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TLC Vision Corporation (TLCV) \$7.70 Nasdaq

Jan 11, 2004

Recommendation: Buy

Target Market Price: \$27.52

Target Price With AMD Revenues

Growth Rate	10	12	15	18	20
Optimistic	\$22.22	\$25.78	\$31.10	\$36.43	\$39.98
Base	\$19.66	\$22.80	\$27.52	\$32.23	\$35.38
Pessimistic	\$17.44	\$20.21	\$24.36	\$28.51	\$31.28

The Above Target Price based on Scenario and Growth Rate.
All three scenarios presume the introduction of the AMD procedure in mid 2005

Target Price Without AMD

Growth Rate	15	18	20
Optimistic	\$6.72	\$7.74	\$8.42
Base	\$5.51	\$6.34	\$6.90
Pessimistic	\$4.54	\$5.20	\$5.64

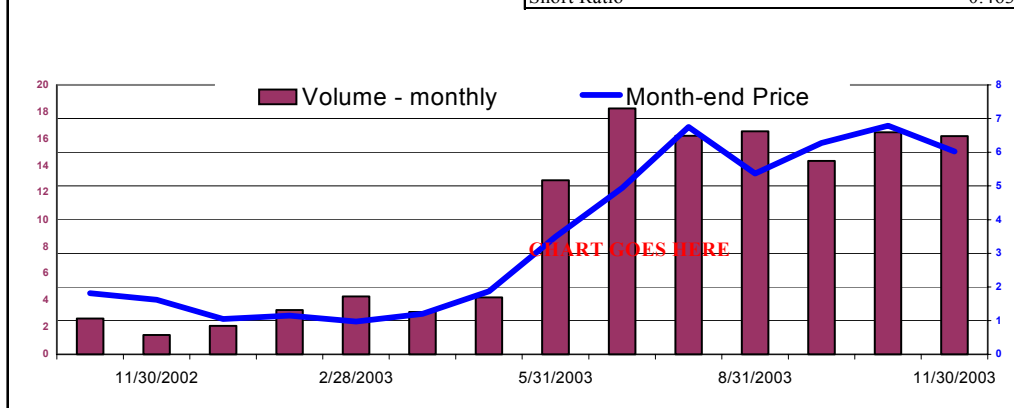
Target Price above assumes no introduction of the AMD procedure

		TLC VISION CORP					
FY ends in							TLCV
Mth # 12							
		Earnings Per Share					
FY =	1999	2000	2001	2002	2003	2004	
Mar	0.10	-0.05	-0.07	-0.10	0.02	0.09	
Jun	0.00	0.00	-0.46	0.07	-0.07	0.09	
Sep	0.16	-0.14	-0.01	-0.07	-0.06	0.10	
Dec	0.03	-0.75	-0.07	-1.79	0.04	0.17	
	0.29	-0.95	-0.60	-1.90	-0.07	0.45	
Next Expected EPS Date: 03/17/2004							

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TLC VISION CORP		TLCV		Exchange		NSDQ	
Fiscal Year		/		Last Report Date		11/12/2003	
Industry		MED-OUTP/HM CRI		Next Report Date		03/17/2004	
Input Price		7.7		Sales - LTM		\$211.19	
PE - Next 12 mth consensus Frc				Sales Growth - LTM		-10.5%	
Mkt Cap		\$498.5		EPS Growth - LTM		-137.2%	
Dividend Payout Rate		0.0%		EBITDA Growth - LTM		-119.2%	
Dividend Yield		0.0%		Dividend Growth - LTM			
TLC Vision Corp. is the largest provider of laser vision correction in North America. The company's core business strategy is providing excimer laser eye surgery in partnership with its network of more than 6,000 affiliated doctors. TLC has an integrated approach in providing eye care, which includes secondary care facilities, managed care, buying groups and information technologies.							
Share Data & Employees		Latest		Sell-Side Target Prices		Latest	
Diluted Shares Outstanding (mil)		64.74		Mean Short Term Target Price (6-12mths)		0.00	
Number of Employees		880		# of Analysts in Price Target Consensus		0	
Price & Volume (USD)		Today		Price Related (USD)		Today	
Price		7.70		Market Capitalization		498.521	
Price Date		29-Dec-03		Price to Free Cash Flow (LTM)		-2.80	
12M High (closing price)		7.54		Price to Sales (LTM)		2.36	
12M Low (closing price)		0.91		Price/Book (common equity)		4.48	
52 Week % Price Change		472.97		Price/Tangible Book Value		12.92	
Daily Average Volume (20 days)		358,025		P/E using 12 mo. forward EPS Estimate			
Daily Average Volume (1.5 years)		396,631		P/E using LTM Diluted Earnings		-14.6	
Financial Strength		Today		P/E 12 month - 5 year Average		0.0	
Quick Ratio		1.16		Per Share (US\$)		Latest	
Current Ratio		1.16		LFY Basic EPS		-3.55	
LT Debt/Equity		15.0%		LFY Diluted EPS		-3.55	
Total LT Liab/Total Capital		20.1%		LFY Diluted EPS (before non-recurr)		-1.28	
Profitability Ratios		LFY & Latest Qtr		Sales per Share (LTM)		3.26	
Operating Margin - LFY		-22.36%		Book Value per Share - (latest Qtr)		1.72	
Net Margin - LFY		-109.56%		Tangible Book Value Per Share		0.60	
Operating Margin - Latest Quarter		-5.74%		Tangible Assets per Share		1.85	
Net Margin - Latest Quarter		-7.88%		Cash per Share (latest Qtr)		0.45	
Income Statement - LTM		Latest 12 Months		Free Cash Flow per Share (LTM)		-2.75	
Revenue -LTM		211.19		Management		LTM Data	
EBITDA Margin -LTM		-9.98%		ROE - Most Recent 12 months (%)		-96.2%	
Pretax Earnings - LTM		-29.88		ROI - Most Recent 12 months (%)		-18.6%	
Net Income -LTM		-120.40		ROA - Most Recent 12 months (%)		-11.5%	
Net Income, Excl Extra. Items		-24.55		Balance Sheet (USD)		Latest	
Diluted EPS -LTM		-0.53		Cash		29.3	
Income Statement - Latest Qtr		9/30/03		Tangible Assets		126.0	
Revenues - Latest Qtr		46.01		Total Assets		196.1	
EBITDA Margin -Latest Qtr		-1.4%		Ownership		Latest	
Pretax Earnings - Latest Qtr		-2.566		Institutions Own % Shares Out		35.160	
Net Income		-4.090		Insiders Own % Shares Out		0.000	
Diluted EPS -Latest Qtr		-\$0.06		Short Interest (latest month)		377,474	
Dividend Per Share		\$0.00		Short Interest (1 month ago)		397,576	
Dividend Yield		0.00%		% Change Short Interest - 1 Month		-5.1	
				Short Ratio		0.463	



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**TLC Vision Corporation (TLCV)
\$7.70 Nasdaq**

Recommendation: Buy

Jan 11, 2004

COMPANY DESCRIPTION

TLC Vision Corporation (TLCV), incorporated in May 1993, is a healthcare service company specialized in providing eye care services through its own corporate branded centers, co-branded affiliated centers and standard fixed and mobile access. The Company's core business revolves around refractive surgery, which involves using an excimer laser to treat common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company performs approximately 190,000 refractive procedures annually and has completed a total of 1 million procedures throughout its history. The Company also furnishes independent surgeons with mobile or fixed-site access to cataract surgery equipment and services through its Midwest Surgical Services, Inc. (MSS) subsidiary. In addition, the Company owns a 51% interest in Vision Source, which provides franchise opportunities to independent optometrists. Through its subsidiaries, OR Partners Inc. and Aspen Healthcare Inc., TLCV develops, manages and has equity participation in single-specialty eye care ambulatory surgery centers and multi-specialty ambulatory surgery centers. TLCV has made investments in other businesses with the primary objective of diversification with other vision care businesses.

In 2002, the Company formed a joint venture with Vascular Sciences Corporation to create OccuLogix, L.P., a partnership focused on the treatment of a specific eye disease known as dry Age-related Macular Degeneration (AMD), via rheopheresis (RHEO), a process for filtering blood. Rheopheresis is one of the few investigations into the treatment of dry AMD. Rheopheresis has been evaluated in Europe for several years and is currently an approved therapy in Canada (where it is commercially available), Mexico and is CE marked in Germany. Rheopheresis is in the final stages (Phase III fast tracked) of an FDA pivotal trial, which is expected to be completed in late 2004, followed by regulatory filing for approval. AMD affects between 11 and 13 million people in a \$28 billion dollar market. If approved, we projected TLCV's AMD 2005 top line to add a net \$25.2 million dollar revenue business, and \$250 million in 2006, more than doubling the size of today's company. The Company's international headquarters is located in Mississauga, Ontario. Its U.S. headquarters are located in St. Louis, Missouri. TLCV employs 969 people (801 refractive, 168 non refractive).



Investment Recommendation

We recommend shares of TLCV common, with a target price of \$27.50 based on the following:

- Our estimates year over year 2004/2003 are: EPS increase: +763.1%, Sales increase: +22.5%, EBITDA increase +345.7%. Estimated: 2004 Est. EPS \$0.45, P/E 17.1 times earnings. We believe shares of TLCV common are dirt cheap at today's price of \$7.70.
- We estimate the Realistic Dry AMD market opportunity is \$28 billion if current compounds under investigation are effective.
- We estimate that TLCV's AMD contribution will add \$25.2 million in 2005 to its top line and a whopping \$252 million in 2006. AMD would more than double the total revenues of today's company.
- Our 12 to 18 month Base Target Price with AMD is: \$27.52. Share prices will move up as the Phase III study nears its conclusion.
- Investors can buy TLVC common at 2004's estimated 17.1 times earnings. The AMD option is free.
- The company's AMD treatment is currently in a Phase III Clinical trial that the company believes will be successful. We expect RHEO approval within 18 months, and commercialization by mid-late 2005.
- The laser surgery market could be at a point of sustainable long term growth given the recent adoption of a break through procedure called custom ablation.
- New custom ablation procedure will increase the scope of the market opportunity, as the risk reward trade-off improves.
- Industry pricing has stabilized and is increasing, given the consolidation in the industry and the higher price points for custom ablation.
- Market opportunity for laser eye surgery has not been significantly penetrated.
- Competitor LCAV trades at 28 x estimated 2004 earnings per share. If TLCV traded at the same multiple, the stock would trade at \$12.60 per share without AMD. TLCV has the dry AMD option. LCAV does not.
- We anticipate very strong bookings in January 2004.
- A rebound in the U.S. economy will spur consumer confidence and spending, resulting in an increase in procedure volume.
- Two wet AMD companies, QLTI and Eyetech have market caps of \$1.4 billion and an expected \$750 million. TLCV's market cap of \$498 million is undervalued because its market opportunity is much larger.
- TLCV has a joint marketing agreement in Canada with Baush and Lomb (BOL) to market the vitamin OcuVite.



COMPANY HISTORY

TLCV was formed by the merger of TLC Laser Centers Inc. and Laser Vision Centers Inc. in May 2002. TLC Laser Centers brought to the merger a valuable network of more than 12,500 affiliated doctors, access to the leading refractive technologies, established patient education and marketing programs, advanced information systems, support services, and a reputable corporate brand. Laser Vision Centers brought to the merger extensive relationships with more than 900 independent surgeons, a strong financial and operations management culture, and experience with non-refractive eye care practices including mobile cataract services and ophthalmic ambulatory surgical center businesses. The merger benefits TLCV in various economies of scale. Savings included lowering the break even point, the closure of 14 underperforming centers, reducing the work force by 25%, controls over fixed and variable costs, improving management, stabilized pricing, leveraging purchasing power and cross selling. The company believes it saved approximately \$25 million dollars in 2003. The merger also strengthened the company's referral network with its affiliated optometrists including 1,300 ophthalmologists, while further positioning TLCV as the state of the art company in its industry.

From its inception, TLCV's corporate purpose was to leverage its relationships between eye care providers across the country to place new technology into a functional delivery of eye care services. The business model co-manages patients and offers a "Lifetime of Commitment" to qualifying patients. Today, TLCV dominates its business. After two challenging years of price wars in an economic down-turn, the company is positioned to flow profits to the bottom line. The company's number one position in the refractive business is a matter of fact. The cataract business is

government funded, a 10 – 12% grower in a market that will grow 7% or 8%. TLCV is now in an excellent position to make acquisitions and open ambulatory surgery centers. Every dollar invested in new center can return a 20% – 30% annual return. There is considerable corporate leverage by partnering with doctors to build centers and to expand the company's existing network.

The key component to the business is to expand volume. The industry went through a classic boom and bust cycle. The boom was characterized by an exciting new technology. The bust was fueled by competitive price wars, bad press and marginal operators going out of business. We believe TLCV and the industry will recover because pricing has stabilized. TLCV will solidify its number one position industry wide. Further, TLCV can partner with various businesses that create volume. TLCV needs only to manage its business intelligently. This business model makes it easy to partner with doctors. Whether TLCV builds from scratch or makes an acquisition (usually at a 5 - 6 times multiple), the company can return a 20% on its invested capital, and further leverage itself as the business grows.

Will Rheophoresis Be Successful?

We are very optimistic that the Phase III trial will be successful. Investors are encouraged to view <http://rheo.com/doctors/reference/clinical/>. *The Multicenter Investigation of Rheophoresis for AMD (MIRA-1) Study Group (By Invitation)* and Jose S. Pulido, MD. Dr. Pulido's paper explains in detail the progress of the trial. It is our view is that the first phase was a considerable success. We expect the second phase of the study to be as successful as the first part. (See Appendix II for partial text of Dr. Pulido's current Phase III results).



Bottom Line: FDA Phase III Trial

The following reasons give us confidence that TLCV will be successful in its Phase III trials.

1. The subset of placebo patients got worse.
2. Treated patients significantly improved.
3. The Phase III trial is being fast tracked.
4. The FDA reduced its protocol change from 12 months, 180 patients to 6 months and 150 patients.
5. No adverse reactions occurred in the majority of RHEO patients.
6. More than 90 of the 180 patients have finished the eight-treatment protocol, including 12 months of follow-up
7. The FDA required that the placebo patients be treated after 12 months. This is highly unusual.
8. The FDA told TLCV to educate and publish its data because it is a first of kind for treatment of a disease that has never before been treated.
9. The FDA allowed the company to start a PMA submission in a modular form, scheduled to be completed in late 2004.
10. It appears to us that the FDA is clearly cooperating and assisting in the Phase III trial.

THE AMD HOME RUN – RHEOPHORESIS FOR DRY AMD

THEORETICAL DRY AMD MARKET: \$210 BILLION

REALISTIC DRY AMD MARKET: \$28 BILLION

WET AMD MARKET: \$1 BILLION

1. **Theoretical Dry AMD Market: \$210 Billion Market.** A theoretical market opportunity equals price x volume. The theoretical market is estimated to be a \$210 billion dollar market (15 million AMD diagnosed patients, x \$14,000 gross cost to the patient = \$210 billion market). This assumes in a perfect world that 100% of all diagnosed patients would be treated. We believe that about half of the patients will be given supplements including vitamins, while others will go untreated.
2. **Realistic Dry AMD Market: \$28 Billion.** This Realistic Market Scenario assumes that of 15 million patients diagnosed, 10 million will consider the procedure. Of the 10 million, 4 million are in immediate need of having the procedure done and being reimbursed for it. Our very conservative estimate assumes that only 2 million will actually have the procedure done. This calculation estimates: 2 million diagnosed patients who will be receive the AMD procedure over the next 10 years times a gross cost to the patient of \$14,000 per procedure.
3. It is conservative and reasonable to assume that TLCV can command a ½ of 1% market penetration rate of the 10 million diagnosed patients who will consider having the procedure done.



Is the Realistic Market Scenario possible, or is it pie in the sky? We believe our scenario is conservative and credible. There is no other treatment available today. The need is clear: many people, tragically, are going blind. Assuming reimbursement rates will rise between 2007 and 2010, our total revenue figures become much larger. For purposes of our valuation, we will use the Realistic Market Scenario.

Valuation

We value TLC Vision by forecasting Free Cash Flow and discounting future cash flows back to the present. We start with forecasting revenues,

which have a changing complexion for TLCV. The new custom LASIK procedure contributes more revenue and EBITDA per procedure. Introduced in 3Q03, it will replace most of the 'regular' refractive surgeries over the next few years. Custom LASIK surgery is expected to constitute 70% of refractory procedures by 4Q04, and continue growing until reaching 90% of total refractory procedures. Total procedures are expected to grow approximately 10% in FY04 and at a rate of 10,000 procedures per year through FY07. The breakout of total procedure growth and both revenue and procedure based contribution for the forecast timeframe is summarized below.

Table 1: Total Procedure and Revenue Contribution

# of Procedures	2007	2006	2005	2004	2003
Regular Refractive	14,720	13,640	25,200	47,318	84,132
Custom LASIK Refractive	132,480	122,760	100,800	70,977	18,468
Access Procedures	82,800	83,600	84,000	82,205	77,400
Total Procedures	230,000	220,000	210,000	200,500	180,000
% of Procedures					
% Regular Refractive	6.4%	6.2%	12.0%	23.6%	46.7%
% Custom LASIK Refractive	57.6%	55.8%	48.0%	35.4%	10.3%
% Access Procedures	36.0%	38.0%	40.0%	41.0%	43.0%
% of Revenues					
% Regular Refractive	5.0%	4.9%	9.9%	20.3%	44.0%
% Custom LASIK Refractive	64.8%	63.4%	56.3%	43.4%	13.8%
% Access	12.5%	13.3%	14.4%	15.5%	17.8%
% of Other Revenues	17.7%	18.4%	19.5%	20.9%	24.5%

**Table 2: Revenue Forecast Without AMD Procedures**

	2007	2006	2005	2004	2003
Regular LASIK	15,088,000	13,981,000	25,830,000	48,500,950	86,235,300
Custom LASIK	193,818,240	179,597,880	147,470,400	103,839,351	27,018,684
Access Revenues	37,260,000	37,620,000	37,800,000	36,992,250	34,830,000
Other Revenue	53,000,000	52,000,000	51,000,000	50,000,000	48,000,000
Total Revenues	299,166,240	283,198,880	262,100,400	239,332,551	196,083,984
Revenue Growth	5.6%	8.0%	9.5%	22.1%	

When computing target prices based on Present Value formulations, two influential variables are the discount rate and the assumed growth rate of the company at the end of the forecast period. With 10 year Treasuries yielding 4.25% and TLCV's low debt load, we conservatively use a 10% discount rate. TLCV should experience strong growth in the next few years. Without the new AMD procedures, revenues are estimated to grow 22% in FY04 and 10% in FY05.

We believe our Realistic Market Scenario estimates for the total AMD market size are reasonable. We

assume the number of possible procedure candidates is less than the total that are diagnosed. Although the market is growing with new diagnoses of approximately 1 million or more per year, we believe it is prudent to forecast revenues based on a smaller total market size, and a low procedure penetration rate. If the realistic market size of potential procedure candidates is one third less than the total market of 15 million, and the procedure penetration by TLCV is only one half of one percent, the following table describes future revenues for TLCV.

**Table 3: Realistic Market Scenario Projected Revenues With AMD Market**

	2007	2006	2005
AMD Diagnoses Considering Treatment	10,000,000	10,000,000	10,000,000
% of Diagnoses Treated	0.60%	0.50%	0.05%
# of Procedures	60,000	50,000	5,000
Revenue/Procedure	\$8,000	\$8,000	\$8,000
Total Revenues	\$480,000,000	\$400,000,000	\$40,000,000
Revenues to TLCV (63%)	\$302,400,000	\$252,000,000	\$25,200,000
Total Revenues	\$779,166,240	\$683,198,880	\$302,100,400
Total Revenue Growth	14.0%	126.1%	26.2%

With the new AMD procedures, revenue growth will accelerate in FY05 and FY06 by 26.2% and 126.1% respectively. Margin contribution from the new AMD procedures is expected to be higher than current margins. Forecasting a 45% operating margin on the new procedures versus the expected 15% margin from the mix of current revenues will cause operating margins to expand in the FY05 through FY07 time frame. The summary of our forecast for through FY07 is shown.

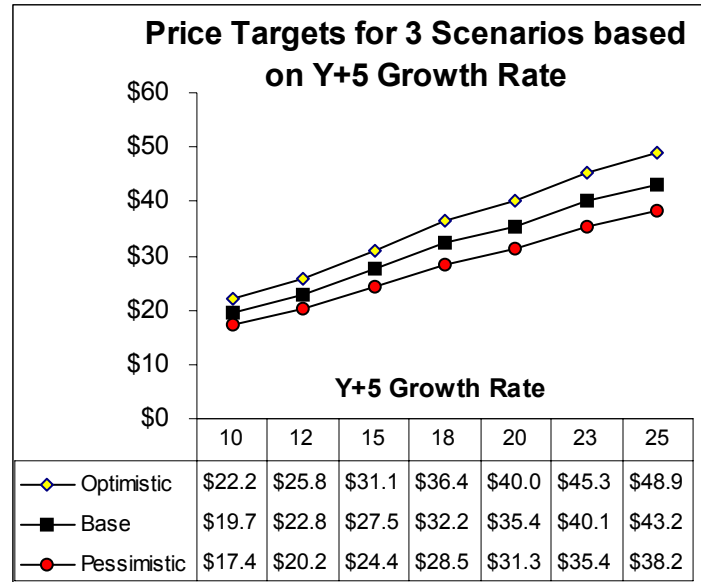
Table 4: Cash Flow Forecast

Fiscal Year =	Dec-07	Dec-06	Dec-05	Dec-04	Dec-03
Revenues	778.6	682.9	302.2	239.8	196.5
Operating Income	256.9	218.5	57.4	35.1	1.6
Taxes	77.1	65.6	11.5	5.3	0.8
Net Income	179.8	153.0	45.9	29.8	-4.4
Dividends	0.00	0.00	0.00	0.00	0.00
CAPX	-8.56	-8.54	-4.53	-3.60	-2.95
Free Cash Flow	179.07	137.61	44.42	28.60	-9.29

The target prices that result from this forecast are outlined in the following graph. We believe that investors should focus on a 15% to 20% long-term growth rate. The optimistic and pessimistic scenarios assume an incremental revenue growth of 3% with incremental operating margins of 2%. During the hyper growth phase, we believe investors will factor in a 15% to 20% long-term growth rate. The base case scenario describes a stock price with a fair value range of \$27.52 to \$35.40.



Chart 1: Target Price Range With AMD Revenues



Without any revenues from the AMD procedures, the stock is fairly valued with conservative revenue estimates from the current operations. Slightly higher revenue than our conservative estimates, which are quite reasonable, justifies a higher stock price.

Using the revenue forecast above for the current LASIK procedures, the following table and chart describe the fair value range for the stock price. We believe under this scenario, that investors will focus on a long-term growth in earnings of 15% - 20%.

Table 5: Target Prices Without AMD Revenues

Growth Rate =	15	18	20
Optimistic	\$6.72	\$7.74	\$8.42
Base	\$5.51	\$6.34	\$6.90
Pessimistic	\$4.54	\$5.20	\$5.64

Focusing on an 18% growth rate, the base case scenario indicates the stock is fairly valued at \$6.34. The optimistic case assumes revenues grow incrementally 3% more each year, with an incremental increase in operating margin of 2%. We believe this is highly likely, since our estimate of the number of procedures is conservative. We believe the stock could easily trade above \$7.74 in the next year without any aid from AMD based revenues. Competitor LCAV trades at 28 x estimated 2004 earnings per share. If TLCV traded at the same 28x multiple, the stock would trade at \$12.60 per share without AMD. TLCV has the dry AMD option. LCAV does not.



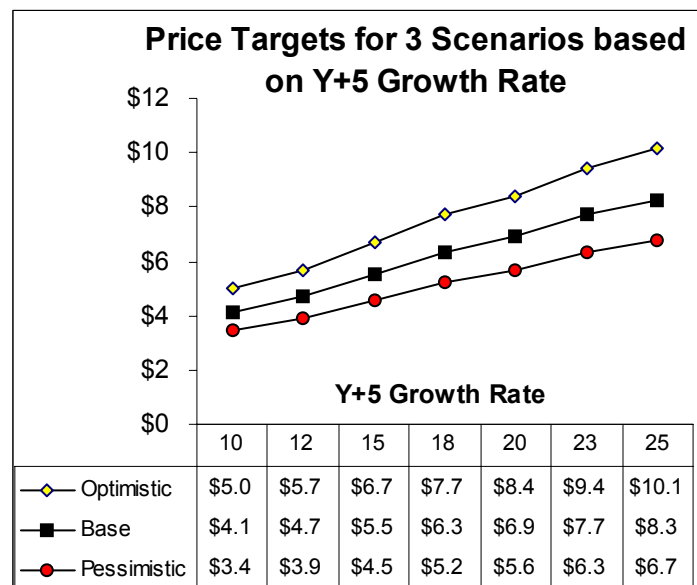
The revenue, net income and free cash flow forecast without any AMD revenue is outlined here.

Table 6: Forecast Without AMD Revenues

Fiscal Year =	Dec-07	Dec-06	Dec-05	Dec-04	Dec-03
Revenues	303.3	286.1	264.9	240.8	196.5
Operating Income	45.5	42.9	39.7	35.3	1.6
Taxes	13.6	12.9	7.9	5.3	0.8
Net Income	31.8	30.0	31.8	30.0	-4.4
Dividends	0.00	0.00	0.00	0.00	0.00
CAPX	-3.34	-3.58	-3.97	-3.61	-2.95
Free Cash Flow	31.54	23.60	30.46	28.77	-9.29

The full range of target prices without AMD revenues is displayed in the following graph.

Chart 2: Target Prices Without AMD Revenues



A Market Capitalization Comparison

There are two companies offering wet AMD products. QLT Inc. (Visudyne) has a market cap of approximately \$1.4 billion. Eyetechn, an anticipated IPO, is expected to come to the market with estimated valuation of \$750 million. TLCV's current market cap is \$498 million. The conclusion is that our estimated \$28 billion dry AMD market, compared to an estimated \$1 billion wet AMD market, provides TLCV with a significantly larger market opportunity. It is apparent to us that TLCV's market capitalization, by way of comparison, is undervalued in relation to QLT Inc. and Eyetechn.



Table 7: Market Capitalization Comparison

Company	Wet AMD	Dry AMD	Mkt Cap	Market Size
QLT Inc	Yes	No	\$1.2 B	\$1 B
Eyetechn	Yes	No	\$750M est.	\$1 B
TLVC	No	Yes	\$498M	\$28 B

BULL CASE

- TLCV, the nation's largest laser eye surgery provider, is the number #1 refractive fixed and mobile provider (190,000 annual procedures) and number #1 mobile cataract service provider (45,000 procedures annually). Its industry position with sustain its credibility and near term growth.
- TVLC operates in 38 States, 800 Locations, generates \$320+ million in gross franchise sales, and is the 4th largest retailer of eye wear in the USA. The company's distribution is unique within the industry.
- AMD approval will drive share prices in the mid 20s as Phase III study nears completion.
- The merger between TLC Laser Centers and Laser Vision Centers in 2002 brought the two top players in the laser vision correction industry together. The company has achieved substantial cost savings, streamlined its operations, and improved its operational control and management.
- The pricing environment in the laser vision correction industry has stabilized and begun to improve.
- A rebound in the U.S. economy will spur consumer confidence and spending, resulting in an increase in procedure volume.
- Clinical trials demonstrate CustomLASIK results in improved rates of distance visual acuity over standard LASIK, improved quality

of vision, and lower rates of unwanted side effects. The improved risk/reward profile of the CustomLASIK procedure results in a higher adoption rate among low and medium myope patients.

- CustomLASIK is a watershed procedure for the industry resulting in better economics for surgeons, higher patient referrals, and increased procedure volume.
- TLCV is developing the first treatment, Rheophoresis, for dry AMD, which affects between 11 and 13 million people in the U.S.
- Commercialization of TLCV's Rheophoresis will begin in 18 months if Phase III trials are approved.
- U.S. refractive volume growth reaches 10% in 2004 fueled by new CustomLASIK technology, consumer confidence, increased advertising spending and positive press.
- The exit of low priced LASIK providers indicate that customers are willing to pay more for the latest technology.
- Medicare and Medicaid adopt a wide reimbursement policy to cover the RHEO treatment for the dry AMD population.
- CustomLASIK accounted for 25% of TLCV's total LASIK procedures in the first month following full commercial availability and is expected to grow to over 40% by the end of the year.



- TLCV without AMD is fairly valued at today's share prices, placing a floor on the stock.

BEAR CASE

- Growth estimates for the refractive industry fall below expectations due to significant drops in consumer confidence and a luke-warm response by surgeons to CustomLASIK.
- Emerging refractive technologies are more competitive with LASIK than we estimate, resulting in poorer than expected revenue and profitability growth.
- Standard LASIK procedures have been known to result in unwanted side effects such as difficulties with night vision, halos and glare.
- Conversion to Custom Lasik will be slower than anticipated.
- Consumer attitudes, especially among low and medium myope patients, do not change as related the risk/reward profile of laser vision correction. General fear of surgery and the possibility of unforeseen and unknown side effects prevent laser vision correction from becoming more broadly accepted.
- Consumer spending will wane
- Laser vision correction is a high-priced, elective procedure that is not covered by government or private insurers. The U.S. economy remains weak negatively impacting consumer confidence and procedure volume growth.
- The laser vision correction industry experiences another price war fueled by increased competition
- Efficacy and safety outcomes of TLCV's pivotal study on Rheoperesis (MIRA-1) are unsatisfactory. The FDA does not grant approval of the Rheophoresis procedure to treat AMD.
- RHEO treatment which is expected to run \$2,000 per treatment is not reimbursable by Medicare or Medicaid.
- The RHEO treatment is not enthusiastically accepted by the medical community since the procedure removes control from the retina specialist to a plasmaphersis expert.
- An adverse corporate incident could affect the company's relationship with 12,500 affiliated optometrists and 1,300 ophthalmologists.



