditures were \$9.3 million for the thirteen weeks ended April 4, 2009 compared to \$7.6 million for the thirteen weeks ended March 29, 2008. Capital expenditures for all of fiscal 2009 are projected to be approximately \$25.6 million. Of the planned fiscal 2009 capital expenditures, approximately \$9.3 million is related to commitments for new stores and approximately \$16.3 million is expected to be for improvement of existing facilities and systems including the completion of our central lab facility relocation.

Based upon current operations, we believe that our cash flows from operations, together with borrowings that are available under the \$25.0 million Revolver (as defined below) of our 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 with the exception of capital contributions from HVHC. Any such future contributions will be used for capital expenditures. Our ability to satisfy our financial covenants under our 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 Credit Facility and the Notes at maturity will likely require additional financing, which may not be available to us in the future 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 under the Credit Facility together with the net proceeds from the offering of the Initial Notes and the equity investment of Moulin Global Eyecare Holdings Limited and Golden Gate Capital were used to: (i) pay a cash portion of the purchase price for the equity interests held by Thomas H. Lee Partners in us and sold to ECCA Holdings Corporation in March 2005, (ii) repay debt outstanding under a previous credit facility, (iii) retire old notes, (iv) pay the related tender premium and accrued interest and (v) pay the related transaction fees and expenses. The remainder of 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 our Credit Facility (the “2006 Amendment”). The 2006 Amendment primarily reduced the interest rate on the Credit Facility and changed several covenants. A prepayment of \$25.0 million in principal was made in conjunction with the lenders’ approval of the 2006 Amendment and a prepayment of \$9.0 million in principal was made in conjunction with the filing of the 2006 10-K in March, 2007, as required under the 2006 Amendment. Additional voluntary prepayments totaling \$20.0 million were made throughout fiscal 2007.

On October 3, 2008, we entered into a Third Amendment and Consent to our Credit Facility (the “2008 Amendment”). The 2008 Amendment provides for an increase in the annual capital expenditures limit under the Credit Facility from \$22 million to \$28 million in consideration for (i) a \$20 million prepayment of principal due under the loan terms made under the Credit Facility and (ii) an amendment fee of 10 basis points. The 2008 Amendment further provides that all capital contributions made to us by HVHC or its affiliates for the purposes of funding capital expenditures shall be excluded from the annual capital expenditure limit set forth in the Credit Facility. The prepayment of \$20.0 million in principal was made on October 3, 2008. On October 9, 2008, HVHC provided us with a \$5.0 million capital contribution to be utilized to fund improvements to our lab equipment and infrastructure.

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 year ended December 31, 2005 and continues through the date of maturity in fiscal 2012 according to the following schedule:

<u>Year</u>	<u>(in millions)</u>
2009	1.24
2010	1.65
2011	1.65
2012	80.28
	<u>\$ 84.82</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:

<u>Facility</u>	<u>Base Rate Margin</u>	<u>Eurodollar Margin</u>
Term Loan Facility	1.50%	2.50%
Revolver	1.75%	2.75%

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 at a rate equal to 0.50%. 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 April 4, 2009 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 based on our excess cash flows which is determined by our leverage ratio as defined in the New Credit Facility. In Fiscal 2007, we made voluntary prepayments of \$21.3 million and an additional prepayment of \$9.0 million related to the 2006 Amendment. Due to this \$30.2 million prepayment, no excess cash flow payment was necessary for our Fiscal 2007 results. In Fiscal 2008, we made a

prepayment of \$20.0 million in principal related to the 2008 Amendment. Due to this \$20.0 million prepayment, no excess cash flow payment was necessary for our Fiscal 2008 results. 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 Facility occurring within the next 12 months in direct order of maturity, and second, ratably to the remaining installments of the Term Loan Facility. 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 Credit Facility) 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;
- mature on February 15, 2015;
- are subordinated in right of payment to all existing and future Senior Indebtedness (as defined in that certain Indenture between the Company and the Bank of New York as Trustee, dated February 4, 2005 (the “Indenture)) of the Company, including the Credit Facility;
- rank equally in right of payment to any future Senior Subordinated Indebtedness (as defined in the Indenture) of the Company;
- are unconditionally guaranteed on a senior subordinated basis by each existing Subsidiary (as defined in the Indenture) of the Company and any future Restricted Subsidiary (as defined in the Indenture) of the Company that is not a Foreign Subsidiary (as defined in the Indenture);
- are effectively subordinated to any future Indebtedness (as defined in the Indenture) and other liabilities of Subsidiaries (as defined in the Indenture) of the Company that are not guaranteeing the notes; and
- 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;
- is payable in cash semi-annually in arrears on February 15 and August 15;

- 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 defined in the Indenture) 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 negative covenants including but not limited to:

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

Off-balance sheet arrangements. As of April 4, 2009, our only off-balance sheet arrangements were letters of credit, in the amount of \$2.6 million, issued under our old credit facility primarily to insurance companies and remain outstanding under our New Credit Facility. These letters of credit are held by our insurance carriers in lieu of actual cash deposits and can be called to cover our claims payments if we fail to directly pay the carriers. By maintaining these letters of credit we are able to utilize the cash for operating purposes and pay minimal fees under the 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 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; therefore, quarterly results are not necessarily indicative of results for the entire year, and the opening of new stores may affect seasonal fluctuations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks. Market risk is the potential risk of 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 has been no material change in our market risk during the thirteen weeks ended April 4, 2009. 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 January 3, 2009 (“2008 Form 10-K”).

Our primary market risk exposure is interest rate risk. As of April 4, 2009, approximately \$84.8 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 \$84.8 million in long-term borrowings, our annual interest expense would change by approximately \$0.8 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 4T. 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 thirteen weeks ended April 4, 2009 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 are 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 thirteen weeks ended April 4, 2009. For further discussion, please refer to our 2008 Form 10-K.

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," in our 2008 Form 10-K, filed with the Securities and Exchange Commission on March 24, 2009. The risks described in our 2008 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results. In our judgment, there were no material changes in the risk factors as previously disclosed in Part I, "Item 1A. Risk Factors."

ITEM 6. 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.

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: May 15, 2009

by: /s/ Jennifer L. Taylor

Jennifer L. Taylor
Executive Vice President and Chief Financial Officer