
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 July 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 August 14, 2009
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 / unaudited)

| | <u>January 3, 2009</u> | <u>July 4, 2009</u> |
|---|----------------------------|-------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 13,460 | \$ 27,175 |
| Accounts receivable, net | 13,851 | 12,475 |
| Inventory, net | 33,884 | 33,364 |
| Deferred income taxes, net | 5,833 | 9,530 |
| Prepaid expenses and other | 9,509 | 10,840 |
| Total current assets | <u>76,537</u> | <u>93,384</u> |
| PROPERTY & EQUIPMENT, net | 76,520 | 82,604 |
| GOODWILL | 523,377 | 517,340 |
| OTHER ASSETS | 7,862 | 7,609 |
| DEFERRED INCOME TAXES, net | 13,469 | 13,034 |
| Total assets | <u>\$ 697,765</u> | <u>\$ 713,971</u> |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 28,652 | \$ 23,690 |
| Current maturities of long-term debt | 1,957 | 1,771 |
| Deferred revenue | 3,919 | 3,464 |
| Accrued taxes | 9,600 | 14,689 |
| Accrued payroll expense | 12,200 | 9,828 |
| Accrued interest | 6,657 | 6,411 |
| Other accrued expenses | 7,318 | 6,524 |
| Total current liabilities | <u>70,303</u> | <u>66,377</u> |
| LONG TERM DEBT, less current maturities | 234,219 | 233,457 |
| OTHER LONG-TERM LIABILITIES | 8,809 | 9,452 |
| Total liabilities | <u>313,331</u> | <u>309,286</u> |
| SHAREHOLDER'S EQUITY: | | |
| Common stock | - | - |
| Additional paid-in capital | 322,152 | 322,152 |
| Retained earnings | 62,282 | 82,533 |
| Total shareholder's equity | <u>384,434</u> | <u>404,685</u> |
| | <u>\$ 697,765</u> | <u>\$ 713,971</u> |

See Notes to Consolidated Financial Statements

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

(dollars in thousands / unaudited)

| | <u>Thirteen Weeks Ended</u> | | <u>Twenty-Six Weeks Ended</u> | |
|---|-----------------------------|-------------------------|-------------------------------|-------------------------|
| | <u>June 28, 2008</u> | <u>July 4, 2009</u> | <u>June 28, 2008</u> | <u>July 4, 2009</u> |
| NET REVENUES: | | | | |
| Optical sales | \$ 127,515 | \$ 130,575 | \$ 273,538 | \$ 290,248 |
| Management fee | 630 | 531 | 1,558 | 1,321 |
| Total net revenues | <u>128,145</u> | <u>131,106</u> | <u>275,096</u> | <u>291,569</u> |
| OPERATING COSTS AND EXPENSES: | | | | |
| Cost of goods sold | 45,054 | 49,653 | 92,655 | 104,058 |
| Selling, general and administrative expenses | <u>67,299</u> | <u>70,782</u> | <u>136,315</u> | <u>143,818</u> |
| Total operating costs and expenses | <u>112,353</u> | <u>120,435</u> | <u>228,970</u> | <u>247,876</u> |
| INCOME FROM OPERATIONS | 15,792 | 10,671 | 46,126 | 43,693 |
| INTEREST EXPENSE, NET | <u>5,934</u> | <u>4,905</u> | <u>11,352</u> | <u>9,909</u> |
| INCOME BEFORE INCOME TAXES | 9,858 | 5,766 | 34,774 | 33,784 |
| INCOME TAX EXPENSE | <u>3,927</u> | <u>2,529</u> | <u>14,268</u> | <u>13,533</u> |
| NET INCOME | <u>\$ 5,931</u> | <u>\$ 3,237</u> | <u>\$ 20,506</u> | <u>\$ 20,251</u> |