A BRIEF LOOK AT OUR INCOME STATEMENT MODEL

INCOME STATEMENT TLC VISION CORP TLCV	Annual Data			
	Estimated		Reported	
	12/31/04	12/31/03	12/31/02	12/31/01
# of Procedures				
Regular Refractive	45,500	69,964	78,780	98,702
Custom LASIK Refractive	72,500	19,570	0	0
Access Procedures	82,500	91,029	113,704	133,209
Total Procedures	200,500	180,563	192,484	231,911
% of Procedures				
% Regular Refractive	22.7%	38.7%	40.9%	42.6%
% Custom LASIK Refractive	36.2%	10.8%	0.0%	0.0%
% Access Procedures	41.1%	50.4%	59.1%	57.4%
Regular Refractive Revenues	46.64	96.44	193.78	241.99
Custom LASIK Revenue	106.07	13.17	0.00	0.00
Access Revenue	37.13	38.30	0.00	0.00
Other Revenue	51.00	48.61	39.22	28.09
Total Revenues	240.83	196.52	233.00	270.08
% of Revenues				
% Regular Refractive	19.4%	49.1%	83.2%	89.6%
% Custom LASIK Refractive	44.0%	6.7%	0.0%	0.0%
% Access	15.4%	19.5%	0.0%	0.0%
% of Other Revenues	21.2%	24.7%	16.8%	10.4%
Total Revenues	240.83	196.52	233.00	270.08
COGS	151.60	141.37	171.95	175.51
Depreciation (\$mil)	6.64	6.68	12.19	16.59
Gross Profit	82.59	48.47	48.86	77.98
S,G&A	45.13	44.51	100.01	93.01
Research & Development (\$mil)	1.00	0.98	0.00	0.00
EBITDA	43.10	9.67	-38.97	1.57
Interest Expense (-)	1.20	1.39	0.95	(4.18)
Operating Income	35.26	1.61	(52.10)	(10.85)
Non-Operating Income (Expense) (+)	0.00	0.64	0.00	0.00
Pretax Income	35.26	2.25	(187.38)	(138.83)
Provision for Income Taxes (-)	5.29	1.07	(4.04)	3.63
Minority Interest (-)	0.00	3.61	1.23	0.87
Investment Gains/Losses (+)	0.00	0.22	(26.08)	0.00
Other Income (+)	0.00	0.00	0.00	0.00
Income from Continuing Operations	29.97	(2.65)	(158.48)	(143.33)
Extras & Discontinued Operations (+)	0.00	(1.72)	(96.79)	(21.18)
Net Income	29.97	(4.37)	(255.27)	(164.51)
Earnings Per Share	0.45	(0.07)	(4.04)	(2.71)
Diluted Net EPS	0.45	(0.07)	(4.04)	(2.71)
Diluted EPS (Before Non-recurring items)	0.45	(0.04)	(1.28)	(2.16)
Common Dividend	0.00	0.00	0.00	0.00
Dividend per Share	0.00	0.00	0.00	0.00
Average Shares	66.25	64.31	63.25	60.76
Average Shares (diluted)	66.25	64.31	63.25	60.76



The above annual income statement model includes our 2003 and 2004 estimates. Note that we estimate earnings per share in 2003 at $-\$0.07$ and $\$0.45$ (17.1 times earnings) in 2004. Our model calculates a non-GAAP combination of both companies (given to us by the company) accounted for on a year-end December 31 basis. Prior to TLC's acquisition of Laser Vision Centers in May 2002, TLC had a fiscal year-end of May 31. LaserVision's fiscal year was April 30. In order to make comparisons with

industry peers more meaningful, upon completion of the company's merger, TLC Vision Corporation's year-end fiscal year changed to December 31. TLCV experienced the same year-over-year declines in refractive volumes in 2001 and 2002 as did the industry as a whole. Those declines were more than offset by the addition of LaserVision procedure volumes to TLC's revenues. Going forward, we expect the company will grow at or above industry rates.

OVERVIEW OF TLCV'S BUSINESS OPERATIONS

TLC Vision Laser Eye Centers

The Company owns and manages 63 TLC Vision branded laser eye centers in the United States and five centers in Canada. The refractive business accounts for about 75% of the company's top line. Each TLC Vision laser eye center has a minimum of one excimer laser with many of the centers having two or more lasers. The majority of the Company's excimer lasers are manufactured by VISX Incorporated.

A typical TLC Vision laser eye center has between 3,000 and 5,000 square feet of space and is located in a medical or general office building. Each branded center is staffed with an ophthalmologist, a business manager, a receptionist, ophthalmic technicians, patient consultants, a clinical director and an optometrist responsible for developing the network of affiliated eye care doctors.

Although the legal and payment structures can vary from state to state depending upon local law and market conditions, the Company generally receives revenues in the form of management and facility fees paid by doctors who use the TLC Vision laser eye center to perform laser vision correction procedures and administrative fees for billing and collection services from doctors who co-manage

patients treated at the centers. In the U.S., the Company charges between $\$1,500$ and $\$2,500$ per eye for LASIK, with an average of $\$1,800$ per eye. Of that, approximately $\$300$ is paid to the eye surgeon as procedure fees and $\$350$ to the referring optometrists for pre and post-operative care. While the laser vision correction procedure is deemed optional, and thus not reimbursable under Medicaid or Medicare, the Company markets to private insurers and employers through its Corporate Advantage program, which offers discounts to members and employees of participating institutions and companies. LVC procedures can be paid for under flexible spending accounts which allow employees to set aside pre-tax dollars for certain medical costs.

Eye Care Centers

TLCV has an investment in two secondary care entities in the United States. A secondary care center is equipped for doctors to provide advanced levels of eye care, which may include eye surgery for the treatment of such disorders as glaucoma, cataracts and retinal disorders. Generally, a secondary care center does not provide primary eye care, such as eye examinations, or dispense eyewear or contact lenses. Sources of revenue for secondary care centers are direct payments by patients, as well



as reimbursement or payment by third-party payors, including Medicare and Medicaid.

Laser Access Business

Through TLCV's wholly owned subsidiary, LaserVision, diagnostic technology is made available to clinicians who treat the rural, poor, and high-risk segments of the populations that normally do not have easy access to advanced medical technology. LaserVision provides access to 85 excimer laser platforms, microkeratomes, other equipment and value-added support services, such as training, technical support and equipment maintenance, to eye surgeons for the treatment of nearsightedness, farsightedness and astigmatism, primarily in the United States. LaserVision's delivery system utilizes both mobile equipment, which is routinely moved from site to site in response to market demand, and fixed-site locations. LaserVision also provides a range of support services to the eye surgeons who use its equipment, including arranging for training of physicians and staff, technical support and equipment maintenance, industry updates and marketing advice, clinical advisory support, patient financing, partnership opportunities and practice satellite operations.

The key advantage of the access model is that it allows surgeons to avoid large upfront and ongoing capital investment in equipment and facility. For surgeons operating in small to medium sized markets and remote locations with low patient volume, the access model is particularly attractive. In general, eye surgeons pay LaserVision between \$300 and \$500 per eye for use of its laser and related equipment.

Cataract Business

Through its MSS division, TLCV provides mobile and fixed-site cataract equipment and related services to ophthalmologists in more than 40 states.

MSS focuses on small to medium sized markets, where cataract surgery is not currently available at the local hospitals. The Company operates approximately 45 mobile cataract systems and 12 ambulatory surgical centers (ASCs). The Company performs approximately 40,000 cataract procedures annually and has completed a total of 100,000 procedures to date. An MSS-certified surgical technician transports the mobile equipment from one surgery location to the next and prepares the equipment at each stop so that the operating room is ready for cataract surgery.

Cataract patients, the majority of whom are elderly, typically prefer to receive treatment near their homes. MSS focuses on developing relationships between local hospitals, referring optometrists and eye surgeons in small to medium-sized markets where MSS's shared-access approach and mobile systems make it economically feasible for optometrists and surgeons to provide cataract surgical services that are close to home.

Ambulatory Surgical Center Business

As a natural extension of its existing eye care businesses, TLCV has organized OR Partners, Inc. as a wholly owned subsidiary to develop, acquire and manage single specialty ophthalmology ambulatory surgery centers (ASCs) in partnership with ophthalmic surgeons.

ASCs provide outpatient eye surgery services to the partner surgeons and other non-affiliated surgeons in a more cost effective and less institutional setting than traditional surgical hospitals. OR Partners provides clinical, administrative and support services, allowing the surgeons to focus solely on providing patient care. The two primary procedures performed in the ASCs are cataract extraction with intraocular lens implantation and capsulotomies.



However, the ASCs will have the capability to accommodate additional ophthalmic surgical procedures.

In addition to OR Partners, Aspen Healthcare Inc., a subsidiary of TLCV, is a healthcare consulting, development and management firm specializing in ambulatory surgery center joint venture development and management. Aspen offers experienced management services to both surgery centers and hospitals. It also consults, plans, designs, develops, implements and operates ambulatory surgery centers nationwide.

Vision Source

Vision Source is a majority-owned subsidiary that provides marketing, management and buying power to independently owned and operated optometric practices in the United States. Vision source currently has affiliations with more than 1,500 optometrists in over 800 offices in 43 states.

Corporate Ownership

In March 2003, TLCV acquired American Eye Instruments, Inc. (AEI), a privately held company that brings together optometrists, ophthalmologists and community hospitals to offer patients access to surgical eye care in 12 states. AEI will be integrated into TLC Vision's Midwest Surgical Services subsidiary. Inc. TCLV owns 26.1% of Vascular Science Inc., 50% of OccuLogix, and 100% of the RHEO Clinic. Diamed Medizintechnik, GmbH owns 24% of Vascular Sciences, Inc. OccuLogix LP owns the exclusive sales, marketing and distribution rights for the RHEO filter System in North America and the Carribean. Vascular Sciences owns the remaining 50 percent of OccuLogix. TCLV also owns 51% of Vision Source. Therefore, TLCV owns 63 percent of the economics of the entire company.

The Clinical Advisory Group and Other Value-Added Services

Through Laser*Vision*, TLCV has set up a Clinical Advisory Group to offer a clinical resource to TLCV surgeons and to provide the Company with an ophthalmic surgeon's perspective on market competition, proposed policies, and operational strategies. The Advisory Group consists of a panel of 15 ophthalmic surgeons plus 2 co-directors. (See Appendix II for biographies of Advisory Group).

In a program they call "The *Advantage*" Laser*Vision* offers other value-added services to their affiliated surgeons:

- Monthly Clinical Teleconferences held at the AAO and ASCRS meetings focus on the most recent trends in the refractive industry
- View Newsletter provides information on marketing, industry updates as well as the latest news about Laser*Vision*
- The Insight Series, a series of packaged educational tools, provides comprehensive solutions to issues affecting those in the refractive industry
- Laser*Vision* Update arrives by fax or e-mail each week and covers a variety of topics from innovative marketing ideas to new technology
- The LINK provides Laser*Vision* surgeons with a "LINK" to quality refractive products, medical supplies, and marketing material at a discounted rate
- Patient Financing is provided through the Vision Fee Plan (VFP) at a low 3.5% administrative fee for Laser*Vision* surgeons (outside surgeons pay a 7.5% administrative fee). Vision Fee Plan also provides new financing options and marketing support for all Laser*Vision* surgeons



- Loyalty Programs
 - ◊ The Milestone Program is based on total historical volume for each surgeon. Awards range from golf shirts for surgeons reaching their first 100 procedures with LaserVision, to plaques and staff parties for surgeons reaching the 5,000 mark and beyond
 - ◊ The Procedure Reward Program rewards surgeon's volume growth with no-charge procedures. These procedures can be used for various promotional and refractive building opportunities
- Training and Education programs are known industry-wide for their comprehensive curriculums and value
 - ◊ The RightStartSM Course is a weekend program held twice a year in St. Louis for the refractive surgery staff. It covers topics from basic refractive knowledge to creating a refractive environment
 - ◊ Refractive Coordinator Training is a week long comprehensive program held monthly in St. Louis for the refractive coordinator. It covers topics from general ophthalmology and refractive surgery to patient management, customer service and surgery center observation
- The LaserVision web site www.LaserVision.com is a referral source for affiliated surgeons including a "Physician Finder" and links to practice web sites. This site is also a comprehensive resource for the latest company and industry information

Many of these programs are delivered through the Refractive Practice Consultants, a corporate based group whose goal is to provide surgeons with consistent scheduling and assistance with laser access, marketing and consulting support, and operations and industry information.

A History of Significant Corporate Events

The following history of significant corporate events outlines the various acquisitions, merger and other relevant corporate transactions.

12/19/03 - TLCV is added to the S&P/TSX Composite Index and the S&P/TSX Small Cap and S&P/TSX Capped Healthcare sub-indices.

20-Nov-2003 - TLCVision Corporation Secures New Line Of Credit with GE Healthcare Financial Services to Support Growth Strategy TLC Vision Corporation announced that it has arranged a \$15 million revolving line of credit from GE Healthcare Financial Services.

10/16/03 - In the first nationwide quality of life survey assessing life implications for laser eye surgery patients conducted by The Eye Surgery Education Council (ESEC), the vast majority of Americans who had their vision corrected by laser surgery are highly satisfied with the results and said that the overall quality of their lives and daily routines has improved. The survey asked patients to evaluate the impact of their eye surgery on the quality of their family life, careers, and sports. Of the approximately 3 million Americans who underwent laser eye surgery since 1995, more than 85% said the surgery improved their overall quality of life and 93% of patients said they were satisfied with the results. Specific to the surgery, 87% felt that the results met or exceeded their expectations and 73% of patients regretted that they did not have the surgery sooner.

5-Sep-2003 - TLC Vision Corporation announced that its subsidiary, OR Partners, has acquired a majority interest in Phoenix Eye Surgical Center located in Phoenix, Arizona. Terms of the acquisition were not disclosed.



Aug-2003 - TLC Vision Corporation announced that if paid refractive procedure volumes in the second half of 2003 are 5-10% lower than the first, the Company expects \$20 million in earnings before interest, taxes, depreciation and amortization (EBITDA) for 2003. If, on the other hand, the procedure volume increase that is expected due to the introduction of CustomLASIK materializes, and paid refractive procedure volumes in the second half of 2003 equal those reported for the first half, resulting in total procedure volumes of approximately 196,000, the Company expects EBITDA for 2003 will be approximately \$30 million.

11-Mar-2003 - TLC Vision Corporation announced that it has completed the acquisition of American Eye Instruments, Inc. (AEI) of Gold Beach, Oregon. AEI is a privately held company that brings together optometrists, ophthalmologists and community hospitals to offer patients access to quality surgical eyecare in 12 U.S. states. AEI will be integrated into TLCVision's Midwest Surgical Services subsidiary. Financial terms of the transaction were not disclosed.

See Appendix II for additional significant corporate events.

RHEOPHERESIS

Rheophoresis blood filtration process (RHEO) is an established method of plasma therapy. The Rheofilter was originally developed by Asahi Medical Co., Ltd of Japan in 1988. In 1990, scientists at the University of Cologne in Germany discovered the possible use of the RHEO technology to treat AMD. In late 1996, Vascular Sciences Inc. was formed to commercialize the RHEO technology for the North American market and successfully obtained the technology license from Asahi Medical in 1997. In July 2002, TLCV invested \$2 million in

equity in Vascular Sciences and together the companies established an exclusive joint venture, OccuLogix, for the commercialization of RHEO for the treatment of dry AMD in North America. In addition, TLCV formed a wholly-owned subsidiary, RHEO CLINIC Inc. to develop, own and manage commercial facilities for providing RHEO. In June 2003, TLCV along with Diamed Medizintechnik (the exclusive distributor for Asahi Medical in Germany, Austria, Switzerland and Luxembourg) made another investment in Vascular Sciences, providing \$12 million in the form of convertible debentures (\$7 million) and debt (\$5 million). Together the two companies own a 50.1% equity interest (26.1% by TLCV and 24% by Diamed) and gain effective control of Vascular Sciences. In the process, TLCV also increased its interest in OccuLogix to 63%. The commercial success of RHEO will depend on the governments reimbursement allowed by CMS. If reimbursement is disallowed, the industry will move towards ASC's dialysis centers, partnerships with ophthalmologists and other non-hospital facilities. We believe reimbursement will be allowed for seriously afflicted patients. Those advanced cases, if not reimbursed, will pay out of pocket if necessary.

The FDA Process

An FDA pilot study of RHEO at the University of Utah was completed in 1997. The positive results led to a larger, multi-center, pivotal study (MIRA-1), which commenced in 2000 and is expected to be completed in late 2004. MIRA-1 is a randomized, prospective, multi-center, double-blinded, placebo-controlled trial, designed to compare RHEO treatment against placebo treatment in patients with intermediate to late stage dry AMD with soft drusen, who are also demonstrating elevated plasma levels of selected macromolecules in their blood. The trial is designed to determine the potential not only to stabilize this normally progressive disease but also



to improve some patients' visual acuity and quality of life.

Six clinical centers in the U.S. (Los Angeles, Chicago, Philadelphia, New York City, Baltimore, and North Carolina) have been established to recruit patients for the trial. Each patient receives either eight actual or eight placebo procedures over a period of 10 weeks. The FDA had originally required 12 months of follow-up data on 180 patients before accepting Pre-Market Approval submission. Following the release of an interim analysis, the FDA authorized a protocol change. Approximately 58% of patients report an improvement to their vision to 20/40 or better and continued to qualify for their driver's license compared to only 14% of the non-treated group. The FDA now will accept six months of follow-up data on 150 patients. In addition, all of the patients in the placebo-control group are being offered the opportunity to cross over to receive RHEO treatment after the 12 months of follow-up.

Enrollment in the pivotal study slowed to a crawl in 2002 when Vascular Sciences ran out of funding. Subsequent to the \$12 million investment by TLCV and Diamed in June 2003, approximately 90 of the anticipated 180 patients have completed the full eight treatment protocol and 12 months of follow-up. The Company expects the enrollment of the remaining 90 patients to be completed by the end of the first half of 2004, with results to be finalized and released in late 2004. If final results are consistent with the interim data, approval of the RHEO treatment is expected by mid 2005 with a commercial launch in mid to late 2005.

Table 8: 12 Month Intent to Treat Results

	Treated Eyes	Placebo Eyes
Mean change in ETDRS BCVA	1.1 lines	-1.9 lines
Legal driving (20/40) or better	57.9%	14.3%
Vision improvement (> 3 ETDRS BCVA)	15.8%	0%
Vision loss (> 3 ETDRS BCVA)	5.3%	28.6%
Drusen Reduction	35%	14%
Progression to Legal Blindness	5.8%	28.6%

Source: Vascular Sciences

See Appendix II that quotes results from the Phase III trial.

THE SCIENCE BEHIND THE TECHNOLOGY

Correctable Eye Conditions

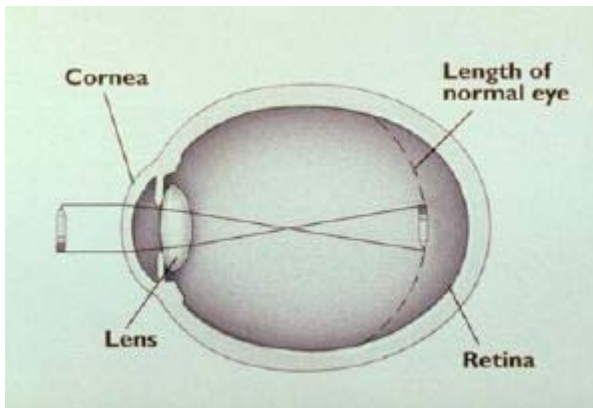
Myopia (near-sightedness), hyperopia (far-sightedness), and astigmatism (distorted vision) are caused by **refractive errors**. For proper eyesight, the light must be properly bent and focused (refracted) onto the retina (See Appendix I). If the length or shape of the eyeball or the cornea is not ideal, the focal point may not occur in the proper place, which leaves a blurred or double image on the retina.

Myopia (nearsightedness). Myopia affects nearly 30 percent of the U.S. population and appears to be caused by both environmental and hereditary factors. The condition usually develops in school-age children. Vision usually worsens progressively as the eyes continue to grow until about the age of 20, then levels off in adulthood. Myopia is caused by



eyeballs that are too elongated or a cornea that is too steep, causing the lens system to be too strong (have too much focusing power). Light is not focused properly on the retina but on a point in front of the retina (Chart 3) resulting in a blurred image. Myopic individuals need vision correction to see things at a distance.

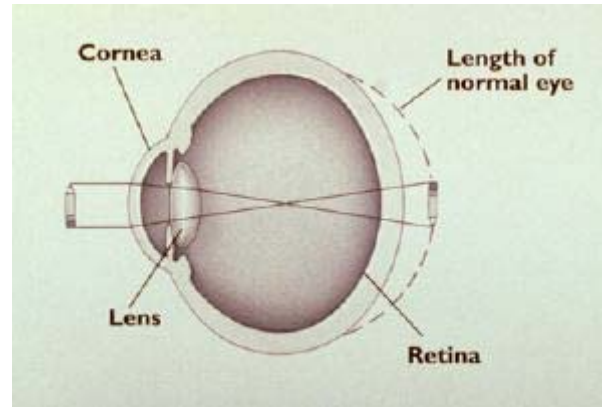
Chart 3: Focusing of Light in Front of the Retina in Myopia



Source: Oregon Eye Center Available at: <http://www.oregoneyecenter.com/myopia.htm>. Accessed 12/19/03.

Hyperopia (farsightedness). Hyperopia is very common, occurring in the majority of the United States population. Hyperopia generally occurs in people over the age of 45 years or in children under 10 years of age. Hyperopia occurs when the eyeballs are too short or the cornea is too flat causing a lens system that is too weak (has too little focusing power). In hyperopia, the light rays are focused on a point behind the retina (Chart 4). Hyperopic individuals need vision correction to see things up close.

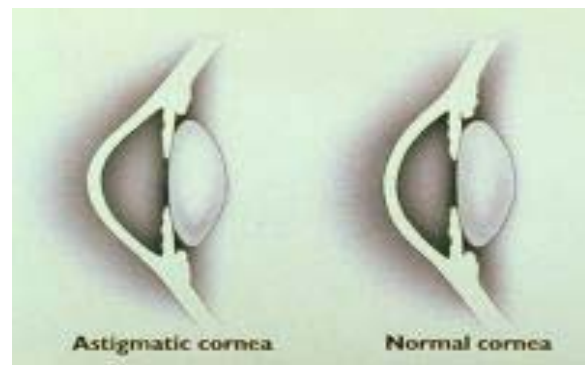
Chart 4: Focusing of Light Behind the Retina in Hyperopia



Source: Oregon Eye Center.
Available at: <http://www.oregoneyecenter.com/myopia.htm>.
Accessed 12/19/03.

Astigmatism (double vision). Astigmatism is another type of refractive error. Though astigmatism can occur by itself, it is usually associated with myopia or hyperopia. Astigmatism occurs when the cornea is warped: the cornea may be oval rather than the normal spherical shape (Figure), or it may have a steeper curvature on one side than the other. The warped cornea creates 2 focal point in the eyes (Chart 5).

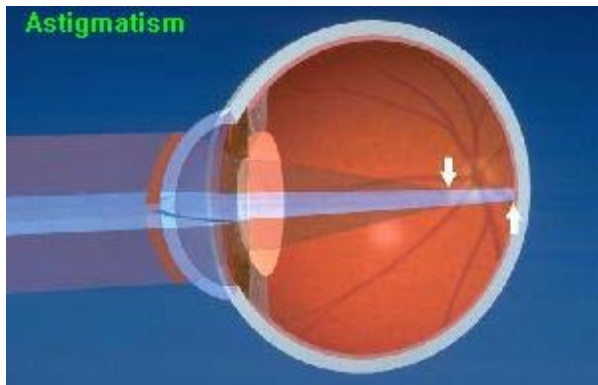
Chart 5: Shape of the Astigmatic vs Normal Cornea



Source: Oregon Eye Center
Available at: <http://www.oregoneyecenter.com/myopia.htm>.
Accessed 12/19/03.



Chart 6: Dual Focusing of Light Rays in Astigmatism



Arrows point to the two focal points.

Source: Wake Forest University Eye Center
Available at: <http://www.bgsm.edu/eye/cornea/astigma1.htm>

A small amount of astigmatism may not be noticeable or give just a slight blurring of the vision. More severe astigmatism, if uncorrected, can distort or blur the vision at all distances, cause headaches and fatigue, squinting, eyestrain and irritation. In the United States today, vision correction for refractive errors (Table) is required by 66% (136 million) of American adults, 57% of women and 43% of men.

Table 9: Percentage of Common Vision Problems in the U.S. Population

Refractive Error	Percent of U.S. Population
Myopia	25
Hyperopia	16
Astigmatism	25

Source: Vision Council of America, April 2003

Myopia, hyperopia, and astigmatism can be corrected. Eyeglasses designed to help the elderly to read can be traced back to 13th century Italy. Contact lenses first appeared in the late 1800s but did not gain real popularity until advances in materials and fitting made them more comfortable.

By 1964, 6 million Americans (65% women) were wearing contact lenses. Interest in refractive surgery to reshape the cornea to correct vision defects and free individuals from glasses dates to the late 1800s, but it was not until the 1970s that the development of **radial keratotomy** allowed its practical application. Over 2 million Americans have had radial keratotomy. The limitations of radial keratotomy led to research that resulted in the development of laser-assisted refractive surgery. The first such **photorefractive keratectomy (PRK)** was performed in Germany in 1988. In PRK, a surgeon applies an excimer laser beam to the cornea surface tissue and reshapes the cornea curvature. The recovery time is generally one to two weeks. The patient may experience some pain in the eyes for a period after the treatment.

LASIK

Laser-assisted in situ keratomileusis, or LASIK, is the second generation of laser vision correction procedure. LASIK is a surgical procedure that corrects refractive errors (myopia and hyperopia, with or without astigmatism) by reshaping the cornea of the eye using an excimer laser TLCV is the largest provider of LASIK in North America.

In the LASIK procedure, a flap is made on the cornea by shaving it with a microkeratome (Chart 7). This layer of cornea is not cut away completely, but remains attached at one side and folded back out of the way to reveal the subcornea beneath. The laser is programmed with a modified version of the patient's glasses or contact lens prescription. A cold beam excimer laser is employed to "sculpt" the corneal bed according to the prescription to correct refractive errors. The **excimer laser** makes the "power cut" on the eye. The corneal flap is then placed back over the cornea where it reattaches immediately and seals without requiring stitches.

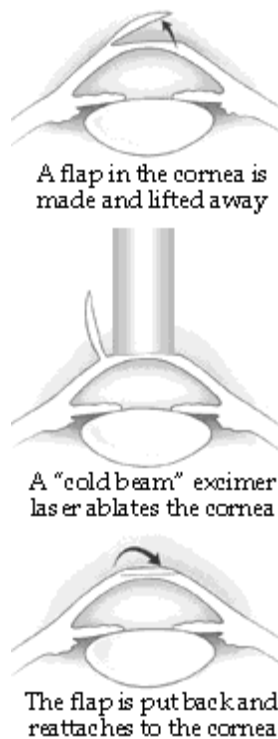


Chart 7: A Microkeratome



Reprinted with permission from The Oregon Eye Center.
Available at: <http://www.oregoneyecenter.com/LASIK.htm>

Chart 8: Graphic Representation of LASIK Surgery



Source: Oregon Eye Center Available at:
<http://www.oregoneyecenter.com/myopia.htm>. Accessed 12/19/03.

Compared to PRK, LASIK provides a quicker recovery of normal vision (generally 1 to 2 days), less postoperative discomfort and less post-surgical medications. Although LASIK represents a

significant advance over traditional refractive surgery, it can only correct lower-order visual aberrations (e.g., myopia, hyperopia, astigmatism). Higher order aberrations constitute about 20% of refractive errors.

CustomLASIK

CustomLASIK (custom ablation) is the newest development in refractive surgery and the most recent FDA-approved LASIK procedure. It became commercially available in the U.S. in 2003 and is the first major advancement in laser vision correction technology since the introduction of LASIK.

CustomLASIK utilizes wavefront technology to tailor the refractive procedure to each individual's needs. Wavefront technology was originally developed to measure distortions that occur to light (e.g., from a star) when it travels through the atmosphere and enters an optical telescope. The technology has been adapted for laser vision correction.

CustomLASIK incorporates **wavefront analyzers** (also called aberrometers), which measure the way light travels through the entire optical pathway and compares it to the way light travels through an optically perfect eye. The device then creates a map, like a fingerprint, of the detected irregularities of the visual system that cannot be measured in any other way.

With wavefront technology to guide a customized ablation procedure, both lower- and higher-order aberrations can be diagnosed and corrected. Therefore, patients who were not candidates for conventional LASIK can now be treated. Some evidence suggests that CustomLASIK produces crisper post-operative vision and reduces the chance of night vision problems and glare compared to traditional LASIK. Most patients achieve at least



20/20 vision, and many reach the 20/15 level or better.

CustomLASIK has been available in Toronto, Canada, and London, England, for more than three years. TLCV doctors opened North America's first commercial CustomLASIK center in Toronto, Canada, in January 2000.

One Patient's LASIK Surgery Experience

"I recently had LASIK surgery in September of '03. After doing some informal due diligence, I decided to go for a free consultation at my local TLC Vision Center, in midtown Manhattan. I was amazed with the level of attention and information they provided me. An experienced doctor spent a solid hour and a half with me taking all of my measurements, giving me information and answering as many questions as I had. It was incredibly thorough. They even encouraged me to spend some time with the head surgeon, Mark Spieker, to gain even more intelligence on the subject.

As I spoke with Dr. Spieker, he immediately told me a) there are risks involved b) I might not be a candidate and c) since my vision wasn't really that bad (20/30), my "risk/reward" payoff was not so compelling. Overall, everyone there was remarkably informative. There was no pressure on me from my initial contact. I told them I wanted to wait a few months since the new procedure "custom ablation" had just come out and I wanted to give it a few months. They encouraged me to check in with them as often as I'd like.

A few months later, I committed to the procedure. TLC asked me to come in the office again for another series of tests. I was very impressed. They had all the latest equipment, excess staff to

help in the process and were very diligent to get the data correct.

The week of the procedure, they then had me come in again to repeat the tests. Again they were very thorough and impressive. The day of the procedure, I was given another round of eye exams to verify the data. Dr. Spieker then spent a solid 20 minutes with me explaining every aspect of the procedure. My confidence in him was 100%.

The procedure was very easy. He communicated with me the entire time and gave me excellent feedback. The entire procedure lasted only 20 minutes. After relaxing in the post-op area for 30 minutes, the doctor once again gave me feedback and was very careful in communicating all the post-op procedures (relatively easy).

The wonderful part about TLC Vision is that my post op follow-ups were covered with the one price I paid. The next day, I went in for a follow-up which was very smooth. That was followed by another one the following week, and another one the following month. I am going in for my next month follow-up next week.

The results are amazing. I can see 20/15 and the clarity is incredible."

Cataract Surgery

Cataract is a clouding of the eye's lens (See Appendix I), which is clear in normal, healthy eyes. Cataract is usually associated with aging and is most commonly caused by clumps of proteins that cloud the eye and blur vision (Chart 9). Cataract can also be caused by a change in the lens from clear to yellowish brown, which may result in an inability to distinguish between blue and purple. Other types of cataract can result from genetic defects, developmental problems, injury to the eye, exposure



to toxic substances or radiation, and diseases such as diabetes.

Chart 9: Clouding of Vision by Cataract

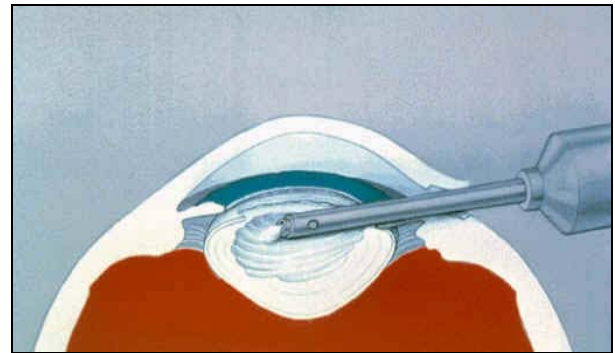


Source: National Eye Institute, NIH

Although not truly curable, cataract is treatable by surgical removal of the cloudy or discolored lens. There are 2 types of cataract surgery:

- Extracapsular surgery. The cloudy core of the lens is removed in one piece through a longer incision on the side of the cornea, then the remainder of the lens is removed by suction.
- Phacoemulsification, or small-incision cataract surgery, is the most common procedure used today. A probe is inserted into the eye through a small incision on the side of the cornea. The device emits ultrasonic vibration to soften and break up the lens, which is then removed by suction (Chart 10).

