

## OPHTHALMIC LASER UPDATE -- January 2000

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12/30 We were able to obtain additional information about the FTC attorneys decision to drop their appeal in the FTC vs. **VISX** case. According to Rebecca Irwin of **Warburg Dillon Read**, the FTC motion to dismiss is a positive read for VISX. She reported that in "a publicly filed document in the appeal against VISX at the FTC, VISX's opposing counsel made a motion to dismiss their own complaint. The reason given was that, 'Recent and significant actions in the '388 patent reexamination proceeding before the PTO (Patent and Trade Office) change the contours of this case....It is likely, but not certain, that these events will result in the PTO issuing a Certificate of Reexamination embodying the 65 claims, each of which VISX will be able to assert against infringers.' Although we realize (and highlight) that patent cases are extremely difficult to call, we interpret the language in this document as very positive news for VISX." Ms Irwin went on to iterate that the statement by the FTC lawyers was based on a November 17th Interview Summary Report (a PTO document) and VISX's response to that document. However, there is an "out", as the FTC counsel also stated and requested that "Because it is possible, although not likely, that the (PTO) Examiner's position may change, Complaint Counsel move that the Commission defer further proceedings in this matter and only dismiss the Complaint upon a report from Complaint Counsel that a Certificate of Reexamination has issued..." As she put it, "In other words, there is no such thing as a 'sure thing' and there is still the risk that VISX will not receive the Certificate of Reexamination for '388."

*Bloomberg News Service* also issued a statement that said in part, "While the patent office agreed with the FTC that the contested patent claims were invalid, the office is reviewing VISX's revised claims after the company submitted new information in November, the documents said. The documents didn't indicate if the FTC might file a new complaint if VISX gets the revised patent. In what they described as the 'unlikely' event that VISX doesn't get the new patent, FTC lawyers recommend that the commission either proceed with its current complaint or defer further action. The patent fraud charges were all that remained of a broader FTC complaint filed in 1998, which alleged VISX and rival **Summit Technology Inc.** colluded to fix prices for laser eye surgery. The companies previously settled the price-fixing charges and dissolved their partnership. The disputed VISX patent covers the excimer laser approved by the FDA for use in photorefractive keratectomy, or PRK, a laser procedure to redesign eye tissue.

Dave Harmon of *MarketScope* also reported that Mike McNeely, the FTC prosecutor in his filing to dismiss, noted that the PTO planned to re-certify the '388 patent after modification of the first five claims, and the FTC's analysis of the new version of claims 1-5 indicated "that they were sufficiently broad to cover all commercial uses of excimer laser to perform vision correction as that procedure is performed today."

And finally, *The Los Angeles Times* put its spin on the story. The Federal Trade Commission should drop its patent fraud complaint against VISX Inc. because the

government is expected to grant the largest U.S. maker of vision-correction lasers an amended patent that will make the issue moot, the agency's lawyers have recommended ...Although the patent office agreed with the FTC that the contested patent claims were invalid, the office is reviewing VISX's revised claim after the company submitted new information in November, the documents said.

- 12/29 Responding to demand at its value-priced LasikPlus centers in Clearwater, Florida, and Edina, Minnesota, **LCA-Vision** announced the opening of two additional LasikPlus centers in the same markets. The new centers in Tampa and the Maple Grove suburb of Minneapolis are the first to be opened under the company's plan to expand its existing LasikPlus network by at least two new centers each quarter for the foreseeable future. In the current quarter, the company converted existing LCA-Vision centers in Clearwater and Edina to LasikPlus. Since completing the conversion, those centers have experienced impressive demand, with the company's LasikPlus center in the Minneapolis suburb of Edina already booked to capacity for the month of January. The announced openings will double LCA-Vision's patient-handling ability in the large St. Paul/Minneapolis and Clearwater/Tampa/St. Petersburg markets.

Stephen Joffe, LCA-Vision chairman and CEO, commented, "The new centers will allow us to accommodate the strong demand that has greeted the introduction of LasikPlus. Opening new centers in existing markets will also allow us to leverage and maximize the advertising and marketing dollars earmarked for these communities. In the year ahead, we look forward to extending our leadership position and repeating the success we have experienced with LasikPlus."

- 12/29 **Paradigm Medical Industries Inc.** said that its stock price closed at an all time high following the announcement that it had submitted its results to the FDA for final approval, from the clinical trials of its patented laser system, which can remove cataracts from the eye in a safer, easier manner than the ultrasonic technology currently in use. Additionally, **Pharmacia & Upjohn Pharmaceuticals**, which announced the acquisition/merger of **Monsanto**, making it the 3rd largest drug company in the world, has formed a strategic alliance with Paradigm to facilitate sales of their cataract surgery consumable and disposable product lines.

The following day, the company announced that it had submitted an additional 5,000 clinical case results from three additional ophthalmologists from outside the U.S. "Their results mirror the positive results we have seen from our U.S. Clinical sites," commented Greg McArthur, Paradigm's Regulatory Administrator. "Reform legislation of the recent past now allows for inclusion of clinical results outside the U.S. to supplement U.S. clinical investigations," stated CEO and chairman Thomas Motter. "Our current 'notification of intent to market' recently submitted to FDA, which was announced a few weeks ago, already included results from several other International sites but we felt that these additional Doctors should also be included because of the sheer number of patients they have performed surgery on with the Photon Laser Cataract Removal System. We feel very optimistic about our chances for an approval now."

- 1/3 **ICON Laser Eye Centers Inc.** announced that it had signed letters of intent to purchase a group of laser eye centers currently managed by ICON. The purchase price for the three laser vision correction centers and an inbound call center will be paid in newly issued shares of ICON, pursuant to a transaction negotiated on an arms length basis for an amount which approximates 24% of the equity of the company consistent with ICON's business plan of building assets through acquisitions. Specific pricing will be announced upon contract signing. The laser eye centers are located in Toronto and Windsor, Ontario and Scottsdale, Arizona. Also included in the acquisitions is the customer teleresponse center located in Windsor, Ontario that ICON has used to build its business to date.

Simone Mencaglia, CEO, stated, "ICON's core strategy in North America and Europe is to grow through acquisition. We have experienced the ability to dramatically increase procedure volumes as we roll-out our marketing campaigns into markets which are served by acquired centers. The ICON formula depends upon the effectiveness of our website [www.iconlasik.com](http://www.iconlasik.com), our value pricing model which averages \$850 per procedure and our sophisticated call center which is an important segment of the newly completed acquisition agreement."

- 1/3 According to *EyeWorld Week*, the FDA approved an excimer laser system developed by Jon Dishler, MD, of the Laser Institute of the Rockies, Englewood, Colo. on Dec. 16th. The laser was approved for LASIK for the treatment of myopia. The agency granted the device an indication of -0.5 to -13 D with -0.5 to -4 D of astigmatism. Approval was based on the results of a clinical study of 839 eyes treated with LASIK with a minimum of 6 months of follow-up. According to Dishler, the laser was designed specifically for LASIK.

The newsletter also noted that the ITC had extended its deadline to Jan. 28 for determining whether to review its decision that Nidek did not violate section 337 of the Tariff Act of 1930, by importing and selling its laser system in competition with VISX Inc.

- 1/3 **LaserOne**, a New York city-based laser vision correction center, announced that, effective immediately, it was reducing its fee by more than half to patients undergoing the LASIK technique. The new pricing is expected to make the gift of restored vision affordable to tens of thousands for whom it was previously unattainable. Improved technology, the perfection of LASIK treatments, as well as increased volume and an unparalleled success rate, enabled LaserOne to dramatically reduce the price for the procedure. The standard fee has been set at \$1,250 per eye or \$2,500 for both. The previous cost to patients was \$2,350 for one eye and \$4,700 bilateral. In addition, LaserOne announced that it was offering a special introductory price of \$1,000 for one eye and \$2,000 for treatment of both eyes to the first 2,000 patients in the Year 2000. Pricing is all-inclusive, covering consultation, screening and examination, treatment by one of LaserOne's experienced, surgeons and follow-up visits for one year. The price also includes those rare cases when enhancements are advised.

"Thousands of New Yorkers have had laser vision corrective surgery despite relatively high prices, costs typical of those paid by early adopters in any new technology," says Randy Brown, chairman and CEO at LaserOne. "Speaking as an early adopter myself, it was worth it to be able to see clearly. However, the early adoption period for LASIK is over. The best corneal surgeons, such as Richard Koplin and other leading surgeons at LaserOne, can perform the procedure safely and inexpensively with stunning results in just minutes. The time has come for LaserOne to offer the miracle of restored clear eyesight at an attractive price." LaserOne operates two **VISX** Star S2 lasers.