See Notes to Consolidated Financial Statements

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

(dollars in thousands / unaudited)

| | Twenty-Six Weeks Ended | |
|--|-------------------------------|-------------------------|
| | June 28, 2008 | July 4, 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 20,506 | \$ 20,251 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,368 | 10,264 |
| Amortization of debt issue costs | 141 | 217 |
| Deferred liabilities and other | 2,501 | 188 |
| Increase in operating assets and liabilities | 4,279 | 87 |
| Net cash provided by operating activities | 36,795 | 31,007 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment, net | (15,258) | (16,229) |
| Net cash used in investing activities | (15,258) | (16,229) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on debt and capital leases | (1,103) | (1,063) |
| Net cash used in financing activities | (1,103) | (1,063) |
| NET INCREASE IN CASH | 20,434 | 13,715 |
| CASH AND CASH EQUIVALENTS, beginning of period | 5,637 | 13,460 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 26,071 | \$ 27,175 |

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 and twenty-six week periods ended July 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. 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”). The Company is owned by ECCA Holdings and as a result of the merger became an indirect wholly-owned subsidiary of Highmark. We paid Highmark and its affiliates \$0.4 million for management fees during the twenty-six weeks ended June 28, 2008 and July 4, 2009 respectively. As part of our tax sharing arrangement, we paid Highmark \$6.2 million and \$3.9 million for state and federal taxes during the twenty-six weeks ended June 28, 2008 and July 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 sun wear. We recorded revenue of \$8.7 million and \$11.4 million, during the twenty-six weeks ended June 28, 2008 and July 4, 2009, respectively, related to managed care reimbursements due from Davis and have a receivable of \$1.8 million and \$3.5 million, related to these revenues for the periods ended January 3, 2009 and July 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 \$0.5 million in claims and administrative fees to Davis during the twenty-six weeks ended July 4, 2009.

We purchased \$4.5 million and \$6.0 million of frame product from Viva during the twenty-six weeks ended June 28, 2008 and July 4, 2009, respectively. We recorded cost of goods sold related to

products purchased from Viva that were sold to our customers of \$5.4 million and \$3.9 million, during the twenty-six weeks ended June 28, 2008 and July 4, 2009, respectively. We had a related payable to Viva of \$1.7 million and \$1.8 million as of January 3, 2009 and July 4, 2009, respectively.

From June 2007 through December 2008, we contracted directly with Highmark for the administration of our self-insured employees' health insurance. We incurred \$6.4 million and \$1.9 million in employee health claims and administrative fees during the twenty-six weeks ended June 28, 2008 and July 4, 2009, respectively that were administered and paid by Highmark. 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 \$11.8 million in claims and administrative fees to HVHC during the twenty-six weeks ended July 4, 2009.

On May 7, 2009, Highmark acquired \$65.4 million of ECCA's 10 3/4% Senior Subordinated Notes due 2015 (the "Notes"). On June 8, 2009, Highmark acquired an additional \$0.2 million in Notes. The accumulated interest on the \$65.6 million in bonds is \$1.2 million through July 4, 2009. No payments of interest have been made to Highmark.

3. *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.

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 July 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. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

| | |
|---|-----------------|
| Balance at January 3, 2009 | \$ 3,868 |
| Additions based on tax provisions related to the prior year | - |
| Additions based on tax provisions related to the current year | 435 |
| Release based on tax provisions related to the prior year | - |
| Balance at July 4, 2009 | <u>\$ 4,303</u> |

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.

4. Accounting Standards and Disclosures

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, “*Interim Disclosures about Fair Value of Financial Instruments*,” which requires disclosures about fair value of financial instruments for interim reporting periods. This guidance is effective for interim reporting periods ending after June 15, 2009 and applies to our disclosures beginning with this second fiscal quarter of 2009. Our adoption of this FSP did not have a material impact on our financial condition or results of operations.

In April 2009, the FASB also issued FSP No. FAS 157-4, “*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*,” which provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This guidance is effective for interim reporting periods ending after June 15, 2009 and will apply to our disclosures beginning with our second fiscal quarter of 2009. Our adoption of this FSP did not have a material impact on our financial condition or results of operations.

Also in April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, “*Recognition and Presentation of Other-Than-Temporary Impairments*,” which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance is effective for interim reporting periods ending after June 15, 2009 and will apply to our disclosures beginning with our second fiscal quarter of 2009. Our adoption of this FSP did not have a material impact on our financial condition or results of operations.

In May 2009, the FASB issued SFAS No. 165, “*Subsequent Events*,” which expands disclosures of subsequent events and requires management to disclose the date through which subsequent events have been evaluated. This guidance is effective for interim reporting periods ending after June 15, 2009. Our adoption of SFAS No. 165 did not have a material impact on our financial condition or results of operations. Refer to Note 6 for the additional disclosure required by the new standard.