Chart 10: Phacoemulsification



Source: EyeSearch

Available at: <http://www.eyesearch.com/phacoemulsification.jpg>

The natural lens is usually replaced with an artificial intraocular lens (IOL). The IOL is usually a clear, plastic lens that becomes a permanent part of the eye and corrects vision by refracting light. People who cannot have an IOL because of another eye disease or complications during surgery may instead be given a soft contact lens or glasses with high magnification. IOLs may be foldable or rigid. Foldable IOLs are made of silicon, acrylic, and hydrogel materials and can be inserted through a smaller incision. Rigid lenses, made of polymethylmethacrylate (PMMA) materials, are less popular and require a larger incision but are less expensive.

The AcrySof Natural Lens for Cataracts

A more advanced IOL for use in cataract surgery, the AcrySof Natural Lens (Alcon Laboratories, Fort Worth, TX) was introduced in August 2003 at TLC Eye Care & Laser Centers in Michigan. Although the human eye filters out up to 80 percent of blue light waves that can damage retinal cells, traditional replacement lenses filter out only ultra-violet rays. When a cataract is removed and an artificial lens is inserted, the replacement lens absorbs blue light. A large comparative study in patients who had cataract surgery in one eye found an increased likelihood of



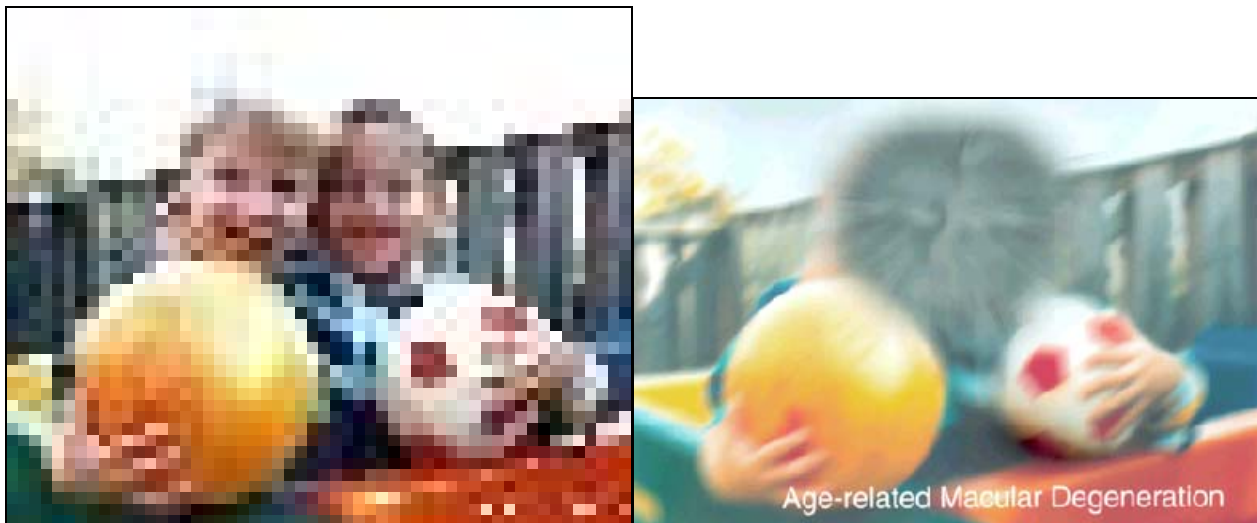
developing macular degeneration in the operated eye, and research has suggested that blue light may be one of the causative or exacerbating factors. AcrySof more closely mimics the human lens. It has a yellow chromophore bonded to the plastic that acts to filter out the blue light. Thus, by filtering out the blue light, the AcrySof Natural Lens may help to slow the progression of macular degeneration. The filter does not affect color vision or the ability to see things under a dim light. The lens also mimics the transmission curve of the healthy human lens of a patient aged 50-53. The AcrySof Natural Lens has

been very successful in Europe since its introduction there in early 2003.

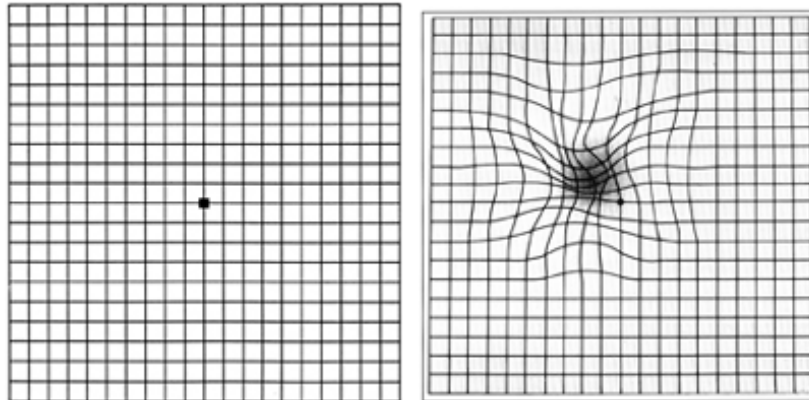
A New Treatment for Dry Age-Related Macular Degeneration

Age-related macular degeneration (AMD) is a medical condition that affects primarily the macula, the part of the retina that is responsible for sharp central vision (See Appendix I). Over time, AMD leads to a blurry or blind spot, called a scotoma, at the center of the field of vision (Chart 11).

Chart 11: Pattern of Vision Loss with Age-Related Macular Degeneration vs. Normal Vision



Source: National Eye Institute, NIH

**Chart 12: The Amsler Grid* with Normal Vision vs. AMD**

* The Amsler Grid is one of the best methods of detecting vision problems associated with AMD

AMD is probably the most common cause of vision impairment and legal blindness in older Americans. Approximately 25-30 million people around the world are affected by some form of Age-Related Macular Degeneration, and one new case of macular degeneration is diagnosed every three minutes in the United States. Although AMD rarely causes total blindness, the loss of central vision is devastating. AMD exists in 2 forms, “dry” AMD and “wet” AMD.

“Wet” AMD is the less common but more serious of the 2 types of AMD. It is called “wet AMD” because capillaries (tiny blood vessels) from the choroids (See Appendix I) grow into the macula and leak fluid or even break open completely. Wet AMD is sometimes referred to as exudative AMD or choroidal neovascularization. This, in turn, distorts vision and causes scar tissue to form. Wet AMD has no stages of severity; it is advanced AMD. Two clinically proven therapies exist for wet AMD. Photocoagulation is a surgical procedure in which a hot laser is used to destroy the leaky blood vessels and slow vision loss. This treatment leaves a blind spot on the retina. Photodynamic therapy uses a non-thermal (cold) laser in combination with an intravenous (IV), light-sensitive drug to destroy the

abnormal blood vessels. This treatment does not leave a blind spot on the retina. Other promising therapies are under investigation or in development.

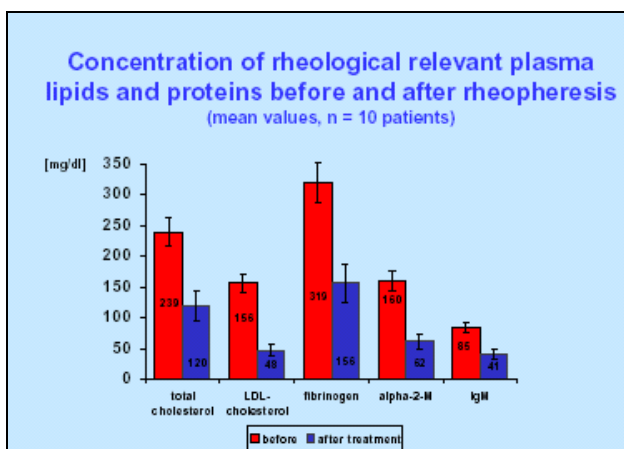
“Dry” (non-exudative) AMD, also called atrophic macular degeneration, is the most common form, responsible for 85 – 90% of all AMD cases. In its early stages, dry AMD is characterized by the presence of **drusen** (yellowish deposits of accumulated waste products) under the light-sensing cells (cones) in the macula; vision loss is moderate and progresses slowly. Drusen by themselves are not harmful, and many people with drusen will not progress to more serious AMD. However, the continued presence and build-up of drusen may interfere with the flow of blood and nutrients to the macula, which causes the light-sensitive cells (cones) in the macula to atrophy. In later stages, the supportive layer under the cones may atrophy, resulting in more significant loss of vision. According to the National Eye Institute, more than 1.6 million Americans over 50 years of age have late AMD. AMD rarely affects individuals under 50 years of age. Dry AMD may progress to wet AMD in its later stages. To date there has been no widely accepted treatment for dry AMD.



The exact cause of AMD is unknown. Abnormally elevated levels of macroproteins (eg, LDL cholesterol, fibrinogen) are known to be directly involved in the development of atherosclerosis (“hardening of the arteries”) and cardiovascular diseases, and recent evidence suggests that they may also be involved in the pathogenesis of AMD. Based on this hypothesis, TLCV is now developing a promising new treatment for dry AMD called **rheophoresis**. Rheophoresis is a new twist on an old treatment—blood filtration—that is widely used for other conditions.

Studies have shown that the current protocol removes a substantial portion of the macroproteins from blood (Chart 13) and inhibits disease progression in over 90% of the treated patients. While some patients have demonstrated improvement in their vision, results vary widely from patient to patient, and significant improvement occurs in only about 15% to 20% of patients. It is not yet possible to predict which patients might achieve vision improvement. Thus, until further advances are made in the technology, halting disease progression is the primary objective of rheophoresis therapy, and vision improvement is an unpredictable side benefit.

Chart 13: Before/After Rheophoresis



Source: Klingel R et al. [TLC: Can we use this? If so, please indicate how we should cite it—it looked like a poster presentation.]

Rheophoresis is not designed to treat Wet AMD, although European studies have shown a modest benefit. Anecdotal evidence suggests that there may be some additional benefits available by providing rheophoresis in combination with the current standard of care (Visudyne® photodynamic therapy) for patients with Wet AMD; but well-designed, large, controlled clinical trials have not yet been conducted. For now, the focus of rheophoresis is to treat the disease in its earlier stage in order to catch it while it is still in the “Dry” form.

How Does Rheophoresis Work?

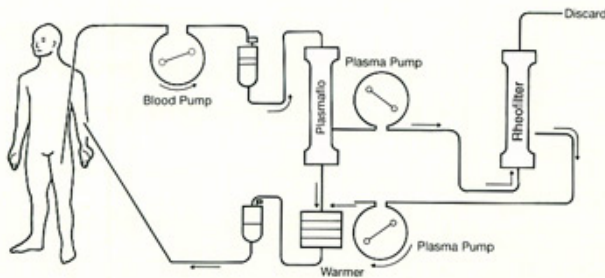
Rheophoresis is a form of double-filtration plasmapheresis, which is now a well-established method of extracorporeal (outside the body) plasma therapy for many diseases. Pulsed therapy (treatments given intermittently) such as that used in rheophoresis quickly lowers the concentrations of targeted high-molecular weight proteins (macroproteins) from human **plasma**, which in turn rapidly increases capillary blood flow and provides a sustained improvement in the microcirculation. Scientists also believe that rheophoresis removes unwanted accumulations of tissue-bound material as well as those in blood and has a beneficial effect on the immune system.

Rheophoresis blood filtration is similar to a blood donation procedure. Patients relax in a comfortable chair. A needle connected to an IV tube is placed in each forearm. The tubes are connected to a pump. Blood is gently and slowly withdrawn and circulated through a pair of filters that remove the harmful large proteins from the blood (Chart 14). The only systemic medication administered is a blood thinner (heparin) to keep the blood flowing smoothly through the IV tubing and the filters. Less than 10% of a patient’s blood volume (about 500cc’s, or less



than one pint) is outside the body in the tubing system and filters at any one time. The procedure takes about 2-3 hours. **After a half-hour rest and a snack**, patients are discharged to go home. The only restriction is that patients should not drive for 24 hours after the treatment.

Chart 14: OctaNova Apheresis Machine and Diagrammatic Representation of Rheopheresis®



Source: Vascular Sciences Corporation. Available at: <http://www.vascularsciences.net/>. Accessed 12/20/03.

Rheopheresis has been studied for the last 12 years. For all indications (primarily lipid removal), approximately 50,000 treatments have been given world wide. For AMD, more than 5,000 treatments have been performed for about 500 patients, including nearly 2,000 treatments in tightly controlled clinical trials. However, that is considered a fairly small database by medical standards and does not allow for development of optimal patient selection criteria. The best available information suggests that patients with Dry AMD, multiple soft drusen, and vision acuity between

20/40 and 20/100 are the best candidates for the procedure.

Clinical studies have demonstrated that the therapy works best when patients have treatments administered in pairs, 3 days apart (eg, Treatment on Mondays and Thursdays) at 2-week intervals for 4 cycles (8 separate sessions) within 10 to 12 weeks. Four years of experience with rheopheresis indicate that the treatment effect from the first 8 treatments will last from 9 to 18 months in most patients (longer in some) and can be sustained with 2 to 4 booster treatments annually.

Appears to be Safe and Well Tolerated

Like other forms of extracorporeal (outside the body) blood purification, rheopheresis has the potential for causing adverse events such as nausea, dizziness, fatigue, low blood pressure, chills, fever, and local bruising where the IV is inserted. Side effects with rheopheresis treatments have been minor, occurred only during the treatment itself, affected only about 4% of patients, and were easily managed. About half of rheopheresis patients feel no change during or after the treatment. The other half reports feelings similar to “jet-lag”, which usually resolves with a good night’s sleep. No serious or long-term side effects have been reported to date. However, with a database of only about 500 patients (5,000 treatments) over the past 10 years, longer-term and more wide-spread use is needed to ensure that it is not associated with any previously unrecognized or long-term adverse effects.

Rheopheresis is **contraindicated** for patients with certain other medical conditions:

- Severe cardiac, lung, liver, or kidney disease
- Severe bleeding, clotting problems, or anemia
- Poor veins that would prevent inserting the IVs



- Surgery within the preceding 30 days requiring general anesthesia, or blood infection
- Terminal illness of any kind

Most medications are not problematic. Patients are usually elderly and do take many medications. The only change required is that blood thinners (eg, coumadin, aspirin) should not be taken the morning of the procedure. The treatment does not interfere with the action of lipid-lowering drugs prescribed for patients with high cholesterol; in fact, it actually enhances the removal of LDL-cholesterol from the system. Rheopheresis does not interfere with the action of vitamins and certain other nutritional supplements.

Commercial Availability of Rheopheresis

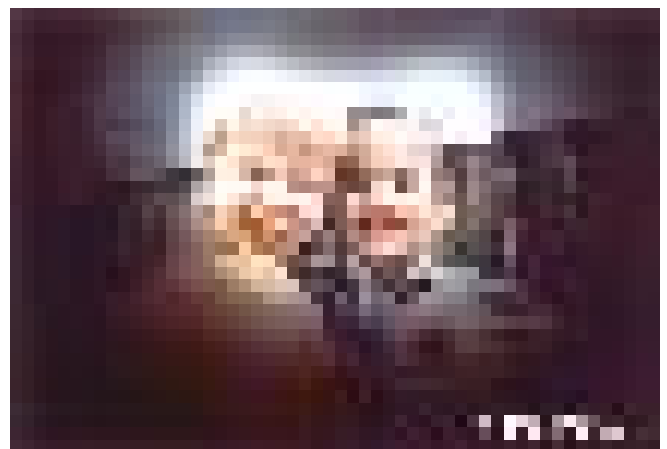
Rheopheresis is currently being routinely offered to patients outside of formal clinical trials at clinics in: Toronto Canada and Cologne Germany. At this time, rheopheresis is limited to investigational use (i.e., not yet FDA-approved or commercially available) in the United States. It is in the Phase-III trial stage of development.

THE TLC GLAUCOMASCAN PROGRAM

TLC is initiating a new service called the TLC GlaucomaScan Program. The program takes advantage of a new medical breakthrough—optical coherence tomography—that allows for glaucoma diagnosis earlier than ever before. Glaucoma is the general term for a group of diseases that gradually destroy cells of the optic nerve (See Appendix I); as they die, vision is slowly lost. In normal eyes, a clear fluid flows in and out of the anterior chamber—the space in front of the eye (See Appendix I)—and nourishes the nearby tissues. The fluid exits through a spongy network, like a drain, at the open angle where the cornea meets the iris. If

the fluid is blocked or passes too slowly through the “drain”, it build up inside the eye, resulting in increased pressure. If the pressure builds up too much, it can press on and damage the optic nerve. Glaucoma is the second leading cause of blindness in the United States, accounting for 9-12% of all cases. Unlike AMD, loss of sight with glaucoma usually begins at the periphery of the field of vision (Chart 15).

Chart 15: Pattern of Vision Loss with Glaucoma



Source: National Eye Institute, NIH.

There are several different categories of glaucoma:

- Angle-closure glaucoma results from inability of the fluid to reach the angle of the eye because it becomes blocked by part of the iris
- Secondary glaucomas develop as complications of other medical conditions or trauma
- Congenital glaucoma occurs in children born with a defect in the angle of the eye
- Open-angle glaucoma is the most common, but the cause is not clear

Glaucoma cannot be prevented, but optic nerve damage can be halted or slowed with early treatment. Unfortunately, open angle glaucoma often goes undetected and untreated until significant and irreversible nerve damage has occurred because it is asymptomatic in early stages and the loss of



vision is so gradual that it may go unnoticed for a long time. An estimated 1.5 million Americans have glaucoma that has not been diagnosed. Therefore,

finding ways to detect open angle glaucoma has been extremely important.

OPTICAL COHERENCE TOMOGRAPHY FOR EARLY GLAUCOMA PROTECTION

Optical coherence tomography (OCT) is a noncontact, noninvasive tomographic imaging technology that provides high-resolution, cross-sectional images of ocular structures using near infrared light in much the same way that ultrasound machines use sound waves. The light beam is scanned across the eye to produce a cross-sectional image of the tissue of interest. OCT offers superior sensitivity and specificity in detecting and tracking the progression of glaucoma by measuring the thickness of the optical nerve fiber layer. The optical nerve fiber layer has been found to correlate well with the severity of glaucoma: in one study of the OCT scanner in 199 eyes with normal, early, and advanced glaucoma, the mean thickness of the nerve fiber was 96 micrometers (μm) in the normal eyes, 80 μm in the eyes with early glaucoma, and 50 μm in the eyes with advanced glaucoma.

OCT is fast, producing images in real time (typically 2.5 seconds or less). Unlike other imaging techniques, OCT does not require a reference plane; it provides an absolute cross-sectional measurement of retinal substructure from which the thickness of the nerve fiber layer is calculated. The TLC GlaucomaScan Program will provide access to this highly advanced—and very expensive—technology in a mobile format. OCT will soon be available through optometrists and ophthalmologists affiliated with TLC in Atlanta, GA, Charleston, SC, and Greenville, SC.

Industry Outlook

The laser vision correction industry has experienced a classic boom-and-bust life cycle over the past decade. In 1995, the majority of the population was unaware of the new and emerging medical procedure of laser vision correction. However, the introduction of LASIK in the U.S. led to a period of hyper-growth for the industry resulting in procedural volume doubling almost every year, from 105,000 in 1996 to 1.4 million in 2000. This rapid growth was driven by increasing consumer awareness, an expanding referral pool of successful patients and increasing availability of laser centers. Laser centers opened in new markets across North America by both corporate providers and independent surgeons as new entrants were attracted to the industry to meet increased demand. In 2000 the number of U.S. laser centers grew to more than 1,000, for a ratio of one laser center for each 300,000 in population. Growth in the number of laser centers exceeded procedure growth in 2000, reducing the number of procedures per laser center. In order to increase stock market valuations, which were based on procedure volume, market participants entered into a fierce price war to gain market share, dramatically reducing laser vision correction procedure cost from nearly \$2000 to a low of \$499. The wave of price cutting in early 2000 left patients uncertain of the relationship between price and quality. Potential patients were afraid that they might damage their eyes with a low-priced surgeon, but they were also afraid that they might be throwing money away unnecessarily at a high-priced surgeon. As a result, many consumers refused to make a decision



resulting in a flat market as the excitement of LCV failed to spill from the early adopters to the much larger early majority.

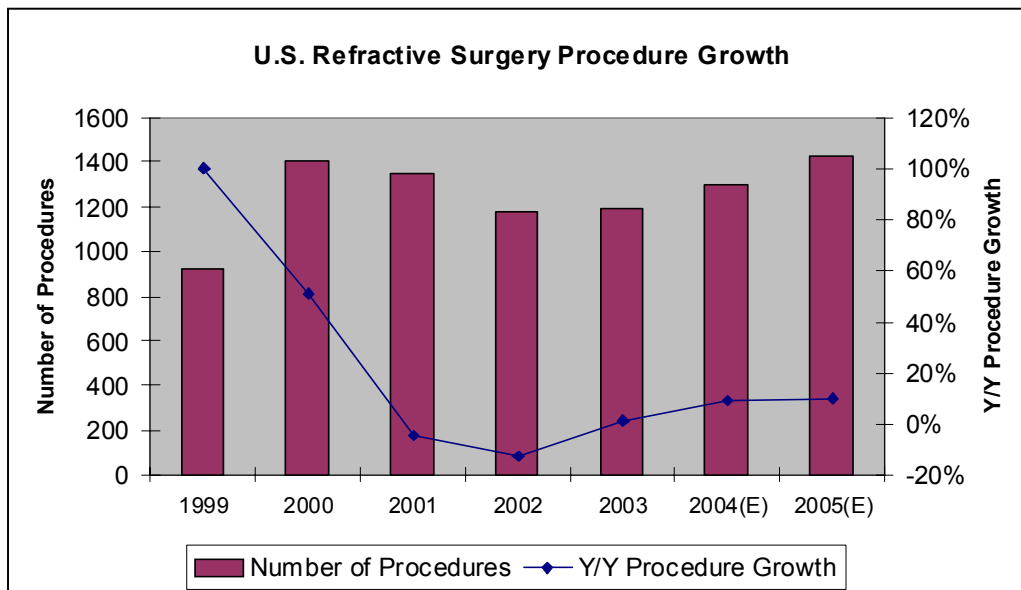
While procedure volume peaked in 2000, the price war coincided in 2001 with a downturn in the economy leading to lower consumer confidence, spending on expensive items, and a series of negative news stories on patients with poor results from procedures. As a result, procedure volume declined nearly 15% in 2002. Many providers incurred major losses and some suffered bankruptcies. Today, after a major industry shakeout, three major corporate providers of laser vision correction remain, TLCV and LCA-Vision and Lasik Vision Institute. While independent surgeons make up the majority of the industry, TLCV has consolidated its number one position within a competitive pricing environment.

After rapid industry consolidation, the pricing environment has stabilized and actually improved over the past 12 months. In addition, the merger between TLC Laser Centers Inc. and Laser Vision Centers Inc., the two dominant companies in the

industry, actually contributed to the more favorable pricing environment as the new company maintained a premium pricing strategy after combination. We believe that price-based competition can confuse potential patients and keep them on the sidelines. The focus going forward must be on quality of the refractive surgery experience and surgeons should insist on fair compensation for the delivery of that experience. LCA Vision and Lasik Vision Institute became discounters. The net effect was that while both companies grew within similar histories of legal problems, the discounting helped TLCV because it established the company as the state of the art company within the industry.

Utilization remains at the low end compared to historical standards. Nevertheless, going forward the laser vision correction industry is poised to experience growth as signs of an economic recovery take hold. While the number of procedures is expected to hold steady at 1.1 million in 2003, industry insiders anticipate that the number of procedures could increase 10-15% over the next two years.

Chart 16: U.S. Refractive Surgery Procedure Growth





LASIK is a private-pay, cosmetic vision procedure, competing with other consumer durable and services for discretionary income. We believe an expanding economy and improved consumer confidence will result in more discretionary spending and thus greater volume for vision correction. In addition, with the exit of certain aggressive discounters, the pricing range of the procedures has narrowed. We believe that those potential patients who once struggled over the large difference in pricing and service quality among the various providers will be less hesitant to undergo laser correction going forward.

Furthermore, advances in refractive surgery technology have the potential to also help jumpstart the market's interest. Traditional LASIK surgery is limited to treating low-order aberrations such as myopia, hyperopia and astigmatism. CustomLASIK (customized ablation), however, is expected to eliminate the majority of patient problems associated with conventional LASIK. CustomLASIK surgery uses wavefront technology to address both low-order and high-order aberrations. High-order aberrations include irregularities that can cause decreased contrast sensitivity or night vision, glare, shadows, and halos. The procedure holds great potential to not only attract new patients but to also help currently unsatisfied patients, turning nay-sayers into referral sources. One of the promises of wavefront driven technology is the potential to improve not just vision quantity but vision quality. CustomLASIK

commands a price premium of \$300 to \$500 for each procedure over conventional LASIK, which we believe will be instrumental in further enhancing the pricing power of the industry.

Market Size and Dynamics

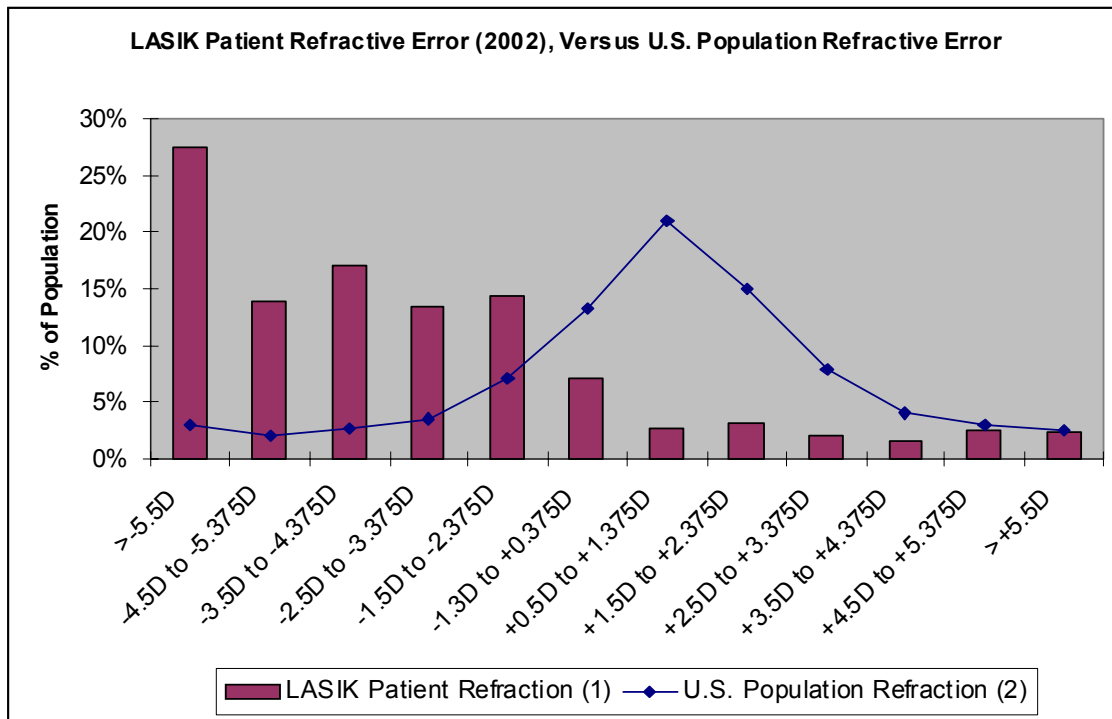
The Refractive Surgery Market – An Exciting and Large Potential Market

More than 150 million people, or approximately one-half of the U.S. population require eyeglasses or contact lenses to correct common refractive vision. Of those people, approximately 50 to 60 million are considered potential candidates for laser vision correction. The potential market is enormous.

In 2002, approximately 5.7 million refractive procedures had been performed in the U.S., representing the treatment of 3.3 million patients. Based on 57 million people who could benefit from and afford LASIK surgery, this represents a penetration rate of 5.6%. LASIK has achieved higher penetration among patients with high myopes (>-8.5D) at nearly 17%, and a lower penetration rate among patients with low myopes (<-3.5D) at 5.5%. Among American between the ages of 21 and 59 that can afford LASIK, it is estimated that only 1.3 million have high myopes. Those with medium myopes (-3.5D to 18.5) account for 10 million and those with low myopes represent 24.5 million (or 43% of the potential U.S. refractive candidates).



Chart 17: LASIK Patient Refractive Error (2002), Versus U.S. Population Refractive Error



One of the primary reasons why the penetration rate of LASIK has been so much greater among high myope patients is because of differing views of the risk reward trade-off. Early LASIK adopters were generally highly motivated high myopes who often viewed their condition more as a disability. Low myope patients often view their imperfect vision more as an inconvenience. High myope patients have more to gain at any level of risk than low myope patients.

We believe CustomLASIK will improve the risk/reward trade-off for patients with medium and low myopes. The lower risk and increased likelihood for improved vision over spectacle correction that CustomLASIK offers will induce more patients to opt for LASIK, driving volume growth 10-15% over the next two years. In addition, to the better clinical risk/reward profile drawing more patients to the procedure, CustomLASIK also creates improved economics. Surgeons are charging \$350 more on average and netting close to \$200

more on average per procedure. As a result, surgeons will be able to advertise more, pushing industry revenue growth to 15-17% over the next two years. Finally, the media press surrounding CustomLASIK has been very positive. We believe CustomLASIK will be the most important driver of LASIK volume in the near term.