1/4 Intacs, the non-laser alternative for people who wear glasses and contacts to see at distances, developed by **KeraVision**, have been chosen one of "The Year's Top 10 Medical Advances" by *Health* magazine and **CNN**. The top 10 list represents the "best of the breakthroughs" because these products and procedures "will help us live longer, healthier lives," according to *Health* magazine and **CNN**. Other products and treatments on the "best" list were for AIDS, arthritis, birth control, emergency care, exercise, the flu, infection, nutrition and sleep disorders.

1/4 **NovaMed Eyecare, Inc.** announced that its LVC procedure volume for the fourth quarter ended December 31, 1999 totaled 4,601, an increase of 171% over the 1,696 LVC procedures performed in the fourth quarter of 1998 and a sequential increase of 27% over the third quarter results, when 3,615 LVC procedures were performed. The fourth quarter procedures represent an annual run rate of approximately 18,400 LVC procedures. For the year, NovaMed's LVC procedure volume was 13,366, up 163% from 5,083 in 1998. Approximately 4% of the fourth quarter LVC procedures were performed in two new markets under fixed-site laser services agreements, a new and growing part of NovaMed's business model.

"We are pleased to report continued strong growth in LVC procedures," said Stephen Winjum, chairman, president and CEO of NovaMed. "Our regional density strategy is working well and we are growing LVC procedures notably faster than the U.S. market overall. We expect strong LVC procedure growth to continue in 2000."

1/4 **LCA-Vision** announced the official launch of the National LASIK Network (NLN), a joint venture with **Cole National Corporation**. The joint venture will make laser vision correction more available and affordable to tens of millions of potential new patients. The NLN, which will continue to grow, currently has participating providers in 63 major markets. LCA-Vision will manage the provider network and schedule member treatment in cooperation with **Cole Managed Vision**, a unit of Cole National Corporation. Cole Managed Vision is a leading provider of vision care benefits with more than 50 million covered lives under management. Cole Managed Vision began late last year to market the new laser vision correction benefit to its member organizations. A number of large nationwide sponsors -- including major health insurers, HMOs, corporations and labor unions -- have already agreed to offer the new benefit to their members in the coming year. Ongoing marketing efforts will coincide with annual vision care contract renewals by sponsors, which take place throughout the year.

The new benefit program provides for eligible members to receive special pricing from NLN's provider network, which includes LCA-Vision's own U.S. centers; more than 100 highly experienced, independent and group practice ophthalmologists around the country; and many eye surgeons utilizing other corporately owned laser vision correction facilities. All practitioners in the network are NCQA (National Committee on Quality Assurance) certified, meeting or exceeding the health insurance industry's highest care standards. Commenting on the NLN launch, LCA-Vision chairman and CEO Stephen Joffe, said, "We are pleased to have played a leadership role in opening up laser vision correction to Cole Managed Vision's membership base. This represents a tremendous new business opportunity for us." Dennis Osgood, president of Cole Managed Vision, said, "LCA-Vision has put together an excellent nationwide network of laser vision correction providers, who will provide quality patient care. The new laser vision correction benefit we are offering to members and sponsors of Cole Managed Vision plans will lower the cost of this innovative procedure to our clients' members enrolled in the program. We are proud to be among the first to offer this ground breaking new benefit."

- 1/6 **Lasik Vision** announced that 19,713 paid laser procedures were performed at the company's refractive centres in the fourth quarter ended December 31, 1999. These procedures represent the highest procedural volume Lasik Vision has ever recorded in a fiscal quarter. The fourth quarter procedures represent a 52% increase from the 12,929 procedures performed in the third quarter of 1999. The 19,713 paid procedures in the fourth quarter of 1999 bring the total procedures performed for the year to 46,640. This represents an increase of 462% from the 8,292 procedures performed in 1998.

"We are extremely pleased with Lasik Vision's procedural growth in the fourth quarter. Overall, our achievements in 1999, both in terms of our procedural volume and centre openings, have exceeded our expectations. In 1999, Lasik Vision became Canada's largest operating laser vision correction company with fifteen operating clinics. We look forward to continuing this momentum in the first quarter of 2000 as we continue our aggressive expansion in the United States," said Michael Henderson, president and CEO.

- 1/6 *ABC News magazine 20/20* portrayed the perils and joys of LASIK on its program this evening. "But, is it really as simple and safe as it seems?" asked the show's host. The news magazine's segment about laser in-situ keratomileusis showed a patient with double vision and lost night vision -- and another who called her surgery "a miracle." Correspondent Timothy Johnson, MD, portrayed the procedure as simple and fast, using video graphics to explain it. Roger Steinert, MD, of Boston, was shown performing LASIK on a patient. Johnson said that Mitch Ferro, of South Riding, Va., the disgruntled patient interviewed, had poor results due to his large pupils. Physicians and consumer advocates agree that a good evaluation, which would have concluded that Ferro was a poor LASIK candidate, are one of the keys for patient protection, Johnson said. One patient was shown undergoing a 3-hour preoperative evaluation at Steinert's Ophthalmic Consultants of Boston. The segment also warned that patients must have realistic expectations and seek an experienced refractive surgeon.

The following day, **TLC Laser Eye Centers'** Medical Director Jeffrey Machat, MD, applauded the ABC 20/20 segment on laser eye surgery. "ABC should be commended for the information it offered its viewers," said Dr. Machat. "The public is being bombarded with so many ads and promises about laser results, they tend to overlook the fact that the corrective vision process includes the need for skilled surgery." He went on to say, "Decisions should be made after people find out all they can about the risks and benefits associated with the procedure. Look for experience, a surgeon and a center you can trust, not the lowest price."

- 1/7 **LCA-Vision** announced that fourth quarter procedure volume grew 50% versus a year ago. Laser vision correction procedures for the final quarter of 1999 rose to 8,541, up from 5,686 procedures for the same period last year. For all of 1999, the company reported a record 33,266 procedures, up from 19,791 in 1998, a 68% gain. The company also noted that LasikPlus accounted for more than half of the company's fourth quarter procedures, despite the impact of downtime related to the startup and conversion of existing LCA-Vision centers to the company's new, value-priced LasikPlus format. "Consumer response to LasikPlus continues to exceed our expectations," said Stephen Joffe, LCA-Vision chairman and CEO. "While we continue to focus on the conversion of our remaining LCA-Vision centers, we are now planning to open a minimum of 10 brand new LasikPlus centers in 2000. Our strategy of opening the bulk of these new centers in existing markets, as we did recently in Tampa and Minneapolis, will allow us to leverage and maximize the advertising and marketing dollars earmarked for this effort. Our media saturation approach to the LasikPlus rollout has achieved enormous name recognition for LasikPlus in our target markets. We plan to continue to spend aggressively to position value-priced LasikPlus as the high-quality provider of choice. To achieve that goal, we have earmarked \$15-\$20 million in advertising, marketing and promotion this year to support the ongoing introduction of LasikPlus."
- 1/7 **Summit Technology** reported that Wayne Grubb, a NASCAR Grand National Division driver would be having laser vision surgery on January 10th, to be performed by Dr. Tony Sakowski, Jr., of the Virginia Eye Institute, which will be broadcast live on the internet. The procedure will be performed on the **Autonomous** LadarVision system. Grubb, the elder of two racing brothers, finished 45th in the 1999 standings.
- 1/7 This month's issue of *Refractive Market Perspectives* reported that sales of new lasers and opening of new laser centers exceeded all expectations in 1999, with 365 new lasers sold and 229 new laser centers opened. David Harmon also noted that multiple lasers per center was an increasing trend, with 121 of the new lasers purchased added to already existing centers. He also reported that surgeon owned centers now total 339 locations, a nearly 40% increase, to represent 47% of the total 725 laser centers (with 871 installed lasers). Corporate centers number 246 (34%), gaining 71 locations, while institutions now have 140 (19%) of locations, having gained 6 centers during the year.

Of the corporate centers, **TLC** and **Laser Vision Centers** gained 13 and 23 locations respectively, with Laser Vision adding 27 lasers to its fleet, both for new markets and to

convert busy markets to fixed site centers. Several new corporate entities entered the fray during 1999, including **VisionAmerica**, **Vision Twenty-One**, **Prime Medical Services**, **Staar Surgical**, and **NovaMed**, operating a total of 34 laser centers by year's end. A complete listing of all of the publicly- and privately-held companies and the number of their U.S. laser centers is contained in the newsletter.

The newsletter also reported that preliminary estimates for the total number of procedures performed in the U.S. during 1999 indicates that 960,000 procedures were done, a 100% increase over the number done in 1998. His early estimates for 2000 are for 1.55 million procedures, a growth rate of 61.5%. David said that growth will be driven by a variety of factors, including increased consumer awareness, an ever expanding universe of patient referrals, and expanded availability of laser centers and refractive surgeons. He also noted that consumer advertising more than doubled in 1999, and is headed into record levels in 2000. During 1999, some 3,400 surgeons practiced refractive surgery, up 1,300 from 1998, and an additional 600 will begin doing procedures during 2000.

