

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2001

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

For the Transition Period From to

Commission file number 0-27610

LCA-VISION INC.

Delaware Corporation
(State of Incorporation)

11-2882328
(I.R.S. I.D.)

**7840 Montgomery Road, Cincinnati, Ohio 45236
Telephone Number (513) 792-9292**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.001 Par Value per Share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of March 15, 2002 was approximately \$50,219,000.

The number of shares outstanding of the registrant's Common Stock as of March 15, 2002 was 42,839,962.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Stockholders to be held May 13, 2002 are incorporated by reference in Items 10, 11, 12 and 13 of Part III of this Report.

LCA-VISION INC.

FISCAL YEAR 2001 FORM 10-K ANNUAL REPORT

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this Annual Report on Form 10-K, including information with respect to our future business plans, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "may," "will," "estimates," "continues," "anticipates," "intends," "plans," "expects" and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements. These factors include those set forth in Part II "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results and Market Price of Stock."

Item 1. Business.

Background and History of Company

LCA-Vision Inc. (the "Company" or "LCA-Vision") is the successor to two businesses which were founded and controlled by Stephen N. Joffe: Laser Centers of America, Inc. and Toronto Laservision Centre, Inc. Laser Centers of America was founded in 1985 to assist hospitals in establishing and managing laser surgery centers, and Toronto Laservision was one of the earliest laser vision surgery centers in Canada, which approved refractive laser surgery several years prior to its introduction in the United States in 1995.

On August 18, 1997, we acquired all of the outstanding shares of Refractive Centers International, Inc., an operator of laser vision correction centers and a majority-owned subsidiary of the refractive laser manufacturer Summit Technology, Inc., in exchange for 17,065,579 newly-issued shares of LCA-Vision common stock.

In 1998, we raised a total of \$9,463,000 of equity capital through the issuance of a new class of convertible preferred stock to fund the continued growth of our business, and in July 1999 we raised an additional \$37,300,000 of equity capital, after expenses, through a public offering of 5,000,000 shares of our common stock.

In 1996, our common stock began trading on the Nasdaq SmallCap Market, and following our public offering in 1999, it began trading on the Nasdaq National Market.

The U.S. Eye Care Industry

More than 150 million Americans, or approximately 50% of our nation's population, require eyeglasses or contact lenses to correct common refractive vision. Most people requiring vision correction suffer from one or more refractive vision disorders, which result from improper curvature of the cornea as related to the size and shape of the eye. If the cornea's curvature is not precisely correct, it cannot properly focus the light passing through it onto the retina, and the viewer will see a blurred image. The three most common refractive vision disorders are:

- Myopia (nearsightedness) -- images are focused in front of the retina, resulting in the blurred perception of distant objects
- Hyperopia (farsightedness) -- images are focused behind the retina, resulting in the blurred perception of near objects
- Astigmatism -- images are not focused on any point due to the varying curvature of the eye along different axes

Laser Vision Correction Procedures

Laser vision correction procedures are designed to reshape the outer layers of the cornea to correct refractive vision disorders by changing its curvature with an excimer laser, which eliminates or reduces the need for corrective lenses. Prior to the procedure, an assessment is made of the correction required to program the excimer laser. The software of the excimer laser then calculates the optimal number of pulses needed to achieve the intended correction using a specially developed algorithm. A speculum is inserted to prevent blinking and topical anesthetic eye drops are applied. The patient reclines in a chair, eyes focused on a fixed target, while the ophthalmologist positions the patient's cornea for the procedure. The excimer laser emits energy in a series of pulses with each pulse lasting only several billionths of a second. High-energy ultraviolet light produced by the excimer laser creates a "non-thermal" ablation, which removes tissue and reshapes the cornea without damaging adjacent tissue. The amount of tissue removed depends upon the degree of the vision disorder being corrected. Following the procedure, the front surface of the eye is flatter when corrected for nearsightedness and steeper when corrected for farsightedness. In effect, the change made in the middle or periphery of the cornea is translated to the front surface of the cornea which results in vision correction. A series of patient follow-up visits are scheduled with an optometrist or ophthalmologist to monitor the corneal healing process, to verify that there are no complications and to test the correction achieved by the laser vision correction procedure. The typical procedure takes 15 to 30 minutes from set-up to completion.

The excimer lasers used in our U.S. centers are manufactured by VISX, Inc., Bausch & Lomb Surgical and Summit Autonomous. VISX is currently approved to treat nearsightedness of up to -14 diopters with astigmatism of up to 5 diopters, and farsightedness of up to +5 diopters. The Bausch & Lomb Surgical Technolas 217 is approved for up to -7 diopters of nearsightedness with up to 3 diopters of astigmatism. The Summit Autonomous laser is approved for up to -9 diopters of nearsightedness with up to 3 diopters of astigmatism, and farsightedness up to +6 diopters.

Virtually all of our patients receive a procedure named Laser In-Situ Keratomileusis (LASIK). In LASIK, an FDA-approved automated microsurgical instrument called a microkeratome is used to create a thin corneal flap, which remains hinged to the eye. Patients do not feel or see the cutting of the corneal flap, which takes only a few seconds. The corneal flap is then laid back and excimer laser pulses are applied to the exposed surface of the cornea to treat the eye according to the patient's prescription. The corneal flap is then folded back to its original position and inspected to ensure that it remains secured in position by the natural suction within the cornea. Because the surface layer of the cornea remains intact with LASIK, no bandage contact lens is required and the patient experiences minimal discomfort. LASIK has the advantage of more rapid recovery than PRK, with most patients seeing well enough to drive a car the next day. The LASIK procedure allows an ophthalmologist to treat both eyes of a patient during the same visit.

The Laser Vision Correction Market

In 1995, the FDA approved the first laser to perform laser vision correction procedures in the U.S. Currently, laser vision correction is the most widely performed elective surgical procedure in the United States with 1,474,000 procedures performed in 2000, an increase of 55% over the 948,000 procedures performed in 1999. Industry analysts estimate approximately 1,350,000 procedures were performed in 2001.

The rapid growth of laser vision correction procedures performed in the U.S. is attributable to many factors which include:

- Word of Mouth -- As the number of procedures performed increases, so does the number of patients able to attest to the benefits of laser vision correction.
- Improved Procedure -- The LASIK procedure results in immediate improvement, minimal patient discomfort and recovery in a matter of days.
- Expanded Applications -- The excimer laser is now approved to treat the three most common types of refractive vision disorders: nearsightedness, farsightedness and astigmatism.

Our Laser Vision Correction Centers

We currently operate 34 laser vision correction centers, 31 of which are located in metropolitan markets throughout the United States, two in Canada and one in Europe. Our centers are supported by credentialed ophthalmologists and optometrists. The ophthalmologists perform the laser vision correction procedures, and either ophthalmologists or optometrists carry out the pre-procedure evaluations and post-procedure follow-ups. We have performed laser vision correction procedures since 1991 and nearly all procedures are now LASIK.

Our Business Strategy

Our business strategy is to provide laser vision correction at an affordable price. Beginning in July 1999, we converted our centers to closed access facilities from open access facilities. Under our closed-access model, the Company either directly employs the ophthalmologist and the optometrist or exclusively contracts for their services from a professional corporation which employs them. The Company also assumes responsibility for patient acquisition.

By the first quarter of 2000, we changed the names of all of our centers to Lasik*Plus* and began building consumer awareness of the brand name through a saturation local media campaign that included newsprint, radio and direct mailings. We intend to increase penetration and market share in our current markets and expand into contiguous markets. The key elements of our business strategy include:

Developing and implementing innovative direct marketing campaigns. Our marketing programs seek to reinforce the Lasik*Plus* brand name in addition to raising awareness concerning laser vision correction and promoting our centers. We direct the patient marketing efforts to two potential sources: our network call center's patient base and consumers in general. In each market, we target a specific demographic group of potential patients that we believe is most likely to be interested in laser vision correction. Our marketing programs include print, television, radio and direct mail campaigns as well as brochures and videos. Our public relations rely on placement of news stories in various media to highlight the opening of new centers or the availability of laser vision correction services within a specific market. In most advertisements, prospective patients are provided our web site address for Lasik*Plus* and a toll-free number to contact our call center representatives who screen prospective patients and record patient names and information into our centralized computer system for future mailings. Once patient information has been recorded, our representatives attempt to schedule eye evaluation appointments for prospective patients with the local center ophthalmologist or optometrist to determine whether the prospective patient is a candidate for laser vision correction. If a prospective patient elects not to proceed with a laser vision procedure following an initial evaluation, the prospective patient's name is kept on a follow-up mailing list and additional materials are sent to the patient for a certain period of time.

Attracting leading ophthalmologists and optometrists. We believe the most effective way to attract leading ophthalmologists and optometrists is to establish ourselves as a leading provider and operator of laser vision correction centers within the eyecare community.

Building and operating new laser vision correction centers. We plan to expand our business primarily through the development of new centers in desirable markets and within existing markets. In evaluating new and current markets for building a laser vision correction center, we evaluate population demographics, determine the number of existing excimer lasers and interview local ophthalmologists and optometrists. The targeted market must exhibit a potential for generating break-even procedure volume within the first 3 to 6 months after opening, including the necessary ophthalmologist and optometrist participation to support such levels. We seek to lease 2,400 to 5,000 square feet of space in professional office buildings located in high volume traffic areas. In addition, we have developed standardized center plans and designs to be used in building each new center.

Acquiring established laser vision correction centers. We will continue to evaluate selective acquisition opportunities. This evaluation includes an analysis of the potential laser vision correction center's historical operating performance and clinical outcomes and verification of all credentialing, licensures and certifications for the ophthalmologists performing procedures. Furthermore, we assess each targeted center's physical structure, geographic location and support staff qualifications. We seek to acquire laser vision correction centers that have established profitability and can benefit from our management and marketing programs.

We Provide Our Patients With

Convenient access to highly credentialed ophthalmologists and optometrists. We focus on recruiting leading ophthalmologists and optometrists who have a reputation for providing quality eye care within their respective markets and have performed at least 2,000 laser vision correction procedures. Our ophthalmologists have completed extensive FDA-mandated training and also have met our rigorous qualification criteria, including an extensive review of state licensure, Board certification, malpractice insurance, historical procedure experience and clinical outcomes. In addition, all newly-recruited ophthalmologists are placed under the supervision of a more experienced laser vision correction ophthalmologist to closely monitor clinical outcomes and patient satisfaction.

Treatment environments designed to enhance customer satisfaction. Our centers are designed to create a patient friendly environment and reduce any anxiety associated with laser vision correction. Each center has an aesthetically pleasing and comfortable waiting area for patients and our center staff is focused on addressing each patient's needs. In addition, each center provides consultation areas where the patient and center staff can discuss procedures and financing alternatives in a private setting.

Educational consultations and materials. The education process begins with our initial contact with the patient. All of our educational materials focus on information regarding vision correction procedures. Our call center personnel are trained to answer questions regarding procedures and have access to both an ophthalmologist to address more difficult inquiries and past patients to relate procedure experiences. Once in the center, potential patients receive a consultation focused on educating the patient on vision correction procedures, how the procedure corrects the specific refractive vision disorder that the patient presents with and what results the patient should expect after the procedure. Patients are given written materials and can view a video of the procedure or witness an actual procedure during their initial visit. We believe that an educated patient has realistic expectations and is therefore more satisfied with procedure results.