Age-related Macular Degeneration (AMD)

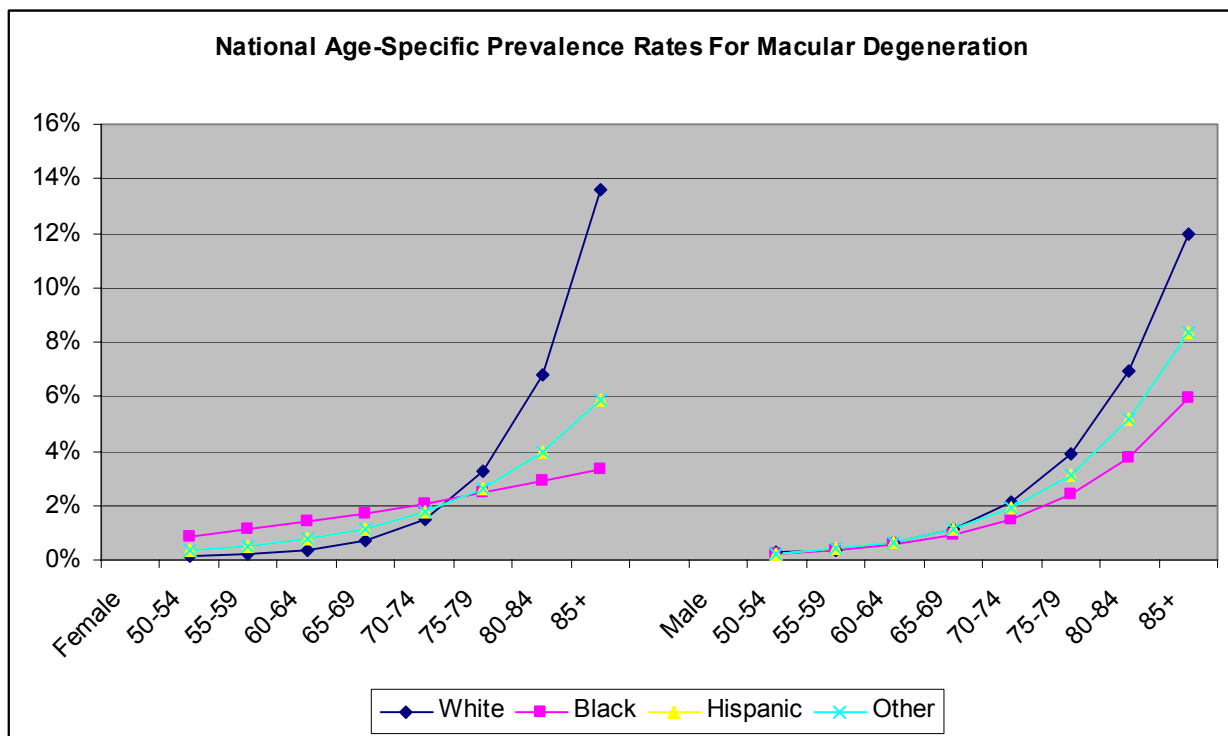
As stated earlier, we estimate the dry AMD market to be a theoretical \$210 billion dollar market opportunity, a realistic \$28 billion dollar market. AMD is the leading cause of permanent vision loss, second only to cataracts as a cause of blindness in the world-wide general population. It is estimated that AMD affects nearly 5% of the U.S. population aged 65-74 and 10% of people aged 75 or older. According to the National Eye Institute, approximately 1.7 million new cases of AMD are reported annually, with the annual incidence expected to grow as demographics change and the



population ages. According to government estimates currently 1.7 million Americans over the age of 60 suffer from severe visual impairment caused by AMD. This number is projected to increase to 6.3 million by 2020. Studies have shown that people in their 50s have a 2% chance of getting AMD. The risk rises to almost 30% for those over age 75. In addition to age, other AMD risk factors

include gender, smoking, family history, genetic factors and cholesterol levels. Although the disease is not life-threatening, many studies show that loss of vision is one of the most feared conditions, second only to cancer. In fact, of all chronic illnesses and disabilities, blindness is the second-leading cause of inability to work.

Chart 18: National Age-Specific Prevalence Rates For Macular Degeneration



The dry form of AMD is much more common with approximately 85-90% of patients with intermediate and advanced AMD having the dry form. While only 10-15% of patients have the wet form of AMD. Wet AMD, an estimated \$1 billion dollar market, accounts for 90% of all cases of legal blindness in macular degeneration patients. Many people can go for a long time with the dry form and not experience any vision problems. Only approximately 25% of people reach the stage of severe vision loss with the dry form. About 15% of the people who start out

with the dry form progress to the wet form. As dry AMD worsens, new fragile blood vessels grow from the outer part of the eye towards the macula, or center. These new blood cells often leak blood and fluid causing rapid damage to the macula and quickly leading to a loss of central vision. All people who have wet AMD had the dry form first.

AMD is one of the most difficult diseases to treat because of the location of the diseased tissue and limited understanding of the pathogenesis of the



condition. While laser therapies to destroy leaking blood vessels can help reduce the risk of advancing vision loss in many cases of wet AMD, there currently is no generally accepted treatment for dry AMD. Research has recently shown that certain doses of zinc, vitamins A and C, and beta-carotene can help control the advance of late AMD, but appear to have no effect in preventing the disease in otherwise healthy individuals. AMD is a terrible, progressive disorder that has physicians and patients alike looking for additional treatments to add to their arsenal. As previously stated, it is estimated that the U.S. AMD market opportunity alone could exceed \$1 billion by 2007 if current compounds under investigations are effective. In addition, the market opportunity could potentially reach \$2 billion as several of these potential therapies could be applicable to similar disease morphologies such as diabetic retinopathy or macular edema. Given that the root causes of AMD are still unknown and curing the disease is difficult, most investigations are exploring treating the symptoms. As a result, we believe that there will likely be multiple winners in the market.

Rheopheresis

Rheopheresis blood filtration involves eight treatments over a 10-week period. The financial impact of the RHEO treatment on TLCV will largely depend on the allowance and rates of government reimbursement. Currently, plasmapheresis is a reimbursed procedure. If Medicare and Medicaid allow broad reimbursement coverage for the dry AMD population, TLCV can market its RHEO treatment to hospitals directly. If government reimbursement is not allowed, however, TLCV will likely pursue partnerships with local ophthalmologist offices. The former scenario is much more favorable to TLCV.

Cataract Market

According to the National Eye Institute, cataracts affect nearly 20.5 million Americans over the age of 40 (or about 1 in every 6 people in this age group) and more than half of all Americans over 80 years of age. According to the World Health Organization (WHO) cataracts are the leading cause of blindness in the world. More than 1 million cataract removals are performed in the United States each year—8.7 million worldwide—making it one of the most common of surgical procedures.

Currently, 35 million Americans or 13% of the population is aged 65 and older. According to U.S. Census figures, this number will increase to approximately 20% by 2030. The aging population will bolster growth in the cataract market going forward. It is expected that the cataract market will grow 5-7% during 2004-2005.

Despite changes in demographics indicating that more and more people will need to undergo cataract surgery, it is uncertain whether or not Medicare will pay for new technologies in the future. Currently the federal government spends more than \$3.4 billion each year treating cataracts through its Medicare program. Medicare payments for cataract surgery are divided into Part A (facility) and Part B (surgeon) for reimbursement. While the Part A reimbursement rate has increased over the years, Part B reimbursements have fallen for the past two decades. As a result, cataract procedures have increased in ambulatory surgery centers (ASCs) over hospital-outpatient facilities. This shift has actually favored TLCV. TLCV's Midwest Surgical Services subsidiary is the largest national provider with an estimated 70% of the outsourced cataract market. TLCV expects to perform over 40,000 cataract procedures in 2003, up 15% from 34,700 in 2002. TLCV's goal is to increase its cataract procedures by



approximately 7% in 2004, double the overall U.S. projected growth rate of 3.5%.

A LOOK AT THE COMPETITION

TLC is primarily known as a laser vision correction service provider. The company's major competitors are similar service providers. Approximately 145 million people in the US require vision correction (25% of population for myopia, 25% for hyperopia). The two primary corporate competitors in this market are LCA Vision (LCAV) and Laser Vision Institute (LCI). Both companies have had a history of legal problems related to marketing practices. Both businesses have historically had basically the same operating and patient acquisition model, defined as low price advertising followed by "up selling" commonly called 'bait and switch'. Both LVI and LCAV were subject to FTC investigations into false and misleading advertising. Both were parties to the settlement agreement with the FTC without admitted or denying wrong doing. Primary competition comes from individual practices (58%) of the market and other related surgical avenues (12%).

TLCV relies on optometric referral for patient acquisition. Most of the company's marketing (including Tiger Woods) is OD practice based. Given the geographical areas in which TLCV competes and the company's pricing models (TLCV average global fee for traditional Lasik is \$1840 vs. \$499 prices as advertised by LCAV and LVI), TLCV's principle competitor are individual practices and university centers. LCAV's principle competitor is LVI. TLCV competes in more markets with LVI than LCAV, but in either case TVLC targets a different market in both quality and pricing.

Competition in the Refractive Corrections Service Market

The most recent reported MarketWatch report broke down market share as follows:

Table 10: Estimated US Refractive Volumes

Est. US Refractive Volumes	Percent (% of the market)
Total Volume = 1.1 million	
TLCV	17%
LCAV	6%
LVI	7%
Other	12%
Individual Practices	58%

LCA Vision (LCAV) is a major competitor of TLC because laser vision correction procedures are similar to those of TLC. The company is a leading developer and operator of fixed-site laser refractive surgery centers that specialize in LASIK (brand name LasikPlus) and Photorefractive Keratectomy (PRK) surgeries. Beginning in 1991, LCA Vision has performed 250,000 laser vision correction procedures. By way of comparison, TLCV has performed in excess of 1,000,000 laser vision correction procedures. As of October 2003, LCA-Vision operated 37 laser vision correction centers in the United States (34), Canada (2) and Europe (1). LCAVision uses lasers from Bausch & Lomb, VISX and Alcon to perform the procedures. The company launched custom LASIK technology in the Fall of 2003, and custom LASIK is now available at many of its facilities. LasikPlus utilizes Excimer lasers produced by Bausch & Lomb, VISX, Alcon, and its own branded proprietary Customized Lasik® process. Their newest generation of Excimer lasers employs a "flying spot" technology. The beam is pulsed in tiny, non-overlapping spots all over the treatment zone, following a preprogrammed pattern



controlled by the laser's computer. The company targets myopia, hyperopia and astigmatism. The differentiation between both companies is that LCAV does not have Custom in each of its centers. LCAV does offer Custom in each of its "markets". LCAV does not define its interpretation of a "market". TVLC defines 'market' because 32% of TLCV's center volumes were Custom compared with LCAV's reported 7% percent on less top line volume.

Lasik Vision Institute, a chain of LASIK providers, is a subsidiary of Musa Holdings, Inc, of Lake Worth, Florida. Both LVI and its sister chain, Eyeglass World operate a chain of refractive surgical centers, offering Lasik for only \$199 per eye. LVI has had a history of investigations and/or legal troubles for a variety of problems ranging from patient complaints of excessive complications to fraudulent advertising and unethical and/or unlawful business practices. LVI operates facilities in a number of states and advertises \$299-per-eye and \$499-per-eye rates for Lasik surgery. Various regulatory actions and media investigations suggest that the company advertises lower prices to lure in prospective patients. LVI is owned by three brothers: Max Musa (chief executive), Marco Musa (president); and Marc Andrea Musa (vice president). The company has been criticized because it is argued that the actual cost is \$999 per eye to \$1699 per eye. LVI's practices and procedures created a lack of credibility within the refractive industry.

In 2001, Eyeglass World reported operating 58 outlets in 22 states, while LVI operated 31 outpatient laser vision correction centers in 18 states. LIV (known as the Laser Vision Institute in 2001) had only 11 ophthalmologists in its total number of centers. The company reports that in 2003, its outlets and states have remained relatively flat (59 Eyeglass World outlets in 24 states). However the

company grew to more than 100 LVI centers. LVI's customers are encouraged to have their eyes examined by independent, licensed optometrists. The company often encourages its clients to purchase eyeglasses and corrective lenses. The business model includes outsourcing leased space to the optometrists in the company's outlets. LIV's model has created significant legal problems within the industry. Despite its legal problems it is remarkable that the company more than tripled its number of vision correction centers. This statistic indicates three conclusions to us: the company grew despite legal challenges to its selling procedures; discounting did work, and demand within the industry was strong at the lower level of pricing and competition. See Appendix II for further explanation.

Prime Medical Services, Inc. division, **Refractive Vision Correction ("RVC")** employed specialized laser applications to correct myopia, hyperopia and astigmatism. RVC operated 11 refractive centers. Each center contracts with, and uses physicians who operate refractive surgery techniques. In 2002, Prime Medical divested itself of its RVC operations to focus on its manufacturing and lithotripsy businesses. The company sold the division to its physician partners for \$4.1 million dollars. RVC's total revenues of \$10 million in 2002 did not constitute a meaningful presence in the refractive center market.

AmSurg Corporation (AMSG), founded in 1992, operates practice-based ambulatory single-specialty surgery centers in partnership with clinical group practices that focus on high-volume, low-risk surgical procedures. The business includes 27 centers involved in cataracts and retinal laser surgery. Gastroenterology centers comprise the bulk of its 110 facilities in the United States. Each center performs about 2,500 procedures annually. The company reports that it cost about \$1 - \$1.5 million



annually to develop a surgery center. AmSurg markets its centers directly to managed care organizations. The company is growing by acquiring existing stores, or developing new facilities. Additionally, AmSurg operates a Research Network of over 150 Principal Investigators in 60 locations who are board certified in gastroenterology and internal medicine. Due to their primary expertise and major focus, most of their investigations involve gastrointestinal endoscopy. AmSurg's 27 centers are modest competition for TLC.

Novamed Eyecare was founded in 1995 to partner with physicians in delivering eye care services. Unlike AmSurg, Novamed's primary focus is ophthalmology, operating ambulatory ocular surgery centers and a complementary optical products and services business. NovaMed's primary focus is to develop, operate, and manage practice-based, single-specialty ambulatory surgery centers (ASCs). The company's platform includes 16 ambulatory surgery centers that include 9 fixed-site laser services agreements. Their optical products division, NovaMed Alliance, purchasing organization has procurement relationships with more than 100 suppliers for more than 1000 members (eye care professionals). The company also owns and operates 2 full-service wholesale optical laboratories.

Little Competition in the Dry AMD Market

TLC has a controlling interest in Vascular Sciences (formerly Occulogix), which is developing new medical therapies for ophthalmologic diseases and initially targeting dry AMD. TLC's Rheopheresis treatment has shown considerable promise. Thus, companies that are competing with Vascular Science for the AMD market are also, theoretically, TLC's competitors. Most of the research in AMD,

however, is targeted at treating wet AMD (eg, anti-angiogenesis agents or laser treatment to destroy the new blood vessels). That is because the cause of wet AMD is well documented, which allows targeting of therapies, while the underlying cause of dry AMD has not been well documented. Other research is focusing on restoring vision after it has been lost (eg, transplantation). To date, however, Vascular Sciences has a one-of-a-kind approach in a unique target population and appears to have little real competition in this market.

Iridex is studying the long-term effect of grid infrared (810 nm) diode laser treatment using their IRIS Medical OcuLight SLx infrared laser photocoagulator to halt or slow the progression of dry AMD to wet AMD. A preliminary 4-year study showed that the accumulated fatty deposits (drusen) associated with the early stages of dry AMD were significantly reduced after a single treatment in 78% of the treated eyes compared to 8% of observed eyes. Visual acuity was also significantly improved by two or more lines in 34% of selected treated eyes versus none in the control group. Of note, all eyes that had improvement in visual acuity had reduction in drusen. A 1,000-1,300 patient clinical trial began in 1997 to confirm the preliminary findings. Initially, the study had 2 arms: one with dry AMD in both eyes and one with dry AMD in one eye and wet AMD in the other eye. However, the dry:wet arm was halted due to abnormally low progression of the disease from dry to wet in the observation group, which confounded comparisons between treatment and no treatment. The part of the study in which patients have dry AMD in both eyes, with one treated eye being compared to the other untreated eye, continues. Results are expected in 2004.

Bausch and Lomb and its development partner, *Control Delivery Systems*, are sponsoring a new pilot study, being conducted at Wills Eye Hospital, to investigate the combination of



pharmaceutical therapy and surgical treatment for patients with high-risk drusen. The LASID Study (Laser and Surgical Implantation of Fluocinolone Implant for Drusen and AMD) is an ongoing clinical trial for patients with drusen in one eye. The treatment regimen combines a low-dose fluocinolone-filled Envision TD™ implant and low-intensity laser photocoagulation to prevent development of AMD. The implant uses proprietary Envision TD™ technology that allows the sustained delivery of fluocinolone acetonide directly to the affected area of the eye for up to three years. The rationale for the treatment regimen is to first alter Bruch's membrane and drusen with the laser while inhibiting choroidal neovascularization with the implant. The FDA has already granted fast-track designation for this implant in the treatment of diabetic macular edema.

Visudyne is involved in the Wet AMD market. The company uses ocular photodynamic therapy, approved by the FDA in 1999. Visudyne, partnered with Novartis, has gross product revenues estimated to be \$335 - \$350 million in 2003. Visudyne is a photosensitizer used to treat choroidal neovascularization. Visudyne has been approved in over 65 countries, including the United States, Canada and those of the European Union, for the treatment of predominantly classic subfoveal CNV in AMD. In addition, Visudyne has been approved in over 50 countries for extended indications, including occult CNV in the European Union, Australia and New Zealand, CNV due to pathologic myopia in the United States and the European Union and CNV due to presumed ocular histoplasmosis syndrome in the United States. QLT is evaluating Visudyne for the treatment of multiple basal cell carcinoma and the proprietary photosensitizer QLT0074 in the treatment of benign prostatic hyperplasia, the most common prostatic disease, and androgenetic alopecia (male pattern baldness). We have no information to believe the company intends

to target Visudyne or another compound at the dry AMD market. See www.visudyne.com.

Eye Care Industry Categories

The following companies provide an insight into three Eye Care sectors: Eye Care Product Suppliers, Medical Laser Equipment Manufacturers, and Eye Care Service Providers. These public companies include:

Eye Care Products Suppliers:

Alcon Inc., Advanced Medical Optica, Bausch & Lomb, Inc., Staar Surgical Co and VISX Inc.

Medical Laser Equipment Manufacturers

BioLase Technology, Candela Corporation, Laserscope Designs.

Eye Care Service Providers

LCA Vision Inc., NoveMed Eyecare Inc., TLC Vision Corporation

Legal Contingencies

TLCV's legal slate is remarkably clean in an industry that has been plagued with problems of false advertising, deceptive trade practices and severe price competition. There are currently no complaints for either allegation, unlike Lasik Vision Institute. In March 2003, the Company and its subsidiary OR Providers, Inc. were served with subpoenas issued by the U.S. Attorney's Office in Cleveland, Ohio. We understand the subpoenas related to OR Providers before LaserVision acquired them in 2001. The matter is relatively immaterial to TLCV's overall performance. In 2001 an arbitration award issued against TLC Network Service Inc. for \$2.1 million that was fully accrued for in fiscal 2002 (the company is appealing), the company's legal slate is outstanding. There have been reported



incidents of unsuccessful procedures by company doctors. Laser surgery is not a guaranteed therapy. Nevertheless, unsuccessful procedures have statistically occurred in a small minority of cases. It is clear to us that TLCV runs a clean ship; the best in its industry.

MANAGEMENT TEAM

The following includes the biographies of the management team. This team has been through a boom and bust cycle. It is seasoned, experienced and capable of guiding the company through an extended growth period.

Elias Vamvakas, age 45 Elias Vamvakas received his Honors B.Sc. from the University of Toronto in 1980. With his post graduate work in Finance and Investment Management, he received his Chartered Financial Consultant designation in 1989. Mr. Vamvakas, together with Dr. Jeffery J. Machat, MD, FRCSC, DABO, co-founded TLC Laser Eye Centers Inc. where he has been the Chairman and CEO since in early 1994. Prior to co-founding TLC Laser Eye Centers Inc. in 1993, Mr. Vamvakas was the President of the Creative Planning Financial Group of Companies. Elias Vamvakas was honored to be named one of Canada's "Forty Under Forty", an award given to the top 40 business people under the age of 40. He was also named Ernst & Young's Entrepreneur of the Year for Ontario and National Entrepreneur of the Year in the Emerging Category. In June of 1999, Mr. Vamvakas was honored for leading Canada's fastest growing company. He has since appeared for three consecutive years in the top-10 performers list of Profit Magazine. He is a member of Young Presidents' Organization (YPO) and a member of "Who's Who" among American Business Executives.

James C. Wachtman, age 42, became President and Chief Operating Officer of TLC Vision in May

2002. Prior thereto, Mr. Wachtman served as Chief Operating Officer of North America operations of LaserVision from June 1996 to May 2002 and President of LaserVision from August 1998 to May 2002. Prior to joining LaserVision, Mr. Wachtman was employed in various positions by McGaw, Inc., a manufacturer of medical disposables. Most recently, he served as Vice President of Operations of CAPS, a hospital pharmacy division of McGaw.

B. Charles Bono III, age 55, became Chief Financial Officer of TLC Vision in May 2002. Prior thereto, Mr. Bono served as Executive Vice President, Chief Financial Officer and Treasurer of LaserVision from October 1992 to May 2002. From 1980 to 1992, Mr. Bono was employed by Storz Instrument Company, a global marketer of ophthalmic devices and pharmaceutical products that is now a part of Bausch and Lomb Surgical, serving as Vice President of Finance from 1987 to 1992.

Robert W. May, age 55, became Co-General Counsel of TLC Vision in May 2002, was appointed Secretary as of June 1, 2002 and became General Counsel in November 2002. Prior thereto, Mr. May served as Vice-Chairman and General Counsel of LaserVision from September 1993 to May 2002. Prior to joining LaserVision as a full-time employee, Mr. May served as Corporate Secretary, General Corporate Counsel and a director of LaserVision. Mr. May was engaged in private legal practice in St. Louis, Missouri from 1985 until 1993.

Paul Frederick, age 58, has been the Executive Vice President, Human Resources of TLC Vision since February 2001. Prior to joining TLC Vision, Mr. Frederick worked at the Thomas Cook Group Ltd. (UK), from 1992 to 2000 where he held ever-increasing levels of responsibility. He most recently served as Executive Vice President, Business Transformation. From 1988 to 1992, Mr. Frederick ran his own consulting practice specializing in



leading edge behavioural based human resource products. From 1978 to 1988 Mr. Frederick worked at the American Express Company where he held the positions of Assistant Vice President Human Resources for the Fireman's Insurance Company and later Vice President, Human Resources, General Services and Facilities, American Express Canada.

Directors

E.A. Vamvakas Insurance Agencies Limited, an insurance, financial planning and benefits provider, and the President of the Creative Planning Financial Group of Companies, a private provider of financial planning, benefits and pension plans.

John J. Klobnak has served as Vice-Chairman of the Board of Directors of TLC Vision since May 2002. From July 1988 to May 2002, Mr. Klobnak was Chairman of the Board of Directors and Chief Executive Officer of LaserVision. From 1990 to 1993, Mr. Klobnak served as LaserVision's Chairman, President and Chief Executive Officer. From 1986 to 1988, he served as Chief Operating Officer and, subsequently, President of MarketVision, a partnership acquired by LaserVision upon its inception in 1988. Prior to 1986, Mr. Klobnak was engaged in marketing and consulting. Mr. Klobnak is currently a director of Quick Study Radiology, Inc.

John F. Riegert has been a director of TLC Vision since June 1995. Mr. Riegert was the Secretary of TLC Vision from 1995 until November 1999. Prior to joining TLC Vision, Mr. Riegert was the Chief Executive Officer of Crossroads Christian Communications Inc., a national broadcasting company, from 1992 to 1995, a private corporate consultant from 1991 to 1992, and the Vice President and Secretary-Treasurer of the Canadian Bankers' Association from 1969 to 1991. From 1963 to 1969, Mr. Riegert was a management

consultant for the firm now known as KPMG Peat Marwick.

Thomas N. Davidson has been Chairman of NuTech Precision Metals Inc. and Chairman of Quarry Hill Group, a private investment holding company, since 1986. NuTech Precision Metals Inc. is a manufacturer of high performance metal fabrications for the health care, aerospace, high technology and chemical industries. Mr. Davidson is past Chairman of Hanson Chemical Inc., a supplier of janitorial cleaning products, General Trust and PCL Packaging Inc., a supplier of plastic packaging. He is on the board of CMA Holdings, Inc., HMI Industries, Inc., MDC Corporation, Inc. and Azure Dynamics, Inc. and was recognized by the Financial Post as the Canadian Entrepreneur of the year in 1979.

William David Sullins, Jr., OD has been a director of TLC Vision since June 1995. Dr. Sullins has been the President and Chief of Clinical Services of Sullins Family Eye Care Clinics, P.C., a professional optometric corporation, since 1991. Dr. Sullins is a founding member and distinguished practitioner of National Academies of Practice, a Fellow and former member of the Admissions Committee of the American Academy of Optometry, a Fellow and Admissions Chair of the Tennessee Academy of Optometry, Adjunct Professor at the Southern College of Optometry, former Chair of the Council on Optometric Education, and Past President and former Chairman of the Board of Trustees of the American Optometric Association. Dr. Sullins is a former director of First Franklin Bankshares, Bank First Corporation and of First National Bank and Trust Company. Dr. Sullins was inducted into the National Optometry Hall of Fame in 2002.

Warren S. Rustand has been a director of TLC Vision since October 1997. Since October 2001, Mr. Rustand has been Chairman and Chief



Executive Officer of Summit Capital Consulting. Mr. Rustand has also been a Strategic Partner of Harlingwood Capital Partners, a San Diego-based investment firm, since January 2000. Mr. Rustand was the Chairman and Chief Executive Officer of Rural/Metro Corporation, a U.S. public company providing ambulance and fire protection services from 1996 to August 1998. Mr. Rustand was Chairman and Chief Executive Officer of The Cambridge Company Ltd., a merchant banking and management consulting company, from 1987 to 1997. From 1994 to 1997, Mr. Rustand was also the Chairman of 20/20 Laser Centers, Inc., which was acquired by TLC Vision in 1997.

Richard L. Lindstrom, M.D. has served as a director of TLC Vision since May 2002 and, prior to that, as a director of LaserVision since November

1995. Since 1979, Dr. Lindstrom has been engaged in the private practice of ophthalmology and has been the President of Minnesota Eye Consultants P.A., a provider of eye care services, or its predecessor since 1989. In 1989, Dr. Lindstrom founded the Phillips Eye Institute Center for Teaching & Research, an ophthalmic research and surgical skill education facility, and he currently serves as the Center's Medical Director. Dr. Lindstrom has served as an Associate Director of the Minnesota Lions Eye Bank since 1987. He is a medical advisor for several medical device and pharmaceutical manufacturers. From 1980 to 1989, he served as a Professor of Ophthalmology at the University of Minnesota. Dr. Lindstrom received his M.D., B.A. and B.S. degrees from the University of Minnesota.

Table 11: Management and Compensation

Name, Position	Fiscal Year Ended	Salary for Fiscal Yr.	Bonus for Fiscal Yr.	Common Shares Underlying Options
Elias Vamvakas	Dec-31-02	218,750	37,500	125,000
CEO	May 31, 2002	484,468		180,000
	May 31, 2001	380,219		209,156
	May 31, 2000	324,429		
James Wachtman	Dec 31, 2002	189,583	47,396	
Pres, CEO	May 31, 2002	14,852		
B. Charles Bono	Dec 31, 2002	140,009	37,500	
CFO	May 31, 2002	10,969		
Robert W. May	Dec 31, 2002	148,750	39,844	
General Counsel	May 31, 2002	11,653		
Paul Frederick	Dec 31, 2002	78,750	19,688	
Ex VP Human Resources	May 31, 2002	104,776	60,190	14,000
	May 31, 2001	33,000		40,000



Cash Flow Analysis

An analysis of TLC Vision's cash flow is insightful. A meaningful look at the company's operations is achieved by calculating the top-down cash flow. We begin with Revenues, adjust for change in Receivables to calculate Gross Cash Collections.

We then add changes in Working Capital accounts with operating expenses to determine the gross cash expenses. Netting Gross Cash Collections with expenses yields the Derived Net Cash Flow from Operations, (NCFO). This data series is quite different from the Cash Flow from Operations that the company reports.

Table 12: Reported Net Cash from Operations vs. Derived NCFO

	Sep-03	Jun-03	Mar-03	Dec-02	Sep-02
Reported Net Cash from Operations	1.67	0.09	0.55	1.26	9.73
Derived NCFO	2.67	2.45	(1.70)	(27.92)	10.29

While the company has consistently reported a positive net cash flow from operations for the past five quarters, the derived NCFO tells a different story. The large negative value for NCFO in 4Q02 is a concern, but looking closer is revealing. TLCV had a large decrease in payables in 4Q02 that caused the negative NCFO. Receivables increased in 1Q03. In 2Q03, another decrease in payables was more than offset by an increase in accruals, causing the positive NCFO. In 3Q03, the positive NCFO is not the result of any large change in working capital accounts.

NCFO metric to remain positive over the next year given that the new custom LASIK procedures have both higher revenues and margins.

Cash flow management does not display signs of internal struggles. Cash levels are high, as outlined in Liquidity and Leverage. Such healthy liquidity allows management to make the adjustments which caused the negative NCFO in 4Q02.

The trend in NCFO over the last few quarters is positive. The latest quarter indicates sound working capital management and highlights the healthy cash flow generating business model. We expect the

LIQUIDITY AND LEVERAGE

The company's leverage ratios have remained relatively stable with a slight degradation over the past six quarters. Short-term debt is growing relative to total debt, and cash balances remain healthy.

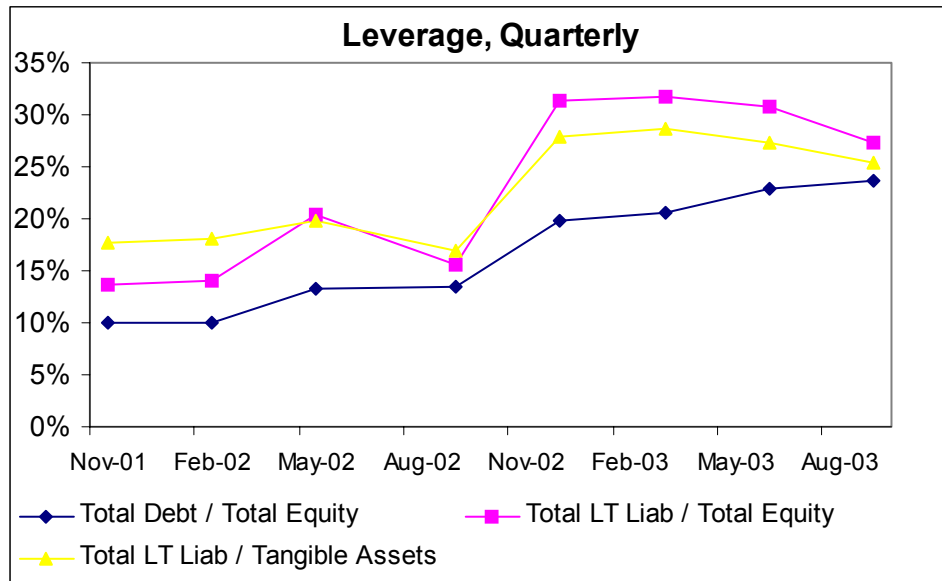
Table 13: Cash Flow Management

	Sep-03	Jun-03	Mar-03	Dec-02	Sep-02	May-02
Total LT Liab / Total Equity	27.3%	30.7%	31.7%	31.4%	15.7%	20.4%
Short Term Debt / Total Debt	36.6%	32.9%	32.4%	28.6%	28.5%	29.1%
Cash / Shareholders Equity	26.4%	27.6%	27.7%	33.7%	25.9%	30.4%

Although debt/equity ratios have been increasing in recent quarters, they are not alarming.