In June 2009, the FASB issued the following:

- SFAS No. 166, “*Accounting for Transfers of Financial Assets – an Amendment to FASB Statement No. 140*,” which among other things, eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and expands disclosures that a reporting entity provides about transfers of financial assets and its effect on the financial statements. This guidance is effective for annual reporting period that begins after November 15, 2009.
- SFAS No. 167, “*Amendments to FASB Interpretation No. 46(R)*,” which amends the evaluation criteria to identify the primary beneficiary of a variable interest entity included in FASB Interpretation No. 46(R), “Consolidation of Variable Interest Entities—An Interpretation of ARB No. 51.” Additionally, SFAS No. 167 requires ongoing reassessments of whether an enterprise is the primary beneficiary of the variable interest entity.. This guidance is effective for annual and interim reporting periods beginning after November 15, 2009.
- SFAS No. 168, “*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*,” which modifies the GAAP hierarchy and how authoritative guidance is referenced in financial statements. This guidance is effective for annual and interim reporting periods ending after September 15, 2009.

We do not expect our adoption of these new accounting pronouncements will have a material impact on our financial condition or results of operations.

5. Subsequent Events

Management has evaluated subsequent events through August 14, 2009, which is the date the financial statements were issued and has determined that no material reportable events have occurred through that date.

6. Condensed Consolidating Information

On February 4, 2005, we issued \$152.0 million aggregate principal amount of our 10 ¾% 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 twenty-six weeks ended July 4, 2009. The equity method has been used with respect to the Company's investments in its subsidiaries.

As of July 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
3-Jan-09
(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 | 177,370 | - | - | (177,370) | - |
| 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 payroll expense | - | 11,079 | 1,121 | - | 12,200 |
| Accrued taxes | 13,814 | (4,918) | 704 | - | 9,600 |
| Accrued interest | 5,911 | 746 | - | - | 6,657 |
| Other accrued expenses | 379 | 6,569 | 370 | - | 7,318 |
| Total current liabilities | <u>66,994</u> | <u>60,303</u> | <u>5,563</u> | <u>(62,557)</u> | <u>70,303</u> |
| Long-term debt, less current maturities | 234,168 | 51 | - | - | 234,219 |
| Other long-term liabilities | 2,173 | 6,585 | 51 | - | 8,809 |
| 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 |
| Retained earnings | 62,282 | 180,092 | (2,722) | (177,370) | 62,282 |
| 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 June 28, 2008
(in thousands)
(unaudited)

| | Parent | Guarantor Subsidiaries | ODs | Eliminations | Consolidated Company |
|--|----------|---------------------------|-----------|--------------|-------------------------|
| Revenues: | | | | | |
| Optical sales | \$ - | \$ 100,704 | \$ 26,811 | \$ - | \$ 127,515 |
| Management fees | - | 8,937 | - | (8,307) | 630 |
| Equity earnings in subsidiaries | 16,059 | - | - | (16,059) | - |
| Total net revenues | 16,059 | 109,641 | 26,811 | (24,366) | 128,145 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold | - | 34,943 | 10,111 | - | 45,054 |
| Selling, general and administrative expenses | 985 | 57,600 | 17,021 | (8,307) | 67,299 |
| Total operating costs and expenses | 985 | 92,543 | 27,132 | (8,307) | 112,353 |
| Income from operations | 15,074 | 17,098 | (321) | (16,059) | 15,792 |
| Interest expense, net | 5,216 | 718 | - | - | 5,934 |
| Income tax expense | 3,927 | - | - | - | 3,927 |
| Net income (loss) | \$ 5,931 | \$ 16,380 | \$ (321) | \$ (16,059) | \$ 5,931 |