Affordable financing alternatives. Because laser vision correction procedures are elective and generally not reimbursable by third party payors, we offer patients several financing alternatives and in certain circumstances promotional discounts. Customers can pay for the procedure with cash, personal check, bank check, money order or credit card. In addition, we make available multiple payment plans offered by an unaffiliated finance company. We also provide information regarding installment plans, insurance coverage, home equity loans and payment through employer flexible benefit plans. In the majority of the procedures financed, we bear no credit risk.

Competition

Laser vision correction, whether performed at one of our centers or elsewhere, competes with several surgical and non-surgical treatments to correct refractive vision disorders including eyeglasses, contact lenses, other types of refractive surgery (such as radial keratotomy) and corneal implants. In addition, other technologies currently under development may ultimately prove to be more attractive to consumers than laser vision correction.

We face competition from other providers of laser vision correction. Eye care services in the U.S., including laser vision correction services, are delivered through a fragmented system of local providers, including individual or small groups of opticians, optometrists and ophthalmologists and chains of retail optical stores and multi-site eye care centers. Laser vision correction chains, like LCA-Vision, are a specialized type of multi-site eye care center that primarily provide laser vision correction. Among the laser vision correction center chains, we believe we are one of the largest providers in terms of number of centers in the U.S.

The market for providing access to excimer lasers is highly competitive. We compete with laser centers operated by other national operators of laser vision correction centers as well as with local operators and ophthalmologists who have purchased their own laser. Other private and public companies that operate laser centers in the U.S. include TLC Laser Eye Centers, Inc.; Laser Vision Centers, Inc.; Laser Vision Institute; NovaMed Eyecare, Inc.; Prime Medical Services; Aris Vision Institute and Laser Eye Centers.

In addition to competition from other chains of laser vision correction centers, we face competition from hospitals, surgical clinics and ophthalmologists, either as sole practitioners or as a group, who practice in the same geographic area as one of the centers. Furthermore, retail optical chains could potentially provide laser vision correction procedures. Certain chains have entered the laser vision correction market. Management believes they have had moderate success and have limited their involvement in the industry.

Employees

As of December 31, 2001, we had 241 employees, 213 of whom were full-time. None of our employees are subject to a collective bargaining agreement nor have we experienced a work stoppage.

Trademarks

Not all of our trademarked names have been formally registered yet. Where the trademark symbol is used, it is our intention to claim a trademark on such names under common law by using the "TM" symbol. The duration of such trademarks under common law is the length of time we continue to use them.

Suppliers of Laser Equipment

We are not directly involved in the research, development or manufacture of ophthalmic laser systems. There are at least five companies, Bausch & Lomb, VISX, Summit Autonomous, Nidek and LaserSight, whose excimer laser systems have been approved by the FDA for commercial sale in the U.S.

Government Regulation

Our operations are subject to extensive federal, state and local laws, rules and regulations affecting the health care industry and the delivery of health care. These include laws and regulations, which vary significantly from state to state, prohibiting unlawful rebates and division of fees, and limiting the manner in which prospective patients may be solicited. Furthermore, contractual arrangements with hospitals, surgery centers, ophthalmologists and optometrists, among others, are extensively regulated by state and federal law.

Failure to comply with applicable FDA requirements could subject excimer laser manufacturers and us to enforcement action, including product seizures, recalls, withdrawal of approvals and civil and criminal penalties, any one or more of which could have a material adverse affect on our business, financial condition and results of operations. In addition, clearance or approvals could be withdrawn in appropriate circumstances. Failure by us or our principal suppliers to comply with regulatory requirements, or any adverse regulatory action, could result in a limitation on or prohibition of our use of excimer lasers which in turn would have a material adverse effect on our business, financial condition and results of operations. Discovery of problems, violations of current laws or future legislative or administrative action in the United States or elsewhere may adversely affect the manufacturers' ability to obtain regulatory approval of laser equipment. Furthermore, the failure of VISX, Bausch & Lomb Surgical or any other manufacturers that supply or may supply excimer lasers to us to comply with applicable federal, state, or foreign regulatory requirements, or any adverse regulatory action against such manufacturers, could limit the supply of lasers or limit our ability to use the lasers.

Item 2. Properties.

Our corporate headquarters and one of our laser refractive surgery centers are located in a 32,547 sq. ft. office building that we own in Cincinnati, Ohio. Our other laser refractive surgery centers are in leased locations. The typical location is in a professional office building and includes a laser surgery room, private examination rooms, and patient waiting areas. The leased space ranges in size from approximately 2,400 to 5,000 square feet with expiration dates ranging from March 31, 2003 to July 31, 2010.

Item 3. Litigation.

We are a defendant and counter-claimant in a consolidated case entitled Cabrini Development Council, et al. v. LCA-Vision Inc., et al., which was commenced in October, 1997 in the Supreme Court of the State of New York, County of New York and subsequently removed to the United States District Court for the Southern District of New York. Also named as co-defendants are various current and former employees, officers and directors. The case involves claims and counterclaims asserted by and against us, and two other members of a New York limited liability company formerly engaged in operating a laser refractive surgery center, and arises out of the cessation of operations of such limited liability company.

The Court has ruled that it lacks subject matter jurisdiction over the controversy. The decision has been appealed in an effort to keep the action in federal court. If the appeal is unsuccessful, the claims may be pursued in New York State Supreme Court.

In the opinion of management this action will not have a material adverse effect on our financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Since June 30, 1999 our common stock has been included for quotation on the Nasdaq National Market under the symbol "LCAV." From 1996 through June 29, 1999 our common stock was included for quotation on the Nasdaq Small Cap Market under the symbol "LCAV." There were approximately 26,500 holders of record of our Common Stock on February 28, 2002.

The following table sets forth the range of high and low closing prices as reported by the Nasdaq National Market since June 30, 1999 and the Nasdaq Small Cap Market prior to that date. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

	2001		2000		1999	
	High	Low	High	Low	High	Low
First Quarter	\$3.34	\$1.13	\$6.19	\$3.88	\$4.00	\$1.38
Second Quarter	3.15	2.44	5.00	2.44	12.75	3.69
Third Quarter	2.68	1.06	3.09	2.47	12.69	5.00
Fourth Quarter	1.12	0.62	2.88	1.00	5.50	3.81

We did not pay any cash dividends on our common stock during the three years ended December 31, 2001 and do not anticipate doing so in the future. Our loan agreement with our principal lender prohibits us from declaring or paying any dividend or distribution, except stock dividends, on our capital stock without the lender's approval.

Item 6. Selected Consolidated Financial Data.

The data set forth below should be read in conjunction with the Consolidated Financial Statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Consolidated Statements of Operations Data:					
Revenues:					
Laser refractive surgery	\$68,025	\$63,141	\$56,358	\$32,508	\$12,917
Other	71	309	1,026	2,692	4,677
Total revenues	68,096	63,450	57,384	35,200	17,594
Operating costs and expenses:					
Medical professional and license fees	13,626	15,542	22,930	13,700	4,489
Direct costs of services	33,616	27,218	16,113	12,526	10,753
General and administrative expenses	8,727	9,394	6,036	6,198	4,231
Marketing and advertising	12,732	14,565	5,671	2,183	1,259
Depreciation and amortization	5,625	3,839	2,964	3,521	2,511
Other	--	--	--	--	162
Restructuring/impairment provision	1,774	--	(150)	10,500	1,100
Total expenses	76,100	70,558	53,564	48,628	24,505
Operating (loss) income	(8,004)	(7,108)	3,820	(13,428)	(6,911)
Equity in earnings (losses) from unconsolidated businesses					
	372	49	316	354	(27)
Interest expense	(17)	(58)	(169)	(786)	(1,140)
Interest income	924	2,713	1,633	441	216
Other income	(61)	604	6	358	77
(Loss) income before taxes on income	(6,786)	(3,800)	5,606	(13,061)	(7,785)
Income tax expense (benefit)	16,589	(1,434)	(5,287)	157	68
Net (loss) income	(23,375)	(2,366)	10,893	(13,218)	(7,853)
Dividends to preferred shareholders	--	--	140	518	183
(Loss) income available to common shareholders	\$(23,375)	\$(2,366)	\$10,753	\$(13,736)	\$(8,036)

Item 6. Selected Consolidated Financial Data (continued).

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(amounts in thousands, except per share and procedure data)				
(Loss) income per common share					
Basic	\$(0.50)	\$(0.05)	\$0.22	\$(0.36)	\$(0.30)
Diluted	\$(0.50)	\$(0.05)	\$0.21	\$(0.36)	\$(0.30)
Weighted average shares used in computation					
Basic	46,562	50,951	47,991	37,669	26,709
Diluted	46,562	50,951	50,914	37,669	26,709
Selected Operating Data					
Laser vision correction procedures	72,032	59,144	33,266	19,791	7,748
Balance Sheet Data					
Cash and cash equivalents	\$16,609	\$19,692	\$11,981	\$6,496	\$2,780
Short-term investments	--	8,626	37,299	--	--
Working capital (deficit)	14,378	24,063	49,212	3,577	(1,698)
Total assets	43,188	75,597	85,290	31,377	44,527
Debt maturing in one year	26	178	676	787	10,182
Total debt, excluding current portion	4	48	250	4,224	2,850
Accumulated deficit	(40,512)	(17,136)	(14,771)	(25,664)	(12,446)
Total shareholders' investment	38,202	65,045	80,045	23,199	26,714

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis in conjunction with the "Selected Consolidated Financial Data" and the accompanying financial statements and related notes included elsewhere in this Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed here. Factors that could contribute to such differences include, but are not limited to, those discussed in "Factors That May Affect Future Results and Market Price of Stock."

Overview

We are a leading developer and operator of value-priced laser vision correction centers. Our laser vision correction centers provide the facilities, equipment and support services for performing vision correction procedures using state-of-the-art laser technologies to correct nearsightedness, farsightedness and astigmatism. The Company currently utilizes two primary excimer lasers: The Bausch & Lomb Technolas 217 and the VISX Star S2 laser. Substantially all of the revenues from our laser vision correction procedures are derived from our U.S. centers.

Our sources of revenue are:

- Laser refractive surgery, including fees for procedures performed at our consolidated centers, and
- Other, including management fees for operating laser vision correction centers of investees, contractual fees for managing multi-specialty laser surgery programs at hospitals, marketing and education program fees, and miscellaneous sources.

Our operating costs and expenses consist of:

- Medical professional and license fees, including per procedure fees for the ophthalmologists performing laser vision correction and the license fee of \$110 per procedure paid to VISX and Bausch & Lomb,
- Direct costs of services, including center rent and utilities, equipment lease and maintenance costs, surgical supplies, center staff expense, costs related to other revenue, and all other costs associated with providing services in our Centers,
- General and administrative, including marketing and advertising, headquarters staff expense, and other overhead costs, and
- Depreciation and amortization of equipment and intangible assets recorded in the balance sheet.

Sources of Revenues

The table below summarizes our sources of revenue and their annual growth or decline for each of the three years ended December 31, 2001 (dollars in thousands):

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Laser refractive surgery	\$68,025	\$63,141	\$56,358
Growth rate	8%	12%	73%
Surgery management contracts	--	--	\$364
Growth rate	--	-100%	-76%
Other	\$71	\$309	\$662
Growth rate	-77%	-53%	-45%
Total	\$68,096	\$63,450	\$57,384

Laser Refractive Surgery

Laser refractive surgery revenue generally includes three components: facility fees, license fees and medical professional fees. Certain states prohibit us from practicing medicine, employing physicians to practice medicine on our behalf or employing optometrists to render optometry services on our behalf. Revenues and direct costs from centers in these states do not include the medical professionals' fee component. The contribution from laser refractive surgery procedures for each of the three years ended December 31, 2001 is as follows (dollars in thousands):

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Revenue	\$68,025	\$63,141	\$56,358
Direct Costs, medical professional and license fees	<u>47,242</u>	<u>42,760</u>	<u>39,043</u>
Contribution	<u>\$20,783</u>	<u>\$20,381</u>	<u>\$17,315</u>

Our results of operations in any period are significantly affected by the number of laser vision procedures performed.