Chart 19: Leverage, Quarterly



Cash balances constitute half of current assets, a sign of strong liquidity. Receivables constitute a larger portion of current assets as current assets have declined.

Table 14: Cash Balance Metrics

	Sep-03	Jun-03	Mar-03	Dec-02	Sep-02	May-02
Cash / Total Assets	15.2%	15.7%	16.1%	19.2%	17.0%	19.2%
Cash / Current Assets	49.8%	51.3%	53.2%	61.1%	57.6%	57.4%
Receivables / Current Assets	31.9%	30.1%	30.5%	23.0%	26.7%	21.9%
Working Capital	\$8,145	\$10,025	\$12,607	\$12,523	\$12,039	\$23,378

Working Capital has been fairly stable. As mentioned in the discussion on cash flows, the working capital accounts have been used to generate cash for the company. This trend deserves close monitoring.



Chart 20: Leverage Quarterly

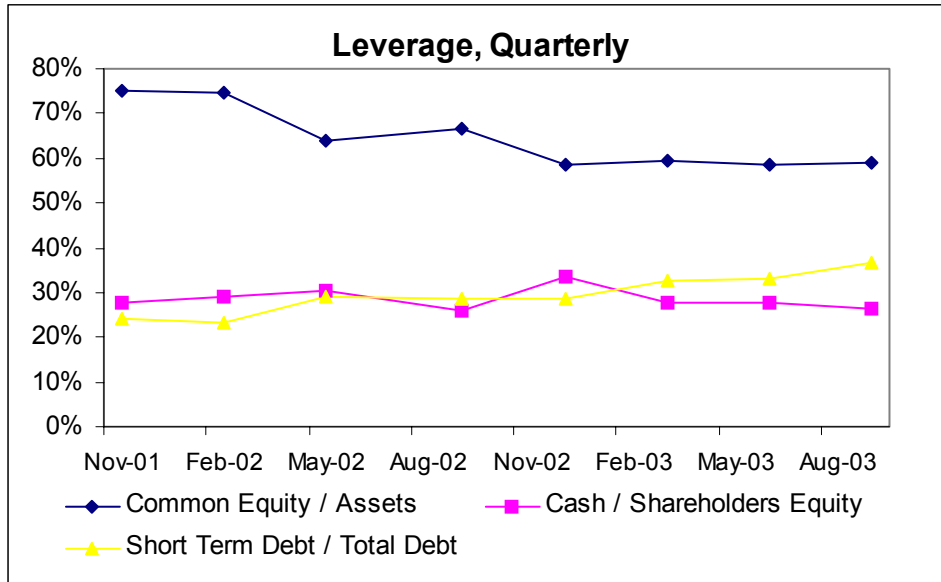
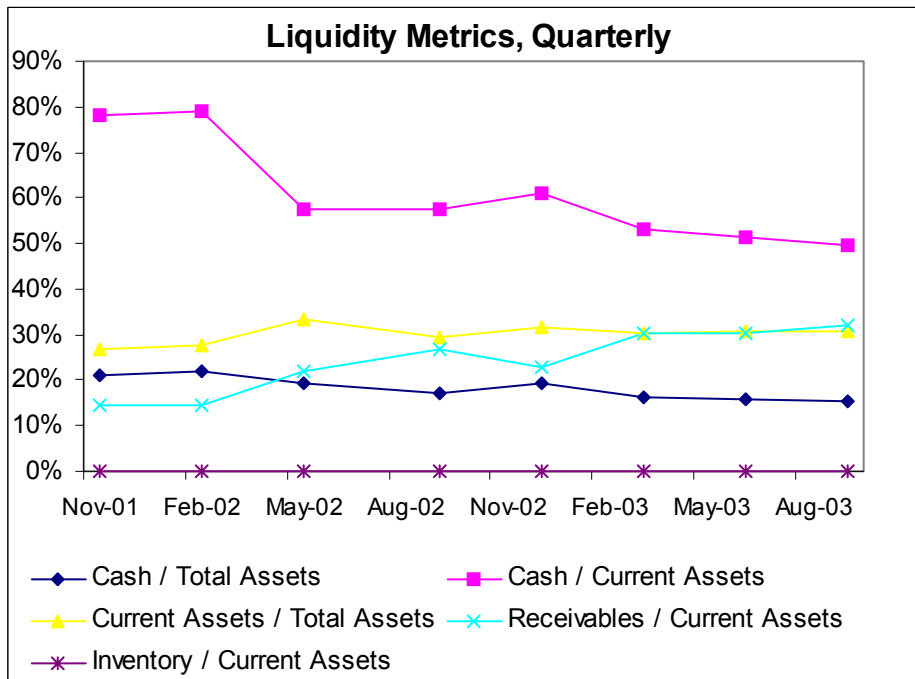


Chart 21: Liquidity Metrics, Quarterly





OUR MODEL

We have modeled the company under the following assumptions.

1. Average revenue/procedure for regular LASIK assumes that the average global fee for regular LASIK at a TLC center is \$1,825 per eye.

This translates into average net revenue after doctor compensation per procedure at a TLC center of \$1,025 per eye. Ten percent (10%) of the global fee is paid to the doctor (usually an OD) who performs the pre-operative exam; 15% goes to the surgeon (ophthalmologist) who does the surgery; and 10% goes to the doctor (usually the same OD that performed the pre-op). Both "owned" and "managed" refractive revenues are derived TLC centers. The "owned" centers are operated in jurisdictions where the company can employ doctors. Therefore, the company records the full global fee as revenue and must expense 35% of the global fee that is paid to the doctors as doctor compensation in Cost of Sales. The "managed" centers are operated in jurisdictions where it is against practice of medicine laws to directly employ doctors. Therefore, the surgeon charges the patient the full global fee. He/she then pays 10% for pre-op and 10% for post-op to the co-managing OD. TLVC charges him/her a 65% management fee. In either case, the company's net revenue after doctor compensation is about 65% of the global fee (i.e. what patients pay). In addition, approximately 35% of company center procedures are derived from the TLC Corporate Advantage Program were patients enrolled at companies and through participating vision and managed care plans, (e.g. VSP, Kaiser, etc.) receive an approximate 10% discount off the global fee. In the case of access, the average revenue per procedure is \$450 per eye.

2. The assumptions used for average revenue/procedure for CustomLASIK are as follows.

The average global fee at a TLC center for CustomLASIK is \$2,250 per eye. The company's average net revenue after doctor compensation for Custom is, therefore, \$1,463 per eye (65% of global fee) before TLC Corporate Advantage Program discounts. Revenue per procedure for Custom on the access side is yet to be determined because this program is new and has not been fully experienced.

3. The calculations for numbers for each procedure, historical and forecast relate to the fact that Custom was recently introduced in Q3-03. For that quarter, 32% of procedures at the "owned" and "managed" centers were Custom and 68% were regular. The company expects to reach approximately 70% Custom and 30% regular in the centers by the end of calendar 2004.
4. We have projected the number of AMD procedures in 2005 based on the following:

The company expects AMD approval in 2H-05. Therefore, TLCV could/should sell approximately 96,000 filter sets (12,000 patients times 8 treatments) at \$1,000 per set. This would translate into \$96 million of revenues, or \$38 to \$48 million in net income. TLC owns 63% of the OccuLogix economics. Therefore, \$60 million of the revenues and \$24-\$30 million of net income would add to TLCV's top and bottom lines in the P&L statement.



5. We have assumed the following ramp up to 1% AMD penetration after approval.

We believe a 1% penetration in the first full year of approval is reasonable. Therefore, in 2006 we would expect TLCV to sell approximately 1.2 million filter sets (15 million patients times 1% penetration times 8 treatments) at \$1,000 each. We estimate that net margins will remain at the 40-50% level, assuming that TLCV's economic interest remaining at 63%.

CONCLUSION

We recommend shares of TLCV common, with an intermediate term target price of \$27.52 based on the acceptance of AMD in a Phase III trial. Without AMD, shares are fairly valued. However, competitor LCAV trades at 28x estimated 2004's earnings. Were TCLV to command the same multiple, the stock would trade at \$12.80. TLCV has the dry AMD option. LCAV does not. We believe that multiples will expand as the industry recovers. We also believe that industry demand, consumer spending, an improved economic and stock market environment will benefit TLCV's

business and increase procedure volumes. Investors are able to purchase shares of TLCV common at 17.1 times 2004's estimated earnings per share. The AMD \$25.2 million 2005 kicker in a \$28 billion dollar at today's share prices is gratis. The current stock price assumes that the AMD procedures will not be approved. We believe the procedure will be approved in mid 2005, given that the FDA has fast-tracked the procedure. The current stock price does not factor in the revenue growth and margin expansion from the AMD procedures.

The AMD market opportunity could potentially be larger during 2007 - 2010 if reimbursement rates and pricing increase. This would drive share prices higher. TLCV may very well become a buy out candidate for such companies as Bausch and Lomb and others. We believe purchasing shares of TLCV at today's share prices offers investors an exciting opportunity in a powerful growth market. We recommend purchase of TLCV common for long term growth oriented investors.

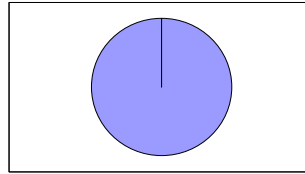
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**Percent Buy Recommendations: 100%****Disclaimer:**

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GLOSSARY

Term	Definition
Ametropia	Refractive error that prevents the eye from focusing the image of distant objects on the retina; includes hyperopia, myopia, and astigmatism.
Aqueous humor	The watery substance that fills small chambers behind the cornea and helps to bend (refract) light as it passes so that it focuses on the retina.
Astigmatism	Uneven curvature of the cornea. Corrected with cylindrical lenses (denoted by plus or minus power and axis).
Choroid	The middle layer of the eyeball that houses the blood vessels that carry nutrients to the eye.
Cone cells	Specialized cells (about 7 million) located mostly in the central area of the retina called the macula that are responsible for color vision and sharp vision that allows us to see fine detail
Contraindicated	Inadvisable because of risk due to special circumstance or symptom
Cornea	Extension of the sclera at the front of the eye that is clear to allow the entry of light
Excimer laser	A machine that emits a nonthermal cold beam. Interaction of the laser beam with corneal tissue breaks the carbon-carbon bonds between molecules, removing the tissue.
Farsightedness	see Hyperopia
Floaters	Small particles in the vitreous which may be of embryonic or pathological origin (e.g. in retinal detachment, vitreous detachment). The patient sees spots especially against a bright background which float as the eye moves. Floaters are common in normal older eyes.
Hyperopia (farsightedness)	A refractive error in which the eyeball is too short or the lens system of the eye is too weak causes light rays to focus behind the retina, resulting in good distance vision but the inability to clearly see objects up close. Can be corrected with convex or plus (+) lenses.
Iris	The part of the eye that gives it its color; it is composed of specialized cells that can change the size of the pupil (range about 2 - 8 mm) to regulate the amount of light entering the eye
Keratotomy	An operation to change the refraction of the cornea. A piece of corneal stroma is removed, which steepens the cornea and increases its focusing power.
Keratotomy	Any incision through the cornea; an operation making a partial thickness incision into the cornea to flatten it and reduce its refractive power.
Legal blindness	In the U.S., this is a term defined in the Social Security Act (section 216(i)1) as central visual acuity of 20/200* or less in the better eye <i>with the use of a correcting lens</i> , or a limitation in the field of vision such that the widest diameter of the visual field subtends an angle no greater than 20 degrees. * This means that what a person with normal vision can see at 200 feet, a legally blind person can see at 20 feet.
Macula	The small, central part of the retina where the greatest concentration of cone cells are found.



Term	Definition
Myopia (nearsightedness)	A refractive error in which the eyeball is too long or the lens system of the eye is too powerful causes light rays to focus in front of the retina, resulting in inability to clearly see objects at a distance. Can be corrected with concave or minus (-) lenses. Nearsightedness see Myopia
Optic nerve	A bundle of more than 1 million nerve fibers that connects the retina with the brain
Orbital cavity	A pocket of bone within which the eye sits; lined with fatty tissue that cushions the eye
Photorefractive keratectomy	Removal of part of the cornea with a laser to correct the refractive error
Plasma	The part of blood that remains after the cellular component (white cells, red blood cells, platelets) have been removed
Presbyopia	Reduced ability to focus that usually occurs in middle age due to the hardening and inelasticity of the crystalline lens; corrected with plus lenses.
Primary visual cortex	The area of the brain that receives and interprets the electrical impulses from the retinal cells
Pupil	The round opening at the center of the iris through which light enters
Radial keratotomy	A keratotomy with radial incisions around a clear central zone
Refractive error	A defect in the eye's ability to bring light rays to focus on the retina. Myopia, hyperopia, and astigmatism are refractive errors. Refractive errors can be corrected to normal vision.
Refractive keratotomy	Modification of corneal curvature by means of corneal incisions to correct myopia, hyperopia, or astigmatism
Retina	The inner-most layer of the eyeball, the retina contains special cells (cones and rods) that are stimulated by light to send signals to the brain; the signals are interpreted by the brain as sight.
Rheopheresis	A blood-filtration process to remove excess large proteins and lipoproteins that are believed to have a role in causing AMD.
Rod cells	Specialized cells (about 100 million of them) located around the edge of the retina (away from the macula) that provide vision in dim light.
Sclera	The tough outer layer of the eyeball that helps to maintain its shape; attached to the orbital cavity by 6 muscles that allow the eye to move.
Wavefront analyzer (aberrometer)	A device that measure the way light travels through the entire optical pathway and compares it to the way light travels through an optically perfect eye

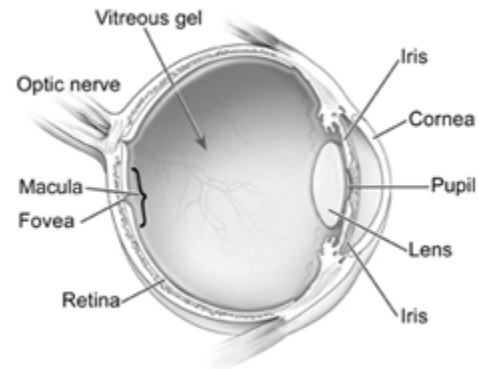


APPENDIX I: HOW EYES WORK

The Human Eye

The human eye is a complex organ. The eyeball is a sphere that, despite its small size (about 1" in diameter) contains many layers and internal structures (see figure at right) that work together to make sight possible. The tough outer layer, or **sclera**, helps to maintain the shape of the eyeball. At the front of the eye is the **cornea**, which is just as tough as the sclera is clear but is clear, to allow the light to enter. The next layer is the **choroid**, which houses the blood vessels that carry nutrients to the eye. The inner-most layer is the **retina**. The retina contains special cells (cones and rods) that are sensitive to light, which stimulates them to send signals. The **aqueous humor** is a watery substance that fills small chambers behind the cornea. The **pupil** is a round opening at the center of the **iris**. The iris, which provides the eye its color, is composed of specialized cells that can change the size of the pupil to regulate the amount of light entering the eye. The **lens** is another clear, layered, small structure (about 10mm in diameter) attached to muscles that contract or relax to change the shape of the lens as required to focus the light for visual clarity. The **vitreous humor** is a jelly-like substance at the back of the eye, in front of the retina. The eye sits inside the **orbital cavity**, a pocket of bone lined with fatty tissue that cushions the eye. The sclera is attached to the orbital cavity by 6 muscles that allow the eye to move. The **optic nerve** is a bundle of fibers that leave the eye from the back of the retina and connect to the primary visual cortex in the brain.

The Internal Layers and Structures of the Eye



Source: National Eye Institute, NIH

Vision is the result of a series of processes:

- Light enters the eye. As it travels through the aqueous humour, the pupil, the lens, and the vitreous humor, light is bent (**refracted**) so that it focuses on the retina
- The light stimulates specialized cells (**rods** and **cones**). A chain of chemical reactions occurs within fractions of a second that translate the light into electrical impulses
- The electrical impulses are sent via the **optic nerve** to the **primary visual cortex**, where the electrical impulses are interpreted as sight

Visual acuity, or sharpness, is defined by the ability to see clearly at 20 feet. Normal visual acuity is 20/20. As the bottom number increases, vision is worse than normal. For example, a person with 20/400 vision must stand 20 feet from an object to see what a person with normal vision sees clearly at 400 feet. In contrast, some people have “super vision” and can see better than what is considered



normal (eg, 20/15). Most individuals with impaired vision can have their vision corrected to normal or near-normal. If vision cannot be corrected by any

known method to better than 20/200, that individual is considered “legally blind”.



APPENDIX II: OWNERSHIP SUMMARY

Description	Value
% Shares Owned	31.60
% Change in Ownership	13.79
# Institutions	50
Total Shares Held	20,888,131
3 Mo. Shares Purchased	6,782,616
3 Mo. Shares Sold	(4,251,252)
3 Mo. Net Change	2,531,364
Price Range Quarter	\$0.91 - \$1.41
# New Buyers	20
# Closed Positions	13
# Buyers	31
# Sellers	26
# Net Buyers	5



MANAGEMENT Co.	SHARES	SHARES CHANGE	VALUE	PERC VALUE CHANGE	PERC SHOUT	REPORT DATE
CARNEGIE ASSET MGMT (STOCKHOLM)	2,998,500	2,293,300	\$3,005	66.2	4.5	
IG INVESTMENT MGMT LTD	2,957,000	-133,600	\$18,540	0.2	4.5	9/30/2003
PEQUOT CAPITAL MGMT	2,189,500	1,162,500	\$13,728	1.7	3.3	9/30/2003
GALLEON MANAGEMENT LP	2,122,808	-1,115,609	\$13,310	-0.2	3.2	9/30/2003
BLACKROCK INC / NY	1,660,860	1,366,960	\$10,414	6.2	2.5	9/30/2003
CORDILLERA ASSET MGMT	1,523,300	1,523,300	\$7,525	1	2.3	6/30/2003
DRIEHAUS CAPITAL MGMT	1,409,631	-239,540	\$8,838	0.1	2.1	9/30/2003
CANADA PENSION PLAN	1,321,000	0	\$6,526	3.1	2	6/30/2003
STERLING JOHNSTON CAPITAL MGMT	1,021,500	186,850	\$6,405	0.6	1.5	9/30/2003
MISSOURI VALLEY PARTNERS INC	886,685	415,685	\$5,560	1.4	1.3	9/30/2003
GOODMAN & CO INVESTMENT COUNSEL	865,800	-66,700	\$3,821	923.6	1.3	
CRAMER ROSENTHAL MCGLYNN	862,070	-207,600	\$5,405	0	1.3	9/30/2003
PETROS ADVISORS LLC	800,000	470,000	\$5,016	2.1	1.2	9/30/2003
ROYCE & ASSOCIATES	751,500	-50,000	\$4,712	0.2	1.1	9/30/2003
VAN BERKOM AND ASSOCIATES INC	560,300	-9,100	\$2,473	277	0.8	
DIMENSIONAL FUND ADVISORS	512,460	-26,000	\$3,213	0.2	0.8	9/30/2003
EGM CAPITAL	423,100	423,100	\$2,653	1	0.6	9/30/2003
RIDGECREST PARTNERS (INVESTMENT MANAGEMENT)	400,000	400,000	\$2,508	1	0.6	9/30/2003
NICHOLAS APPLIGATE CAPITAL MGMT	307,600	-316,400	\$1,929	-0.4	0.5	9/30/2003
ORIGIN CAPITAL MANAGEMENT LLC	260,000	10,000	\$1,630	0.3	0.4	9/30/2003
UBS GLOBAL ASSET MGMT (CANADA)	240,800	240,800	\$277	100	0.4	
ALTAMIRA MGMT LTD	151,700	151,700	\$951	1	0.2	9/30/2003
FEDERATED INVESTMENT MGMT	150,300	300	\$942	0.3	0.2	9/30/2003
BALYASSNY ASSET MANAGEMENT LLC	147,997	147,997	\$928	1	0.2	9/30/2003
NORTHERN TRUST COMPANY OF CONNECTICUT	143,100	21,200	\$897	0.5	0.2	9/30/2003
TRUSCO CAPITAL MGMT	104,240	0	\$654	0.3	0.2	9/30/2003
LEGG MASON CANADA	84,500	84,500	\$530	1	0.1	9/30/2003
UBS FINANCIAL SERVICES	73,570	62,720	\$461	7.6	0.1	9/30/2003
BOSTON PARTNERS ASSET MGMT	72,970	72,970	\$458	1	0.1	9/30/2003
GEODE CAPITAL MGMT LLC	67,414	67,414	\$423	1	0.1	9/30/2003
NORTHERN TRUST CO (CHICAGO)	66,969	0	\$420	0.3	0.1	9/30/2003
FINANCIAL MGMT ADVISORS	59,288	59,288	\$372	1	0.1	9/30/2003
IVORY INVESTMENT MANAGEMENT LLC / FRONTPOINT	54,000	54,000	\$339	1	0.1	9/30/2003
MORGAN STANLEY INVESTMENT MGMT	52,000	12,505	\$326	0.7	0.1	9/30/2003
GRYPHON INVESTMENT COUNSEL INC	51,600	400	\$228	286.4	0.1	
NATIONAL INVESTMENT SERVICES	35,400	0	\$222	0.3	0.1	9/30/2003
SCEPTER HOLDINGS INC	29,400	29,400	\$184	1	0	9/30/2003
FIRST MANHATTAN CAPITAL MGMT	29,330	-48,512	\$184	-0.5	0	9/30/2003
MELLON FINANCIAL CORP	28,740	-2,573	\$180	0.2	0	9/30/2003
NEUBERGER BERMAN	21,794	5,185	\$137	0.7	0	9/30/2003
BRANDYWINE ASSET MGMT	20,815	-4,050	\$131	0.1	0	9/30/2003
BENNETT LAWRENCE MGMT	17,100	-19,550	\$107	-0.4	0	9/30/2003
SMITH BARNEY ASSET MGMT	16,847	16,847	\$106	1	0	9/30/2003
EDWARDS (AG)	10,051	0	\$63	0.3	0	9/30/2003
PNC FINANCIAL SERVICES GROUP	10,000	10,000	\$63	1	0	9/30/2003
DRESNER BANK INVESTMENT MANAGEMENT (FRANKFURT)	9,500	9,500	\$60	1	0	9/30/2003
SUN LIFE FINANCIAL SERVICES OF CANADA	7,900	7,900	\$50	1	0	9/30/2003
CITIGROUP ASSET MANAGEMENT	5,890	5,890	\$37	1	0	9/30/2003
LEGG MASON FUND ADVISORS	3,000	-1,000	\$19	-0.1	0	9/30/2003
MERRILL LYNCH & CO INC	2,500	2,500	\$16	1	0	9/30/2003
US BANCORP ASSET MGMT	2,128	2,128	\$13	1	0	9/30/2003
TD ASSET MANAGEMENT INC	200	0	\$1	0.3	0	9/30/2003
BEAR STEARNS ASSET MGMT	197	-803	\$1	-0.8	0	9/30/2003
WELLS FARGO BANK MONTANA N A	190	190	\$1	1	0	9/30/2003
OPPENHEIMER & CO	87	87	\$1	1	0	9/30/2003
HARRIS BANKMONT	0	-15,250	\$0	-1	0	9/30/2003
TUDOR INVESTMENT CORP	0	-281,400	\$0	-1	0	9/30/2003



APPENDIX III: PHASE III TRIAL, CORPORATE EVENTS

A Brief Synopsis of the Multicenter Prospective, Randomized, Double-Masked, Placebo-Controlled Study of Rheopheresis to Treat NonExucative Age-Related Macular Degeneration: Interim Analysis

The following quotes from the Multicenter Prospective, Randomized, Double-Masked, Placebo-Controlled Study of Rheopheresis to Treat NonExucative Age-Related Macular Dengeneration: Interim Analysis.

Abstract

Objective: to evaluate the safety and efficacy of Rheopheresis blood filtration to treat intermediate to late stage preangiogenic age related macular degeneration (AMD) with soft drusen.

Design: Multicenter, prospective, randomized, double-masked, placebo controlled clinical trial.

Participants: First 43 randomized patients (28 Rheopheresis and 15 placebo-control patients) with available baseline and 3-month postbaseline best corrected visual acuity (BCVA) measurements and intermediate to late stage preangiogenic AMD with multiple large soft drusen and elevated serum levels of targeted macromolecules.

Intervention: Patients were randomly assigned to receive eight Rheopheresis or eight placebo procedures over 10 weeks. Main Outcome Measures; ETDRS BCVA measurements at baseline, 3,6,9, and 12 months postbaseline.

Results: In primary eyes, the mean LogMAR line difference between Rheopheresis and placebo-control eyes was 1.6 times at 12 months postbaseline; the difference was significant throughout the first posttreatment year (P=.0011, repeated measures analysis). Thirteen percent of

Rheopheresis compared with 0% of placebo-control eyes had a >3-line improvement in BCVA at 12 months postbaseline. Four percent of Rheopheresis compared with 18% of placebo-control eyes had a > 3 line loss in BCVA.

The subgroup of patients whose primary eyes had baseline BCVA worse than 20/40 demonstrated a mean LogMAR difference between Reheopheresis and placebo-control eyes equaling 3.0 lines at 12 months postbaseline; the difference was significant throughout the first posttreatment year (P= .0014, repeated measures analysis). Sixteen percent of Rheopheresis compared with 0% of the placebo-control eyes had a >3 line improvement in BCVA at 12 months post-baseline. Five percent of Rheopheresis compared with 29% of placebo-control eyes had a > 3 line loss in BCVA. Fifty eight percent of Rheopheresis eyes improved to 20/40 or better compared with 14% of placebo-control eyes. No serious treatment-related adverse events were observed.

Conclusions: Rheopheresis demonstrated a statistically significant and clinically relevant effects on BCVA when compared with placebo controls for the 12 month study interval. Untreated patients with BCVA worse than 20/40 with intermediate to late stage preangiogenic AMD, soft drusen, and elevated blood factors were at risk for substantial visual loss. A sample size larger than 43 patients is important to provide a basis for widespread adoption of novel therapeutic options for AMD such as Rheopheresis. Tehrefore, enrollment to 150 patients is continuing.”

Significant Corporate Events:

20-Aug-2002 TLC Vision Corp. re-affirmed that it expects to report \$240-\$250 million in revenues and around \$25-\$30 million in earnings before interest,



taxes, depreciation and amortization (EBITDA) for calendar 2003.

Jul-2002 TLC Vision Corp. announced that it has made an equity investment in Vascular Sciences Corporation and together the companies have established OccuLogix, L.P., a 50/50 joint-venture designed to commercialize Vascular Sciences' Rheopheresis blood filtration process (Rheopheresis) for the treatment of age-related macular degeneration in the United States, Canada and Mexico. Vascular Sciences Corporation is a biomedical technology company that was established in December of 1996 to commercialize fundamentally new medical therapies for microvascular diseases, initially targeting age-related macular degeneration.

31-May-2002 TLC Vision Corp. announced that it expects to report \$250 million in revenues and around \$30 million in earnings before interest, taxes, depreciation and amortization (EBITDA) for calendar 2003.

17-May-2002 TLC Laser Eye Centers, Inc. announced that it has formally changed its name to TLC Vision Corp.

15-May-2002 TLC Laser Eye Centers, Inc. announced that its merger with Laser Vision Centers Inc. has become effective.

5-Dec-2001 TLC Laser Eye Centers, Inc. announced that Thomas G. O'Hare will step down from the positions of President and COO effective December 7, 2001. Elias Vamvakas, Chairman and CEO, will assume the added positions of President and COO until a time when the completion of the merger transaction with Laser Vision Centers Inc. takes place and James Wachtman becomes President and COO of the Company.

27-Aug-2001 TLC Laser Eye Centers, Inc. and Laser Vision Centers, a provider of excimer lasers, microkeratomes, other equipment, and value added support services to eye surgeons, announced a definitive merger agreement. Under the terms of a definitive merger agreement, Laser Vision's stock will be converted to TLC stock at a fixed exchange rate. LaserVision shareholders will receive 0.95 shares of TLC stock for each share of LaserVision. The merger will be accounted for under the purchase method and is expected to close by the end of this calendar year.

5-Mar-2001 TLC Laser Eye Centers, Inc. announced that it expects to report net EPS before one-time restructuring charges within an approximate range of \$0.00 - \$0.03. The Company said that strong sequential revenue growth, combined with continuing improvements to its cost structure, are expected to generate fiscal 2001 third quarter financial results substantially better than analysts' estimates of a \$0.13 per share net loss, according to Multex.com.

Feb-2001 TLC Laser Eye Centers, Inc. announced that it has entered into a multi-year technology alliance with Alcon, a subsidiary of Nestle SA engaged in the research, development, manufacture and marketing of ophthalmic products. TLC has agreed to adopt the next generation of flying-spot small beam technology offered by the Alcon Summit Autonomous LADARVision system as its primary platform in the Company's refractive centers. TLC is planning to employ the LADARVision system in every one of its markets throughout North America.

19-Jan-2001 TLC Laser Eye Centers Inc. announced the resignation of Peter Kastelic as Chief Financial Officer effective January 26, 2001.

25-Oct-2000 TLC Laser Eye Centers, Inc. announced that it has chosen to exit from its eye care e-commerce enterprise, eyeVantage.com, Inc.



Throughout its effort to explore strategic alternatives for eyeVantage.com TLC was involved in discussions with third parties with the goal of completely removing any TLC responsibility to "self-fund" the enterprise. However, no firm offer was ultimately received that would have allowed TLC to satisfy this primary objective. TLC intends to take a one-time charge in its fiscal 2nd quarter that is expected to be in a range of \$10 - \$12 million. Although exact amounts cannot yet be determined, the Company expects that this charge will be attributable to a combination of goodwill, cash, and impairment of assets.

24-Oct-2000 TLC Laser Eye Centers, Inc. announced that it has entered into an exclusive world-wide agreement pertaining to the co-development, use and marketing of the proprietary Tracey Visual Function Analyzer for wavefront guided LASIK. The Tracey Visual Function Analyzer features "plug and play" capabilities and can be adapted for use with any small beam flying spot excimer laser currently available on the market - once it is linked to the laser via software that has been developed by and is proprietary to TLC. TLC intends on commercializing its Custom LASIK platform in both Canada and the United States as soon as possible.

2-Oct-2000 TLC Laser Eye Centers, Inc. announced the availability of laser eye surgery using the Alcon Summit Autonomous LADARVision system for treating hyperopia with or without astigmatism and for treating mixed astigmatism using the LASIK procedure. The LADARVision system is the only FDA-approved laser to achieve these indications in a single procedure, minimizing the amount of tissue removed. For the first time, virtually all types of refractive errors are treatable with LASIK surgery.

1-Sep-2000 Lasik Vision Corporation, a North American provider of laser vision correction

services, announced that the trial in the litigation brought by Lasik Vision against TLC Laser Eye Centers, Inc. and others is not proceeding as the litigation between Lasik Vision and TLC has now been resolved. The terms and conditions of the settlement arrangements between the parties cannot be disclosed.

31-Jul-2000 TLC Laser Eye Centers, Inc. announced that Thomas O'Hare was appointed President.