- 1/10 **Pharmacyclics, Inc.** announced that **Alcon Laboratories** had committed to continuing clinical development of Optrin (motexafin lutetium) Injection in the field of ophthalmology. Alcon has been conducting preclinical and clinical development of Optrin for photodynamic therapy (PDT) of patients with age-related macular degeneration (AMD). Pharmacyclics has received a milestone payment based on the results of Alcon's ongoing phase II clinical trial, which is currently enrolling patients at leading ophthalmology centers in the United States. This study is designed to evaluate optimum drug and light dosing, efficacy and safety. "As we move further along in our clinical studies with Optrin, we are increasingly optimistic about its potential in treating AMD," said Gerald Cagle, Alcon's senior vice president of research and development. "We expect the Phase II trial to provide more information on how this drug's unique properties could translate into an important new treatment for people affected by this disease." Pharmacyclics and Alcon entered into an evaluation and license agreement in December 1997 for the commercialization of Optrin for ophthalmology indications, including AMD.
- 1/10 **Laser Vision Centers** announced that its U.S. case volume for the month of December increased 72% compared to the same month a year ago. The company said that December was its best month to date for U.S. case volume.
- 1/10 **Vision Twenty-One** provided an update regarding its Bank Credit Facility, PPM unwind program and its evaluation of strategic alternatives for the company. The company also reported commencement of a corporate consolidation plan. On the bank credit facility, pursuant to a letter agreement effective December 29, 1999, the company received an extension of temporary waivers relative to certain covenants and payments under its Credit Facility from December 31, 1999 to February 29, 2000. The agreement requires a continued effort by the company to sell all or a portion of the company. Under the terms of the letter agreement, during the period of waiver, the company must continue to provide a budget to the bank group for their approval. Additionally, all proceeds from

the sale of any assets and net cash flows from operations not applied to budgeted expenses shall be remitted to the bank group.

On the unwind program, the company closed on the unwind of three of its managed practices in return for a combination of cash and stock to the company. Under these unwind agreements, the management agreements with the company will be canceled and the employees along with certain assets located at their clinics will be transferred back to the practices. As mentioned, the company expects, subject to continuing approval of the bank, to draw upon funds received pursuant to such unwinds to meet its reasonably and necessary operating expenses. Neither of these transactions involves officers or directors of the company. Additionally, the company reports it is continuing its negotiations with the other practices with expectations of additional closings during January.

On its strategic alternatives, the company is continuing to have serious discussions relative to a sale of all or a portion of the company. The company plans to continue to concentrate on evaluating its alternatives with the goal of achieving the best result for its shareholders.

Finally, as a result of the recent sales of the buying group and retail optical divisions, as well as the previously announced unwind of the PPM division, the company is in the process of implementing further consolidation in its operating infrastructure. The company expects to substantially close the Largo, Florida service center and to consolidate the managed care operations to the Boca Raton, Baltimore and Phoenix regional offices. In addition, refractive and ambulatory surgery center operations will be consolidated to a location which has yet to be determined. As a result of these changes, the company expects to have net eliminations in excess of 70 full time positions. These positions are in excess of the employees being transferred back to the practices as part of the PPM unwind program. The company further reported that depending upon the outcome of the negotiations surrounding the strategic alternatives noted above, a final decision as to relocation of corporate services, accounting and financial reporting, is on hold at this time.

1/10 **Lasik Vision** announced a financing of up to \$30 million. The financing was facilitated through **McDonald Investments Inc.** The proceeds of this financing will be used to continue the company's aggressive expansion in the United States.

In addition to the financing, Lasik Vision announced it had entered into an exclusive three-year supply and marketing agreement with **VISX**. Under the agreements Lasik Vision intends to purchase a minimum of 100 VISX Excimer Laser Systems in the United States. "The purchase of the VISX Excimer Laser Systems will provide our centers in the United States with advanced technology and will enable the company to deliver high quality care at the most affordable price to our patients in the United States," said Michael Henderson, president and CEO of Lasik Vision. "The significant financing, in addition to the commercial transaction we have reached with VISX will facilitate our rapid and aggressive expansion in the United States during the Year 2000 and beyond."



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1/11 **TLC Laser Eye Centers Inc.** announced its results for the three months ended November 30, 1999. Fiscal 2000 second quarter net revenues grew to \$48.1 million, up 60% from \$30.1 million for the same period a year ago. Refractive net revenue grew to \$45.4 million, up 69% from \$26.8 million for the same period a year ago. Over 31,600 paid laser procedures were performed at TLC refractive centers in the second quarter of fiscal 2000, up from 18,017 for the same period a year ago. TLC reached another important volume milestone this quarter. In October 1999, the company performed its 200,000th laser vision correction procedure. TLC is the first company world-wide to perform this number.

Income from operations for the fiscal 2000 second quarter was \$3.3 million (9 cents per share). This represents a 514% increase from \$540,000 (2 cents per share) for the fiscal 1999 comparative quarter. TLC's net profit for the quarter was \$1.2 million (3 cents per share) up from \$660,000 (2 cents per share) for the corresponding period a year ago. Elias Vamvakas, TLC's president & CEO, commented that "the tremendous interest in laser vision correction -- demonstrated not just by consumers -- but also by corporations and vision plans -- has motivated us to make significant investments to maintain our leadership position in this exciting industry. TLC is investing in people, information systems, and marketing to build the TLC brand and to ensure that TLC becomes top-of-mind when people think about quality laser vision correction providers."

During an accompanying conference call, Vamvakas noted that the company expected to perform more than 100,000 LVC procedures this year from its Corporate Advantage Program that got under way at the start of January. But he cautioned that TLC probably would have seen some of these patients outside of the program so it "would be wrong to simply add 100,000 to our procedure volume". The program now has 1,500 employers, HMOs and vision plans under contract, covering more than 50 million people in the United States. By gaining a big chunk of new business from the program, Vamvakas said net revenue after doctor compensation could fall \$100 to \$150 per procedure because of corporate discounts. "We are seeing an unexpected level of interest from the Corporate Advantage Program. Given the volume that we expect out of those corporate programs, I don't expect [discounts] to be a negative," he added.

*The Globe and Mail* carried a story following the quarterly release, stating that the company's shares "soared", as its U.S. game plan was outlined. In Toronto Stock Exchange trading following the announcement, TLC rose \$3.90 to \$26.80, while on the Nasdaq Stock Market, it gained \$2.25 to \$18.25. Joseph Walewicz, an analyst with **Dlouhy Investments Inc.** in Montreal, said the stock also received a lift from TLC's disclosure that it is working on \$50-million of acquisitions. "What I also thought was quite interesting was [Vamvakas'] comment that TLC would make an announcement in the next two to three weeks about its choice of laser equipment," Walewicz said, a move that could have a "significant impact" on how TLC does business. TLC now uses lasers made by **Visx Inc.** of Santa Clara, CA, the gold standard in the industry. Visx obtains a \$250 royalty fee each time one of its machines is fired, but new entrants in the sector are

challenging the fee and Visx's patent. TLC owns 20% of **LaserSight Inc.**, which is in negotiations to use Visx's technology in its own laser machine.

Vamvakas told analysts that TLC opened two clinics in the second quarter, boosting its chain to 57. Ten new clinics are under construction and scheduled to open in the next few months. Faced with servicing clients under its corporate program, he said TLC wants to be in 100 new markets next year and is currently discussing "franchise opportunities" with potential medical partners. TLC has also launched a new Web site that will allow potential patients to research LVC surgery and arrange a consultation at a company clinic. (See the briefs following.) Vamvakas also said TLC will unveil a new marketing campaign in the next few weeks. He also noted that January bookings for LVC surgery are significantly higher than December. The company performed 31,600 procedures at its clinics in the fiscal second quarter, up from 18,017 in the year-earlier quarter.

Al Kildani of **Pacific Growth Equities** issued an update report on TLC following the release of fiscal second quarter results. Kildani said that results were in line with both the December 6th pre-announcement and his estimates. He commented that of the two new centers opened during the quarter, one was the first with **Kaiser** in northern California, and that the company had 10 new clinics in development, 3 of which were in California, which were expected to open within the next few months. Kildani reiterated his "buy" rating and slightly lowered his stock target price to \$30 for the fiscal year.

