FINAL TRANSCRIPT

CCBN StreetEvents℠

Event Transcript

LCAV - CCBN Virtual Healthcare Conference: Co-sponsored by Lippert/Heilshorn & Associates and RedChip Partners

Event Date/Time: Dec. 10. 2002 11:15AM ET

CORPORATE PARTICIPANTS

Jim Flanagan
IR Strategic Advisors - President

Alan Buckey
LCA Vision - Executive Vice President and CFO

PRESENTATION

Jim Flanagan - *IR Strategic Advisors - President*

Welcome to the CCBN Virtual Healthcare conference cosponsored by Lippert Heilshorn & Associates and Red Chip Partners. My name is Jim Flanagan and I'm President of IR Strategic Advisors, the Boston Area Investor Relations and Public Relations Communications firm. I'm also a member of CCBN's Advisory Board and I'll be serving as your moderator for this Virtual Healthcare conference.

For our audience that is participating live today you may submit a question at any time by simply typing your query into question field in the lower left-hand side of the web cast player. I will present these questions during the Q&A at the end of the company's prepared remarks. Should I have more questions than time allows, please be sure that we will forward all questions to company management for them to respond directly.

The following presentation is by LCA Vision, stock symbol LCAVD. LCA Vision is a leading national provider of laser vision correction devices. LCA Vision owns and operates 32 Lasik Plus, laser vision correction facilities in the United States plus two in Canada and a joint venture in Europe. Representing LCA Vision is Alan Buckey, Executive Vice President and Chief Financial Officer. Mr. Buckey please begin your presentation.

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

Good morning. Welcome to today's presentations by LCA Vision and the CCBN Virtual Healthcare conference. Today's presentation will include some forward-looking statements that are based upon our current knowledge and expectations. For a discussion of the risks and uncertainties that can cause actual results to differ materially from current expectations I would encourage you to review the company's filings with the SEC including but not limited to forms 10-K and 10-Q.

LCA Vision is a leading provider of laser vision correction services to consumers. We own and operate 35 laser vision correction centers worldwide with 32 of those being in the United States, two in Canada and one in Europe. The 32 U.S. centers are located in 16 metropolitan markets.

Currently LCA Vision has 10.7 million shares outstanding. As of September 30 of this year we had 17.7 million in cash, which is $1.65 a share, no debt and $20 million in unused lines of credit. With this presentation I would like to define the market for laser vision correction services, explain our business model and put it in a competitive perspective, provide some additional detail on the financial leverage that we have in our model and give you a sense of the success that we expect to add in 2003 and beyond.

Laser Vision correction is the most popular elective medical procedure in the United States with industry revenues exceeding $1.8 billion. The market potential for laser vision correction is very large and though the U.S. market was first established over seven years ago it has a well singlative (ph) penetration rate. Over 150 million Americans require eye glasses or contacts and while over 5.7 million treatments have been performed in the U.S. since 1995 this represents only about two percent of the potential market.

Compare this penetration rate to the percent of U.S. households that own a personal computer, which is 87 percent or households with Internet access, which is currently over 60 percent. But even more important when you analyze penetration rate by average household income level you see that in the box in the center of this chart two-thirds of the U.S. households have average household income between $35,000 a year and $150,000 a year and that the average cumulative penetration rate in this target market is only 1.2 to 2.5 percent.

Here's a picture of one of our typical centers. They typically run about 3,000 square feet in easy to find medical or retail locations. We like to create a warm, friendly environment that makes patients welcome from the moment they arrive.

From a geographic standpoint our centers are concentrated in the mid-west, the east coast, Atlanta and Tampa in the south and the San Francisco Bay Area in California. We opened the first center in the United States dedicated to providing laser vision correction in 1995 and we've added an average of five centers per year since then.

In 2002 we opened two new markets in Raleigh, North Carolina and Lewisville, Kentucky. In a few weeks we will open our next new market for LCA Vision in Cleveland, Ohio. In addition to Cleveland we expect to open two or three additional markets in the first half of 2003.