31-May-2000 Eye Care International, Inc., a discount vision plan, announced the signing of an agreement with the TLC Laser Eye Centers, Inc. Through this arrangement, ECI member patients now have an assurance of quality procedures and equipment for LASIK surgeries at substantially reduced costs with flexibility of provider choice.

10-May-2000 eyeVantage.com, a subsidiary of TLC Laser Eye Centers, Inc., announced that it has successfully integrated its Infocus practice management software product in 100 optometry practices nationwide.

8-May-2000 eyeVantage.com, a subsidiary of TLC Laser Eye Centers, Inc., announced that it has entered into a definitive agreement to acquire OOGP ("Oregon Optometric Group Provider").

2-Feb-2000 TLC Laser Eye Centers, Inc. announced that it has signed golfer Tiger Woods as its new spokesperson, for an undisclosed sum.

11-Jan-2000 TLC Laser Eye Centers, Inc. announced that it has gone online with a new Website that provides Internet users with a definitive guide to North America's healthcare procedure.

11-Nov-1999 0TLC The Laser Center, Inc. changed its Company name to TLC Laser Eye Centers, Inc.



APPENDIX IV: CLINICAL ADVISORY GROUP

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COMPETITION

[Http://www.quackwatch.org/04ConsumerEducation/News/ew.html](http://www.quackwatch.org/04ConsumerEducation/News/ew.html) quoted the following information: "Lasik Vision Institute's legal problems were the result of alleged 'bait and switching' tactics. According to the FTC, a \$300 deposit required by the company was nonrefundable if, after the initial consultation, the consumers elected not to have the surgery. The FTC alleges that only \$200 of the deposit was returned to consumers who elected to undergo the surgery but subsequently was rejected for medical reasons. The consent order prohibits unsubstantiated claims that Lasik surgery services or any other refractive surgery services: (a) eliminate the need for glasses and contacts for life; (b) eliminate the need for reading glasses; or c) eliminate the need for bifocals. The order also prohibits LVI from misrepresenting: (a) that consumers will receive a free consultation that determines their candidacy for Lasik or any other refractive surgery services; (b) the cost to consumers to have their candidacy for such refractive surgery services determined; or (c) the information consumers will receive during a consultation for refractive surgery services. There is good reason to believe that the low fees advertised by LVI are difficult or impossible to get and that misrepresentations are common during LVI's "evaluation" process." The Better Business Bureau of West Florida reports that the Lasik Vision Institute of Tampa, Florida, has an "unsatisfactory record...due to unanswered complaints."

In 2001, the Florida Attorney General announced that Eyeglass World would pay \$500,000 and adopt an arms-length relationship with its affiliated optometrists to settle allegations of unlawful marketing practices. According to the Attorney General's complaint: Optometrists leasing space in

Eyeglass World outlets were pressured by the company to issue unnecessary prescriptions for glasses and contact lenses and limit time spent with each patient. The company's goal was to maximize the number of patients seen and ensure that every person who had an eye exam bought corrective lenses. State law prohibits a corporation that leases office space to an optometrist from interfering with their medical practice. In addition to violating that statute, Eyeglass World also: engaged in the sale of outdated, used and non-sterile contact lenses: sold diagnostic lenses and solution starter kits provided free of charge by the manufacturer. misrepresented itself as an approved provider for a certain health insurance plan. intentionally misquoted prices over the telephone, engaged in bait and switch advertising and failed to post its no-refund policy at the point of sale and failed to have a licensed optician on premises at all times and failed to have proper optical equipment or perform tests required by the FDA to determine product safety.

While admitting no wrongdoing, Eyeglass World agreed to provide for consumer restitution and pay the costs of the state's investigation, revise its leases with optometrists to ensure that it does not exert improper influence over their medical practices, implement a corporate ethics program that will include live instruction and creation of a corporate ethics manual. In March 2003, LVI signed an FTC consent agreement to settle charges that the company failed to substantiate claims that its Lasik surgery services eliminate the need for glasses and contacts for life, eliminate the need for reading glasses, and eliminate the need for bifocals. The FTC's complaint also charged that LVI had falsely claimed that consumers would receive a free consultation to determine their candidacy for Lasik.



Instead, after an initial meeting with an LVI representative during which the representative quoted a price for the procedure based on their preferred treatment, LVI required consumers to pay

a \$300 deposit before they were told of the risks associated with the surgery, or if they were eligible candidates for the Lasik procedure.

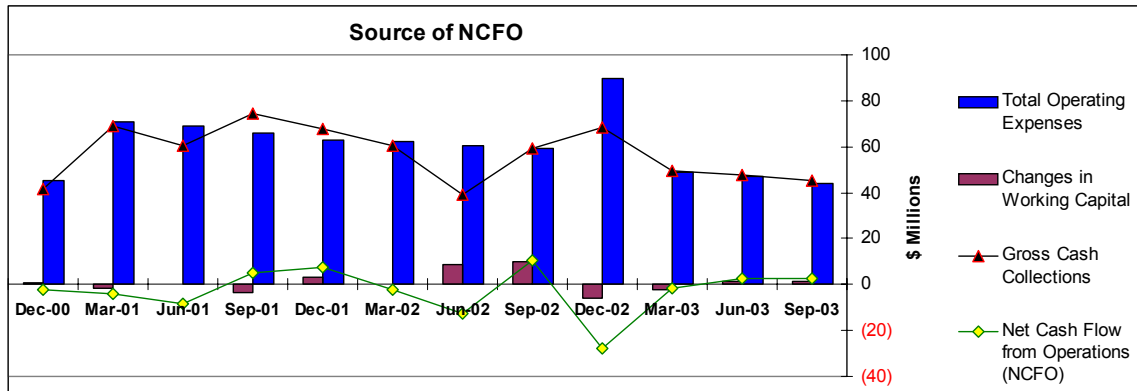
Table 15: Statement of Change in Cash

TLCV	Annual		Quarterly					STATEMENT OF CHANGE IN CASH				
	Dec-02	Dec-01	Sep-03	Jun-03	Mar-03	Dec-02	Sep-02	Jun-02	Mar-02	Dec-01		
Net Income (\$mil)	(205.19)	(39.93)	(4.77)	(2.77)	1.07	(201.58)	137.64	(94.35)	(46.90)	(33.37)		
Depreciation (\$mil)	35.21	11.02	8.90	2.35	5.55	27.39	(13.69)	5.21	16.30	5.50		
Cash from Discontinued Oper (\$mil)	15.17	0.00	0.00	0.00	0.00	15.17	0.00	0.00	0.00	0.00		
Net Other Adjustments (\$mil)	148.83	22.70	2.80	(0.14)	1.74	145.36	(105.77)	84.25	24.99	22.36		
Net Ch in Oper Assets and Liabilities	14.76	1.75	(5.27)	0.66	(7.81)	14.91	(8.43)	4.97	3.31	3.44		
Net Cash from Oper Activities \$mil	8.78	(4.44)	1.67	0.09	0.55	1.26	9.73	0.08	(2.29)	(2.05)		
Property/Plant/Equipment (\$mil)	(5.12)	(1.44)	(1.27)	0.16	(1.61)	(4.13)	1.21	(0.56)	(1.64)	(0.40)		
Subsidiaries (\$mil)	(7.80)	0.00	1.87	(1.87)	0.00	(7.80)	(1.89)	4.03	(2.14)	1.20		
Investments (\$mil)	3.65	4.45	(8.47)	2.14	(2.21)	18.35	(21.53)	3.60	3.23	(1.75)		
Cash Inflow from Invest Activities \$mil	(2.97)	(3.01)	0.78	0.14	0.05	(0.97)	0.75	(2.81)	0.06	(3.01)		
Net Cash by Invest Activities \$mil	(12.25)	(0.00)	(7.08)	0.56	(3.77)	5.44	(21.46)	4.26	(0.49)	(3.95)		
Issuance of Equity Shares (\$mil)	0.23	0.15	4.87	0.63	0.01	0.22	(0.29)	(0.26)	0.56	0.06		
Issuance of Debt Securities (\$mil)	0.00	4.48	1.81	(1.81)	0.00	0.00	0.00	(3.98)	3.98	4.48		
Bank and Other Borrowings (\$mil)	(4.70)	(1.51)	0.00	2.78	(2.78)	(0.60)	(2.79)	0.97	(2.28)	(0.33)		
Dividends and Distributions (\$mil)	0.00	0.00	(3.59)	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Other Cash from Finan Activities \$mil	(3.98)	(2.97)	(3.10)	(1.02)	(0.58)	(3.40)	2.88	0.15	(3.61)	(1.73)		
Net Cash by Finan Activities (\$mil)	(8.44)	0.14	(0.01)	0.59	(3.35)	(3.77)	(0.21)	(3.10)	(1.36)	2.48		
Exchange Rate Effect (\$mil)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Net Change in Cash (\$mil)	(11.90)	(4.30)	(5.42)	1.24	(6.57)	2.93	(11.94)	1.24	(4.14)	(3.52)		
Beginning Cash (\$mil)	93.06	47.98	30.74	29.50	36.08	33.13	45.07	43.83	47.98	77.74		
Ending Cash (\$mil)	81.15	43.68	25.32	30.74	29.50	36.06	33.13	45.07	43.83	74.22		

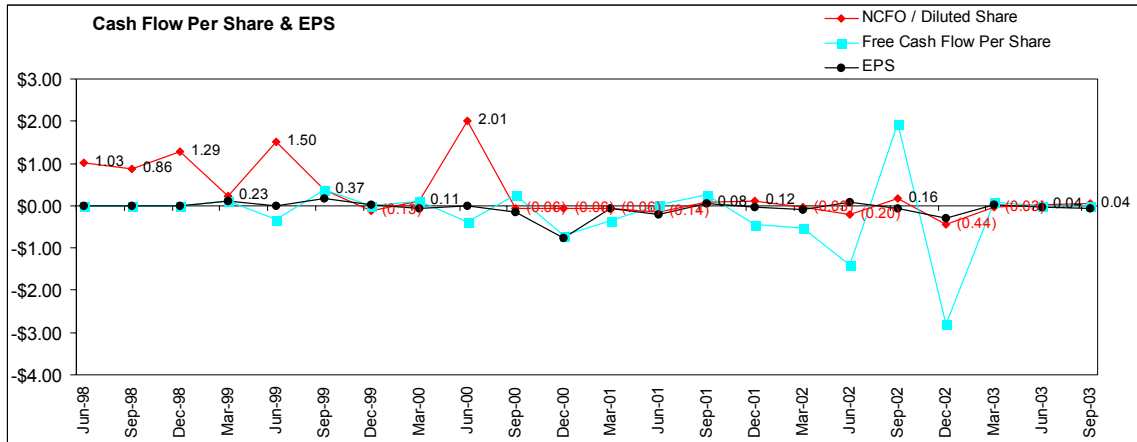
Net Cash Flow from Operations (NCFO)

Explanation of Net Cash Flow from Operations (NCFO)

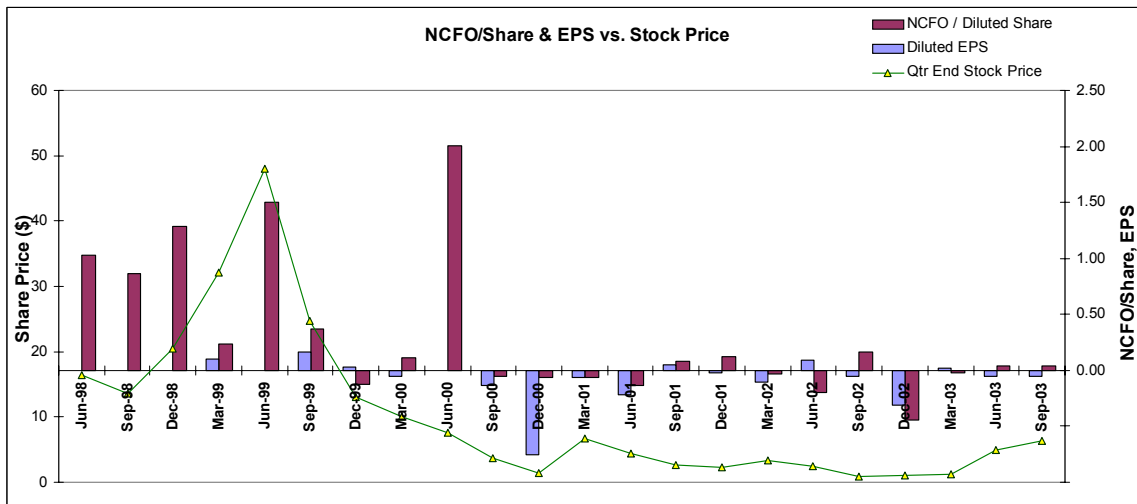
Revenues are adjusted for change in AR to determine the gross cash collected. Gross Operating Expenses (COGS + SGA) is calculated. We are computing the cash requirement/generation from changes in Working Capital (WC). The positive change in Working Capital this sheet indicates a depletion of cash. A negative change in Working Capital indicates generation of cash. Working Capital changes are combined with gross operating expenses to determine total cash outflow for operations. The total cash outflow for operations is deducted from gross cash collections to determine the net cash flow from operations (NCF). This calculation of NCFO follows the cash as the company generates cash from Revenues and AR collections, adjusting for changes in Working Capital. This real cash is a valuable measure of liquidity health and ability to make interest payments and CAPX. The traditional Working Capital change metric is calculated in step 25.

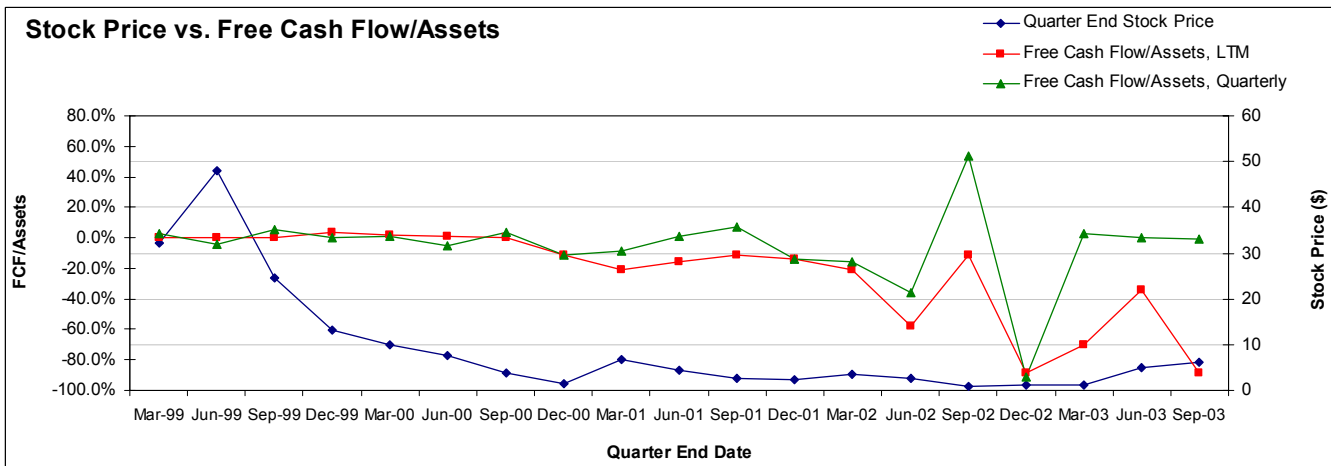
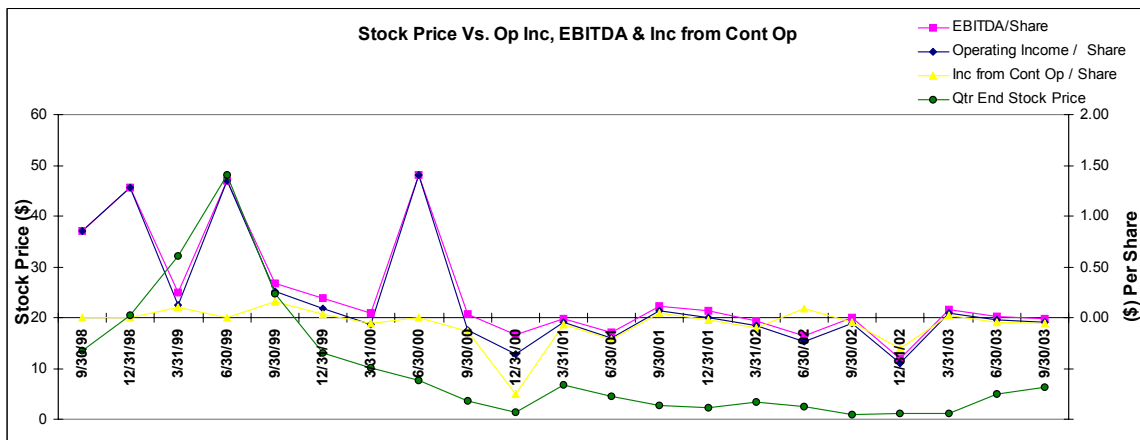
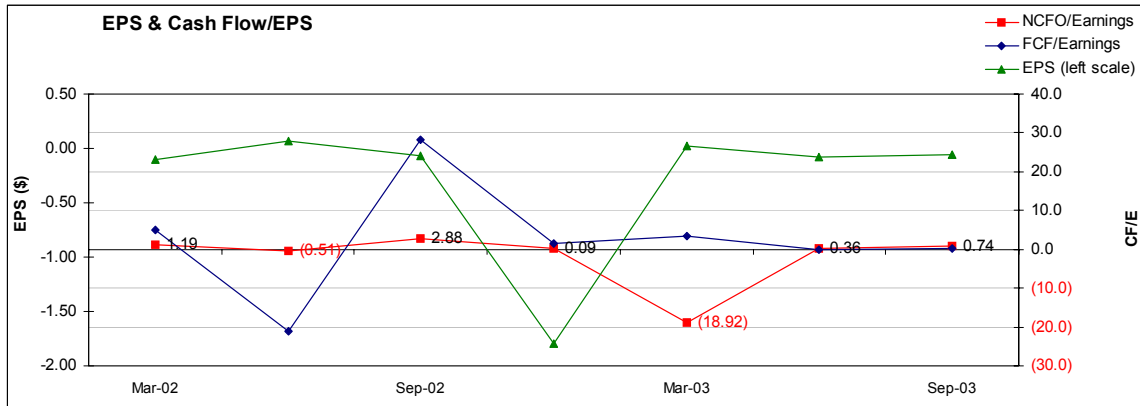


TOP-DOWN CASH FLOW		Dec-02	Dec-01	Sep-03	Jun-03	Mar-03	Dec-02	Sep-02	Jun-02	Mar-02	Dec-01
Step 1	Revenues	233.00	270.08	46.01	47.53	53.59	64.05	59.54	49.07	60.34	66.92
Step 2	plus decrease (-increase) in AR	(6.18)	1.06	(0.86)	0.36	(4.15)	4.06	(0.18)	(9.95)	(0.11)	0.55
Step 3	Gross Cash Collections from Operations	226.82	271.14	45.15	47.89	49.44	68.11	59.36	39.12	60.22	67.47
Operating Expenses											
Step 4	COGS, less Depreciation & Amort	171.95	175.51	32.88	35.07	37.19	50.77	40.89	40.20	40.09	42.82
Step 5	SGA	100.01	93.01	11.14	11.81	11.68	39.08	18.34	20.36	22.23	20.11
Step 6	Total Operating Expenses	271.96	268.51	44.02	46.88	48.87	89.85	59.23	60.56	62.32	62.92
Working Capital Changes											
Step 7	Increase in Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Step 8	Increase in Notes Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Step 9	Increase in Deferred Charges	0.00	0.00	0.00	0.00	0.00	0.00	(13.46)	13.46	0.00	0.00
Step 10	Increase in Other Current Assets	5.66	(0.80)	(0.32)	1.45	(0.20)	(0.84)	(6.34)	13.43	(0.59)	(0.84)
Step 11	Decrease (inc) in Accounts Payable	1.14	3.13	(1.89)	4.86	(0.69)	36.42	(8.95)	(25.79)	(0.54)	(1.08)
Step 12	Decrease (inc) in Notes Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Step 13	Decrease (inc) in Current LTD	(2.51)	(1.96)	(1.25)	(0.85)	(1.18)	(0.49)	(0.08)	(2.21)	0.27	0.00
Step 14	Decrease (inc) in Current Cap Leases	2.22	2.30	0.00	0.00	0.00	0.00	3.67	(2.07)	0.62	0.50
Step 15	Decrease (inc) in Accrued Expenses	(19.67)	0.21	1.92	(6.89)	4.34	(28.91)	14.36	(5.22)	0.10	(1.43)
Step 16	Decrease (inc) in Income Tax Payable	0.56	(0.56)	0.00	0.00	0.00	0.00	0.64	(0.30)	0.22	(0.10)
Step 17	Decrease (inc) in Other Current Liab	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Step 18	Total Changes in Working Capital	(12.60)	2.32	(1.54)	(1.43)	2.27	6.18	(10.16)	(8.70)	0.08	(2.95)
Step 19	Total Cash Outflows for Op (op exp+chg wc)	259.36	270.83	42.48	45.44	51.14	96.03	49.07	51.86	62.40	59.97
Step 20	Net Cash Flow from Operations (NCFO)	(32.55)	0.31	2.67	2.45	(1.70)	(27.92)	10.29	(12.74)	(2.17)	7.50
	NCFO / Diluted Share	(1.57)	0.02	0.04	0.04	(0.03)	(0.44)	0.16	(0.20)	(0.03)	0.12
	Diluted EPS	(0.32)	(0.38)	(0.06)	(0.05)	0.02	(0.31)	(0.05)	0.09	(0.10)	(0.02)
Step 21	Interest Coverage (NCFO/Int Exp)	(34.40)	(0.07)	8.21	6.23	(4.61)	(58.78)	30.62	(77.20)	72.50	(23.65)
Step 22	Int & CAPX Coverage (NCFO/Int Exp +CAPX)	(5.37)	(0.11)	1.67	4.43	(0.86)	(6.06)	6.66	(17.57)	(1.35)	90.33
Step 23	CAPX	(5.12)	(1.44)	(1.27)	0.16	(1.61)	(4.13)	1.21	(0.56)	(1.64)	(0.40)
Step 24	Free Cash Flow	(37.67)	(1.13)	3.94	2.61	(3.31)	(32.05)	11.50	(13.30)	(3.81)	7.10
Step 25	Chg in Work Cap, incl AR (neg = use of Cash)	6.42	(1.26)	0.68	1.79	(6.42)	(2.12)	9.98	(1.25)	(0.19)	3.50
Sequential Change in											
	NCFO	-45.4%	-181.9%	9.0%	244.4%	93.9%	-371.4%	180.8%	-485.7%	-129.0%	51.3%
	Free Cash Flow	0.0%	0.0%	51.0%	178.9%	89.7%	-378.7%	186.5%	-248.6%	-153.8%	-41.2%
	Revenues	74.3%	-22.6%	-3.2%	-11.3%	-16.3%	7.6%	21.3%	-18.7%	-9.8%	-8.2%
	Gross Cash Collections	68.4%	-27.1%	-5.7%	-3.1%	-27.4%	14.7%	51.7%	-35.0%	-10.7%	-9.2%
	Total Operating Expenses	76.6%	-14.9%	-6.1%	-4.1%	-45.6%	51.7%	-2.2%	-2.8%	-1.0%	-4.6%
	CAPX	-255.6%	82.0%	-893.8%	109.9%	61.0%	-441.3%	316.1%	65.9%	-310.0%	-105.6%
	Working Capital (ex AR)	-643.1%	117.6%	-7.5%	-163.0%	-63.3%	160.8%	-16.8%	-10975.1%	102.7%	-186.0%
	Working Capital (incl AR)	-609.5%	104.9%	104.1%	436.8%	202.8%	121.2%	898.4%	-3533.3%	153.8%	-275.0%
Step 26	NCFO/Total Assets	-13.19%	-8.50%	1.4%	1.3%	-0.9%	-14.2%	4.4%	-5.1%	-1.1%	3.6%
Step 27	FCF/Total Assets	0.00%	0.00%	2.0%	1.3%	-1.7%	-16.3%	5.0%	-5.3%	-1.9%	3.4%
Step 28	NCFO/Total Assets, LTM			-12.5%	-9.4%	-15.7%	-15.9%	1.9%	-0.3%	1.3%	0.7%
Step 29	FCF/Total Assets, LTM			-14.6%	-11.7%	-18.4%	-18.6%	1.2%	1.7%	3.7%	0.4%



NCFO is a good measure for the quality of earnings. With regards to stock price, the best use of NCFO is to look for a change in the pattern. After a consistently high NCFO, if NCFO has a large decline, or a drop below 0, it is a very strong negative warning. NCFO is typically the first cash flow warning sign of a deteriorating situation. After the warning, NCFO may improve as management recognizes the problem and tries to remedy it. When the FCF/A metrics change their trend, the negative warning of the NCFO is confirmed. When a stock is bottoming, NCFO can be volatile. It is best to wait until NCFO is positive and the trend of LTM FCF/A is positive.







BALANCE SHEET

TLVC Balance Sheet	Annual		Quarterly							
	Dec-02	Dec-01	Sen-03	Jun-03	Mar-03	Dec-02	Sen-02	Jun-02	Mar-02	
Assets										
Cash & Marketable Securities	37.63	43.68	29.3	30.5	31.3	37.6	39.3	47.2	43.8	
Receivables	14.15	7.97	18.8	17.9	18.3	14.1	18.2	18.0	8.1	
Inventories	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Notes Receivable	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other Current Assets	9.82	4.16	10.8	11.1	9.6	9.8	10.7	17.0	3.6	
Total Current Assets	61.61	55.82	58.9	59.5	59.2	61.6	68.1	82.2	55.5	
Gross Property/Plant/Equipment	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulated Depreciation	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Property/Plant/Equipment	58.00	46.64	57.2	57.9	59.5	58.0	62.2	53.0	44.1	
Investments & Advances	2.44	14.08	2.3	2.6	2.2	2.4	4.6	5.5	12.1	
Deferred Charges	0.00	0.00	0.0	0.0	0.0	0.0	0.0	13.5	0.0	
Intangibles	70.02	87.71	72.6	69.4	70.6	70.0	91.7	78.6	85.2	
Other Non-Current Assets	0.00	0.00	1.3	4.4	0.0	0.0	0.0	0.0	0.0	
Other Assets	3.97	4.88	0.0	0.0	3.9	4.0	4.8	19.1	4.8	
Total Assets	196.05	209.16	192.3	193.8	195.4	196.1	231.5	251.9	201.6	
Liabilities & Shareholders Equity										
Accounts Payable	13.85	14.99	11.6	9.7	14.5	13.9	50.3	41.3	15.5	
Notes Payable	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Current Long-Term Debt	6.32	3.81	9.6	8.4	7.5	6.3	5.8	5.8	3.5	
Current Capital Leases	0.00	2.22	0.0	0.0	0.0	0.0	0.0	3.7	1.6	
Accrued Expenses	28.91	9.24	29.5	31.5	24.6	28.9	0.0	14.4	9.1	
Income Taxes Payable	0.00	0.56	0.0	0.0	0.0	0.0	0.0	0.6	0.3	
Other Current Liabilities	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Current Liabilities	49.09	30.84	50.7	49.5	46.6	49.1	56.1	65.8	30.2	
Mortgages	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Deferred Charges	0.00	0.51	0.0	0.0	0.0	0.0	0.0	0.4	0.5	
Non-Current Capital Leases	0.00	0.49	0.0	0.0	0.0	0.0	0.0	8.3	0.3	
Minority Interest	9.74	0.00	10.4	10.7	10.8	9.7	9.1	9.6	9.0	
Convertible Debt	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Long-Term Debt	15.76	12.01	16.6	17.0	15.6	15.8	14.6	15.6	11.6	
Other Long-Term Liabilities	9.63	8.90	3.4	6.2	9.3	9.6	0.0	0.0	0.0	
Other Liabilities	11.03	0.53	8.5	0.0	10.5	11.0	11.2	11.5	0.5	
Total Long Term Liabilities	35.13	21.91	30.4	33.9	35.8	35.1	23.7	34.0	21.4	
Total Liabilities	84.22	52.28	81.1	83.4	82.4	84.2	79.9	91.5	51.3	
Preferred Stock	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Common Stock	388.76	276.43	396.9	390.9	389.4	388.8	388.5	387.7	276.8	
Capital Surplus	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Retained Earnings	(285.35)	(120.09)	(291.8)	(287.7)	(284.3)	(285.4)	(245.6)	(236.4)	(127.1)	
Other Equity Adjustments	11.03	0.53	8.5	9.9	10.5	11.0	11.2	11.5	0.5	
Common Equity	111.82	156.87	111.2	110.4	113.0	111.8	151.6	160.4	150.3	
Treasury Stock	2.62	0.00	2.4	2.6	2.6	2.6	2.5	2.4	0.0	
Shareholders' Equity	111.82	156.87	111.2	110.4	113.0	111.8	151.6	160.4	150.3	
Total Liabilities and Equity	196.05	209.16	192.3	193.8	195.4	196.1	231.5	251.9	201.6	