The company also issued a news release discussing its new web site, **www.tlcvision.com**, that empowers Internet users who seek a definitive guide to North America's fastest growing healthcare procedure. "Visitors to **www.TLCVISION.COM** will be greeted with an array of educational information," said TLC president and CEO Elias Vamvakas. "The Internet has become the mainstream method for consumers to educate themselves, and we feel that **TLCVISION.COM** will provide users with the information they need to make an informed decision."

With 56 centers in the U.S. and Canada, TLC Centers are conveniently located. Doctors affiliated with the company have performed well over 200,000 vision correction procedures since TLC was established in 1993. Today nearly 60,000 LASIK procedures are performed across the country each month, with one in five performed at TLC Centers. "Our marketing research shows that consumers are searching for credible, trustworthy information about laser eye surgery," said Kathryn Hughes, TLC vice president of marketing. "No other company is better equipped than TLC to handle the volume and scope of queries than we are," she added.

The new Web site guides the visitor on a journey of discovery. Common vision problems are reviewed, followed by the available types of procedures, suggestions for preparing for surgery, examination of risk factors, patient testimonials, and financing options. Users can link to their closest TLC Laser Eye Centers location and even book a consultation online. "Why shouldn't booking a medical appointment be as simple as making an airline reservation on the Internet?" asked Ms. Hughes. "We believe this is a service consumers

want and should have. It's all part of the education process. A person involved in their own health and well-being makes for a better, happier patient, and a very successful partnership between the patient and his or her doctor. It is the future of medicine and laser vision correction."

The following day, the company announced that its subsidiary, **eyeVantage.com, Inc.**, would unveil a major new e-commerce initiative for the eye care sector at the Chase H&Q health care conference in San Francisco. Initially leveraging TLC's established affiliations with more than 11,000 doctors, eyeVantage.com's business strategy is to create the online vertical market for eye care that will act as the comprehensive source of commerce, community and content for all eye doctors, suppliers, and consumers. Ronald Kelly, executive vice president of acquisitions and General Counsel of TLC, agreed to move full-time to eyeVantage.com and serve as its CEO. Jack Weightman, former president of **Alcon Vision Care**, agreed to accept the appointment to the newly created position of president and COO of eyeVantage.com.

eyeVantage.com is in the process of finalizing several acquisitions, including **EyeCare Consultants, Inc.**, which develops and markets "Infocus", a practice management software application, and **Optical Options Inc.**, which develops and markets a next-generation frames-on-face point-of-sale software application. The Optical Options product allows patients to select a variety of frames and preview how they look in them on the computer screen. These two software applications will represent an integral part of eyeVantage.com's e-commerce enabling solutions product portfolio. eyeVantage.com is also finalizing the consolidation of various buying groups. In relation to these acquisitions and to the execution of the company's business plan, eyeVantage.com is in the process of securing strategic funding with the objective of raising public financing later in the year. The e-commerce company is 83% owned by TLC and 17% owned by eyeVantage.com CEO Ronald Kelly. It will offer services including electronic insurance adjudication, clinical and practice management software, electronic and on-line ordering, internet telemarketing, and permission-based marketing to doctors and consumers.

- 1/10 Kelly Black, writing for *Raging Bull*, wrote about the upcoming IPO of **TrueVision International**, in her piece entitled, "Blind as a Bat". Black notes that TrueVision was set to debut with a \$9 million offering on January 14th. The company has been performing excimer laser procedures in its Albuquerque, New Mexico center since acquiring a controlling interest in **TrueVision Laser Center of Albuquerque** in April, 1998, and opened its second location in Nevada last July. The budding enterprise hopes to expand its presence beyond the two initial centers with the funds raised from the offering. TrueVision expects to use nearly \$3 million of the net proceeds to open three to five more laser centers over the next year. For the year ended September 30, 1999, TrueVision sustained a loss of \$842,693 on revenues of \$3.34 million, up 131% from the year-ago period. Black noted, however, that with the recent volatility of the market, the TrueVision IPO could get postponed, "Investors are likely to give this IPO a chilly reception, and it would do well to stay above its offering price."

1/10 **ICON Laser Eye Centers, Inc.** announced that on January 5, 2000 it began laser eye surgery in Windsor, Ontario in its 16th laser eye surgery center (which includes two roll-on/roll-off lasers). ICON has installed the advanced scanning LSX laser of **LaserSight** in its new Windsor center. ICON will be one of the first North American centers with the new 200-Hz software of LaserSight. The 200-Hz software is not yet FDA approved; however, the standard LaserSight LSX received FDA approval in 4Q99. Canada is governed by the Canadian Health Protection Board. Canadian laser vision correction operators do not pay the \$250 manufacturer procedure royalty which is levied in the U.S.

Simone Mencaglia, CEO of ICON stated, "ICON continues to lead the industry introducing state-of-the-art technologies and innovative marketing concepts. Our introductory marketing program for our new ICON Windsor center promotes an introductory offer under the concept of "Bring a Friend for FREE" which is included in our regular \$1,000 per eye patient fee. This program has attracted for us a procedure backlog which should keep our new clinic at levels of in excess of 400 procedures per month in Windsor for at least the first six-months. This will be a good test for the LaserSight LSX 200-Hz software and the scanning technology of LaserSight and will set both companies in a position to be the early adopters of "custom ablation" which will likely be the next wave in consumer demand for laser vision correction."

The company also announced that its LVC procedure volume for the fourth quarter totaled 9,614, a 2,443% increase over the 378 LVC procedures performed in the fourth quarter of 1998, and sequentially increased 73% percent over the third quarter of 1999, when 5,541 LVC procedures were performed. Procedure volumes are normally down from prior months in the months of August and December each year mainly because of center closedowns for vacations in certain European markets. ICON procedures for December 1999 were 2,957 eyes versus 3,675 procedures in November 1999, a drop of 20%. In January, post-the Christmas vacation season effect common in Europe, ICON should again be back on track with accelerating month to month procedure growth. The fourth quarter procedures represent an annual run rate of approximately 38,456 LVC procedures. For the year, ICON's LVC procedure volume was 25,831 up 4,746% from the 533 procedures performed in 1998.

ICON's growth strategy is based on aggressively acquiring independent MD and/or OD-owned LVC centers looking for an alternative to the operating strategies of the "big three"; **TLC**, **LVCi** and **LCAV**. ICON's success in making acquisitions is conditional upon ICON promoting the message of "Value LASIK" in each market. The effectiveness of the ICON strategy is reflected in its quarter to quarter procedure growth.

Simone Mencaglia, CEO of ICON stated, "ICON is in the "Value LASIK" segment of the LVC market. ICON has been attracting top LASIK surgeons in all of its markets. ICON surgeons do more LASIK procedures on an individual basis versus our competition. As was recently pointed out in an ABC 20/20 TV special, experience and excellence generally run hand in glove."

1/10 This week's issue of *Vision Monday* contains a story about **D.O.C. Optics** negotiating to acquire part of a midwestern laser surgery operation, that would put the 110-unit eyewear chain in the laser vision correction business during the first quarter of this year. According to president and CEO Richard Golden, the laser surgery deal calls for the formation of a new corporation to expand the existing LVC operation, which he declined to identify, beyond the fact that it had three present locations, with two to four additional surgery centers to be opened by the end of 2000.

1/11 **VisionAmerica** announced that over 10,483 vision correction procedures were performed by surgeons practicing at VisionAmerica centers during 1999. This represented a 128% growth rate, compared with 4,588 procedures performed in 1998, and reflected the impact of the company's strategic initiative to launch its own laser vision correction program in early 1999. In addition, the company reported that 19,589 cataract procedures were performed in 1999 in VisionAmerica eye care centers across the country, representing a 11.4% growth rate over the 17,587 procedures performed in the same period last year.

"We are very pleased with the significant progress we have made since we launched our initiative in the first quarter of 1999 to expand our laser vision correction capabilities on a national scale," commented Thomas Lewis, president and CEO of VisionAmerica. "Vision correction procedures now account for approximately 31% of the company's surgical volume and we now offer these procedures in 22 markets across the country. The record volume of procedures performed in these centers reflects our ability to meet the unprecedented demand for vision correction procedures utilizing our own lasers and other related equipment. During the second half of the year, a much larger percentage of procedures were performed on our own lasers and VisionAmerica surgeons were trained in the use of Keravision Intacs. In addition, we continue to see favorable growth trends in the volume of cataract procedures performed by surgeons practicing at VisionAmerica centers. This procedure has traditionally accounted for a significant share of our total surgical procedures. We believe that demand for cataract surgery will remain strong as the population continues to age and VisionAmerica is well positioned meet this demand through our national network of eye care centers."