We measure our market share based upon the population that is within a one-hour drive with one of our centers. Currently we reach about 22 percent of the U.S. population and our local market share ranges from 25 to 75 percent. Our objective is to be one of the leading providers of laser vision correction in every served market.

I'd like now to compare our business model to others in this industry. Since the first quarter of 2000 LCA Vision has operated in a closed-access environment. In this model we employ surgeons and optometrists full-time either directly by LCA Vision or through a professional corporation in states that require such a structure.

The surgeons are highly skilled specialists because laser vision correction is all that they do. We perform all the pre-operative and post-operative work in our centers. This allows us to closely monitor outcomes and provide feedback to the surgical teams to achieve the highest quality outcomes.

We use multiple fixed sight lasers from Bausch & Lomb (ph), Alcon and Visics (ph) so that we can customize the treatment based upon the patient's needs. We offer a choice of at least two and in most cases all three of these lasers in each of our markets. We are direct to consumer business model that relies upon word of mouth of referrals and advertising to attract patients.

Prior to being closed-access we operated open-access centers. In this model we did not employ the surgeons. We provided the laser center the staff and the equipment and charged a facility fee to the surgeon for the use of the center. Multiple doctors operated at each location and the doctors were responsible for bringing patients to the center. What we found was that we were training a fair number of doctors who built the practice and in order to achieve the significant volume left and acquired their own laser.

The next column in this chart is the co-management model, which is used by the industry's largest provider, TLC Vision. Under co-management the pre-operative and post-operative work is done in the optometrist's office and the optometrist shares in the global fee charged to the patient, which is typically about 20 percent of the global fee.

The advantage of this model is that it leverages the existing doctor/patient relationship so that optometrists who are seeing patients for glasses or contacts can explain the benefits of laser vision correction and participate in the revenue stream. The disadvantages of co-management are that it is more expensive for the consumer and it does not provide the post-operative feedback loop to a center on performing the procedures.

The last column in this chart is the mobile laser market that is also used by TLC Vision in the business that they acquired from Laser Vision Centers. The advantage of this model is that offers an independent doctor the opportunity to enter the market without a significant upfront capital expenditure. It is most attractive to ophthalmologists who were performing laser vision correction as part of a general ophthalmology practice. TLC has stated that 80 percent of their doctors who utilize mobile lasers performed less than 20 procedures a month.

Let's take a look at how the different models are performing. For the TLC Vision column I have combined TLC's reported volumes with Laser Vision Center's reported volumes. And the reporting periods are slightly different so this column is an approximation. It does not include volumes for Clear Vision prior to the acquisition by Laser Vision Center.

Together the companies represented in this chart are responsible for about 26 percent of the laser vision correction market in the U.S. So given those caveats you can see that in 2001 LCA Vision was the only publicly traded provider to grow procedure volume in a flattening market. 2002 started strongly with a 65 percent sequential growth in the first quarter of 2002 over a week fourth quarter of 2001.

The industry as a whole experienced a seasonal up-tick in the first quarter, as people are eager to use their flexible spending accounts to pay for the procedure with pre-tax money. This is a trend we expect to repeat in 2003 and it leads us to expect the return to profitability in the first quarter of 2003.

The growing part of our business is through managed care. These are programs we offer that currently offer discounts to vision plan participants on their laser vision correction. Managed care has grown from six percent of our business in the first quarter of last year to over 11 percent of our volume in the most recent quarter. We expect further growth in this profitable managed care segment in 2003.

Ultimately we feel the winning company in this industry is the one that provides the best possible outcomes at a price people can afford. We work hard at sharing our best practices among all our centers to achieve the best possible results. As an example in September of this year we had a conference in Cincinnati that was attended by all our surgeons, optometrists and center directors. In the weeks and months that following this conference we've had a significant increase in the company's conversion rate. I'll show you how we calculate this measure and what it means to our financial performance.

We measure each step in the patient capture process from the first phone call all the way through to treatment and put in programs to improve each of those steps. As to summarize the overall process yield, if you divide the total number of procedures performed by the scheduled eye exams, you get what we call the conversion rate. So that if everybody who scheduled an eye exam came in and signed up and had both eyes done that ratio would be 2.0.