The following table illustrates the growth of laser vision correction procedures performed at our consolidated centers.

	<u>2001</u>	<u>2000</u>	<u>1999</u>
First quarter	25,061	12,504	7,591
Second quarter	22,940	13,888	8,365
Third quarter	13,347	16,341	8,769
Fourth quarter	<u>10,684</u>	<u>16,411</u>	<u>8,541</u>
Year	<u>72,032</u>	<u>59,144</u>	<u>33,266</u>

The average price per procedure increased in every quarter of 2001, from a starting point of \$877 in the fourth quarter of 2000, to \$1,020 in the fourth quarter of 2001. Procedure volumes increased by 22 percent in 2001 from the full year 2000 as the Company benefited from full-year operations of centers opened in 2000.

As the economy in the United States slowed in the second half of 2001, procedure volumes declined. Management expects industry growth to resume in 2002.

Operating Costs and Expenses

2001 Compared to 2000

The following table shows the dollar amount of increase (decrease) of operating expenses from 2000 to 2001 and the percent of revenues for each year (dollars in thousands):

	Increase (Decrease)	% of Revenue	
		<u>2001</u>	<u>2000</u>
Medical professional and license fees	(1,916)	20.0	24.5
Direct costs of services	6,398	49.4	42.9
General and administrative expenses	(667)	12.8	14.8
Marketing and advertising	(1,833)	18.7	23.0
Depreciation and amortization	1,786	8.3	6.1

License fees decreased in 2001 from the amount spent in 2000. The increase in license fees due to higher procedure volumes in 2001 was more than offset by lower expenditures on enhancements and the full-year effect of the reduction in the procedure license fee from \$260 to \$110, which occurred in February 2000. In addition, physician contracts were renegotiated during the second quarter of 2000 to enable the company to be competitive at lower pricing levels for laser vision correction.

Direct costs of services include payroll, equipment lease and maintenance, facility rent and supply costs associated with providing our services. Approximately \$3,034,000 of the increase in direct costs of services related to more Centers being in operation in 2001 than were in operation in 2000. An increase of \$680,000 in consumable supplies was the result of higher procedure volumes. The remaining increase in direct costs of services of \$2,684,000 resulted from increase in the average cost to run a Center, which increased from \$71,200 per center per month in 2000 to \$79,000 per center per month in 2001.

General and administrative expenses decreased by approximately \$667,000 in 2001 from the amount expended in 2000. Warrant amortization and the repurchase of warrants from Cole National Corporation decreased warrant related expenses by \$463,000 in 2001 from 2000. Corporate employment and travel expenses decreased by \$443,000. Legal, accounting and consulting fees were reduced by \$248,000 in 2001. Office equipment expenses were cut by \$75,000 in 2001. Offsetting a portion of these cost reductions was an increase in insurance costs of \$172,000, an increase in national call center costs of \$276,000 and an increase in information systems costs of \$134,000.

Marketing and advertising costs decreased by \$1,833,000 due to improved advertising effectiveness during the first half of 2001.

The increase in depreciation and amortization expense of \$1,786,000 is a result of year 2001 capital expenditures associated with new center openings, and the placement of Bausch & Lomb Surgical lasers in each of our markets.

During the third quarter of 2001, management implemented a restructuring plan to close unprofitable locations and to reduce operating expenses. The cost of the plan is \$1,375,000 which is comprised of a \$535,000 restructuring charge and an \$840,000 asset impairment charge for leasehold improvements, equipment and goodwill associated with the locations to be closed. The restructuring charges included \$384,000 in lease termination costs and \$151,000 in severance payments for 71 employees.

As of December 31, 2001, the balance of the restructuring renewal was \$262,000 which relates to future facility rent payments.

Also during the third quarter of 2001, the Company provided a reserve of \$399,000 on a loan made to REI Corporation which operated a licensed facility in Tokyo, Japan. During the quarter, management determined that the loan may not be recoverable.

As a result of the Company's operating loss during the third quarter of 2001, and continuing uncertainties regarding the general economic conditions in the United States and the impact on ongoing operations, the Company recorded a \$15,345,000 valuation reserve for deferred tax assets as of September 30, 2001. This reserve was established according to the requirements of SFAS No. 109 "Accounting for Income Taxes." At the time the special charges were made, the Company anticipated annual cost savings of \$4,600,000. Based upon cost reductions made prior to year end, management expects to exceed the projected cost savings of the restructuring plan.

Other non-operating income decreased in 2001 over 2000 primarily as a result of the termination of a deferred compensation arrangement with a physician in the second quarter of 2000.

Other

Equity in income from unconsolidated affiliates increased in 2001 as a result of growth in the Company's managed care business.

Interest expense decreased \$41,000 due to our reduction of capital lease obligations.

Interest income decreased \$1,789,000 as a result of lower interest rates and lower average invested balances.

2000 Compared to 1999

The following table shows the dollar amount of increase (decrease) of operating expenses from 2000 to 1999 and the percent of revenues for each year (dollars in thousands):

	Increase (Decrease)	% of Revenue	
		<u>2000</u>	<u>1999</u>
Medical professional and license fees	(7,388)	24.5	40.0
Direct costs of services	11,105	42.9	28.1
General and administrative expenses	3,358	14.8	10.5
Marketing and advertising	8,894	23.0	9.9
Depreciation and amortization	875	6.1	5.2

Medical professional and license fees decreased because of reduction in the procedure license fee from \$260 to \$110 in February 2000. In addition, physician contracts were renegotiated during the second quarter of 2000 to enable the company to be competitive at lower pricing levels for laser vision correction.

Direct costs of services include payroll, equipment lease and maintenance, facility rent and supply costs associated with providing our services. Approximately \$6,240,000 of the increase in direct costs of services related to new Centers opened in the year. An increase of \$910,000 in consumable supplies was the result of higher procedure volumes. The remaining increase in direct costs of services of \$3,955,000 resulted from the fixed salary component of medical staff employed under the *LasikPlus* business model.

General and administrative expenses increased by approximately \$600,000 because of the expansion of our national call center. Warrant amortization and the repurchase of warrants from Cole National Corporation increased warrant related expenses by \$1,165,000 in 2000 over 1999. Operations management expenses increased by \$670,000 to provide regional and national management resources for both existing Centers and new Centers opened during the year. A credit to administrative expenses of \$492,000 to record the receipt of free lasers in 1999 did not reoccur in 2000. In addition, a credit of approximately \$430,000 for a rebate of credit facility fees recorded in 1999 was not repeated in 2000.

Marketing and advertising costs increased primarily due to the direct-response marketing program associated with the operation of our centers under the *LasikPlus* business model.

The increase in depreciation and amortization expense is a result of year 2000 capital expenditures associated with new center openings, and the placement of Bausch & Lomb Surgical lasers in each of our markets.

Other non-operating income increased in 2000 over 1999 primarily as a result of the termination of a deferred compensation arrangement with a terminated physician.

Liquidity and Capital Resources

Cash, cash-equivalent and short-term investments total \$16,609,000 at December 31, 2001 as compared to \$28,318,000 at December 31, 2000. Capital expenditures, net of proceeds from asset dispositions, of \$7,061,000, \$3,138,000 used under the common stock share repurchase program, and net cash used by operating activities of \$1,992,000 were financed by a reduction in cash equivalents and short-term investments.

For 2002, we expect cash flow from operating activities to be sufficient to fund 2002 capital expenditures.

Our line of credit with The Provident Bank is \$10,000,000. At December 31, 2001, all of the line is available to us for borrowing. We also have a \$10,000,000 line of credit for the purpose of funding acquisitions which is subject to the full and absolute discretion of Provident Bank.

During the second quarter of 2000, the directors initiated a program to encourage additional direct stock ownership by senior management of the Company. The Company offered loans to nine key managers and directors for the purpose of purchasing shares in the open market. Each loan is a personal obligation of the borrower, and is evidenced by a promissory note. The interest rate on the notes is prime less one and one-half percent. The notes have a maximum term of three years, and contain provisions for early repayment. As of December 31, 2001, a total of \$1,488,000 has been loaned under this program

At December 31, 2001 and 2000 we have federal net operating loss carryforwards for income tax purposes of \$45,033,000 and \$40,300,000, respectively. These expire in varying amounts from 2007 until 2021. Approximately \$18,000,000 of federal net operating loss carryforwards and \$15,750,000 state net operating loss carryforwards were acquired when we bought Refractive Centers International, Inc. Our ability to use these acquired net operating loss carryforwards is limited to approximately \$2,500,000 per year under Code Section 382 of the Internal Revenue Code.

The ability to fund our marketing and advertising program, planned capital expenditures and new center rollouts depend on our future performance, which to a certain extent, is subject to general economic, competitive, legislative, regulatory and other factors that are beyond our control. Based upon our current level of operations and anticipated revenue growth, we believe that cash flow from operations, available cash and short-term investments, and available borrowings under the credit facility from Provident Bank will be adequate to meet these needs.

Factors That May Affect Future Results and Market Price of Stock

Our stock price is likely to be highly volatile.

The price at which our common stock will trade has been and is likely to continue to be highly volatile and may fluctuate substantially due to a number of factors, including:

- Actual or anticipated fluctuation in our results of operations,
- Changes in or our failure to meet securities analysts' expectations,
- Technological innovations,
- Increased competition,
- Conditions and trends in the laser refractive surgery industry, and
- General market conditions of the U.S. economy.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of healthcare companies, particularly laser vision correction companies. These broad market fluctuations may result in a material decline in the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation is often expensive and diverts management's attention and resources, which could have a material adverse effect upon our business, financial condition and results of operations.

Laser vision correction may not achieve broad market acceptance which would limit our profitability and growth.

We believe that our profitability and expansion depends largely on acceptance of laser vision correction. There can be no assurance that laser vision correction will become more widely accepted by ophthalmologists, optometrists or the general population as an alternative to existing methods of treating refractive vision disorders. Acceptance of laser vision correction may be affected adversely by:

- Concerns relating to its safety and effectiveness,
- General resistance to surgery of any type,
- The effectiveness of alternate methods of correcting refractive vision disorders,
- The lack of long-term follow-up data and the possibility involving patient outcomes from laser vision correction, and
- Regulatory developments.

Our quarterly operating results are subject to significant fluctuations.

Our revenue and operating results may vary significantly from quarter to quarter due to a number of factors, not all of which are in our control. Future revenue is difficult to forecast and for the foreseeable future will be influenced by the timing and number of procedures performed.

Many of our expenses, particularly personnel costs and rents, are relatively fixed, and are incurred in part based on expectations of future revenue. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. Accordingly, any shortfall in revenue may cause significant variation in operating income results in any quarter.

Because of these factors, quarter-to-quarter comparisons of our results of operations may not be an indication of our future performance. It is possible that, in future periods, our results of operations may be below the expectations of public market analysts and investors. This could cause the trading of our common stock to decline.

We depend on limited sources of excimer lasers, microkeratomes and disposable blades, and shortages of these items could hinder our ability to increase our procedure volume.