INCOME STATEMENT MODEL

INCOME STATEMENT TLC VISION CORP TLCV	Annual Data		Quarterly Data				Annual Data		Quarterly Data			
	Estimated	Reported	Estimated	Reported	Estimated	Reported	Estimated	Reported	Estimated	Reported	Estimated	Reported
	12/31/04	12/31/03	3/31/04	6/30/04	9/30/04	12/31/04	3/31/04	6/30/04	9/30/04	12/31/04	3/31/04	6/30/04
# of Proceed Lines	45,300	69,964	78,780	98,702	10,000	10,000	10,000	10,000	10,300	11,000	13,500	14,000
Regular Refractive	72,300	19,570	0	0	29,000	23,000	23,000	23,000	20,000	17,000	12,500	9,000
Custom LASIK Refractive	82,300	91,029	113,704	133,209	19,500	21,000	21,000	20,500	20,500	20,500	20,500	19,700
Access Procedures	200,300	180,563	192,484	231,911	54,500	56,000	54,500	51,000	48,300	46,500	42,700	39,520
Total Proceed Lines												
% of Proceed Lines												
% Regular Refractive	22.7%	38.7%	40.9%	42.6%	11.0%	14.5%	17.9%	19.3%	20.6%	22.7%	29.0%	32.8%
% Custom LASIK Refractive	36.2%	10.8%	0.0%	0.0%	53.2%	44.6%	44.6%	42.2%	39.2%	35.1%	26.9%	26.7%
% Access Procedures	41.1%	50.4%	59.1%	57.4%	35.8%	36.4%	37.5%	38.5%	40.2%	42.3%	44.1%	49.8%
Regular Refractive Revenues	46.64	96.44	193.78	241.99	6.150	8.200	10.250	10.763	10.763	11.275	13.838	14.330
Custom LASIK Revenues	106.07	13.17	0.00	0.00	42.427	39.501	36.575	33.649	29.260	24.871	18.288	13.167
Access Revenue	37.13	38.30	0.00	0.00	8.775	9.000	9.430	9.225	9.225	9.225	8.865	8.861
Other Revenue	51.00	48.61	39.22	28.09	12.500	14.000	14.000	14.000	12.000	13.000	13.000	13.000
Total Revenues	240.83	196.52	233.00	270.08	69.852	69.201	70.275	67.862	61.248	57.371	54.350	49.382
% of Revenues												
% Regular Refractive	19.4%	49.1%	83.2%	89.6%	8.8%	11.8%	14.6%	15.9%	17.6%	19.7%	25.5%	29.1%
% Custom LASIK Refractive	44.0%	6.7%	0.0%	0.0%	60.7%	57.1%	52.0%	49.6%	47.8%	43.4%	30.6%	26.7%
% Access	15.4%	19.3%	0.0%	0.0%	12.6%	13.0%	13.4%	13.9%	15.1%	16.1%	17.0%	18.0%
% of Other Revenues	21.2%	24.7%	16.8%	10.4%	17.9%	18.1%	19.9%	20.6%	19.6%	20.9%	23.9%	26.3%
Total Revenues	240.83	196.52	293.00	270.08	69.85	69.20	70.28	67.86	61.25	57.37	54.35	49.38
COGS	151.60	141.37	171.95	175.51	41.91	41.52	41.11	40.04	38.40	37.29	35.87	34.57
Depreciation (\$mil)	6.64	6.68	12.19	16.39	0.00	0.00	1.66	1.66	1.66	1.66	1.66	1.67
Gross Profit	82.59	48.47	48.86	77.98	27.94	27.68	27.49	26.16	21.19	18.42	16.82	13.15
S,G&A	43.13	44.51	100.01	93.01	12.57	12.46	12.65	12.22	11.94	11.19	9.78	9.88
Research & Development (\$mil)	1.00	0.98	0.00	0.00	1.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00
EBITDA	43.10	9.67	-36.97	1.67	14.37	16.22	16.61	16.61	9.90	8.89	8.70	4.94
Interest Expense (-)	1.20	1.39	0.95	(4.18)	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Operating Income	35.26	1.61	(52.10)	(0.85)	14.07	14.92	14.25	13.65	7.94	6.93	6.74	2.98
Non-Operating Income (Expense) (-)	0.00	0.64	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pre-tax Income	35.26	2.25	(51.78)	(0.85)	14.07	14.92	14.25	13.65	7.94	6.93	6.74	2.98
Provision for Income Taxes (-)	5.29	1.07	(4.04)	3.63	2.81	2.24	2.18	2.05	1.19	1.04	1.01	0.45
Miscellaneous (-)	0.00	3.61	1.23	0.87	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investment Gains/Losses (+)	0.00	0.22	(26.08)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Income (+)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income from Continuing Operations	29.97	(2.65)	(58.48)	(143.33)	11.25	12.69	12.37	11.60	6.75	5.89	5.73	2.53
Extra & Discontinued Operations (+)	0.00	(1.72)	(96.79)	(21.18)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	29.97	(4.37)	(256.27)	(164.51)	11.25	12.69	12.37	11.60	6.75	5.89	5.73	2.53
Earnings Per Share	0.45	(0.07)	(4.04)	(2.71)	0.16	0.19	0.18	0.17	0.10	0.09	0.09	0.04
Diluted Net EPS	0.46	(0.07)	(4.04)	(2.71)	0.16	0.19	0.18	0.17	0.10	0.09	0.09	0.04
Diluted EPS (Before Non-recurring items)	0.45	(0.04)	(1.28)	(2.16)	0.16	0.19	0.18	0.17	0.10	0.09	0.09	0.04
Common Dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend per Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Average Shares	66.25	64.31	63.25	60.76	68.50	68.00	67.30	67.00	66.50	66.00	65.50	65.00
Average Shares (diluted)	66.25	64.31	63.25	60.76	68.50	68.00	67.30	67.00	66.50	66.00	65.50	65.00



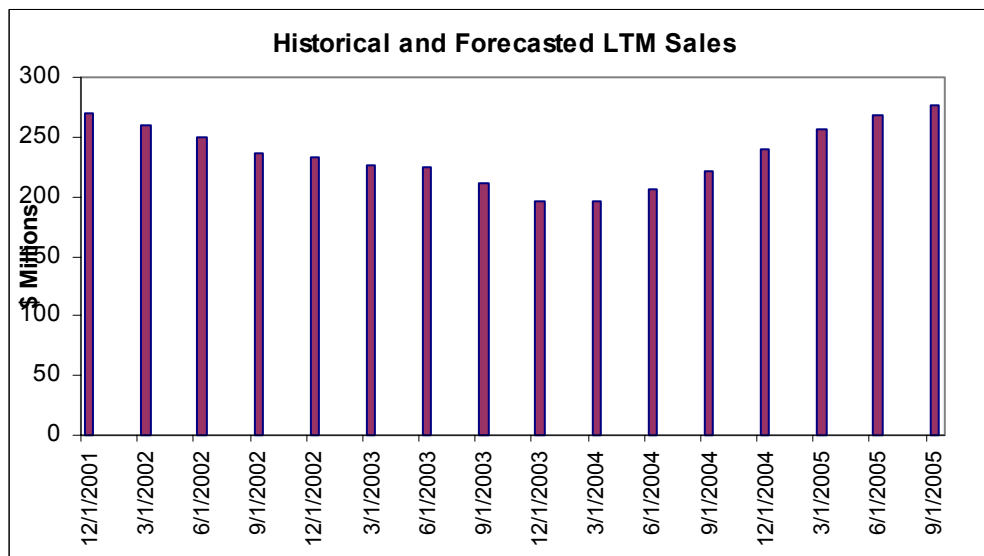
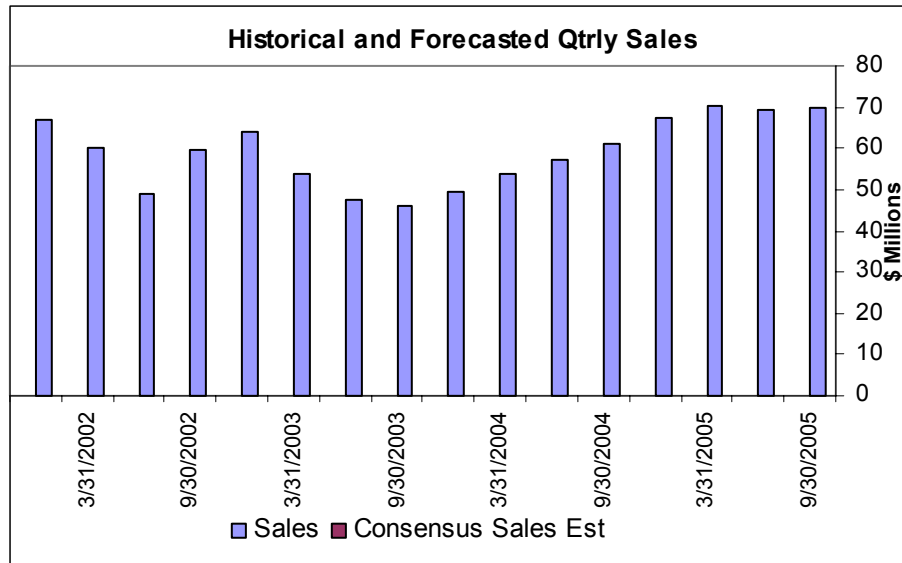
INCOME STATEMENT MARGINS/PERCENT OF SALES

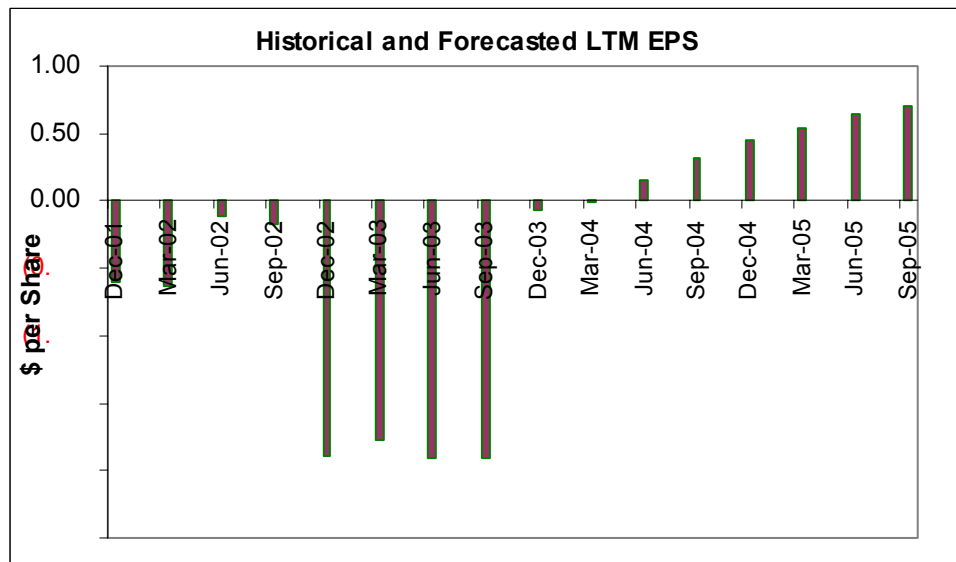
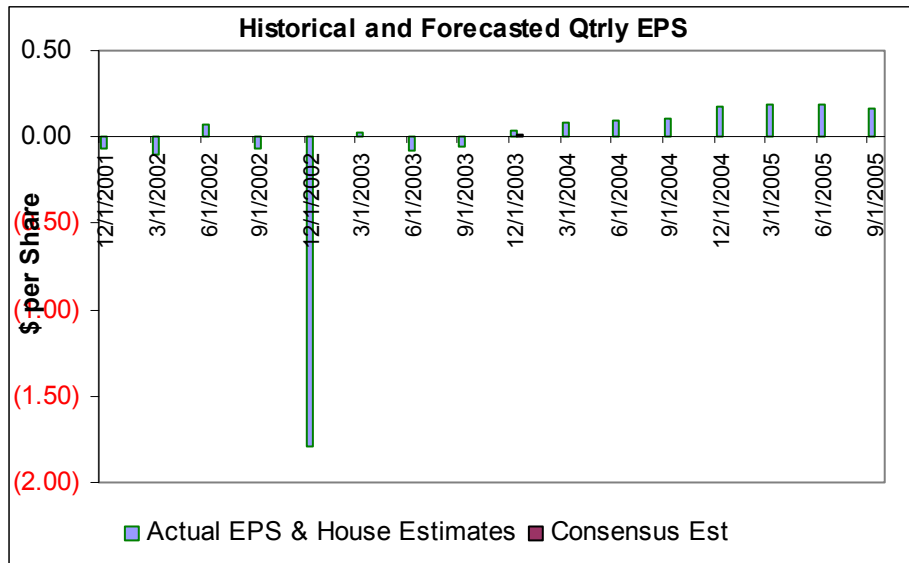
TLC VISION CORP TLCY	Annual Data											
	Estimate		Dec.03		Mar.05		Jun.05		Mar.06		Mar.07	
	Dec.04	Dec.03	Dec.03	Dec.02	Dec.01	Dec.01	Dec.02	Dec.02	Dec.03	Dec.03	Dec.04	Dec.04
Margins %	34.3%	34.7%	21.0%	20.9%	40.0%	39.1%	30.1%	30.9%	26.6%	21.3%	20.7%	27.5%
Gross Margin	14.6%	0.0%	-22.4%	-4.0%	20.1%	21.6%	12.3%	13.4%	6.0%	-5.7%	-3.0%	5.0%
Operating Margin	17.9%	4.9%	-16.7%	0.6%	20.6%	22.0%	15.2%	16.0%	10.0%	-1.4%	1.4%	8.8%
EBITDA Margin	14.6%	1.1%	-8.4%	-14.4%	20.1%	20.7%	12.3%	12.4%	6.0%	-5.6%	-3.6%	5.7%
Net Margin	12.4%	-2.7%	-10.6%	-6.0%	16.1%	18.3%	10.3%	10.5%	5.1%	-7.9%	-3.0%	2.8%
Percent of Sales %												
COGS / Sales	65.0%	71.0%	75.8%	65.0%	60.0%	58.5%	65.0%	66.0%	70.0%	75.1%	73.8%	69.4%
Gross Profit / Sales	34.3%	24.7%	21.0%	34.9%	40.0%	39.1%	34.6%	34.7%	34.0%	31.3%	30.2%	27.5%
S,G&A / Sales	18.7%	22.6%	42.9%	34.4%	18.0%	18.0%	19.2%	18.0%	20.0%	24.2%	26.8%	21.8%
R&D / Sales	0.4%	0.5%	0.0%	0.0%	1.4%	0.0%	0.0%	0.0%	0.0%	3.1%	0.0%	0.0%
Dep. & Amort / Sales	2.8%	3.4%	5.2%	6.1%	0.0%	2.4%	2.7%	3.1%	3.4%	3.6%	3.5%	3.1%
EBITDA / Sales	17.9%	4.9%	-16.7%	0.6%	20.6%	22.0%	15.2%	16.0%	10.0%	-1.4%	1.4%	8.8%
Non-Operating Inc. (Expense) / Sales	0.0%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.4%	0.7%
Interest Expense / Sales	0.5%	0.7%	0.4%	-1.5%	0.4%	0.4%	0.5%	0.6%	0.6%	0.7%	0.8%	0.7%
Before Income / Sales	14.6%	1.1%	-8.4%	-14.4%	20.1%	20.7%	12.3%	12.4%	6.0%	-5.6%	-3.6%	5.7%
Provision for Income Taxes / Sales	15.0%	47.8%	2.2%	-2.6%	20.0%	15.0%	15.0%	15.0%	15.0%	-7.1%	-8.9%	7.8%
Minority Interest / Sales	0.0%	1.8%	0.5%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	2.4%	2.0%	2.9%
Investment (Gain) / Losses / Sales	0.0%	0.1%	-11.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.5%	1.4%	-0.4%
Other Income / Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income from Contin Oper / Sales	12.4%	-1.4%	-6.8%	-5.1%	16.1%	18.3%	10.3%	10.5%	5.1%	-7.9%	-3.0%	2.8%
Income from Discont Oper / Sales	0.0%	-0.9%	-41.5%	-7.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income / Sales	12.4%	-2.7%	-10.6%	-6.0%	16.1%	18.3%	10.3%	10.5%	5.1%	-7.9%	-3.0%	2.8%
Growth %												
EBITDA Annual Growth	76.1%	98.3%	-49.0%	-170.8%	61.8%	108.9%	279.4%	279.4%	102.2%	19.1%	-21.2%	122.8%
EPS, Sequential Growth	23.5%	-15.7%	-13.7%	55.2%	-11.8%	5.9%	2.3%	124.5%	169.8%	25.2%	-45.2%	301.3%
Sales, Annual Growth	34.5%	124.8%	-268.1%	141.2%	45.1%	71.2%	84.0%	84.0%	119.1%	-310.4%	106.7%	388.0%
Sales, Sequential Growth												
EBITDA Annual Growth												
EBITDA, Sequential Growth												

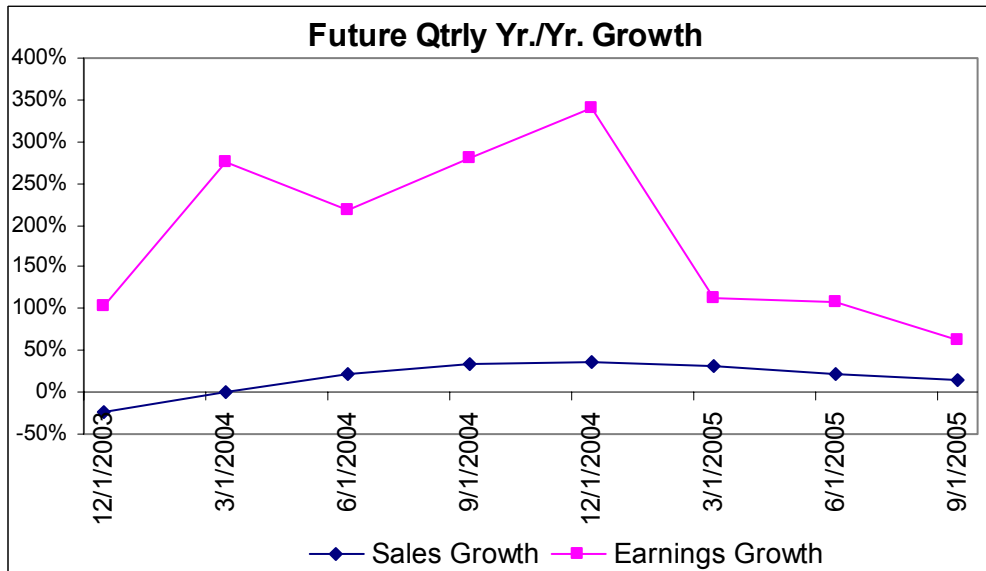
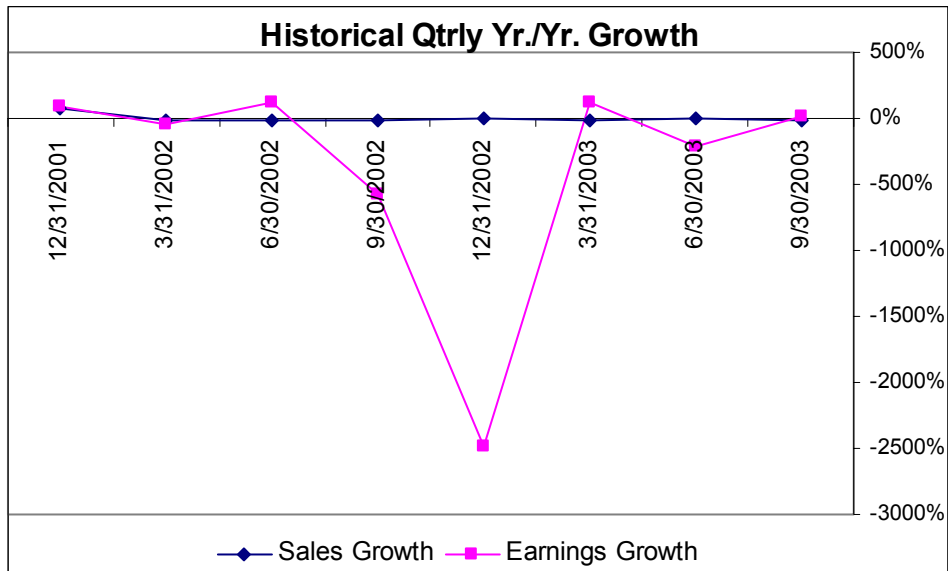


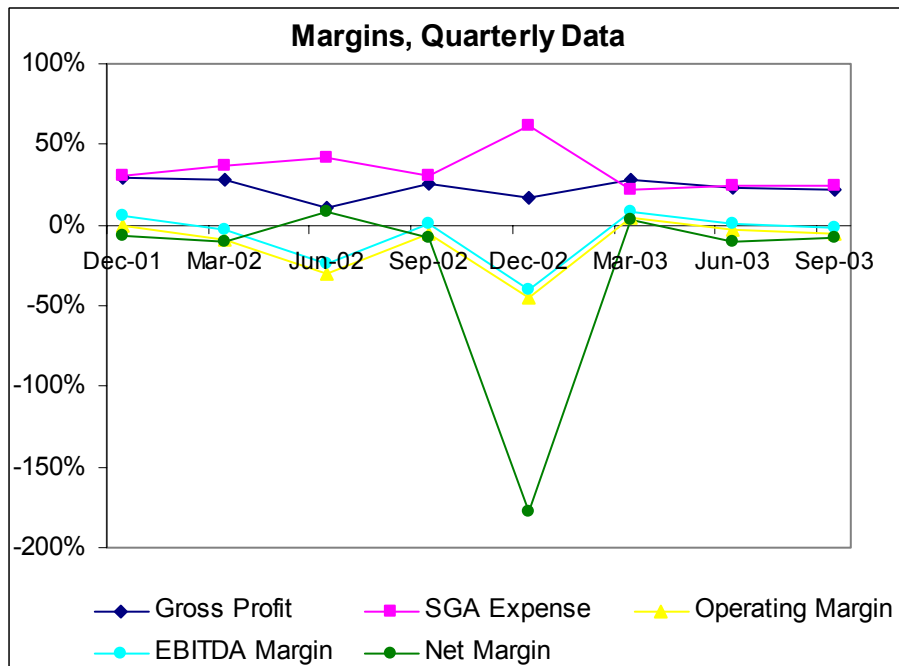
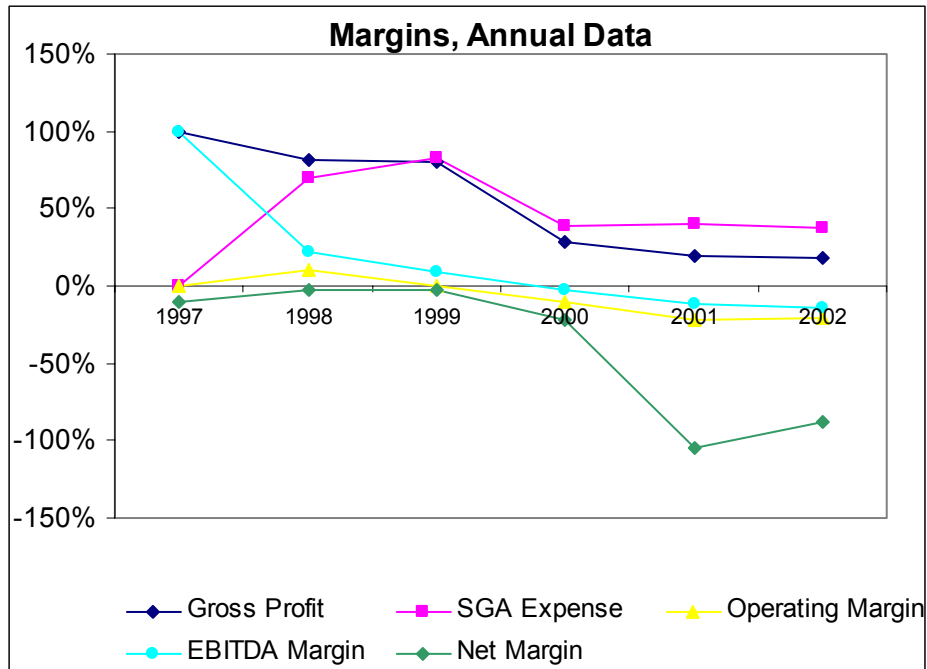
PICTURE SUMMARY

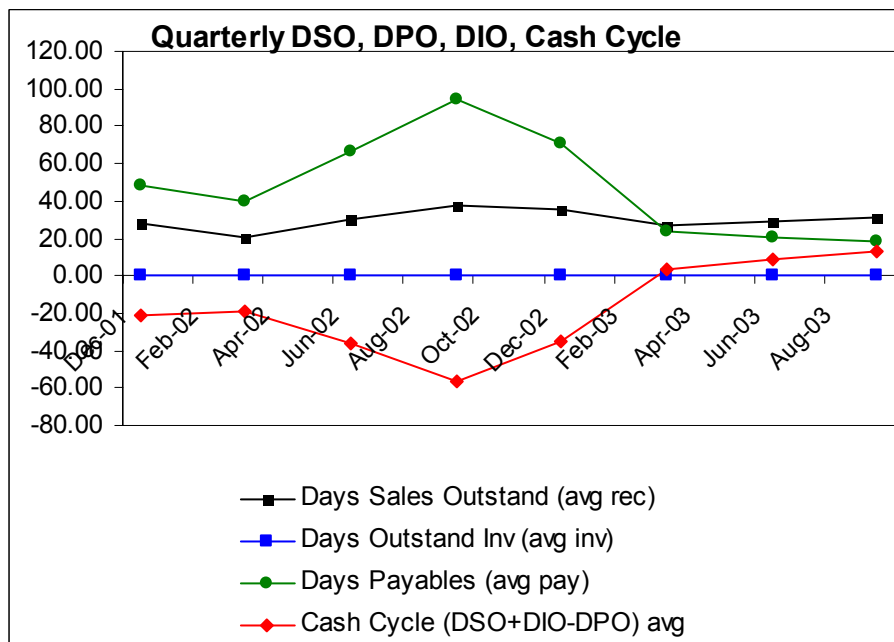
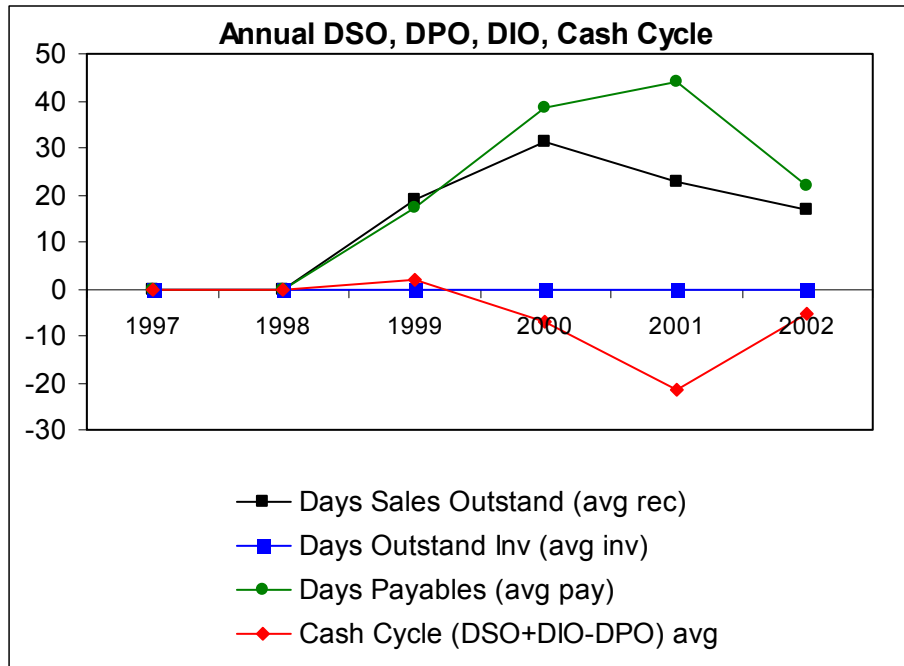
The Picture Summary provides the analyst with a graphical representation of the potential investment.

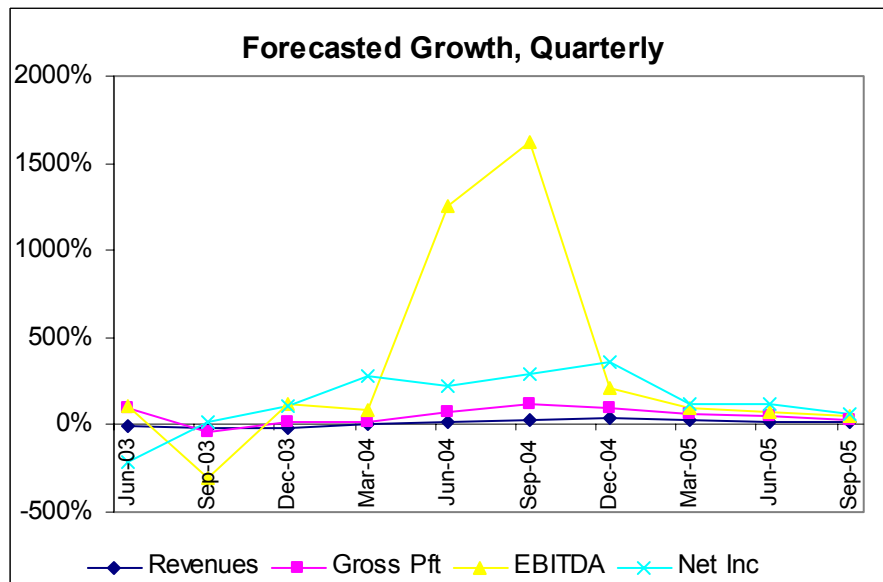
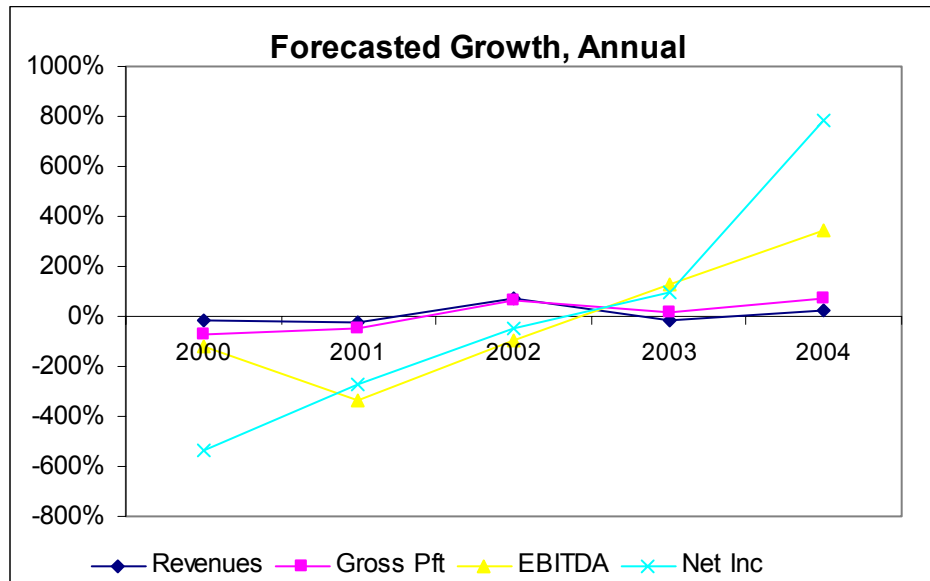