The company also announced the implementation of its first national contract for refractive surgery. VisionAmerica's national co-management panel of ophthalmologists and optometrists are providing refractive surgery services to the over 7 million enrolled members of **Coast to Coast Vision**, a marketer of ancillary health services to employers and other groups nationwide. The contract was effective January 1, 2000. In connection with the contract, Coast to Coast Vision will offer patient education for laser vision correction through the newly developed educational section of VisionAmerica's web site, **[www.visionamerica.com](http://www.visionamerica.com)**.

"We are very pleased to have been chosen by Coast to Coast Vision as its preferred provider of refractive surgery services," commented Thomas Lewis, president and CEO. "While we will continue to grow the number of regional contracts in our current markets,

we also look forward to further developing of our national co-management panel and pursuing additional national contracts. Refractive surgery is the fastest growing area for both VisionAmerica and the industry, and we are enthusiastic about its impact on our company, especially in light of the opportunities offered through this new national contract."

- 1/11 **SurgiLight Inc.** announced that it had submitted a clinical trial Protocol to **Mt. Sinai Hospital** in New York City for a new procedure called Laser Presbyopia Reversal (LPR). The company believes that the potential procedure market for presbyopia correction is estimated to be over \$150 billion in US and over \$1,500 billion worldwide. The first group of clinical results of this new procedure for laser presbyopia correction was reported by the company at 1999 Fall World Refractive Surgery Symposium held in Orlando, Fla. The company is currently treating patients ranging in age from 44 to 65 in Venezuela. Clinical trials in US and other countries may start by mid 2000. An IDE clinical submission in US will be filed to the FDA after the IRB approval from Mt. Sinai Hospital.

SurgiLight believes that it will be the first company to introduce this new technology into the laser vision market. SurgiLight also believes that its "cold" IR (3 microns) laser, used for LASIK and presbyopia correction, is fundamentally different when compared with the "thermal" IR (2 micron) laser made by **Sunrise**, used for hyperopia correction.

- 1/11 **Sunrise Technologies International** announced that it had raised \$11.7 million in a private placement. The new financing involves a group of investors led by **The Tail Wind Fund, Ltd.** and **LBI Group Inc.**, an affiliate of **Lehman Brothers Holdings Inc.** "We are most pleased to have concluded this financing at this very important time for the company. This new money, combined with our existing \$10.6 million in cash at year end 1999, puts the company in excellent financial condition. We will invest in building up inventories to manufacture, market and sell our ophthalmic refractive laser, the Hyperion LTK System, in the coming months," said Russell Trenary, president and CEO of Sunrise. "We are very pleased to have attracted institutional investors of the stature of The Tail Wind Fund and LBI Group to lead this financing, which also includes a very small number of individual investors. This will strengthen our efforts to capitalize on the dramatic opportunity that we believe exists in the treatment of hyperopia."

Also, in discussing its meeting with the ODP on the 13th, Ed Coghlan, Sunrise's vice president for corporate communications and investor relations, said that the updated data would show the procedure's "longevity of effect" and that it "achieves its goal of reducing (farsightedness) and improving vision".

**Lehman Brothers** analyst David Gruber, who has a "buy" recommendation on the stock and a target price of \$15, estimated a 75% to 80% probability the panel would vote in Sunrise's favor, thanks to the new figures and other changes in the company's application. Gruber forecast that Sunrise's revenues from the laser, if approved, could hit \$22 million this year. (My target for 2000 is \$23 million.) "There is an opportunity for the Holmium

laser," he said. But Richard Leza, an analyst with **Craig-Hallum Capital Group** in Minneapolis, said even if Sunrise won FDA approval, its laser would face an uphill battle because doctors already can treat hyperopia with Lasik systems. Leza views Sunrise's stock as overvalued, saying it was worth about \$3 a share tops. "I don't see why anybody would use this machine," Leza said. "I don't think the market's there."

- 1/13 **Sunrise Technologies International** announced that the ODP, an advisory committee of the FDA, had unanimously voted 9-0 to recommend that the FDA approve the Sunrise Hyperion LTK System in the U.S. for the temporary reduction of low to moderate hyperopia in the range of +0.75 to +2.50 diopters with conditions. "This is a victory for ophthalmology and the farsighted patients in the United States," said Russell Trenary, president and CEO. "We eagerly look forward to working closely with the FDA in the coming weeks to obtain final approval for the Sunrise Hyperion LTK System, which is the first technology designed specifically for the treatment of farsightedness." The recommended conditions are limited to labeling issues regarding patient symptoms, longevity of effect, and the effect of retreatment. The company will immediately begin discussions with the FDA Ophthalmic Devices staff to resolve any issues.

According to Jeannie Cecka, Sunrise's vice president of Clinical and Regulatory Affairs, data on 612 eyes were submitted in the PMA that was reviewed. Our data showed that patients experienced a significant improvement in their visual acuity from pre-operative levels with virtually no side effects," she said. "Thanks to the high quality of the clinical investigators, this was an extremely well-run study. We thank the FDA and our clinical investigators for the effort that was necessary to enable Sunrise to present our findings today." Trenary added, "There is a large potential market for the Sunrise Hyperion LTK System. Hyperopia is the most common refractive error of the American population, according to an independent research study known as The Baltimore Eye Study (conducted by investigators from Johns Hopkins University and supported by grants from the National Institutes of Health). This Study revealed that by the year 2000, nearly 118 million Americans will be age 40 and over, and about 60 million of them will be hyperopic. Of these 60 million, about 62%, or 37 million, are expected to have low to moderate hyperopia from +0.75 to 2.50 diopters (the initial application for approval of the Sunrise Hyperion LTK System); 30% or nearly 28 million will have hyperopia from +2.75 to +4.0 diopters; and 8%, or nearly 5 million will have hyperopia of more than 4.0 diopters."

According to the *Dow Jones Newswire*, Sunrise cleared a major hurdle by winning the panel's support, since the company currently has no product on the market in the United States. The company sold an earlier version of the laser in South Africa, Europe and South America. The panel said the laser should be approved with certain conditions, including that the word "temporary" be used to describe the improvement in vision. The device, the Hyperion LTK laser system, was rejected in July because the panel said the company needed more long-term data and because over time some patients lost some of the vision correction the procedure provided. This time, Sunrise presented data from two years instead of 18 months and changed the approval it sought. Originally, Sunrise asked

the FDA to approve the three-second laser procedure for "correcting" mild-to-moderate hyperopia. The company changed that request to "reducing" mild-to-moderate hyperopia "where the magnitude of correction diminishes over time." The company's rationale: hyperopic patients over age 40 continue to lose vision over time as the eye ages and loses elasticity, making it unable to focus on objects near and far. These bifocal-wearing patients, according to Sunrise, will continue to lose vision with or without a laser procedure. Ira Loss, pharmaceutical analyst at **Washington Analysis**, said this panel endorsement was a big deal for Sunrise. "The company has to be pleased with the outcome," Loss said. "But they would prefer that 'temporary' not be in the indication. Ultimately how this is perceived by consumers is important," Loss said. "Whether this is a deterrent to their marketing ability remains to be seen. It will be harder to market than other laser systems that don't have 'temporary' in their labels."

*CBS MarketWatch* and *The Motley Fool* also commented on the recommendation for approval. CBS correspondent Debra McGory wrote, "New Day Dawns for Sunrise on FDA Thumbs Up!"; while Dave Marino-Nachison wrote for Fool, "Bright Sunshiny Days for Sunrise?" I also saw an advance copy of a piece Bob Pieper submitted for publication in a future issue of *AOA News*, stressing the safety of the procedure, "Sunrise Stresses Low Risk of Procedure".

The following day, Richard Leza, an analyst with **Craig Hallum Capital Group** issued a report initiating coverage of Sunrise with a "neutral" rating and a 12-month price target of \$3.50. Leza believes that the company is "grossly overvalued" relative to its industry group. His \$3.50 price target is based on a 5x multiple, using his best-case scenario of \$40 million in sales in 2001 (following \$20 million in 2000). His target price compares to a target of \$15.00 from others, which is based on an 11x multiple of 2001 revenues of \$69 million (David Gruber of **Lehman Brothers**?). He believes that multiple is unrealistic compared to others in the industry like **VISX**, which currently trades at only an 8x multiple of 2001 revenue estimates. He further believes that Sunrise will be hard pressed to achieve 25,000 procedures on its lasers in 2000. He, therefore, recommends shorting the stock based purely on valuation, and not on the efficacy or safety of the procedure. "We believe it's ludicrous for Sunrise to have a larger market cap than any other approved laser company, given the much larger addressable markets that each of them have". He goes on to say, "We are skeptical that those doctors who currently own a \$400,000 excimer laser will be willing to spend an additional \$200,000 for the LTK system, when the excimer laser is already able to do everything it's capable of and more. While we believe there's an off-label niche use for the LTK System in treating overcorrected excimer laser patients...we are not sure doctors will be willing to pay the \$200 per procedure fee to Sunrise, as well as the amortized cost of using the laser, when VISX allows for touch-ups with no additional per procedure fee."