We currently use three laser suppliers, Bausch & Lomb Surgical, VISX, Inc., and Summit Autonomous for our excimer lasers in the U.S. If one or all companies became unwilling or unable to supply us with excimer lasers, to repair or replace parts or to provide services, our business could be materially and adversely affected.

We are primarily dependent on Chiron Vision, a subsidiary of Bausch & Lomb Surgical, to provide the microkeratome, blades and other disposable items we provide to ophthalmologists for the most popular type of laser vision correction. There are a limited number of manufacturers of microkeratomes and there can be no assurance that microkeratomes and microkeratome blades will be available in the quantities or within the time frames we require. Any shortages in our supplies of this equipment could limit our ability to increase our volume of the LASIK procedure.

Our business may be impaired due to government regulations which could restrict our equipment, services and relationships with ophthalmologists, optometrists, and other healthcare providers.

We and excimer laser manufacturers are subject to extensive federal, state and foreign laws, rules and regulations, including:

- Restrictions on the approval, distribution and use of medical devices,
- Anti-kickback statutes,
- Fee-splitting laws,
- Corporate practice of medicine restrictions,
- Self-referral laws,
- Anti-fraud provisions,
- Facility license requirements and certificates of need,
- Conflict of interest regulations, and
- Sales and use taxes.

Many of these laws and regulations are ambiguous, and courts and regulatory authorities have provided little clarification. Moreover, state and local laws vary from jurisdiction to jurisdiction. As a result, we may not always be able to accurately interpret applicable law, and some of our activities could be challenged.

The excimer lasers we use in our centers are medical devices that in the United States are subject to the jurisdiction of the FDA. In addition to FDA approval for the initial uses of these excimer lasers, new uses require separate approval. Obtaining such approval can be an expensive and time-consuming process, the success of which cannot be guaranteed. The failure of our suppliers to obtain regulatory approvals for any additional uses of excimer lasers or otherwise comply with regulatory requirements could have a material adverse effect on our business, financial condition or results of operations.

Failure to comply with applicable FDA requirements could subject us, ophthalmologists who use our centers or excimer laser manufacturers to enforcement actions, including product seizure, recalls, withdrawal of approvals and civil and criminal penalties. Any such enforcement action could have a material adverse effect on our business, financial condition and results of operations. Further, failure to comply with regulatory requirements, or any adverse regulatory action could result in limitations or prohibitions on our use of excimer lasers. This could have a material adverse effect on our business, financial condition and results of operations.

An increase in the number of ophthalmologists who perform enough laser vision correction procedures to economically justify the purchase of their own excimer lasers may harm our business.

As laser vision correction becomes more commonplace, the number of ophthalmologists who can economically justify the purchase of their own excimer laser may increase. Laser vision correction is still a relatively new procedure for most ophthalmologists, and it generally takes time for ophthalmologists to build up their procedure volume. We estimate that an ophthalmologist or practice group needs to perform approximately between 70 and 100 procedures a month in one location in order to economically justify the purchase or lease of an excimer laser. The estimate is based upon a number of factors, including current prices for excimer lasers, current procedure fees charged by ophthalmologists and our current per-procedure fee. This estimate does not take into consideration the value ophthalmologists may place on our marketing and advertising, administrative support, maintenance and other services we provide to ophthalmologists who use our centers.

We could be sued for patient injuries, and such claims could negatively affect our business.

A partially or completely uninsured claim against us could have a material adverse effect on our business, financial condition and results of operations. The laser vision correction procedures performed in our centers involve a potential risk of physical injury to patients. Such risk could result in product liability, malpractice or other claims brought against us based upon injuries or alleged injuries associated with a defect in a product's performance or malpractice by an ophthalmologist or technician. Some injuries or defects may not become evident for a number of years. Therefore, the operation of any excimer laser, microkeratome or other equipment may result in substantial claims against us by patients who allege they were injured as a result of vision correction procedures. Although we have "umbrella" product and professional liability insurance in the amount of \$10.0 million per occurrence and \$10.0 million in the aggregate, we primarily rely and intend to continue to rely on ophthalmologists' professional liability insurance policies and manufacturers' insurance policies for product liability coverage. We require the ophthalmologists who use our centers to maintain certain levels of professional liability insurance.

The availability and the cost of professional liability insurance has increased significantly for many different reasons, many of which are outside the control of the company. A future increase in cost or lack of availability of coverage for the company or the doctors could result in a material adverse effect on the Company's business, financial condition and results of operations.

Critical Accounting Policies

Income Taxes

As a result of the Company's operating loss during the third quarter of 2001, and continuing uncertainties regarding the general economic conditions in the United States and the impact on ongoing operations, the Company recorded a \$15,345,000 valuation reserve for deferred tax assets as of September 30, 2001. This reserve was established according to the requirements of SFAS No. 109 "Accounting for Income Taxes." Favorable changes in the Company's operating profitability as a result of improved general economic conditions in the United States or otherwise, could impact the Company's determination as to whether reduction, in whole or in part, to the valuation reserve is necessary in the future.

Cautionary Statement Concerning Forward-Looking Statements

Information contained above in this Management's Discussion and Analysis and elsewhere in this Annual Report on Form 10-K with respect to expected financial results and future events and trends is forward-looking, based on our estimates and assumptions and subject to risks and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

The carrying values of financial instruments including cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short maturity of these instruments.

We have a very low exposure to changes in foreign currency exchange rates, and as such, have not used derivative financial instruments to manage foreign currency fluctuation risk.

Item 8. Financial Statements and Supplementary Data.

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REPORT OF MANAGEMENT

We, the management of LCA-Vision Inc., are responsible for the consolidated financial statements and the information contained in this report, including its accuracy. We prepared the accompanying consolidated financial statements in accordance with generally accepted accounting principles. In addition to selecting appropriate accounting principles, we are responsible for the way information is presented and its reliability. To report financial results we must often make estimates based on currently available information and judgements of current conditions and circumstances.

We maintain an accounting system and related system of internal controls designed to provide reasonable assurance that the financial records are accurate and that the Company's assets are protected. Ernst & Young LLP LLP, independent accountants, audit the financial statements and express their opinion on them. They perform their audit in accordance with generally accepted auditing standards, which includes consideration of the internal control structure.

The Audit Committee of the Board of Directors, which consists of our outside Directors, meets periodically with management and Ernst & Young LLP LLP to review the activities of each in discharging their responsibilities. Ernst & Young LLP LLP has free access to the Audit Committee.

/s/ Stephen N. Joffe
Stephen N. Joffe
Chairman / Chief Executive Officer

/s/ Alan H. Buckey
Alan H. Buckey
Chief Financial Officer
and Executive Vice President

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and
Shareholders of LCA-Vision Inc.

We have audited the consolidated balance sheet of LCA-Vision Inc. as of December 31, 2001, and the related consolidated statements of operations, shareholders' investment, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2001 financial statements referred to above present fairly, in all material respects, the consolidated financial position of LCA-Vision Inc. at December 31, 2001, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP LLP
Cincinnati, Ohio
February 15, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of LCA-Vision Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, shareholders' investment, and cash flows present fairly, in all material respects, the financial position of LCA-Vision Inc. and its subsidiaries at December 31, 2000, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Cincinnati, Ohio
February 13, 2001

LCA-VISION INC.
CONSOLIDATED BALANCE SHEETS

	At December 31,	
	2001	2000
	(Dollars in thousands, except per share amounts)	
Assets		
Current assets		
Cash and cash equivalents	\$ 16,609	\$ 19,692
Short-term investments	-	8,626
Accounts receivable, net	517	1,417
Receivable from vendor	234	2,280
Deferred tax asset	-	521
Prepaid expenses, inventory and other	<u>1,959</u>	<u>2,001</u>
Total current assets	19,319	34,537
Property and equipment	36,411	31,860
Accumulated depreciation and amortization	<u>(13,753)</u>	<u>(10,340)</u>
Property and equipment, net	22,658	21,520
Goodwill, net	275	753
Deferred tax asset	-	16,085
Obligations due from shareholder and affiliate, net	-	190
Investment in unconsolidated businesses	290	295
Other assets, net	<u>646</u>	<u>2,217</u>
Total assets	<u>\$ 43,188</u>	<u>\$ 75,597</u>
Liabilities and Shareholders Investment		
Current liabilities		
Accounts payable	\$ 2,645	\$ 7,587
Accrued liabilities and other	2,270	2,709
Debt maturing in one year	<u>26</u>	<u>178</u>
Total current liabilities	4,941	10,474
Long-term debt	4	48
Commitments and contingencies	-	-
Minority equity interest	41	30
Shareholders' investment		
Common stock (\$.001 par value; 52,248,554 and 52,112,404 shares and 46,045,525 and 47,393,508 shares issued and outstanding, respectively)	52	52
Contributed capital	91,080	90,918
Warrants	2,105	2,105
Notes receivable from shareholders	(1,488)	(1,013)
Common stock in treasury, at cost (6,203,029 shares and 4,718,896 shares)	(13,013)	(9,875)
Accumulated deficit	(40,512)	(17,137)
Accumulated other comprehensive loss	<u>(22)</u>	<u>(5)</u>
Total shareholders' investment	<u>38,202</u>	<u>65,045</u>
Total liabilities and shareholders' investment	<u>\$ 43,188</u>	<u>\$ 75,597</u>

See Notes to Consolidated Financial Statements

LCA-VISION INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31,
2001 **2000** **1999**
(Dollars in thousands, except per share amounts)

Revenues			
Laser refractive surgery	\$ 68,025	\$ 63,141	\$ 56,358
Other	71	309	1,026
	<u>68,096</u>	<u>63,450</u>	<u>57,384</u>
Operating costs and expenses			
Medical professional and license fees	13,626	15,542	22,930
Direct costs of services	33,616	27,218	16,113
General and administrative expenses	8,727	9,394	6,036
Marketing and advertising	12,732	14,565	5,671
Depreciation and amortization	5,625	3,839	2,964
Special charges	1,774	-	(150)
	<u>8,004</u>	<u>(7,108)</u>	<u>3,820</u>
Operating (loss) income	(8,004)	(7,108)	3,820
Equity in earnings from unconsolidated businesses	372	49	316
Minority equity interest	(10)	(12)	(32)
Interest expense	(17)	(58)	(169)
Interest income	924	2,713	1,633
Other (expense) income, net	(51)	616	38
	<u>(6,786)</u>	<u>(3,800)</u>	<u>5,606</u>
(Loss) income before taxes on income	(6,786)	(3,800)	5,606
Income tax expense (benefit)	16,589	(1,434)	(5,287)
Net (loss) income	(23,375)	(2,366)	10,893
Preferred stock dividends	-	-	140
	<u>-(23,375)</u>	<u>-(2,366)</u>	<u>10,753</u>
(Loss) income applicable to common stock	\$ (23,375)	\$ (2,366)	\$ 10,753
(Loss) income per common share			
Basic	\$ (0.50)	\$ (0.05)	\$ 0.22
Diluted	\$ (0.50)	\$ (0.05)	\$ 0.21
Weighted average shares outstanding			
Basic	46,562	50,951	47,991
Diluted	46,562	50,951	50,914