The operating leverage generated by a change in the conversion rate is significant. For a .1 change in the conversion rate system wide we increased our monthly earnings per share by five cents, or annual by 60 cents.

Because of the lead-time and seasonality most of the improvement in the conversion rate that we're experiencing will not be realized until the first quarter of next year.

To achieve the best possible clinical outcomes we focus on four factors. We carefully screen patients to ensure that they are good candidates for the procedure. We utilize state-of-the-art lasers and diagnostic equipment. We invest heavily in training. And finally because of our closed-access business model we have a tightly controlled treatment process with a close working relationship between the surgeons and the optometrists.

And the result is outstanding clinical results; they're just terrific. Over 99.6 percent of patients achieve 20/40 vision, which is what you need to drive a car without glasses or contacts and over 90 percent of patients are currently getting 20/20 vision and a significant percentage actually better than 20/20.

There are three critical profit drivers for this business; treatment volumes, average price realizations and the average cost for marketing and advertising. This next chart will show where we've been historically on these measures and this chart will show what we're targeting to achieve.

The center column represents 250 procedures per center per month at an average price of $1,150 and a marketing and advertising cost of $200 per procedure. This would yield fully taxed earnings per share of $1.26.

As you can see from this chart the three targets we have chosen for volume price and advertising costs have all been achieved at different points in the past. Our challenge is to combine all three of these objectives at the same time and in sense the same profitable operation going forward.

To summarize, we were very pleased with our clinical outcomes. We will selectively open new centers and enter new markets to leverage existing resources and grow revenues. We expect to return to profitability in the first quarter of next year. We remain in strong financial position with over 17 million in cash as at the end of last quarter, no debts and 20 million in unused lines of credit.

We continue to grow our profitable managed care business and to me to summarize this has been a growth at a reasonable price.

At this time I'd like to open up the conference for your questions. Operator?

QUESTIONS AND ANSWERS

Jim Flanagan - *IR Strategic Advisors - President*

Thank you Mr. Buckey. For our audience that are participating live today we remind you that you may submit a question at anytime by simply typing your query into the question field that you'll find in the lower left-hand side of the web cast player.

Our first question Mr. Buckey was relative to the reverse stock split that occurred back in November. A "D" was appended to the stock ticker. Can you explain the reason for that and when that will be removed?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

Yes. NASDAQ appends the letter "D" to your stock ticker for 20 trading days following the split and today is the last day in that 20-day period so when the market opens tomorrow it'll be back to the ticker LCAV.

Jim Flanagan - *IR Strategic Advisors - President*

OK. And relative to that where do you stand relative to NASDAQ's ongoing listing requirements?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

We're in total compliance with all their requirements.

Jim Flanagan - *IR Strategic Advisors - President*

Excellent. Next question is from an analyst that is asking what gives you the conviction of a turnaround that in the market that is sustainable. The questionnaire has noted that every year there seems to be a seasonal rebound in January/February that is not always proved to be sustainable.

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

Correct. We recently engaged Zimmerman Partners (ph) to handle our marketing advertising and we're encouraged by some of the things (ph) that they've brought. We're also encouraged by the improvement in our operating metrics that we've seen. So things that are within our control we've seen some pretty dramatic improvement in that and that means we're yielding more treatments out of every scheduled eye exam. So combination of those factors encourages me.

Jim Flanagan - *IR Strategic Advisors - President*

In your presentation you indicated that two new markets would be opened in the first half of 2003. Will there be additional new markets in the second half of the year? And what would you lead you to accelerate new center openings?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

Yes. We're considering to expand selectively in new markets in the second half of 2003. We haven't put a specific number on that. And there's really two drivers that could lead us to accelerate new center openings. One if the economy would improve more quickly that we anticipate or two you and Bausch & Lomb ultimately receives approval for custom treatments.