In my opinion, Leza is disregarding the pentup demand for this safe, 3 second procedure, which treats hyperopia in a less invasive manner than does LASIK. If marketed properly, the Hyperion will be placed in many refractive doctor's offices as a quick, less expensive



way of correcting hyperopia, for those over 40 who can afford to have the procedure done.

- 1/13 Tom Davey, writing for *RedHerring.com* noted that at the *H&Q Healthcare Conference*, both **VISX** and **Summit Technology** officials presented. An official at VISX took the stage to complain about lawyers. And why not? The company's stock has been down recently due to legal and regulatory problems. Summit Technology a distant second in market share, has faced similar issues. But Summit CEO Robert Palmisano downplayed them and instead touted an upcoming version of his equipment, which he says is delivering a more accurate technology for sculpting the cornea. He tossed out figures showing that the number of doctors using laser eye surgery and the number of patients receiving it should climb by about 50% this year. Mr. Palmisano also says he expects Summit's market share to climb from around 16% to "the mid-20s." But prior to his talk, he showed a standard disclaimer slide that effectively stated that anything the speaker says may be wrong. Despite the rosy projections, the laser vendors may be headed for hard times. Michael Murphy, editor of the *California Technology Stock Letter* said the plummeting price doctors charge for the surgeries may take their toll on such companies. Currently, doctors must pay the equipment makers \$250 per eye. But as surgery prices fall, says Murphy, so will the royalty fee. Murphy noted that the price of surgery for two eyes had fallen in price to \$3,000 from the \$4,000 to \$5,000 range a year ago. He expects at least one vision center operator to begin charging as little as \$1,500 within the next year.
- 1/13 **Lasik Vision Corporation** announced that subject to regulatory approval, it had granted incentive stock options to employees and consultants of Lasik Vision to acquire up to 1.7 million common shares, subject to 3 year vesting provisions, at an exercise price of \$5.00.
- 1/14 The *Wall Street Transcript* published a Medical Technology Stocks report based on the *Chase H&Q 18th Annual Healthcare Conference*. Nine leading analysts and 85 Medical CEOs examined the medical sector in a 300-page special issue. Robert Faulkner, Senior Medical Device Analyst, examined the business models of biotechnology and medical device companies, exciting niche opportunities, new discoveries, the outlook for the sector, and specific stock recommendations. "There were some small and mid-cap stocks that did extremely well because the company performed, delivered and developed a franchise which investors perceived to be important in and of itself and, potentially, important to larger players," said Faulkner. "**MiniMed** is among them, a company that makes insulin pumps for diabetics. **VISX** and **Summit Technology** are clearly examples in laser vision correction. **INAMED** is clearly capitalizing on its plastic surgery franchise to drive significant stock performance and growth...**SpectRx** will also be at the conference, with new data on their continuous glucose monitor. So I think there are few real players here, but the potential is immense...Relative to the stock market's expectations, I think outperformance will be less in 2000 than it was in 1999, but I still believe that there is potential for procedures to outperform the expectations, which are currently at 1.3 million for the U.S. in 1999. The year will see the entry of at least two

new competitors, **Bausch & Lomb** and **Lasersight**. So we'll see an increase in competition. But ultimately in this space we expect VISX and Summit to remain the leaders. VISX clearly should be the king long term because of the patent portfolio."

- 1/17 In a press release from **Frost & Sullivan**, the research publishing company noted that aggressive advertising, frequent press coverage, and declining prices are encouraging more and more individuals to consider laser surgery to correct nearsightedness and astigmatism. Consequently, contact lens companies will be forced to muster their defenses to retain revenues. Despite the growing popularity of corrective laser eye surgery, new strategic research conducted by Frost & Sullivan, and reported in "*World Contact Lens and Lens Care Product Markets*," indicates that contact lens and related product revenues are up from \$4.6 billion in 1998 to \$4.9 billion in 1999. The total market is expected to continue to exhibit steady growth through 2006. Though emerging refractive procedures can sometimes offer permanent freedom from glasses and contact lenses, customer concern over surgery complications will help contact lens companies defend their domain, at least in the short term. Inconsistent surgical results, potentially permanent side effects, and the high cost of surgery as compared to disposable contact lenses, will steer some consumers back to lenses.

The report goes on to state that evolving style trends and uncertain reimbursement policies are causing fluctuations in some contact lens markets. Though spectacles were not in fashion in the United States during the 1980s and early 1990s, the emergence of retro styles has brought image-conscious consumers back to eyeglasses. In Europe, fashion spectacles have been, and continue to be, extremely popular, especially in Germany and Spain. Fashion trends are indirectly supported by government reimbursement policies. In countries with socialist healthcare systems, the government reimburses spectacles but not contact lenses, which they consider aesthetic items. The January 2000 report is priced at \$4950.

- 1/17 **IntraLase Corporation** announced that the FDA had granted 510(k) clearance for its Femtosecond Laser Keratome System. This clearance enables IntraLase to market, sell, and distribute its laser system for use in the United States as an alternative to mechanical microkeratomes. Essentially, this unique laser technology replaces microkeratomes. Randy Alexander, IntraLase president and CEO, commented, "We are very pleased with this FDA clearance allowing IntraLase to deliver exciting new technology into the world's largest market for vision correction. The Femtosecond Laser System provides refractive surgeons with an entirely new level of safety and control for performing lamellar resections of the cornea." According to Ron Kurtz, MD, vice-president and Medical Director of IntraLase, "Clinical results in our European patients have been excellent, displaying extremely high reproducibility of flap parameters and post-operative flap stability. It will be exciting to offer these and other laser microkeratome advantages to U.S. patients."

According to information obtained from Randy Alexander, "The IntraLase laser will be a small solid state laser with a 1053 nm wavelength and ultra fast pulse. That, along with

a spot size of less than 5 microns, will make the laser a very precise elegant corneal ablation system. Cost will be competitive to the price of 2 microkeratomes with the ability to replace 2 or more keratomes."

- 1/18 **SurgiLight, Inc.** announced that its Board of Directors had approved the 2 for 1 split of its Common Stock for shareholders of record on January 25, 2000. The company also announced engagement of financial public relations firm, **Continental Capital & Equity Corp.** According to Dr. JT Lin, chairman and CEO of SurgiLight, "In response to the increasing market demand for our common shares, the Board felt it was necessary to increase the number of shares available in our publicly traded float. Approximately 80% of our outstanding shares are currently held by insiders, we anticipate that the 2:1 split will enhance market liquidity and promote broader ownership throughout the investment community". The company will have a total of 21.6 million outstanding shares after the split.
- 1/18 **KeraVision** announced that it had begun clinical trials in Europe using the company's Intacs technology as a possible treatment for keratoconus, a progressive thinning-of-the-cornea disorder. Keratoconus affects an estimated 272,000 Americans and approximately 370,000 people in the European Union, or about one person in 1,000, according to some experts' estimates. Intacs for keratoconus are based on the same patented technology used in KeraVision's initial product, Intacs for mild nearsightedness, which the FDA approved in 1999 for sale in the U.S. KeraVision chairman and CEO Thomas Loarie said, "KeraVision has been encouraged by the initial clinical results of European surgeons, led by Dr. Joseph Colin in France, who have been using Intacs in their own independent keratoconus studies. It appears that Intacs may be useful in treating not only keratoconus but other vision disorders caused by thinning of the cornea." Keratoconus results in thinning and bulging of the cornea that can lead to blindness. Current treatments include contact lenses, nutritional therapies and corneal transplants. "Keratoconus is a disorder that so far has eluded an effective treatment," said Joseph Colin, MD, professor and chairman of ophthalmology at Brest University, Brest, France. Dr. Colin, who in 1997 performed the world's first Intacs treatment on a keratoconus patient and has reported his clinical data at numerous medical conferences since then, added, "By building up the cornea and restoring a more natural curvature, Intacs may help prolong the ability of these patients to see with glasses and contacts and possibly delay or eliminate their need for corneal transplants. Results with Intacs are very preliminary but appear promising."
- 1/19 **VISX** reported financial results for the fourth quarter of 1999. Revenue for the quarter was \$75.1 million, compared to \$41.9 million for the comparable period of the prior year (and down from \$79.7 million for the previous quarter). Net income was \$25.8 million (38 cents per share) compared to net income of \$17.2 million (26 cents per share) in the comparable period of the prior year. For the year, revenues were \$271.3 million, compared to \$133.8 million for 1998. Net income was \$91.8 million (\$1.35 per share) compared to net income of \$25.6 million (39 cents per share) for the prior year.