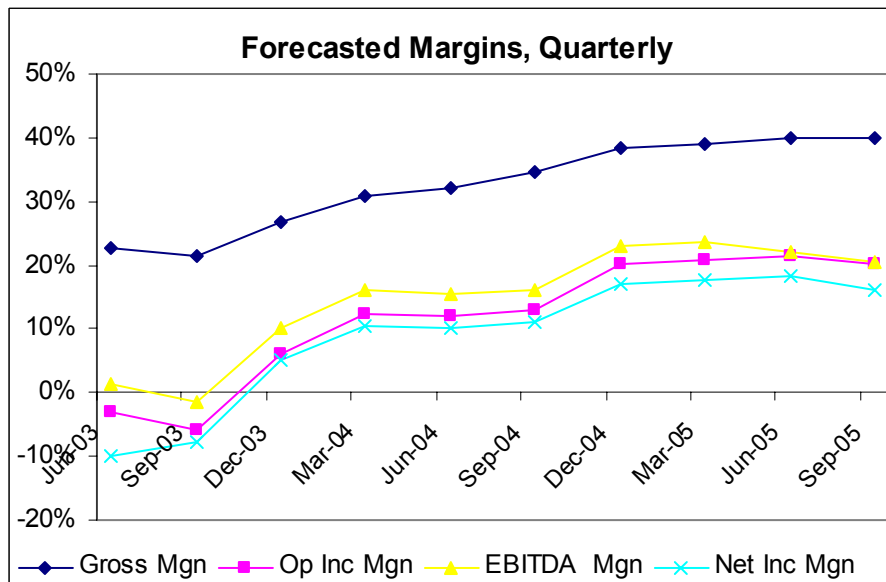
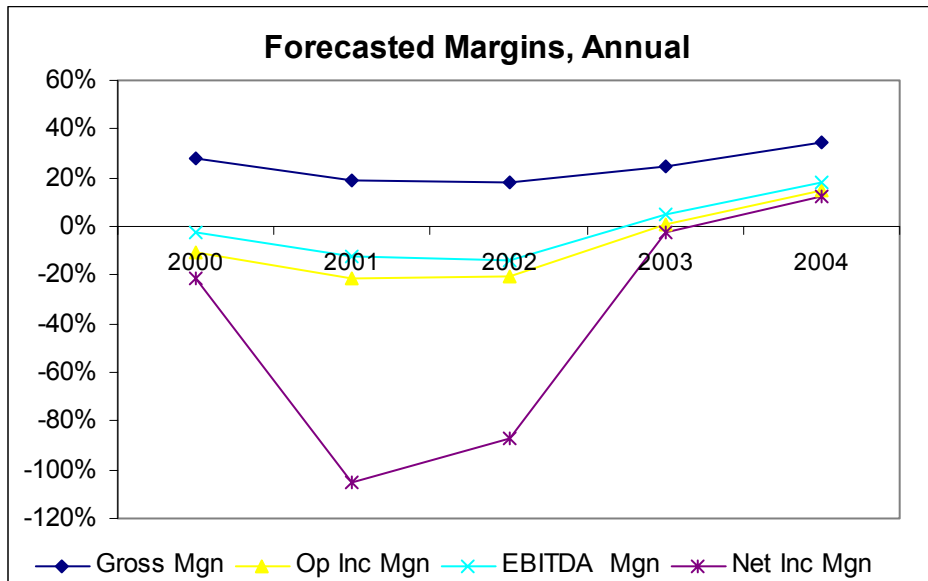


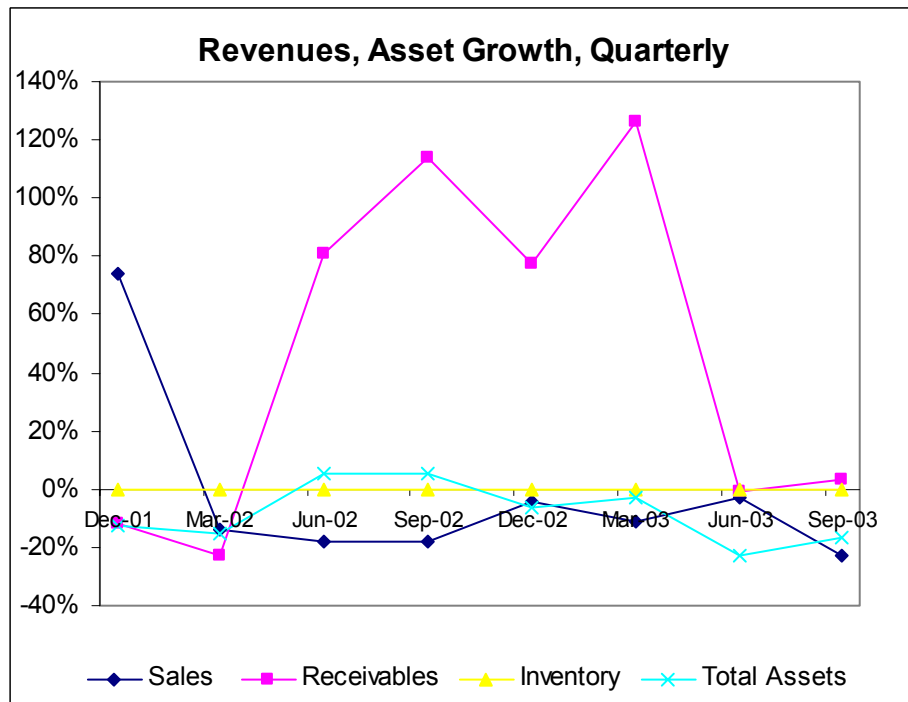
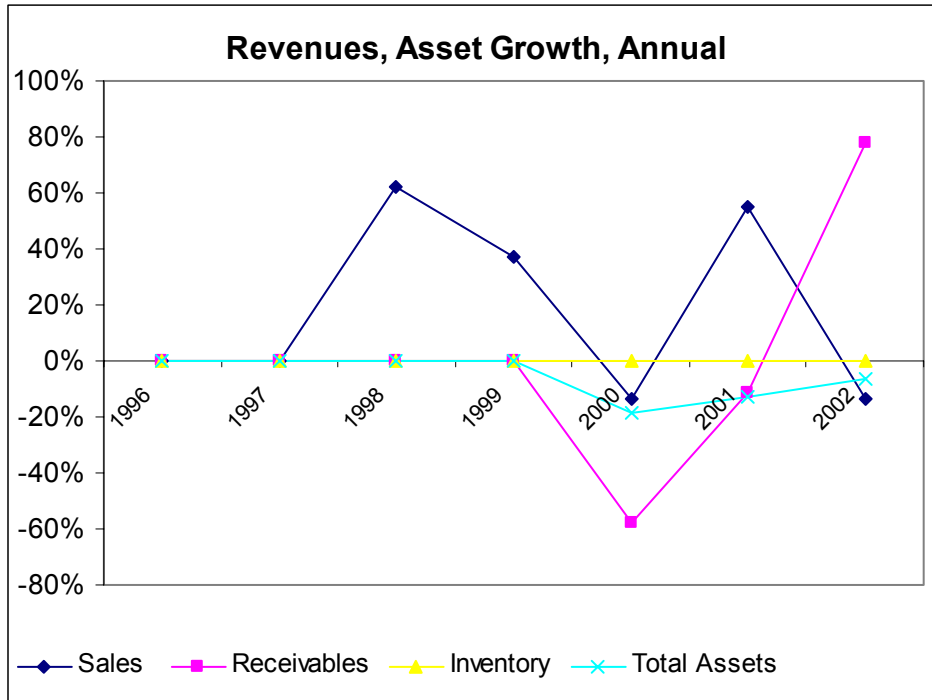


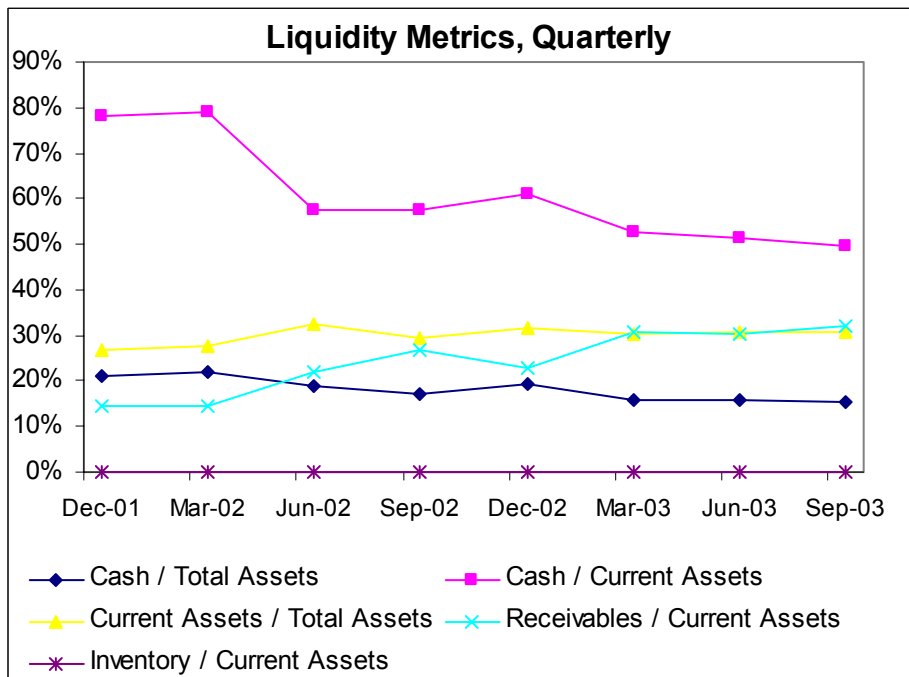
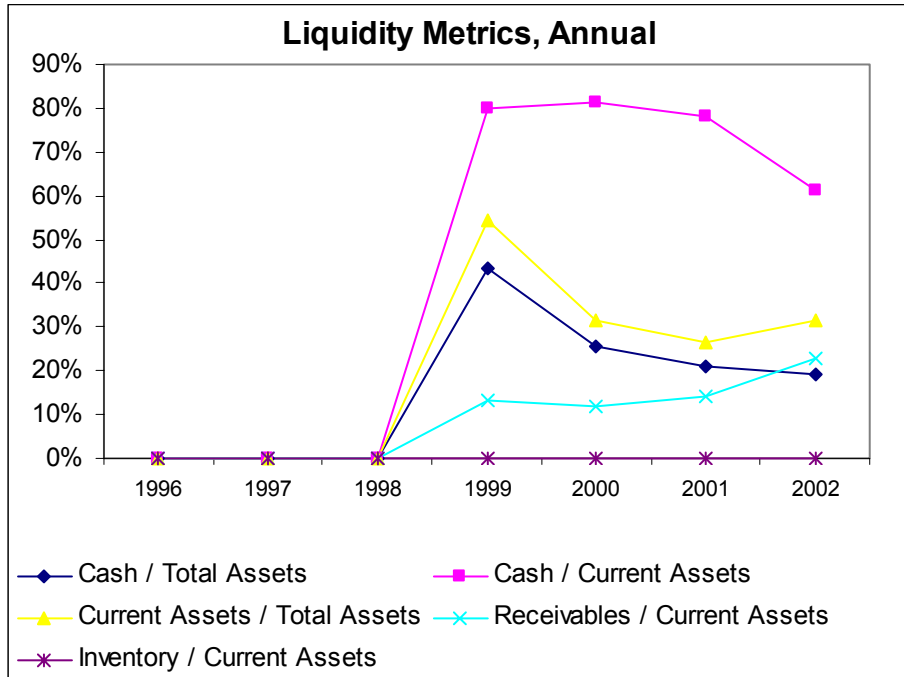


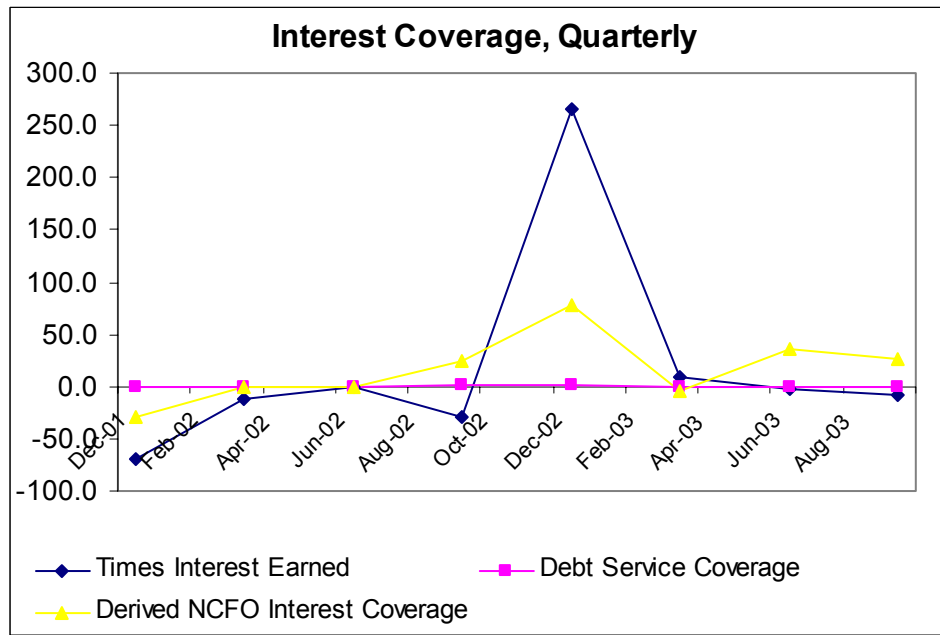
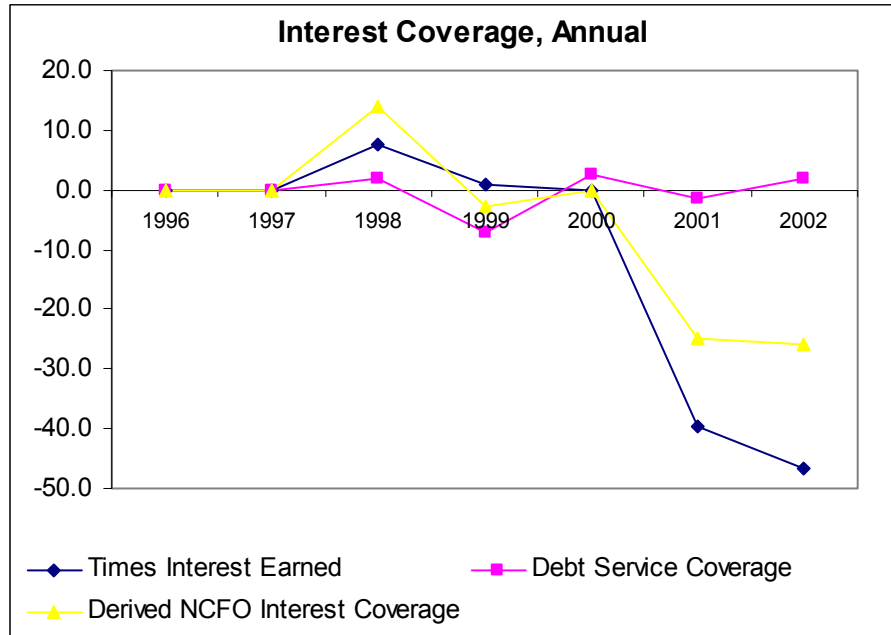


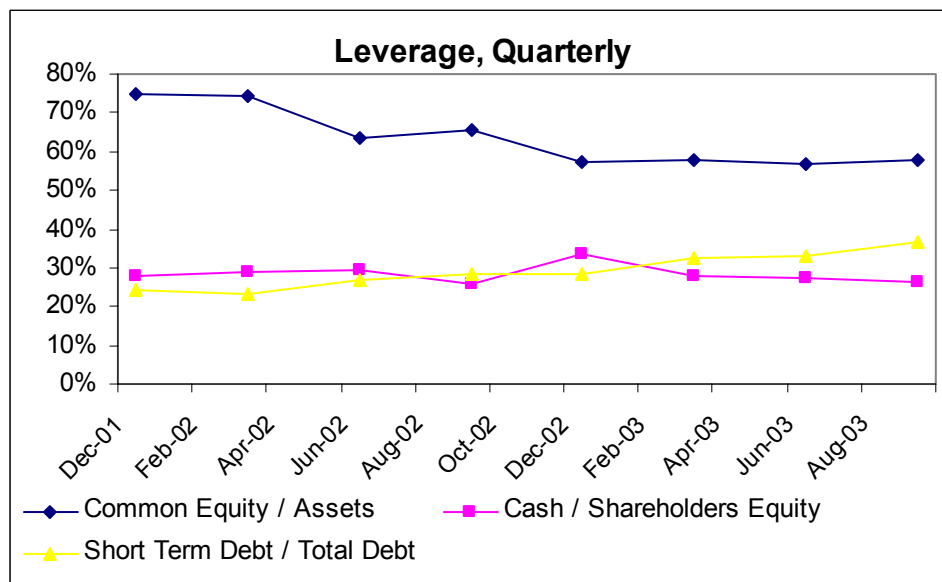
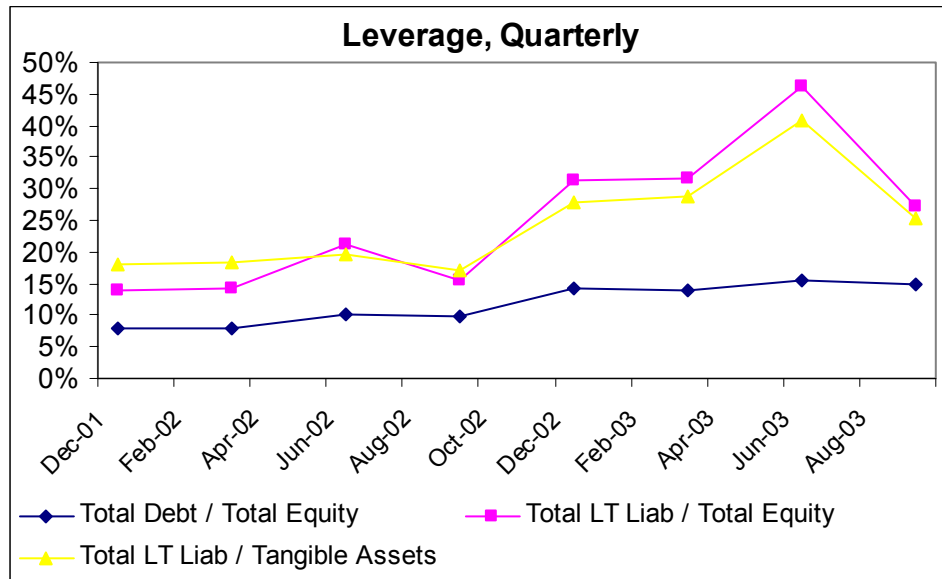


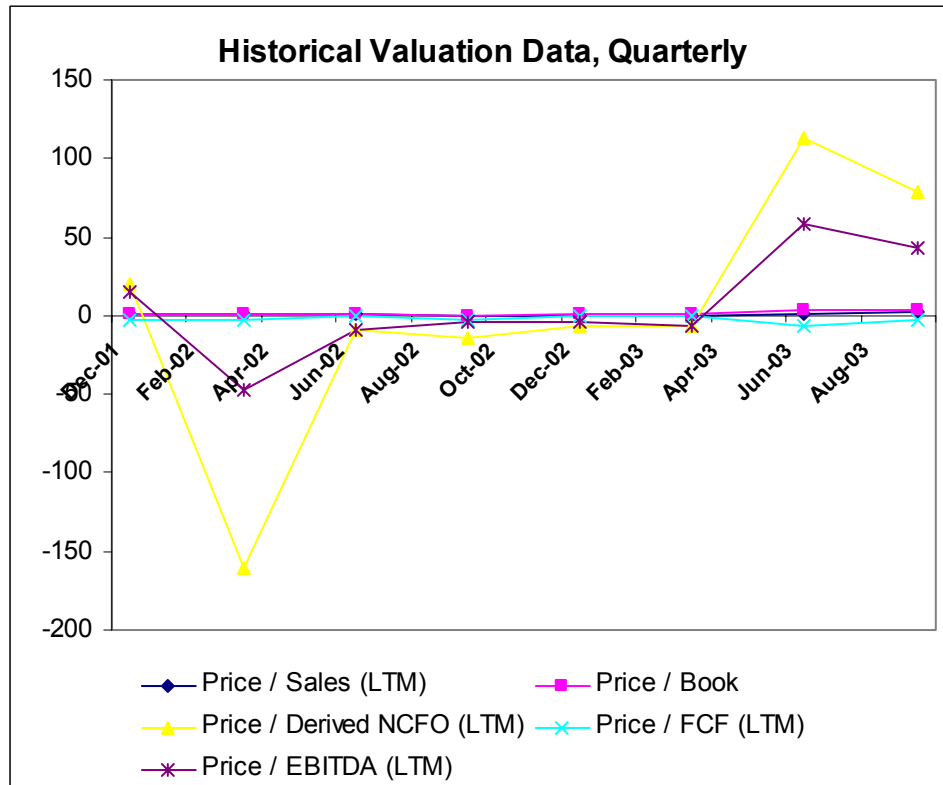


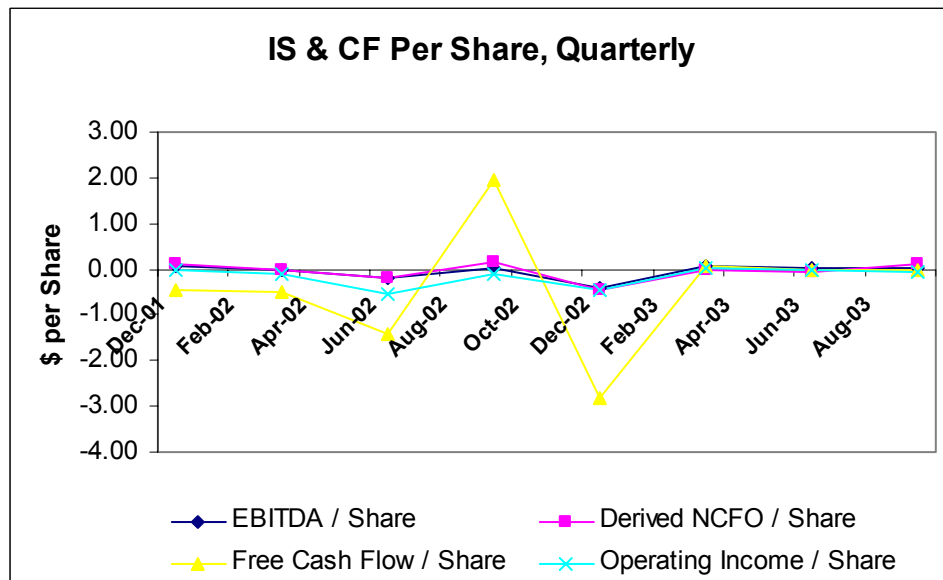
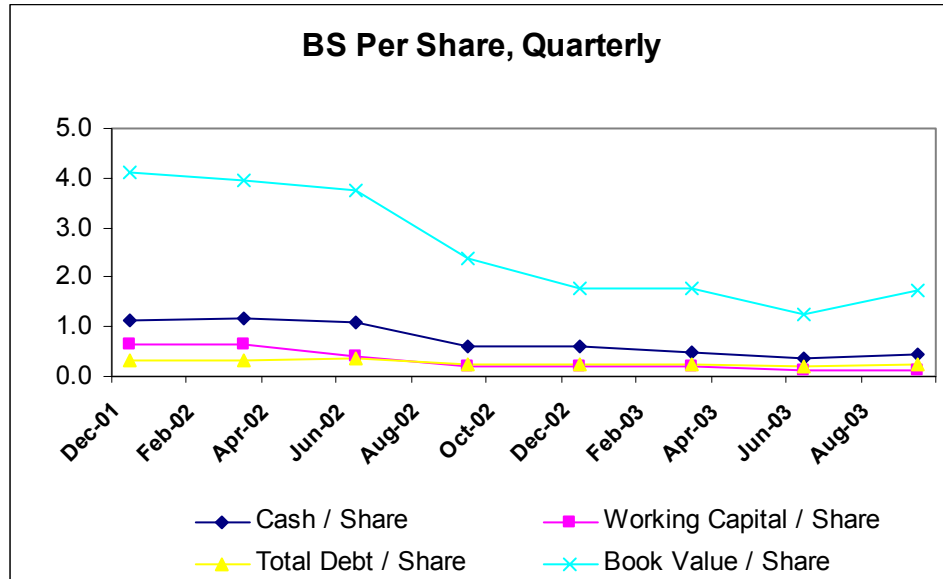


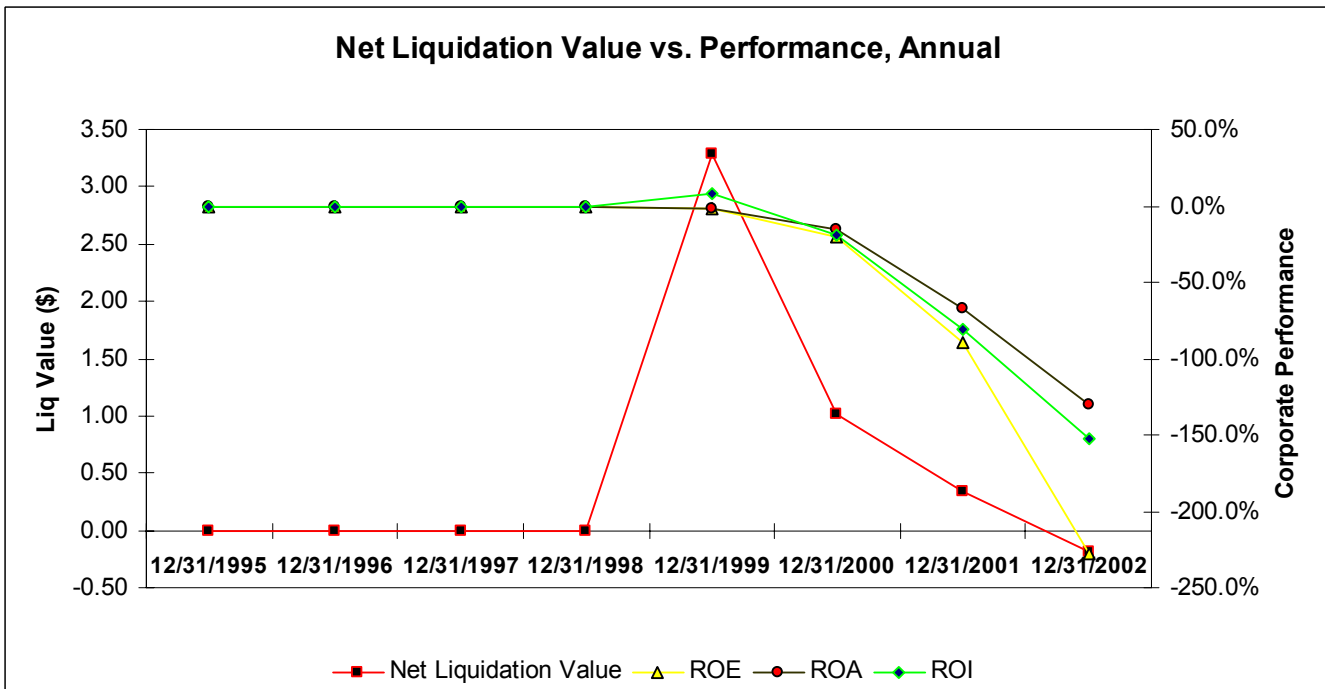
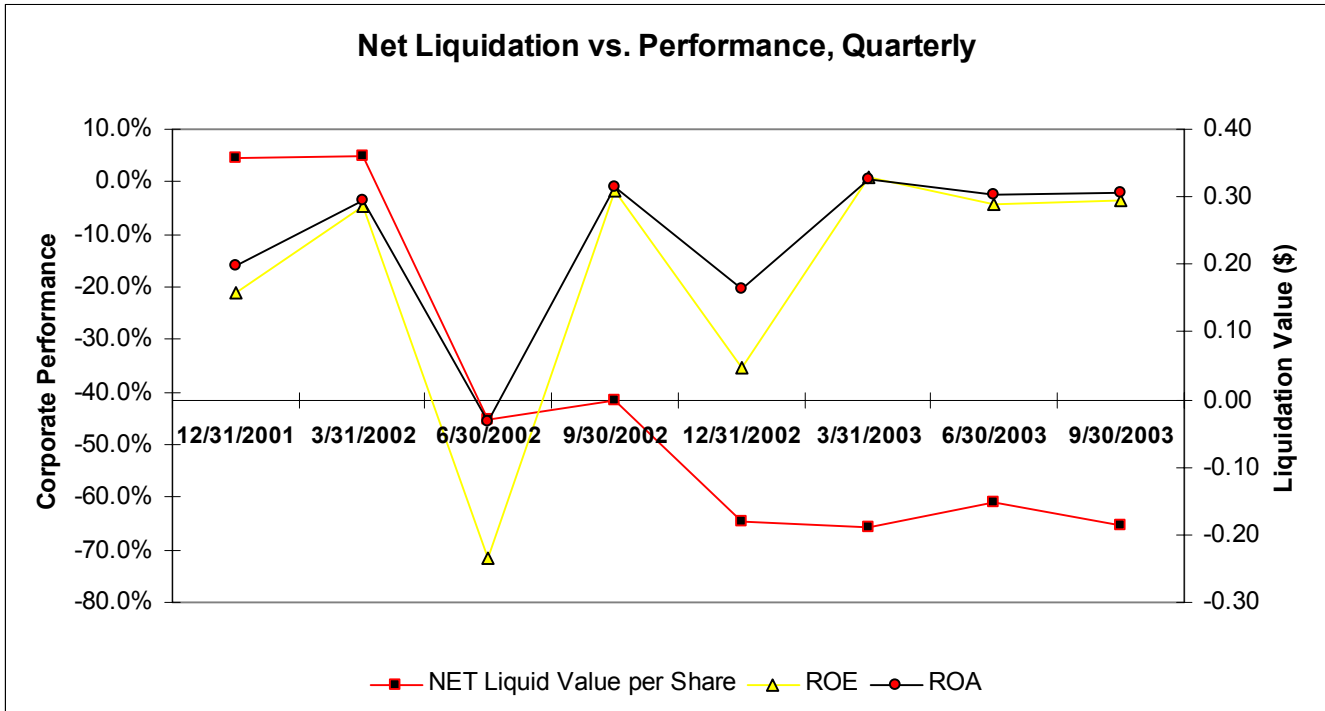














TLCV		MED-OUTP/HM CRE	MEDICAL
	Company	Industry	Sector
5 Year Dividend Growth		-14.13	7.09
5 YR. EPS Growth 5		23.96	17.13
5 Yr. Historical Sales Growth	0.35	14.25	13.88
5 Year Book Value Growth	-29.18	10.05	1.79
Next 5 Yr. EPS Projected Growth		16.58	19.00
Dividend Yield	0.00	0.00	0
P/E FY 1 - est		20.15	24.57
P/E FY 2 - est		18.03	21.36
P/E LTM - est		19.30	25.42
ROE Most Recent 12 Month	-17.06	11.31	-1.27
ROE Last 5 Year Average	-15.80	4.72	-18.70
ROA Most Recent 12 Month	-9.80	6.23	-2.83
ROA Last 5 Year Average	-11.01	2.17	-12.17
ROI Most Recent 12 Month	-13.78	8.91	-2.23
ROI Last 5 Year Average	-13.93	3.79	-14.99
Receivable Turnover Recent 12 Mo	11.73	6.22	6.62
Receivable Turnover Average 5 Years	12.53	5.42	6.17
Inventory Turnover Recent 12 Mo		33.42	2.99
Inventory Turnover Average 5 Years		20.84	2.85
Asset Utilization Recent 12 Mo	1.04	1.31	0.71
Asset Utilization Recent 12 Mo	0.73	1.13	0.64
Debt/Equity Recent 12 Months	0.15	11.51	4.45
Debt/Equity 5 Year Average		17.77	7.88
Current Ratio Recent 12 Months	1.16	1.90	3.08
Current Ratio 5 Year Average	2.62	2.22	3.35
Cash Flow/Share	-2.39	0.53	-0.14
Price/Book	3.70	1.94	3.55
Price/Cash		10.62	17.48
Net Margins Recent 12 Months	-24.59	3.29	-1.49
Net Margins 5 Year Average	-32.44	0.21	-18.92
Pre Tax Margins Recent 12 Months		4.36	-1.13
Pre Tax Margins 5 Year Average		0.97	-18.92
BNRI Margins Recent 12 Months		4.10	-0.38
BNRI Margins 5 Year Average		2.02	-0.38