Jim Flanagan - *IR Strategic Advisors - President*

Regarding custom oblation, what's your expectations for the adoption of that and for instance the questionnaire is asking what percent of procedures will be custom by the end of 2003 assuming the approval by Bull & Visics (ph) in the spring of 2003?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

That's a good question and it's somewhat hard to project. Outcomes with today's technology are already fantastic so it's hard to imagine them getting significantly better. With that said we have Bausch & Lomb's Eye-Optic (ph) system in Helsinki, Finland currently and it's generating a significant amount of consumer interest. So we think the new technology has the potential to increase both average selling price and patient volume at the same time. Until we actually get the approval on the U.S. and we can see what kind of percentage that could convert to I'm not really comfortable with making a projection on how much of the total business will go custom.

Jim Flanagan - *IR Strategic Advisors - President*

Our next question is do you expect to increase your market share within the corporate segment of the business?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

Yes. We intend to increase market share in existing markets as well as go to new markets.

Jim Flanagan - *IR Strategic Advisors - President*

What kind of flexibility do you have relative to your cost of goods sold in terms of per procedure fees and physician fees?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

Because the systems are under a contract so that those are fixed arrangements. We have different price points that we charge based on laser technology and after care options so that in general pricing has trended up over the last two years and we continue to project some gradual improvements in average price realization. So we think it's going up rather than down.

Jim Flanagan - *IR Strategic Advisors - President*

A question has come to clarify the availability of the new technology.

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

Well it could be as early as January of next year but most likely it'll be sometime in the first six months. It's all in the FDA gives Bausch & Lomb the approval.

Jim Flanagan - *IR Strategic Advisors - President*

Regarding your treatment exams, have they held constant during the sort of economic downturn and could you give us a possibly a quarterly breakout of your conversion rates for the past several quarters or something that might be indicative of this.

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

The monthly procedure volume numbers I don't have in front of me. They're in our 10-Qs and if somebody wanted to I mean I could just get that to them. Generally the first quarter is the seasonally strongest quarter as people use their flexible spending accounts. Typically the second quarter is flat to down a little from the first quarter and the third quarter flat with the second quarter and the fourth quarter typically is flat to down a little from the third quarter. But as I said in the press release today we're expecting it to be up year-over-year in excess of 10 percent.

Jim Flanagan - *IR Strategic Advisors - President*

You indicated you had a press release today. For any of our audience that may not have seen it did you want to comment on that?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

It just, it states some of the highlights from today's presentations. So it would be kind of redundant just to go through that.

Jim Flanagan - *IR Strategic Advisors - President*

OK. Thank you. I remind our live participants in today's web cast that you may submit a question at anytime by simply typing your query into the question field that you'll find in the lower left-hand side of the web cast player. Our next question is, does the relative size of TLC now make it more difficult for you to compete?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

Not in our opinion.

Jim Flanagan - *IR Strategic Advisors - President*

And do you have a pay per procedures fee on your international centers for Dioptics (ph)?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

Yes. Yes we do. There's an additional fee to Bausch & Lomb and we're currently charging our 50 percent price premium to the consumer, so it's a win/win for both the manufacture and the provider.

Jim Flanagan - *IR Strategic Advisors - President*

Mr. Buckey would you identify what you believe to be the primary milestones that will be in front of LCA Vision over the next few months that an investor should follow?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

Really the three performance metrics that I identified, the average number of procedures per center per month, the average price per procedure and the spend rate on marketing and advertising. As we try to trend towards those that we have identified in the presentation as the targets, 250 eyes per month at 1150 an eye and $200 for marketing and advertising.

Jim Flanagan - *IR Strategic Advisors - President*

We're speaking with Mr. Alan Buckey, Executive Vice President and Chief Financial Officer of LCA Vision. Mr. Buckey we have no more questions at this point in time. Would you like to make any concluding remarks?

Alan Buckey - *LCA Vision - Executive Vice President and CFO*

I'd just like to thank everybody from CCBN, Lippert Heilshorn and everyone who participated in today's call. Thank you very much.

Jim Flanagan - *IR Strategic Advisors - President*

Thank you Mr. Buckey and we thank LCA Vision for participating in CCBN's Virtual Healthcare conference. We thank our audience for their time today. Our audience members, who would like to listen to the next web cast, please close your media player and return to www.ccbn.com, www.redchip.com or www.lhai.com. Thank you for participating.