Condensed Consolidating Statement of Operations
For the Twenty-Six Weeks Ended June 28, 2008
(in thousands)
(unaudited)

| | Parent | Guarantor Subsidiaries | ODs | Eliminations | Consolidated Company |
|--|-----------|---------------------------|-----------|--------------|-------------------------|
| Revenues: | | | | | |
| Optical sales | \$ - | \$ 216,689 | \$ 56,849 | \$ - | \$ 273,538 |
| Management fees | - | 20,370 | - | (18,812) | 1,558 |
| Equity earnings in subsidiaries | 47,858 | - | - | (47,858) | - |
| Total net revenues | 47,858 | 237,059 | 56,849 | (66,670) | 275,096 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold | - | 71,783 | 20,872 | - | 92,655 |
| Selling, general and administrative expenses | 2,419 | 116,731 | 35,977 | (18,812) | 136,315 |
| Total operating costs and expenses | 2,419 | 188,514 | 56,849 | (18,812) | 228,970 |
| Income from operations | 45,439 | 48,545 | - | (47,858) | 46,126 |
| Interest expense, net | 10,665 | 687 | - | - | 11,352 |
| Income tax expense | 14,268 | - | - | - | 14,268 |
| Net income | \$ 20,506 | \$ 47,858 | \$ - | \$ (47,858) | \$ 20,506 |

Condensed Consolidating Statements of Cash Flows
For the Twenty-Six Weeks Ended June 28, 2008
(in thousands)
(unaudited)

| | Parent | Guarantor Subsidiaries | ODs | Eliminations | Consolidated Company |
|---|-----------|---------------------------|--------|--------------|-------------------------|
| Cash flows from operating activities: | | | | | |
| Net income | \$ 20,506 | \$ 47,858 | \$ - | \$ (47,858) | 20,506 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 130 | 9,238 | - | - | 9,368 |
| Amortization of debt issue costs | 133 | 8 | - | - | 141 |
| Deferred liabilities and other | (288) | 2,746 | 43 | - | 2,501 |
| Equity earnings in subsidiaries | (47,858) | - | - | 47,858 | - |
| Increase/(decrease) in operating assets and liabilities | 14,955 | (10,439) | (237) | - | 4,279 |
| Net cash provided by (used in) operating activities | (12,422) | 49,411 | (194) | - | 36,795 |
| Cash flows from investing activities: | | | | | |
| Acquisition of property and equipment | - | (15,258) | - | - | (15,258) |
| Dividend distributions | 26,345 | (26,345) | - | - | - |
| Net cash provided by (used in) investing activities | 26,345 | (41,603) | - | - | (15,258) |
| Cash flows from financing activities: | | | | | |
| Capital contributions | (13,120) | 13,120 | - | - | - |
| Payments on debt and capital leases | (825) | (278) | - | - | (1,103) |
| Net cash provided by (used in) financing activities | (13,945) | 12,842 | - | - | (1,103) |
| Net increase /(decrease) in cash and cash equivalents | (22) | 20,650 | (194) | - | 20,434 |
| Cash and cash equivalents at beginning of period | (53) | 5,211 | 479 | - | 5,637 |
| Cash and cash equivalents at end of period | \$ (75) | \$ 25,861 | \$ 285 | \$ - | \$ 26,071 |