See Notes to Consolidated Financial Statements

LCA-VISION INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(dollars in thousands)		
Cash flow from operating activities			
Net (loss) income	\$ (23,375)	\$ (2,366)	\$ 10,753
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	5,625	3,839	2,964
Warrant amortization	701	855	-
Deferred income taxes	16,606	(1,454)	(6,994)
Obligations due from shareholder and affiliate, net	-	127	-
Restructuring/impairment provision	1,774	-	(150)
Equity in earnings from unconsolidated businesses	(372)	(49)	(316)
Compensation paid in common stock	-	-	375
Other, net	39	(17)	104
Changes in working capital, net of effects from acquisition of businesses			
Accounts receivable	900	945	77
Receivable from vendor	2,046	(2,280)	-
Prepaid expenses, inventory and other	29	(17)	(923)
Accounts payable	(4,942)	5,129	(106)
Accrued liabilities and other	(1,024)	880	(168)
Net cash (used in) provided by operating activities	<u>(1,993)</u>	<u>5,592</u>	<u>5,616</u>
Cash flows from investing activities			
Purchase of property and equipment	(7,061)	(15,597)	(1,527)
Proceeds from sale of property and equipment	5	113	200
Purchase of short-term investments	(4,378)	(52,756)	(35,199)
Maturities of short-term investments	13,004	81,429	-
Beginning cash of consolidated affiliate	-	-	1,032
Loans and advances to affiliated companies	-	(150)	-
Loans to shareholders	(475)	(1,013)	-
Other, net	610	(193)	-
Net cash provided by (used in) investing activities	<u>1,705</u>	<u>11,833</u>	<u>(35,494)</u>
Cash flows from financing activities			
Principal payments of long-term debt and capital lease obligations	(196)	(704)	(2,585)
Shares repurchased for treasury stock	(3,138)	(9,845)	-
Proceeds from sale of common stock, net	-	-	37,300
Exercise of stock options and warrants	162	940	1,020
Preferred stock cash dividends paid	-	-	(462)
Distribution from minority equity investees	377	-	-
Other, net	-	(15)	-
Net cash (used in) provided by financing activities	<u>(2,795)</u>	<u>(9,624)</u>	<u>35,273</u>
(Decrease) increase in cash and cash equivalents	(3,083)	7,801	5,395
Cash and cash equivalents at beginning of year	<u>19,692</u>	<u>11,891</u>	<u>6,496</u>
Cash and cash equivalents at end of year	<u>\$ 16,609</u>	<u>\$ 19,692</u>	<u>\$ 11,891</u>

See Notes to Consolidated Financial Statement

LCA-VISION INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT

	Years Ended December 31,					
	2001		2000		1999	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
	(dollars in thousands)					
Preferred Stock						
Class A						
Balance at beginning of year	-	-	-	-	1,668	-
Shares converted to common stock	-	-	-	-	(962)	-
Shares received for payment of advance	-	-	-	-	(706)	-
Balance at end of year	-	-	-	-	-	-
Class B Interim Series						
Balance at Beginning of year	-	-	-	-	13	2,522
Shares converted to common stock	-	-	-	-	(13)	(2,522)
Balance at end of year	-	-	-	-	-	-
Class B1 Convertible						
Balance at beginning of year	-	-	-	-	5,702	5,165
Shares converted to common stock	-	-	-	-	(5,702)	(5,165)
Balance at end of year	-	-	-	-	-	-
Total preferred stock	-	-	-	-	-	-
Common Stock						
Balance at beginning of year	52,112,404	52	51,513,989	52	40,973,741	41
Shares issued:						
Conversion of Preferred Stock:						
Class A	-	-	-	-	14,925	-
Class B Interim	-	-	-	-	720,477	-
Glass B1 Convertible and Dividends	-	-	-	-	3,994,642	4
Exercise of warrants	-	-	-	-	14,064	-
Waiver of Preferred Stock						
Purchasing option	-	-	-	-	190,472	1
Sale of stock	-	-	-	-	5,000,000	5
Employee plans	136,150	-	598,415	-	603,818	1
Other	-	-	-	-	1,850	-
Balance at end of Year	52,248,554	52	52,112,404	52	51,513,989	52
Warrants						
Balance at beginning of year	510,936	2,105	910,936	6,362	-	-
Issued	-	-	-	-	925,000	6,362
Exercised	-	-	-	-	(14,064)	-
Repurchased	-	-	(400,000)	(248)	-	-
Revalued	-	-	-	(4,009)	-	-
Balance at end of year	510,936	2,105	510,936	2,105	910,936	6,362
Notes Receivable from Shareholders						
Balance at beginning of year		(1,013)		-		-
Increase in notes outstanding		(475)		(1,013)		-
Balance at end of year		(1,488)		(1,013)		-

See Notes to Consolidated Financial Statements

LCA-VISION INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT (continued)

	Years Ended December 31,					
	2001		2000		1999	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
	(dollars in thousands)					
Treasury Stock						
Balance at beginning of year	(4,718,896)	(9,875)	(10,909)	(30)	10,909	(30)
Shares repurchased	(1,484,133)	(3,138)	(4,707,987)	(9,845)	-	-
Balance at end of year	<u>(6,203,029)</u>	<u>(13,013)</u>	<u>(4,718,896)</u>	<u>(9,875)</u>	<u>(10,909)</u>	<u>(30)</u>
Contributed Capital						
Balance at beginning of year		90,918		88,407		41,763
Shares issued:						
Acquisition agreement		-		-		(81)
Conversion of Preferred Stock						
Class B Interim		-		-		2,487
Class B1 Convertible		-		-		5,426
Exercise of warrants		-		-		28
Waiver of Preferred Stock Purchase option		-		-		375
Sale of stock		-		-		37,295
Employee plans		161		939		991
Tax benefit from stock option exercise		-		1,571		891
Dividends on Conversion of Class B1						
Convertible Preferred Stock		-		-		(262)
Preferred stock dividends paid		-		-		(462)
Other		1		1		(44)
Balance at end of year		<u>91,080</u>		<u>90,918</u>		<u>88,407</u>
Accumulated deficit						
Balance at beginning of year		(17,137)		(14,771)		(25,664)
Net (loss) income		(23,375)		(2,366)		10,893
Balance at end of year		<u>(40,512)</u>		<u>(17,137)</u>		<u>(14,771)</u>
Accumulated Other Comprehensive Loss (Income)						
Balance at beginning of year		(5)		25		(14)
Translation adjustments		(17)		(30)		39
Balance at end of year		<u>(22)</u>		<u>(5)</u>		<u>25</u>
Accrued Preferred Stock Dividend						
Balance at beginning of year		-		-		(584)
Dividends accrued						
Class B Interim		-		-		(100)
Class B1 Convertible		-		-		(42)
Dividends paid Class B Interim		-		-		462
Conversion of Class B1 Convertible						
Preferred Stock		-		-		264
Balance at end of year		<u>-</u>		<u>-</u>		<u>-</u>
Total Shareholders' Investment		38,202		65,045		80,045

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Business

As of December 31, 2001, the Company owns and operates 31 Lasik*Plus* laser vision correction facilities in the U.S., plus two centers in Canada and a joint venture in Europe.

We are a leading developer and operator of free-standing laser refractive surgery centers. Our laser refractive surgery centers provide the facilities, equipment and support services for performing various corrective eye surgeries that employ state-of-the-art laser technologies. The laser vision correction surgeries performed in our centers are primarily laser in situ keratomileusis ("LASIK") and photorefractive keratectomy ("PRK"). The excimer lasers, which we have in each of our U.S. centers, can treat nearsightedness, farsightedness and astigmatism. We previously managed multi-specialty laser surgery programs at medical facilities on a contract basis.

Revenue by source is comprised of:

- Laser refractive surgery - fees for surgeries performed at our consolidated centers.
- Other - management fees for operating laser vision correction centers of investees; contractual fees for managing multi-specialty laser surgery programs at hospitals; marketing and education program fees; and miscellaneous sources.

Certain operating costs and expenses:

- Medical professional and license fees - per procedure fees for the ophthalmologist performing laser vision correction and the license fee of \$110 per-procedure in the U.S. paid to the laser manufacturer.
- Direct costs of services - center rent and utilities, equipment lease and maintenance costs, surgical supplies, center staff expense, costs related to other revenue, and all other costs associated with providing services in our Centers.
- General and administrative - headquarters staff expense and other overhead costs.
- Depreciation and amortization - periodic charges to income for the costs of equipment and intangible assets recorded in the Consolidated Balance Sheet.

Consolidation Policy

We use two different methods to report our investments in our subsidiaries and other companies - consolidation and the equity method.

Consolidation

We use consolidation when we own a majority of the voting stock of the subsidiary. This means the accounts of our subsidiaries are combined with our accounts. We eliminate intercompany balances and transactions when we consolidate these accounts. Our consolidated financial statements include the accounts of:

- LCA-Vision Inc.
- LCA-Vision (Canada) Inc. and Subsidiaries
- The Baltimore Laser Sight Center, Ltd.

Equity Method

We use the equity method to report investments in businesses where we hold a 20% to 50% voting interest, giving us the ability to exercise significant influence, but not control, over operating and financial policies. Under the equity method we report:

- our interest in the entity as an investment in our Consolidated Balance Sheets, and
- our percentage share of the earnings (losses) in our Consolidated Statements of Operations.

We own 43% of Silmalaseri Oy and 50% of Cole/LCA-Vision LLC and Eyemed/LCA-Vision LLC, and report each of these investments under the equity method.

Use of Estimates

Management makes estimates and assumptions when preparing financial statements under generally accepted accounting principles. These estimates and assumptions affect various matters including:

- our reported amounts of assets and liabilities in our Consolidated Balance Sheets at the dates of the financial statements,
- our disclosure of contingent assets and liabilities at the dates of the financial statements, and
- our reported amounts of revenues and expenses in our Consolidated Statements of Operations during the reporting periods.

Actual amounts could differ from those estimates.

Cash and Cash Equivalents

For the purpose of reporting our cash flows, we consider highly liquid investments with an original maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

Short-term Investments

Our short-term investments consist primarily of time deposits and obligations of U.S. government agencies with an original maturity of 90 days or more when purchased. Short-term investments are stated at cost, which approximates market value. Our short-term investments at December 31, 2000 were (dollars in thousands):

Federal Home Mortgage Corporation notes:

Due January 17, 2001	\$4,313
Due February 8, 2001	<u>4,313</u>
	<u>\$8,626</u>

Property and Equipment, Goodwill, and Depreciation and Amortization

Property and Equipment

We show our property and equipment at its original cost, net of accumulated depreciation. At the time property or equipment is retired, sold, or otherwise disposed of, the related cost and accumulated depreciation or amortization are deducted from the amounts reported in the Consolidated Balance Sheet and any gains or losses on disposition are recognized in the Consolidated Statements of Operations. We expense repair and maintenance costs as incurred.

Goodwill and other Intangible Assets

Goodwill is the excess of the acquisition cost of the businesses over the fair value of the identifiable net assets acquired. Through December 31, 2001, we amortized goodwill using the straight-line method over the estimated useful life. With the adoption of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002, goodwill will no longer be amortized. Annually, the balance of statement of goodwill will be evaluated for impairment.

Depreciation and Amortization

We compute depreciation using the straight-line method which recognizes the cost of the asset over its estimated useful life. We use the following estimated useful lives for computing the annual depreciation expense: building, 5 to 31 years; furniture and fixtures, 5 to 7 years; medical equipment, 3 to 5 years; other equipment, 3 to 5 years. Amortization of leasehold improvements is recorded in the Consolidated Statements of Operations using the straight-line method based on the lesser of the useful life of the improvement or the lease term.

We assess the impairment of property and equipment whenever events or circumstances indicate that the carrying value might not be recoverable. Estimates of future cash flows are used to determine if there is impairment; discounted cash flows are used to determine the amount of impairment.