Commenting on the financial results, Mark Logan, chairman and CEO said, "The fourth quarter sets a new record for sales of our STAR S2 laser systems, both in the U.S. and international markets. We are pleased that, in an increasingly crowded and competitive market, we continue to maintain our leadership based on advanced technology, broad FDA approvals and superior service. The company enters the year 2000 with excitement about the rapid acceptance and growth of laser vision correction and confident in a unique business plan that aligns our success with that of our customers."

However, during the accompanying analyst teleconference, Logan revealed that procedures performed on VISX lasers (and thus royalty income) was flat compared to the third quarter, falling well below analysts expectations of a 10% to 15% growth over third quarter results. That growth rate had been predicted, and was customary for the fourth quarter in previous years. This announcement caused a dramatic drop in the company's share price the following day, after downgrades in ratings from at least 5 brokerages following the company (**Goldman Sachs** -- from "trading buy" to "market perform", **Warburg Dillon Read** -- from "buy" to "hold", **SG Cowen** -- from "strong buy" to "buy", **McDonald Investments** -- from "buy" to "hold", and **William Blair** -- from "buy" to "hold") while only **Preferred Capital** maintained its rating. Logan attributed the flat procedure growth to several factors: the impact of use of the Nidek lasers by certain discount laser companies; the low prices offered by Canadian providers; the maxing out of some high volume surgeons, who can't keep up with demand; the possibility of some people waiting until new insurance/corporate plans take hold after the first of the year; and the possibility that some people were waiting for the lowered prices offered by some of the value-priced and discount-priced centers to take fuller effect. He fully believes that there will be a resumption of procedure growth after some of these factors are sorted out, especially the lowered pricing of procedures.

(According to **MarketScope's** David Harmon, industry procedure growth was up about 8% during the quarter, indicating, perhaps, that VISX indeed had lost some market share.)

System sales remained strong, with 97 lasers shipped during the quarter (71 to U.S. customers), making the total for the year 296. Average sales prices held steady with the 3rd quarter (at about \$320,000), but down from a year ago, when systems were averaging \$400,000. Logan doesn't believe the company has lost market share (but MarketScope reports differently (see above), especially with the surge in system sales by **Summit/Autonomous** and **Nidek** -- VISX's share may be down to about 65%, from as high as 75%). Logan also noted that the company was changing its consumer marketing program, to focus on cooperative supportive programs in specific markets where its customers would benefit.

*Bloomberg* quoted Elizabeth Davila, Visx president and COO, "The very end of the year was softer than we've seen in prior years. January's starting out just fine but we're just into it." Also analyst Ted Huber of **Advest** was quoted, "The procedure number was a big disappointment and a big surprise. There's no question that growth is slowing in this

market. A certain segment of the market said, why don't I wait three months to see where the pricing is with this? You're going to see discount providers be more active in the U.S. market, more organized and more professional in their marketing of procedures." He estimated that the company's lasers were probably used to perform about 188,000 procedures in the U.S. in the quarter, about the same as in the third quarter. Huber said he had expected the number of procedures to increase by about 12% in the fourth quarter from the third quarter. He maintained his "buy" rating on the company.

- 1/20 Continuing the conversion of its existing open-access centers to the new LasikPlus format, **LCA-Vision** announced the opening of LasikPlus centers in Charlotte, North Carolina; Albany, New York; Bethesda, Maryland; Dayton, Ohio; Tysons Corner, Virginia, and Cincinnati, Ohio, the company's flagship location. The company estimates that over 10 million consumers reside in these six metropolitan areas. The company now has 21 LasikPlus centers in operation in the U.S. and expects to open at least 10 new LasikPlus centers in calendar 2000.

Stephen Joffe, LCA-Vision chairman and CEO, commented, "Our conversion to LasikPlus is running well ahead of schedule. We expect to begin the second quarter with a full complement of LasikPlus centers including two more new LasikPlus centers we plan to open in March. While the transition from open access to LasikPlus averages about four to five weeks to rebuild patient backlog, this is insignificant compared with the six to nine months it once required a new center to reach break even. We are extremely pleased that Dr. David Schneider, a pioneer in laser vision correction, will continue to oversee medical operations at our flagship center in Cincinnati. Dr. Schneider is one of the nation's premier refractive surgeons, having performed more than 6,500 procedures at LCA-Vision's Cincinnati center since laser vision correction was approved by the FDA in late 1995."

On January 1, 2000, LCA-Vision launched the National LASIK Network (NLN), a joint venture with **Cole National Corporation** that makes laser vision correction more available and affordable to tens of millions of potential new patients. The National LASIK Network, which includes all existing and future LCA-Vision and LasikPlus centers, currently has participating providers in 63 major markets.

- 1/20 **Staar Surgical AG**, a wholly-owned subsidiary of **STAAR Surgical Company**, announced the five-year post operative data from an independent clinical study of the STAAR AQUA-FLOW collagen glaucoma drainage device. The data is from a clinical study conducted by Andre Mermoud, MD, the head of the Glaucoma Department at Hospital Ophthalmique Jules Gonin of the University of Lausanne, Switzerland. Dr. Mermoud's study demonstrated that over 95% of the patients maintain intraocular pressure (IOP) below 21mm Hg five years after receiving the AQUA-FLOW device. In addition, 63% were able to maintain acceptable pressure readings without the use of any glaucoma medications. For all patients, the mean number of medications to control intraocular pressure was 2.3 preoperatively and 0.5 in postoperative follow-ups. During five years of postoperative follow-up, the visual acuity of patients remained stable and

the study showed low complications when comparing to standard trabeculectomy surgeries.

1/20 **SurgiLight Inc.** announced that it held a special Board of Directors meeting to approve the spin off of the two divisions not associated with the company's core technology and had hired a senior vice president and COO. The **Cosmetic Mobile** division and the non-medical **Thermal Imaging** division were recently spun off allowing the company to focus on the development of two new infrared (IR) laser based systems for vision correction including LASIK and presbyopia procedures. Following the spin off, the company will continue to collect a portion of the incomes from these two divisions. The company also announced that Timothy Shea had been hired as senior vice president and COO and appointed as secretary of the Board of Directors. Prior the joining SurgiLight, Shea was a member of the Board and president of the Medical Division at **Laser Analytics, Inc.** Shea will be responsible for the corporate operations, clinical research, FDA regulatory submissions, and will assist Dr. Lin in the daily operations of the company.

1/22 As reported in the February 1st issue of *Ocular Surgery News*, a survey of its membership conducted by the *International Society of Refractive Surgery (ISRS)*, showed that RK and PRK are on the decline, while LASIK is on the rise in total volume of procedures. The 1999 refractive surgery survey was mailed to more than 900 U.S. members, with 317 responses received by mid-October, representing 33% of the U.S. ISRS membership. The purpose of this survey was to determine the frequency of various refractive surgical procedures in the United States by ISRS members including: radial keratotomy (RK), photorefractive keratectomy (PRK), laser in situ keratomileusis (LASIK), intracorneal rings, laser thermokeratoplasty (LTK), clear lens extraction and phakic IOLs. Surgeon preference of refractive procedures in specific patients, choice of corneal topographers, microkeratomes, excimer lasers and practice patterns were compared with previous years' surveys in 1997 and 1998.

RK and PRK are on the decline, while LASIK is on the rise in total volume of procedures compared with 2 years ago. Less than 1% of respondents were performing 25 or more RK or PRK procedures per month, but 45% were performing this volume of LASIK, up from 31% in 1998 and 15% in 1997. Less than 1% of surgeons were performing greater than 75 cases per month of either RK or PRK versus 16% for LASIK at that rate, up from 13% in 1998 and 5% in 1997.

Procedure preference among surgeons for low myopia (3 D) in a 30 year old was 2% performing RK, 4% PRK, 5% intracorneal rings and 88% LASIK. The procedure of choice for moderate myopia (7 D) was 0%, 1% and 99%, respectively, for RK, PRK and LASIK. The procedure of choice for high myopia (12 D) was 0% RK, 1% PRK and 61% LASIK. Twenty-six percent of surgeons preferred waiting on high myopes for a better surgical option, compared with 21% in 1998 and 15% in 1997.

The procedure of choice among ISRS surgeons for the 45-year-old +1 D hyperope was 2% PRK, 4% LTK, 70% LASIK and 24% waiting for better surgical options. For the same 45-year-old +3 D hyperope, 1% chose PRK, 86% chose LASIK and 13% chose to wait. For the +5 D 45-year-old hyperope, 20% chose clear lens extraction, 32% LASIK and 49% elected to wait for better surgical alternatives.