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

| | Parent | Guarantor Subsidiaries | ODs | Eliminations | Consolidated Company |
|---|-------------------|---------------------------|-----------------|---------------------|-------------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 842 | \$ 25,053 | \$ 1,280 | \$ - | \$ 27,175 |
| Accounts and notes receivable | 57,098 | 72,106 | 3,770 | (120,499) | 12,475 |
| Inventory | - | 30,602 | 2,762 | - | 33,364 |
| Deferred income taxes | 9,530 | - | - | - | 9,530 |
| Prepaid expenses and other | 220 | 10,572 | 48 | - | 10,840 |
| Total current assets | <u>67,690</u> | <u>138,333</u> | <u>7,860</u> | <u>(120,499)</u> | <u>93,384</u> |
| Property and equipment | - | 82,604 | - | - | 82,604 |
| Intangibles | 410,058 | 107,195 | 87 | - | 517,340 |
| Other assets | 7,294 | 316 | (1) | - | 7,609 |
| Deferred income taxes | 13,034 | - | - | - | 13,034 |
| Investment in subsidiaries | 223,752 | - | - | (223,752) | - |
| Total assets | <u>\$ 721,828</u> | <u>\$ 328,448</u> | <u>\$ 7,946</u> | <u>\$ (344,251)</u> | <u>\$ 713,971</u> |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 53,215 | \$ 82,904 | \$ 8,070 | \$ (120,499) | \$ 23,690 |
| Current portion of long-term debt | 1,650 | 121 | - | - | 1,771 |
| Deferred revenue | - | 2,454 | 1,010 | - | 3,464 |
| Accrued taxes | 20,719 | (6,473) | 443 | - | 14,689 |
| Accrued payroll expense | - | 8,832 | 996 | - | 9,828 |
| Accrued interest | 5,672 | 739 | - | - | 6,411 |
| Other accrued expenses | 257 | 5,570 | 697 | - | 6,524 |
| Total current liabilities | <u>81,513</u> | <u>94,147</u> | <u>11,216</u> | <u>(120,499)</u> | <u>66,377</u> |
| Long-term debt, less current maturities | 233,457 | - | - | - | 233,457 |
| Other long-term liabilities | 2,173 | 7,086 | 193 | - | 9,452 |
| Total liabilities | <u>317,143</u> | <u>101,233</u> | <u>11,409</u> | <u>(120,499)</u> | <u>309,286</u> |
| Shareholder's equity | | | | | |
| Common stock | - | - | - | - | - |
| Additional paid-in capital | 322,152 | - | - | - | 322,152 |
| Retained earnings | 82,533 | 227,215 | (3,463) | (223,752) | 82,533 |
| Total shareholders' equity (deficit) | <u>404,685</u> | <u>227,215</u> | <u>(3,463)</u> | <u>(223,752)</u> | <u>404,685</u> |
| | <u>\$ 721,828</u> | <u>\$ 328,448</u> | <u>\$ 7,946</u> | <u>\$ (344,251)</u> | <u>\$ 713,971</u> |

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

| | Parent | Guarantor Subsidiaries | ODs | Eliminations | Consolidated Company |
|--|----------|---------------------------|------------|--------------|-------------------------|
| Revenues: | | | | | |
| Optical sales | \$ - | \$ 103,594 | \$ 26,981 | \$ - | \$ 130,575 |
| Management fees | - | 8,742 | - | (8,211) | 531 |
| Equity earnings in subsidiaries | 11,747 | - | - | (11,747) | - |
| Total net revenues | 11,747 | 112,336 | 26,981 | (19,958) | 131,106 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold | - | 39,882 | 9,771 | - | 49,653 |
| Selling, general and administrative expenses | 1,056 | 59,039 | 18,898 | (8,211) | 70,782 |
| Total operating costs and expenses | 1,056 | 98,921 | 28,669 | (8,211) | 120,435 |
| Income from operations | 10,691 | 13,415 | (1,688) | (11,747) | 10,671 |
| Interest expense, net | 4,927 | (22) | - | - | 4,905 |
| Income tax expense | 2,527 | (15) | 17 | - | 2,529 |
| Net income (loss) | \$ 3,237 | \$ 13,452 | \$ (1,705) | \$ (11,747) | \$ 3,237 |

Condensed Consolidating Statement of Operations
For the Twenty-Six Weeks Ended July 4, 2009
(in thousands)
(unaudited)

| | Parent | Guarantor Subsidiaries | ODs | Eliminations | Consolidated Company |
|--|-----------|---------------------------|-----------|--------------|-------------------------|
| Revenues: | | | | | |
| Optical sales | \$ - | \$ 229,950 | \$ 60,298 | \$ - | \$ 290,248 |
| Management fees | - | 20,228 | 13 | (18,920) | 1,321 |
| Equity earnings in subsidiaries | 46,381 | - | - | (46,381) | - |
| Total net revenues | 46,381 | 250,178 | 60,311 | (65,301) | 291,569 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold | - | 80,332 | 23,726 | - | 104,058 |
| Selling, general and administrative expenses | 2,669 | 122,763 | 37,306 | (18,920) | 143,818 |
| Total operating costs and expenses | 2,669 | 203,095 | 61,032 | (18,920) | 247,876 |
| Income from operations | 43,712 | 47,083 | (721) | (46,381) | 43,693 |
| Interest expense, net | 9,930 | (21) | - | - | 9,909 |
| Income tax expense | 13,531 | (15) | 17 | - | 13,533 |
| Net income (loss) | \$ 20,251 | \$ 47,119 | \$ (738) | \$ (46,381) | \$ 20,251 |