Depreciation Expense

The amount of depreciation expense recorded in the consolidated statements of operations is as follows (dollars in thousands):

Year	Depreciation
1999	\$2,463
2000	3,541
2001	5,497

Financial Instruments

Concentration of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments and short-term investments. Our policy is to place our temporary cash investments in overnight repurchase agreements with The Provident Bank, the financial institution that provides our lines of credit.

Credit risk with respect to short-term investments is limited because the investments consist of obligations of agencies of the U.S. government and high-quality corporate debt with maturities of less than one year.

Fair Values of Financial Instruments

The fair values of our cash and cash equivalents, short-term investments, trade receivables and accounts payable approximate their fair values due to their short term maturities.

Revenue Recognition

We recognize revenues as services are performed. In states where the physicians are employed by professional corporations, the Company provides management, marketing and administrative services in return for management fees. Management fee revenue is equal to the net revenue of the professional corporation less amounts retained by the physician group. Management fee revenue accounted for 25% of total refractive surgery revenue in 2001, up from 19% in 2000.

Approximately 75% of the Company's laser refractive surgery revenues in 2001 were generated in company-owned laser centers. Net revenues in a company-owned center represent the amount charged to patients less any applicable discounts. Company-owned centers accounted for 81% of laser refractive surgery revenues in 2000.

Stock-Based Compensation

We account for stock-based employee compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Effective January 1, 1996, we adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation," and related interpretations.

Marketing and Advertising Expenditures

Marketing and advertising expenditures are expensed as incurred, except for the costs associated with direct mail. Direct mail costs are expensed upon mailing.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill will no longer be amortized, but will be subject to annual impairment tests in accordance with SFAS No. 142. Other intangible assets will continue to be amortized over their useful lives. The Company is required to implement the new rules on the accounting for goodwill and other intangible assets in the first quarter of 2002. Application of the non-amortization provisions of the SFAS No. 142 is expected to result in a decrease in annual operating expenses of approximately \$76,000. During January 2002, the Company completed the first of the required impairment tests of goodwill as of January 1, 2002, which indicated that the Company currently has no goodwill impairment.

Reclassifications

We have reclassified certain prior year amounts for comparative purposes. These reclassifications did not affect consolidated financial position, net losses or cash flows for the years presented.

Per Share Data

Basic per share data is earnings or loss applicable to common shareholders divided by weighted average common shares outstanding. Diluted per share data is earnings or loss applicable to common shareholders divided by weighted average common shares outstanding plus potential common shares from dilutive securities such as options and convertible securities. The table shows how we calculated diluted earnings per share and diluted shares outstanding for the year ended December 31, 2001, 2000 and 1999 (amounts in thousands, except per share amounts).

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Basic EPS			
Net (loss) income applicable to common stock	\$(23,375)	\$(2,366)	\$10,753
Weighted average shares outstanding	46,562	50,951	47,991
Basic (loss) income per share	\$(0.50)	\$(0.05)	\$0.22
Diluted EPS			
Net (loss) income applicable to common stock	\$(23,375)	\$(2,366)	\$10,753
Dividends to preferred shareholders	--	--	140
Net (loss) income	\$(23,375)	\$(2,366)	\$10,893
Effect of Dilutive Securities			
Convertible preferred stock	--	--	812
Stock options	--	--	2,051
Warrants	--	--	60
Weighted average common shares and potential dilutive shares	46,562	50,951	50,914
Diluted (loss) income per share	\$(0.50)	\$(0.05)	\$0.21

The weighted average shares for the years ended December 31, 2001 and 2000 diluted calculations do not assume exercise of any stock options or conversion of other securities since they would result in a reduced loss per share. The number of unexercised options and warrants as of December 31, 2000 and December 31, 2001 was:

	<u>2001</u>	<u>2000</u>
Options	3,354,277	3,889,575
Warrants	<u>510,936</u>	<u>510,936</u>
	<u>3,865,213</u>	<u>4,400,511</u>

Additional information on options is included in footnote 9, and additional information on warrants is included in footnote 2.

2. Shareholders' Investment

Common Stock

We are authorized to issue up to 110 million shares of common stock. The number of shares reserved for future issuance is 9,155,553, which includes 8,644,617 shares under stock option plans and 510,936 shares for stock warrants.

On June 30, 1999 we sold 5,000,000 shares of our common stock at a public offering price of \$8.00 per share. Net proceeds approximated \$37,300,000 after deducting discounts and commissions and our offering expenses, including the fee to be listed on the Nasdaq National Market.

Preferred Stock

At December 31, 2001, there are no shares of preferred stock issued and outstanding.

Class A

In February 1999 certain holders exchanged their shares of Class A Preferred Stock for 14,925 shares of our common stock. In 1999 our principal shareholder paid approximately \$34,000 of a note due us with his shares of Class A Preferred Stock. We retired the shares of Class A Preferred Stock received.

Class B

First and Second Interim Series

Our Board of Directors declared the payment of the cumulative unpaid dividend on our Class B Preferred Stock First and Second Interim Series to the holders of record on July 31, 1999. The cash dividend paid was \$462,000. Subsequent to the payment of the dividend, the holders of the 12.6 shares issued and outstanding converted their shares into 720,477 restricted shares of our common stock.

6% Series B-1 Convertible Preferred Stock

At December 31, 1998, 5,702 shares of the 6% Series B-1 convertible preferred stock were outstanding. During the three months ended March 31, 1999, these shares and dividends totaling \$264,000 were converted into 3,994,642 shares of common stock.

The holders of these shares had the right to purchase an additional \$5 million of convertible preferred stock under the same terms and conditions as the 6% Series B-1 Convertible Preferred Stock until May 11, 1999. In March, 1999, certain majority holders of these shares agreed to accept 165,076 shares of our common stock in exchange for their waiving their option to purchase the additional convertible preferred stock. In June, 1999, a former holder of these shares agreed to accept 25,396 shares of our common stock in the same type of exchange. These agreements resulted in a non-cash charge of \$375,000 recorded as other expense in the Condensed Consolidated Statement of Operations for the year ended December 31, 1999.

Notes Receivable from Shareholders

During the second quarter of 2000, the directors initiated a program to encourage additional direct stock ownership by senior management of the Company. The Company offered loans to nine key managers and directors for the purpose of purchasing shares in the open market. Each loan is a personal obligation of the borrower, and is evidenced by a promissory note. The interest rate on the notes is prime less one and one-half percent. The notes have a maximum term of three years, and contain provisions for early repayment. As of December 31, 2001, a total of \$1,488,000 has been loaned under this program

Warrants

During 1999, we issued warrants to purchase a total of 925,000 shares of common stock at prices ranging from \$2 to \$12 per share. The warrants were issued to an investment banking firm and a joint venture partner.

Warrants to purchase 110,936 shares at \$2 per share are currently exercisable. Warrants for 14,064 shares have been exercised. Warrants to purchase 800,000 shares at \$12 per share were issued during the third quarter of 1999 of which 400,000 are currently exercisable; the remaining warrants were repurchased in the third quarter of 2000 for \$310,000.

The vested warrants result in prepaid expense for book purposes, using the Black-Scholes method, of \$2,105,000. This amount is being amortized over a three year period which coincides with the term of the agreement with Cole National Corporation to market laser vision correction as a managed care benefit.

Amortization of \$701,501 is recorded in our 2001 Consolidated Statement of Operations, and \$853,000 of amortization is recorded in our 2000 Consolidated Statement of Operations.

3. Special Charges

During the third quarter of 2001, management implemented a restructuring plan to close unprofitable locations and to reduce operating expenses. The cost of the plan is \$1,375,000 which is comprised of a \$535,000 restructuring charge and an \$840,000 asset impairment charge for leasehold improvements, equipment and goodwill associated with the locations to be closed. The restructuring charges included \$384,000 in lease termination costs and \$151,000 in severance payments for 71 employees.

As of December 31, 2001, the balance of the restructuring accrual was \$262,000 which relates to future facility rent payments and is included in accrued liabilities and other in the Consolidated Balance Sheet.

Also during the third quarter of 2001, the Company provided a reserve of \$399,000 on a loan made to REI Corporation which operated a licensed facility in Tokyo, Japan. During the quarter, management determined that the loan may not be recoverable.

4. Credit Arrangements

On June 29, 1998 we entered into an \$8,000,000 credit facility with The Provident Bank ("Provident"). At the same time we repaid our borrowing from, and terminated our relationship with, another lender. In May 1999 the credit facility was increased to \$10,000,000. We also were granted a \$10,000,000 line of credit for the purpose of funding acquisitions subject to Provident's sole and absolute discretion.

The Provident facility, as amended, matures on June 30, 2002. The facility can be used to support up to \$2,000,000 of letters of credit issued by Provident and to support up to \$2,500,000 of capital costs financed by leases entered into with an affiliate of Provident. Borrowings under the working capital portion of the facility bear interest at Provident's prime rate. Substantially all of our assets at December 31, 2001 are pledged as collateral.

The credit facility, for which there is no formal compensating balance, requires us to pay a commitment fee of .25% based on the unused portion. At December 31, 2001 we had \$10,000,000 available to us under the credit facility.

The credit facility requires us to maintain tangible net worth of at least \$37,000,000.

5. Obligations Due from Shareholder and Affiliate, Net

The following table displays the details of obligations due to us in 2001 and 2000 as reported in our Consolidated Balance Sheets (dollars in thousands):

	December 31,	
	<u>2001</u>	<u>2000</u>
Note receivable shareholder	-	\$77
Receivable from shareholder's affiliated company	<u>-</u>	<u>614</u>
Obligation due:	-	691
Less allowance	<u>-</u>	<u>(501)</u>
Net Obligation due:	-	<u>\$190</u>

Our principal shareholder is the majority stockholder of an inactive ambulatory surgical center. During 2001, the Company sold the remaining assets of the surgery center for \$138,000 and reduced the receivable from the affiliated company by the same amount. The remaining balance of \$52,000 was written off against previously established reserves.

6. Investment in Unconsolidated Businesses

Our investment in unconsolidated businesses was \$290,000 and \$295,000 at December 31, 2001 and December 31, 2000 respectively. At December 31, 2001, we had investments in Silmalaseri Oy in Helsinki, and Cole/LCA-Vision LLC and Eyemed/LCA-Vision LLC.

Combined summary financial information for these investments follows (dollars in thousands):

	December 31,	
	<u>2001</u>	<u>2000</u>
Financial Position:		
Current assets	\$322	\$640
Total assets	467	741
Total liabilities	174	377
Members' equity	293	364
Operating Results:		
Revenue	\$2,019	\$1,075
Net income	695	78

In July 1999, two other investees in The Baltimore Laser Sight Center, Ltd. ("Baltimore") owning approximately 53% resigned as members and their membership interests were redeemed by Baltimore. This redemption increased our ownership to approximately 97% which requires our combining Baltimore's accounts with our accounts beginning in the third quarter 1999. Our results of operations for the year ended December 31, 1999 include revenue of \$4,810,000 and net income of \$901,000 earned by Baltimore for the six months ended December 31, 1999. Included in equity in earnings of unconsolidated affiliates is \$234,000 which represents our percentage share of the earnings for the six months ended June 30, 1999. For all of 2000 and 2001, the results for Baltimore are consolidated.

7. Income Taxes

The components of income tax expense (benefit) for the three years ended December 31, 2001 are presented in the following table (dollars in thousands):

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Current:			
Federal	\$ --	\$(1,441)	\$ 1,603
State and local	--	(568)	183
Foreign	--	18	80
Total	<u>--</u>	<u>(1,991)</u>	<u>1,866</u>
Deferred:			
Federal	(1,393)	443	411
State and local	(7)	114	61
Total	<u>(1,400)</u>	<u>557</u>	<u>472</u>
Income tax (benefit) expense	(1,400)	(1,434)	2,338
Valuation allowance	<u>17,989</u>	<u>--</u>	<u>(7,625)</u>
Net income tax (benefit) expense	<u>\$16,589</u>	<u>\$(1,434)</u>	<u>\$(5,287)</u>

As a result of the Company's operating loss during the third quarter of 2001, and continuing uncertainties regarding the general economic conditions in the United States and the impact on ongoing operations, the Company recorded a \$15,345,000 valuation reserve for deferred tax assets as of September 30, 2001. The Company's operating losses continued in the fourth quarter of 2001 and the uncertainties continued to exist, such that it was not more-likely-than-not that the deferred tax assets would be realized at this time. This valuation reserve was established according to the requirements of SFAS No. 109, "Accounting for Income Taxes."

We are required to pay franchise taxes in most of the states in which we have operations due to our net operating loss carryforwards. We have included the franchise taxes paid in general and administrative expenses in our Consolidated Statements of Operations.

The foreign tax provisions consist primarily of Canadian income taxes. We have made no provision for U.S. income taxes on undistributed earnings from our international businesses because it is our intention to reinvest those earnings in those operations. If those earnings are distributed in the form of dividends, we may be subject to both foreign withholding taxes and U.S. income taxes net of allowable foreign tax credits.

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of our deferred tax assets are shown in the following table (dollars in thousands):

	December 31	
	<u>2001</u>	<u>2000</u>
Deferred tax assets:		
Net operating loss carryforward	\$17,454	\$15,898
Accounts receivable	283	376
Equity investments	64	167
Warrant compensation	--	294
Other	195	175
Total deferred tax assets	<u>17,996</u>	<u>16,910</u>
Valuation allowance	<u>(17,989)</u>	<u>--</u>
Deferred tax assets, net of valuation allowance	7	16,910
Deferred tax liabilities – property and equipment	<u>(7)</u>	<u>(304)</u>
Net deferred tax assets	<u>\$ --</u>	<u>\$16,606</u>

The following table shows the principal reasons for the difference between the statutory federal income tax rate of 34% and the tax benefit shown in our Consolidated Statements of Operations (dollars in thousands):

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Tax at statutory federal rate	\$(2,307)	\$(1,134)	\$1,949
State income taxes, net of federal benefit	(4)	(294)	318
Amortization of intangibles and other non-deductible items	401	--	--
Foreign income tax	--	18	80
Change in valuation allowance	17,989	--	(7,625)
Other	510	(24)	(9)
	<hr/>	<hr/>	<hr/>
Income tax provision (benefit)	<u>\$16,589</u>	<u>\$(1,434)</u>	<u>\$(5,287)</u>

During 2000 certain employees exercised incentive stock options and sold the shares within the holding period required by Section 422 of the Internal Revenue Code. These sales result in a compensation deduction of \$1,700,000 for 2000 for federal income tax purposes only. The tax benefit of approximately \$665,000 for 2000 has been recorded in our Consolidated Balance Sheets as a reduction of income taxes payable and an addition to Contributed Capital.

At December 31, 2001 and 2000 we have federal net operating loss carryforwards for income tax purposes of \$45,033,000 and \$40,300,000, respectively. These expire in varying amounts from 2007 until 2021. Approximately \$18,000,000 of federal net operating loss carryforwards and \$15,750,000 state net operating loss carryforwards were acquired when we bought Refractive Centers International, Inc. Our ability to use these acquired net operating loss carryforwards is limited to approximately \$2,500,000 per year under Code Section 382 of the Internal Revenue Code.

8. Leasing Arrangements

We lease office space for our centers and equipment for use in our operations under both capital and operating leases. Capital leases were primarily used for financing the lasers in our first five centers. Currently we use a combination of operating leases and outright purchases for laser acquisition.

This table displays our aggregate minimal rental commitments under noncancellable leases for the periods shown (dollars in thousands):

Year	December 31, 2001	
	Capital Leases	Operating Leases
2002	\$28	\$3,745
2003	5	3,207
2004	--	2,786
2005	--	2,084
2006	--	1,091
Beyond 2006	--	717
Total minimum rental commitment	<hr/> \$33	<hr/> \$13,630
Less interest	<u>3</u>	
Present values of minimum lease payments	30	
Less current installments	<u>26</u>	
Long-term obligation at December 31, 2001	<u>\$ 4</u>	

Total rent expense under operating leases amounted to \$6,770,000 in 2001; \$6,662,000 in 2000; and \$4,299,000 in 1999.

9. Employee Benefits

Savings Plan

We sponsor a savings plan under Internal Revenue Code Section 401(k) to provide an opportunity for eligible employees to save for retirement on a tax-deferred basis. Under this plan, we make discretionary contributions to the participants' accounts. We made contributions of \$18,066 in 2001; \$20,000 in 2000; and \$20,000 in 1999.

Stock Option Plans

We have three stock incentive plans, the 1995 Long Term Stock Incentive Plan ("1995 Plan"), the 1998 Long Term Stock Incentive Plan ("1998 Plan") and the 2001 Long Term Stock Incentive Plan ("2001 Plan"). A maximum of 2.5 million shares are reserved for the 1995 Plan, 5 million shares are reserved for the 1998 Plan and 2.5 million shares are reserved for the 2001 plan. The Compensation Committee of the Board of Directors administers all Stock Option Plans.

The Plans permit us to issue incentive and/or nonqualified stock options to purchase shares of common stock, stock appreciation rights, and stock awards to employees and consultants. The 1998 Plan is used to grant stock options to our non-employee directors. Non-employee directors receive an option to purchase 75,000 shares of our common stock upon initial election or appointment and an automatic option grant of 12,500 shares upon reelection. Prior to our shareholders approving the 1998 Plan, we granted our non-employee directors stock options under the LCA-Vision Inc. Directors' Nondiscretionary Stock Option Plan which was discontinued in 1998.

Stock options are granted with an exercise price not less than fair market value on the date of grant. Stock options granted have generally been exercisable over 3 to 5 years and the maximum term is 10 years from the date of grant.

The following table summarizes the status of our 1995, 1998 and 2001 Plans:

	<u>Stock Options</u>	<u>Weighted-Average Exercise Price</u>
Outstanding		
December 31, 1998	2,004,825	\$1.82
Granted	2,730,500	3.01
Exercised	(603,818)	4.64
Cancelled/forfeited	<u>(735,050)</u>	2.76
Outstanding		
December 31, 1999	3,396,457	2.44
Granted	2,350,250	3.28
Exercised	(596,415)	1.58
Cancelled/forfeited	<u>(1,260,717)</u>	1.03
Outstanding		
December 31, 2000	3,889,575	3.48
Granted	555,500	2.69
Exercised	(135,150)	1.18
Cancelled/forfeited	<u>(955,648)</u>	3.21
Outstanding		
December 31, 2001	<u><u>3,354,277</u></u>	3.52
Options exercisable,		
December 31,		
1999	612,106	1.99
2000	953,460	3.09
2001	1,623,763	3.44

The following table summarizes information about the stock options granted under the 1995, 1998 and 2001 Plans that are outstanding at December 31, 2001:

Range of exercise prices	# Outstanding as of 12/31/01	<u>Stock Options Outstanding</u>		<u>Stock Options Exercisable</u>	
		Weighted-average remaining contractual life	Weighted-average exercise price	# Exercisable as of 12/31/01	Weighted-average exercise price
\$0.88 - \$1.19	385,326	5.08	\$1.14	357,676	\$1.13
1.22 - 1.50	436,683	7.30	1.41	239,383	1.44
1.75 - 2.75	565,001	8.95	2.57	172,333	2.46
2.81 - 3.00	415,000	8.63	2.94	166,248	2.95
3.07 - 3.97	90,000	8.72	3.34	12,500	3.58
4.00 - 4.00	345,100	8.09	4.00	83,366	4.00
4.03 - 4.69	390,000	7.94	4.39	206,662	4.34
4.75 - 5.28	336,667	8.15	4.93	129,997	4.93
5.56 - 9.31	340,500	7.65	7.27	222,266	7.33
11.13 - 11.13	<u>50,000</u>	7.52	11.13	<u>33,332</u>	11.13
\$0.88 - \$11.13	<u>3,354,277</u>	7.81	\$3.52	<u>1,623,763</u>	\$3.44

At December 31, 2001 a total of 5,290,340 shares are available for granting stock options under the 1995, 1998 and 2001 Plans.

The following table is a summary of the status of our discontinued Directors Nondiscretionary Stock Option Plan:

	<u>Stock Options</u>	<u>Weighted-average Exercise Price</u>
Outstanding, December 31, 1999, 2000 and 2001	<u>305,000</u>	\$4.42

As of December 31, 2001, a total of 243,250 options with a weighted-average exercise price of \$4.71 are exercisable under this discontinued plan.

We apply APB No. 25 and related interpretations in accounting for our stock option plans. We have adopted the disclosure-only provisions of SFAS No. 123. We recognize no compensation expense for our stock options granted to employees or directors. Compensation expense for options granted to non-employees in each of the three years ended December 31, 1999 was immaterial. If we had elected to recognize compensation expense based on the fair value at the grant dates consistent with the provisions of SFAS No. 123, net loss and loss per share would have been changed to the pro forma amounts indicated below (dollars in thousands, except per share amounts):

		Years ended December 31,		
		<u>2001</u>	<u>2000</u>	<u>1999</u>
Net (loss) income	As reported	\$(23,375)	\$(2,366)	\$10,753
	Pro forma	(25,690)	(7,200)	7,813
Diluted per share (loss) income	As reported	\$(0.50)	\$(0.05)	\$0.21
	Pro forma	(0.55)	(0.14)	0.15

These results may not be representative of the effects on pro forma amounts for future years.

We determined the pro forma amounts using the Black-Scholes option-pricing model based on the following assumptions:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Dividend yield	0%	0%	0%
Expected volatility	101%	97%	101%
Risk free interest rate	4.51 - 4.77%	5.26-6.69%	4.65-6.37%
Expected lives (in years)	3 to 5	3 to 5	3 to 5

The weighted-average fair value of options granted was \$1.78 per option during 2001, \$2.62 per option during 2000 and \$1.72 per option during 1999.

10. Commitments and Contingencies

We are a defendant and counter-claimant in a consolidated case entitled Cabrini Development Council, et al. v. LCA-Vision Inc., et al., which was commenced in October, 1997 in the Supreme Court of the State of New York, County of New York and subsequently removed to the United States District Court for the Southern District of New York. Also named as co-defendants are various current and former employees, officers and directors. The case involves claims and counterclaims asserted by and against us, and two other members of a New York limited liability company formerly engaged in operating a laser refractive surgery center, and arises out of the cessation of operations of such limited liability company.

The Court has ruled that it lacks subject matter jurisdiction over the controversy. The decision has been appealed in an effort to keep the action in federal court. If the appeal is unsuccessful, the claims may be pursued in New York State Supreme Court.

In the opinion of management this action will not have a material adverse effect on our financial position or results of operations.