Condensed Consolidating Statements of Cash Flows
For the Twenty-Six Weeks Ended July 4, 2009
(in thousands)
(unaudited)

| | Parent | Guarantor Subsidiaries | ODs | Eliminations | Consolidated Company |
|---|-----------------|---------------------------|-----------------|--------------|-------------------------|
| Cash flows from operating activities: | | | | | |
| Net income | \$ 20,251 | \$ 47,119 | \$ (738) | \$ (46,381) | 20,251 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 176 | 10,088 | - | - | 10,264 |
| Amortization of debt issue costs | 217 | - | - | - | 217 |
| Deferred liabilities and other | - | 103 | 85 | - | 188 |
| Equity earnings in subsidiaries | (46,380) | - | - | 46,380 | - |
| Increase/(decrease) in operating assets and liabilities | 28,056 | (29,093) | 1,123 | 1 | 87 |
| Net cash provided by (used in) operating activities | <u>2,320</u> | <u>28,217</u> | <u>470</u> | <u>-</u> | <u>31,007</u> |
| Cash flows from investing activities: | | | | | |
| Acquisition of property and equipment | - | (16,229) | - | - | (16,229) |
| Dividend distributions | 9,435 | (9,435) | - | - | - |
| Net cash provided by (used in) investing activities | <u>9,435</u> | <u>(25,664)</u> | <u>-</u> | <u>-</u> | <u>(16,229)</u> |
| Cash flows from financing activities: | | | | | |
| Capital contributions | (10,870) | 10,870 | - | - | - |
| Payments on debt and capital leases | (825) | (238) | - | - | (1,063) |
| Net cash provided by (used in) financing activities | <u>(11,695)</u> | <u>10,632</u> | <u>-</u> | <u>-</u> | <u>(1,063)</u> |
| Net increase in cash and cash equivalents | 60 | 13,185 | 470 | - | 13,715 |
| Cash and cash equivalents at beginning of period | 782 | 11,868 | 810 | - | 13,460 |
| Cash and cash equivalents at end of period | <u>\$ 842</u> | <u>\$ 25,053</u> | <u>\$ 1,280</u> | <u>\$ -</u> | <u>\$ 27,175</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 the 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 438 stores in 36 states, including 368 directly-owned stores and 70 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 368 directly-owned stores, as well as the results of 57 of the 70 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 425 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 425 consolidated stores, as well as the professional

fees of the optometrists at 226 of the stores. These 226 stores include 116 stores where the optometrist is our employee or an independent contractor, the 57 stores operated by an OD PC that are consolidated in our results and the 53 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 7 new stores during the thirteen weeks ended July 4, 2009, bringing our year to date total to 16, and we believe the opportunity exists to open approximately 4 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 June 28, 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 | | Twenty-Six Weeks Ended | |
|--|-----------------------------|-------------------------|-------------------------------|-------------------------|
| | June 28, 2008 | July 4, 2009 | June 28, 2008 | July 4, 2009 |
| Statement of Income Data: | | | | |
| NET REVENUES: | | | | |
| Optical sales | 99.5 % | 99.6 % | 99.4 % | 99.5 % |
| Management fee | 0.5 | 0.4 | 0.6 | 0.5 |
| Total net revenues | 100.0 | 100.0 | 100.0 | 100.0 |
| OPERATING COSTS AND EXPENSES: | | | | |
| Cost of goods sold | 35.3 * | 38.0 * | 33.9 * | 35.9 * |
| Selling, general and administrative expenses | 52.8 * | 54.2 * | 49.8 * | 49.6 * |
| Total operating costs and expenses | 87.7 | 91.9 | 83.2 | 85.0 |
| INCOME FROM OPERATIONS | 12.3 | 8.1 | 16.8 | 15.0 |
| INTEREST EXPENSE, NET | 4.6 | 3.7 | 4.1 | 3.4 |
| INCOME TAX EXPENSE | 3.1 | 1.9 | 5.2 | 4.6 |
| NET INCOME | 4.6 % | 2.5 % | 7.5 % | 6.9 % |

* Percentages based on optical sales only

The Thirteen Weeks Ended July 4, 2009 Compared to the Thirteen Weeks Ended June 28, 2008.