11. Additional Financial Information

The tables below provide additional financial information related to our consolidated financial statements (dollars in thousands):

Balance Sheet Information

	At December 31,	
	2001	2000
Property and Equipment		
Land	\$375	\$375
Building and improvements	5,660	5,623
Leasehold improvements	5,079	5,102
Furniture and fixtures	3,087	2,516
Equipment	21,711	17,006
Equipment under capital leases	494	959
	<u>36,406</u>	<u>31,581</u>
Accumulated depreciation	(13,753)	(10,340)
Construction in progress	5	279
	<u>\$22,658</u>	<u>\$21,520</u>

Cash Flow Information

	For the Year Ended December 31,		
	2001	2000	1999
Cash paid during the year for			
Interest	\$17	\$46	\$737
Income taxes	--	2	35
Non cash investing and financing activities			
Issuance of Warrants	--	--	6,363
Preferred shares received for payment of advance	--	--	706

Other Comprehensive Income (Loss) Information

Comprehensive (loss) income:			
(Loss) income applicable to common stock	\$(23,375)	\$(2,366)	\$10,753
Other comprehensive (loss) income, net of income tax – currency translation adjustments	(17)	(30)	39
Total comprehensive (loss) income	<u>\$(23,392)</u>	<u>\$(2,396)</u>	<u>\$10,792</u>

Segment Information

We operate in one segment -- laser refractive surgery.

12. Quarterly Financial Data (unaudited) ⁽¹⁾

Financial results for interim periods do not necessarily indicate trends for any 12-month period. Quarterly results can be affected by the number of procedures performed and the timing of certain expense items (dollars in thousands, except per share amounts):

	<u>2001 Quarters</u>				<u>2000 Quarters</u>			
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Revenues	\$22,490	\$21,424	\$13,288	\$10,894	\$18,171	\$15,109	\$15,658	\$14,511
Operating (loss) income	1,720	747	(5,718)	(4,753)	(570)	(2,317)	(971)	(3,250)
Net Income (loss)	1,299	755	(20,794)	(4,635)	62	(688)	(201)	(1,559)
Earnings (loss) per share								
Basic	0.03	0.02	(0.45)	(0.10)	0.00	(0.01)	0.00	(0.03)
Diluted	0.03	0.02	(0.45)	(0.10)	0.00	(0.01)	0.00	(0.03)

(1) The quarterly amounts are not additive due to rounding.

13. Subsequent Event

On January 31, 2002, 6,531,526 shares of LCA-Vision common stock were purchased from Summit Autonomous, a subsidiary of Alcon Holdings Inc. for approximately \$4,898,000. The transaction was split equally between the Company share repurchase program and members of LCA-Vision's senior management and Board of Directors.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Change of Independent Public Accountants

In March 2001, we announced that we were reviewing our finance and accounting operations, including our independent accounting function, and we began a process of soliciting bids from several potential independent audit firms. Our decision to review our accounting function and to seek bids from alternative providers of audit services was recommended by our Audit Committee and approved by our Board of Directors. On March 26, 2001, PricewaterhouseCoopers LLP informed us that they did not plan to submit a bid in response to our solicitation. PricewaterhouseCoopers LLP therefore did not serve as our independent auditors for the fiscal year ending December 31, 2001.

The reports of PricewaterhouseCoopers LLP as of and for the fiscal years ended December 31, 2000 and 1999 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. At the February 14, 2001 meeting of our Audit Committee, PricewaterhouseCoopers LLP informed the Audit Committee that, in their opinion, there had been a disagreement with management over the accounting for marketing co-op funds received from a vendor. Co-op marketing funds from one of our vendors were allocated back to items purchased from the vendor as a reduction of acquisition cost in our December 31, 2000 audited financial statements to the satisfaction of PricewaterhouseCoopers LLP. Our management acknowledges that they had discussions with PricewaterhouseCoopers LLP over the accounting for marketing co-op funds but in management's opinion, these discussions did not constitute a disagreement.

On March 30, 2001, we engaged the certified public accounting firm of Ernst & Young LLP to serve as our principal independent accounting firm to audit our financial statements for the year ended December 31, 2001. Prior to the engagement of Ernst & Young LLP, we did not consult with such firm on any accounting, auditing or financial reporting issue. Representatives of Ernst & Young LLP will be present at the Annual Meeting with an opportunity to make a statement if they desire to do so and to respond to questions from the stockholders.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information regarding directors and executive officers required by Item 10 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting to be held on May 13, 2002.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting to be held on May 13, 2002. The information specified on item 402(k) and (1) of regulation S-K and set forth in the Company's definitive proxy statement for its annual stockholders' meeting to be held on May 13, 2002 is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by Item 12 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting to be held on May 13, 2002.

Item 13. Certain Relationships and Related Transactions.

The information required by this Item 13 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting to be held on May 13, 2002.

PART IV

Item 14. Exhibits, Financial Statements Schedules, and Reports on Form 8-K.

(a)(1) List of Financial Statements

The following are the consolidated financial statements of LCA-Vision Inc. and its subsidiaries appearing elsewhere herein:

Report of Independent Accountants

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Operations for each of the three years ended December 31, 2001

Consolidated Statements of Cash Flows for each of the three years ended December 31, 2001

Consolidated Statements of Shareholders' Investment for each of the three years ended December 31, 2001

(a)(2) List of Schedules

All other schedules to the consolidated financial statements are omitted as the required information is either inapplicable or presented in the consolidated financial statements.

(a)(3) List of Exhibits

The Exhibits which are filed with this report or which are incorporated by reference are set forth in the Exhibit Index hereto.

<u>Exhibit #</u>	<u>Description of Exhibit</u>	
3(a)(i)	Amended Certificate of Incorporation of Registrant	Note A
3(a)(ii)	Amended Certificate of Designation as to Interim Preferred Stock	Note H
3(a)(iii)	Amended Certificate of Designation as to Series B-1 Convertible Preferred Stock	Note G
3(b)	Amended Bylaws of Registrant	Note A
10(a)	LCA-Vision Inc. 1995 Long-Term Stock Incentive Plan	Note B
10(b)	LCA-Vision Inc. Directors' Non-Discretionary Stock Option Plan	Note B
10(c)	LCA-Vision Inc. 401(k) Plan	Note A
10(d)	Loan Agreement dated June 29, 1998 between Registrant and The Provident Bank	Note C
10(e)	LCA-Vision Inc. 1998 Long-Term Stock Incentive Plan	Note E
10(f)	Promissory Note between the Registrant and its major stockholders	Note F
10(g)	Convertible Preferred Stock Purchase Agreement between Registrant and Certain Purchasers dated as of May 8, 1998	Note G
10(h)	Agreement between Registrant and Donaldson, Lufkin & Jenrette Securities Corporation dated May 4, 1998	Note G
10(i)	Amendment to Tangible Net Worth Covenant dated August 4, 1998	
10(j)	Amendment to Tangible Net Worth Covenant dated September 28, 1998	
10(k)	Amendment to Cash Flow Covenant dated December 21, 1998	
10(l)	Amendment to Loan Agreement dated September 30, 1999	
10(m)	Second Amendment to Loan Agreement dated November 30, 2001	
21	Subsidiaries of Registrant	
23	Consent of Ernst & Young LLP LLP	
23(a)	Consent of PricewaterhouseCoopers LLP	
24	Powers of Attorney	Note D

NOTE REFERENCES:

- A. Incorporated by reference to the Company's Registration Statement on Form 10-SB No. 0-27610, which became effective on January 25, 1996.
- B. Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1995.
- C. Incorporated by reference to Form 8-K filed July 2, 1998
- D. Contained on the first page of the signature pages contained in this report.
- E. Incorporated by reference to the Company's Proxy Statement relating to its October 16, 1998 Special Stockholders Meeting
- F. Incorporated by reference to Form 10-QSB filed November 12, 1998
- G. Incorporated by reference to Form 10-QSB filed May 15, 1998
- H. Incorporated by reference to Form 8-K filed December 4, 1996

(b) **Reports on Form 8-K**

- 1) Form 8-K dated October 5, 2001 containing a press release reporting that 13,347 procedures were performed in the Company's wholly owned centers for the three months ended September 30, 2001, compared with 16,341 procedures performed during the comparable period a year ago.
- 2) Form 8-K dated October 30, 2001 containing a press release reporting financial results for the three and nine months ended September 30, 2001.
- 3) Form 8-K dated November 15, 2001 containing a press release announcing that Thomas E. Wilson has resigned as the company's chief executive officer effective December 31, 2001.
- 4) Form 8-K dated January 9, 2002 containing a press release reporting that 10,684 procedures were performed in the company's wholly owned centers for the three months ended December 31, 2001.
- 5) Form 8-K dated January 28, 2002 containing a press release reporting that it will present at the UBS Warburg Global Healthcare Services Conference on Monday, February 4, 2002 at 8:30 a.m.
- 6) Form 8-K dated January 31, 2002 containing a press release announcing that all 6,531,526 recently registered shares of LCA-Vision common stock currently held by Summit Autonomous Inc., a subsidiary of ALCON Holdings, have been acquired at a price of 75 cents per share.
- 7) Form 8-K dated February 4, 2002 containing a press release announcing it will make a presentation at 8:30 a.m. EST today at the Warburg Global Healthcare Services Conference.
- 8) Form 8-K dated February 13, 2002 containing a press release announcing that the conference call previously scheduled for Friday, February 15, 2002, announcing its fourth quarter and year-end 2001 results has been postponed due to unanticipated delays in completion of year-end audit work.
- 9) Form 8-K dated February 19, 2002 containing a press release reporting financial results for the three months and year ended December 31, 2001.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, LCA-Vision Inc., the Registrant, has duly caused this report on Form 10-K dated March 25, 2002 to be signed on its behalf by the undersigned, thereunto duly authorized.

LCA-Vision Inc.

Date: March 25, 2002

By: /s/ Stephen N. Joffe
Stephen N. Joffe, Chairman and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Alan H. Buckey, his or her true and lawful attorney-in-fact and agent, with full power of substitution, and with power to act alone, to sign and execute on behalf of the undersigned any amendment or amendments to this report on Form 10-K, and to perform any acts necessary to be done in order to file such amendment or amendments, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission and each of the undersigned does hereby ratify and confirm all that said attorney-in-fact and agent, or his substitutes, shall do or cause to be done by virtue hereof.

In accordance with the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Principal Executive Officer:

Date:

/s/ Stephen N. Joffe Chairman and Chief Executive Officer _____
Stephen N. Joffe

Principal Financial and Accounting Officer:

/s/ Alan H. Buckey Chief Financial Officer
Alan H. Buckey Executive Vice President _____

Directors:

Date:

/s/ Stephen N. Joffe Director _____
Stephen N. Joffe

/s/ William O. Coleman Director _____
William O. Coleman

/s/ John H. Gutfreund Director _____
John H. Gutfreund

/s/ John C. Hassan Director _____
John C. Hassan

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

LCA-Vision (Ohio), Inc.	Ohio
Refractive Centers International, Inc.	Delaware
The Baltimore Laser Sight Center, Ltd.	Ohio
LCA-Vision (Canada) Inc.	Ontario, Canada
The Toronto Laservision Centre (1992) Inc.	Ontario, Canada
938051 Ontario, Inc.	Ontario, Canada
Lasik M.D. Toronto Inc.	Ontario, Canada

Exhibit 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-07621) pertaining to the LCA-Vision Inc. 1995 Long-Term Stock Incentive Plan and the LCA-Vision Inc. Directors' Nondiscretionary Stock Option Plan and in the Registration Statement (Form S-8 No. 333-74485) pertaining to the LCA-Vision Inc. 1998 Long-Term Stock Incentive Plan, of our report dated February 15, 2002, with respect to the consolidated financial statements of LCA-Vision Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2001.

/s/ Ernst & Young LLP LLP
Cincinnati, Ohio
March 22, 2002