Net Revenues. Net revenues increased to \$131.1 million for the thirteen weeks ended July 4, 2009 from \$128.1 million for the thirteen weeks ended June 28, 2008. The increase in revenues was driven by new store openings. Net revenues attributable to new stores opened in the second quarter of fiscal 2009 were \$0.8 million. The increase in net revenues attributable to the effect of new stores opened in fiscal 2008 being open in the second quarter of fiscal 2009 was \$1.9 million. Comparable store sales declined to (1.6%) for the second quarter of fiscal 2009. This decline was driven by a decrease in comparable transactions of (6.9%), a reflection of the slower volumes most retailers are experiencing in the current economic climate. This decline was offset by an increase of 5.3% in average ticket price, primarily driven by the continued increase in the sale of premium lenses and lens treatments. Total managed vision care sales increased by 30.7%, or \$7.4 million. In addition, we opened 7 new stores in the second quarter of fiscal 2009 compared to 8 new stores in the second quarter of fiscal 2008.

Gross Profit. Gross profit on optical sales decreased to \$80.9 million for the thirteen weeks ended July 4, 2009 from \$82.5 million for the thirteen weeks ended June 28, 2008. Gross profit as a percentage of optical sales decreased to 62.0% for the thirteen weeks ended July 4, 2009 from 64.7% for the thirteen weeks ended June 28, 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 and contact lenses and the increase in doctor payroll and lab expenses. Consistent with our strategy of investing in our customers and to provide the appropriate and expected level of service, both in eye exams and one hour lab processing, we maintain staffing levels that are not as efficient in periods of slower transaction volumes. This inefficiency was further impacted by increases in employee benefit spending related to our 2009 annual medical plan enhancements. This increased spend is consistent with our strategy of investing in our employees and has led to decreased employee turnover when compared to fiscal 2008, an improvement that will result in future customer service and training expense benefits.

Selling General & Administrative Expenses (SG&A). SG&A increased to \$70.8 million for the thirteen weeks ended July 4, 2009 from \$67.3 million for the thirteen weeks ended June 28, 2008. SG&A, as a percentage of optical sales, increased to 54.2% for the thirteen weeks ended July 4, 2009 from 52.8% for the thirteen weeks ended June 28, 2008. This percentage increase was largely due to an increase in employee benefit expenses and the deleveraging of occupancy expenses offset by expense control initiatives in retail expenditures.

Net Interest Expense. Net interest expense decreased to \$4.9 million for the thirteen weeks ended July 4, 2009 from \$5.9 million for the thirteen weeks ended June 28, 2008. This decrease was primarily due to lower interest rates on the portion of our debt that has variable interest rates as well as lower outstanding debt balances as a result of a principal payment made during fiscal 2008.

Income Tax Expense. Income tax expense decreased to \$2.5 million for the thirteen weeks ended July 4, 2009 from \$3.9 million for the thirteen weeks ended June 28, 2008 primarily due to a \$4.1 million decrease in income before taxes. Our effective tax rate was 43.8% for the thirteen weeks ended July 4, 2009 and 39.8% for the thirteen weeks ended June 30, 2008.

Net Income. Net income decreased to \$3.2 million for the thirteen weeks ended July 4, 2009 compared from \$5.9 million for the thirteen weeks ended June 28, 2008.

The Twenty-Six Weeks Ended July 4, 2009 Compared to the Twenty-Six Weeks Ended June 28, 2008.

Net Revenues. Net revenues increased to \$291.6 million for the twenty-six weeks ended July 4, 2009 from \$275.1 million for the twenty-six weeks ended June 28, 2008. The increase in revenues was primarily driven by a 2.2% increase in comparable store sales and new store openings. Net revenues attributable to new stores that opened in the first twenty-six weeks of fiscal 2009 were \$3.5 million. The increase in net revenues attributable to the effect of new stores opened in fiscal 2008 being open in the first two quarters of fiscal 2009 was \$3.8 million. While comparable sales increased to 2.2% for the twenty-six week period ended July 4, 2009, the increase was driven by an increase in average ticket of 5.4%, which was offset by a decline in comparable transactions of (3.2%). The increase in average ticket was driven by the continued increase in the sale of premium lenses. The decline in comparable transactions was a reflection of the slower volumes experienced by most retailers in the current economic climate. Total managed vision care sales increased by 15.9%, or \$13.2 million. In addition, we opened 16 new stores in the first twenty-six weeks of fiscal 2009 and closed 4.

Gross Profit. Gross profit on optical sales increased to \$186.2 million for the twenty-six weeks ended July 4, 2009 from \$180.9 million for the twenty-six weeks ended June 28, 2008. Gross profit as a percentage of optical sales decreased to 64.2% for the twenty-six weeks ended July 4, 2009 from 66.1% for the twenty-six weeks ended June 28, 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 and lab expenditures. Consistent with our strategy of investing in our customers and to provide the appropriate and expected level of service to customers, both in eye exams and one hour lab processing, we maintain staffing levels that are not as efficient in periods of slower transaction volumes. This inefficiency was further impacted by increases in employee benefit spending related to our 2009 annual medical plan enhancements. This increased spend is consistent with our strategy of investing in our employees and has led to decreased employee turnover when compared to fiscal 2008, an improvement that will result in future customer service and training expense benefits.

Selling General & Administrative Expenses (SG&A). SG&A increased to \$143.8 million for the twenty-six weeks ended July 4, 2009 from \$136.3 million for the twenty-six weeks ended June 28, 2008. SG&A, as a percentage of optical sales, decreased to 49.5% for the twenty-six weeks ended July 4, 2009 from 49.8% for the twenty-six weeks ended June 28, 2008. This percentage increase was largely due to an increase in employee benefit expenses offset by leveraging of overhead expenditures and expense control initiatives in retail expenditures and advertising.

Net Interest Expense. Net interest expense decreased to \$9.9 million for the twenty-six weeks ended July 4, 2009 from \$11.4 million for the twenty-six weeks ended June 28, 2008. This decrease was primarily due to lower interest rates on the portion of our debt that has variable interest rates as well as lower outstanding debt balances as a result of a principal payment made during fiscal 2008.

Income Tax Expense. Income tax expense decreased to \$13.5 million for the twenty-six weeks ended July 4, 2009 from \$14.3 million for the twenty-six weeks ended June 28, 2008, primarily due to the \$1.0 million decrease in income before taxes. Our effective tax rate was 40.1% for the twenty-six weeks ended July 4, 2009 compared to 41.0% for the twenty-six weeks ended June 28, 2008.

Net Income. Net income decreased to \$20.3 million for the twenty-six weeks ended July 4, 2009 compared to \$20.5 million for the twenty-six weeks ended June 28, 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 \$31.0 million for the twenty-six weeks ended July 4, 2009 and \$36.8 million for the twenty-six weeks ended June 28, 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 July 4, 2009, we had \$27.2 million of cash available to meet our obligations. We had \$22.4 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. The Revolver terminates on March 1, 2010, with any outstanding balances due at that time.

Payment on debt has been our principal financing activity. Cash flows used in financing activities were \$1.1 million for the twenty-six weeks ended July 4, 2009 and for the twenty-six weeks ended June 28, 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 \$27.0 million as of July 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 two quarters of fiscal 2009.

Capital expenditures were \$16.2 million for the twenty-six weeks ended July 4, 2009 compared to \$15.3 million for the twenty-six weeks ended June 28, 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 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 in excess of our annual maximum capital expenditure limit under the Credit Facility. 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 (as defined below) 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 a second 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 Form 10-K in March, 2007, as required under the 2006 Amendment. Additional voluntary prepayments totaling \$20.0 million were made throughout the fiscal year ended December 29, 2007 (“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 of March 2010, 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 | 0.82 |
| 2010 | 1.65 |
| 2011 | 1.65 |
| 2012 | 80.28 |
| | <u>\$ 84.40</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 July 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 Credit Facility. In 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 2007 results. In 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:

| YEAR | REDEMPTION PRICE |
|---------------------|-------------------------|
| 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 July 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 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 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 July 4, 2009. For further information, refer to the consolidated financial statements and footnotes thereto included in our 2008 Form 10-K.

Our primary market risk exposure is interest rate risk. As of July 4, 2009, approximately \$84.4 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

\$84.4 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 July 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 has arisen during the thirteen weeks ended July 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: August 14, 2009

by: /s/ Jennifer L. Taylor

Jennifer L. Taylor
Executive Vice President and Chief Financial Officer