Questioned about the acceptability of bilateral simultaneous refractive surgery, of surgeons doing PRK, 47% stated they sometimes or always do both eyes in the same surgical setting (down from 50% in 1998) versus 94% for LASIK (up from 83% in 1998) and 64% for intracorneal rings (not surveyed in 1998). As a measure of personal overall acceptance of various refractive surgical procedures, the ISRS members were asked if they themselves had at any time in the past undergone specific refractive surgeries. It is interesting to note that in the 3 years that the excimer laser has been available in the United States, 11% of the ISRS survey respondents have had LASIK surgery performed on their own eyes, compared with less than 1% of the general population.

Equipment preferences were again asked in the 1999 survey. Regarding corneal topographers, the **EyeSys** (Irvine, Calif.) unit was primarily used by 36% of respondents, compared with 24% for **Tomey** (Waltham, Mass.), 18% for **Humphrey Systems** (Dublin, Calif.) and 8% for Orbscan (**Bausch & Lomb Surgical**, Claremont, Calif.). Of excimer laser preferences, the **Visx** (Santa Clara, Calif.) laser was primarily used by 81% of respondents, 18% for **Summit** (Waltham, Mass.) and 1% for **Nidek** (Fremont, Calif.), compared with the 1998 survey results of 74%, 24% and 0%, respectively.

Microkeratome preferences noted that the **Bausch & Lomb** Hansatome was primarily used by 56% of respondents, the Automated Corneal Shaper (Bausch & Lomb) by 19%, **Moria** (Antony, France) LSK by 9%, Moria C-B by 9%, **Innovatome** (Innovative Optics, Albuquerque, N.M.) by 4% and 2% for all other microkeratomes.

Overall, there was a declining interest in RK and PRK, with an increasing interest in LASIK, intracorneal rings, LTK, clear lens extraction and phakic IOL surgery in 1999. LASIK has become the refractive procedure of choice among ISRS U.S. surgeons, with high-volume refractive surgeons performing primarily LASIK. Bilateral simultaneous surgery is further increasing in acceptance and is preferred for LASIK, more so than PRK. Finally, the Visx Star laser is preferred 4:1 over the Summit and all other lasers, and the Bausch & Lomb Hansatome has become the gold standard with LASIK surgeons in 1999.

- 1/24 Senior Analyst Kate Sharadin and associate analyst Jason Mills of **Preferred Capital Markets**, have prepared a speculative "what if" report, covering the various scenarios if **LaserSight** either continues to negotiate a patent license with **VISX**, or decided to go "naked" and battle VISX in the courts. The analysts offered their analysis and opinions on LaserSight's licensing negotiations. They believe that the long-term benefits to LaserSight of foregoing a license to VISX far outweigh the negatives of such a decision. The analysts asserted, "In addition to our belief that LaserSight possesses the intellectual

property to support its legal position, we have found that a significant number of surgeons and corporate providers are in support of a "non-licensing" move. Not only would these users be in support of LaserSight, its technology platform, and the level playing field such a move would create, but it would give them the impetus needed for a VISX opposition." (It would also give **Bausch & Lomb** more ammunition to gain a "better deal" in their negotiations.)

1/24 **Gimbel Vision International** reported the number of paid refractive procedures performed at its centres during 1999 totaled 23,501, a 45% increase over the 16,182 procedures performed during 1998. The procedure volumes in Canada and the United States each increased 44% to 12,596 and 5,400 respectively. Procedure volumes from centres outside North America increased 48% to 5,505. During the three month period, the number of paid refractive procedures at the company's centres increased 32% over the prior year to 5,792. Glenn Gimbel, president, and CEO, said, "Our decision to adjust our Canadian fee structure in February 1999 has enabled the company to increase surgery volumes and maintain profitability while providing our patients with the highest standards of treatment and care. Our centres based in the United States have also performed very well during the year. With the signing of three new centres in 1999, which will open during 2000, and our focus on establishing additional new centres in 2000, we look forward to continuing growth and success in 2000."

1/24 **NovaMed Eyecare, Inc.** announced that it had entered its sixth core regional market, the Southeastern U.S. NovaMed's new market entry was accomplished through three separate practice affiliations, two in greater Atlanta and one in nearby Chattanooga. NovaMed's presence in the Southeast region initially includes four clinic locations, two laser vision correction centers, eight doctors, and one outpatient eye surgery center, at which NovaMed plans to deploy an additional excimer laser in the near future, bringing to 19 the total number of excimer lasers deployed by NovaMed in its six core regional U.S. markets and under its three fixed-site laser services agreements. During fiscal 1999, the combined net revenue of the Southeast practices approximated \$6.5 million and the two LVC surgeons in the practices performed approximately 1,400 LVC procedures.

"We are pleased to announce NovaMed's entry into the Southeast region, our sixth core regional market," said Stephen Winjum, chairman, president and CEO of NovaMed. "We expect this region to moderately contribute to our 2000 operating earnings even while we continue to invest in this new, core regional market. There are almost five million people in this regional area and we are focused on becoming the leading LVC services provider in the market. We have affiliated with outstanding ophthalmologists and optometrists in Atlanta and Chattanooga, and have considerable capacity available in the newly acquired facilities. We will be applying our LVC sales and marketing know-how, together with our extensive information technology/application services provider capabilities in this market. We believe we can grow our LVC procedures in this market notably faster than the projected overall U.S. growth rate for LVC."



The company announced it would discuss its Southeast regional market entry further on February 8, 2000, when it announces its fourth quarter and full year, 1999 results.

1/24 **Summit Technology** announced that Dr. Michael Gordon, of the **San Diego Vision Surgery & Laser Center**, will be broadcasting on Wednesday, January 26, 2000, via the Internet, a laser vision correction surgery performed on the **Autonomous Technologies** LADARVision System. Dr. Gordon has been at the forefront of excimer laser technology since its development and has performed over 25,000 refractive surgery procedures. Between 11:30 am and 12:30 pm (PST) Dr. Gordon, his associate and fellow pioneer in refractive surgery, Dr. Perry Binder and Verne Sharma, President of Summit Technology will host an online chat to discuss this latest advancement in laser vision correction and answer any questions regarding the procedure. This educational event will be webcast by Cox Interactive Media via their web site at **www.sandiegoinsider.com** and the surgery will begin at 1:00 pm (PST).

1/24 **Lasik Vision Corporation** announced the closing of the first tranche of the \$30 million financing which was initially announced on January 10, 2000. This first tranche of \$15 million is in the form of a five year convertible promissory note. This note will be convertible at the option of the purchaser into common shares of the company at a price of \$4.00 CDN per share in the first year with escalating prices for the balance of the term of the note. **McDonald Investments Inc.**, a **KeyCorp Company**, headquartered in Cleveland, Ohio, acted as financial advisor to the company and will receive a six-percent fee. The proceeds of this financing will be used to continue the company's aggressive expansion in the United States. The completion of the second tranche of the financing, representing \$15 million of common shares and common share purchase warrants, at a price of \$4.00 CDN per unit, is subject to the completion of due diligence by the investor and regulatory approval.

1/25 Al Kildani of **Pacific Growth Equities** also issued a report on **LaserSight**, in which he discusses the impact of **VISX's** new relationship with LVC discounters (**Lasik Vision**). Some of the highlights: Visx's recent alignment with LVC discounters is likely to jeopardize some existing customer relationships; this provides a significant opportunity for laser manufacturers to take market share away from Visx; whether or not LaserSight chooses to license VISX's patents, incremental per procedure revenue is now more likely although not incorporated in our current earnings model.

Kildani also provides some reasons why LVC providers might switch technology platforms: Recent alignment between Visx and Canadian dicounters; better technology platform; better financial terms (i.e. per procedure fee); low switching costs. He reiterated his strong buy for LaserSight, with a target price of \$26 per share.

1/25 This month's issue of *Review of Ophthalmology* contains an excellent article, "Revisiting Laser Treatment of Glaucoma". As the author, Robert Noecker, MD, states, "Advances in other types of glaucoma care have lead some surgeons to overlook the laser." The article discusses several laser algorithms, including laser trabeculoplasty and selective

laser trabeculoplasty, the latter the new **Coherent Medical** approach to a kinder, more gentle trabeculoplasty treatment.

- 1/26 **SurgiLight**, in another announcement this month, said that it had concluded an agreement with **VisiJet, Inc.** for an exclusive marketing license in *certain countries* for VisiJet's patented waterjet devices. They are expecting FDA approval within a few months. According to the agreement, SurgiLight will have an exclusive, royalty-free license, to market in Central America, South America, Mexico, People's Republic of China, Hong-Kong and Taiwan for the new HydroKeratome and Pulsatome devices patented and made by VisiJet for ophthalmic applications in vision correction and cataract surgery. According to VisiJet, these new waterjet devices have many advantages over conventional metal-blade cuts for preparing the corneal flap for LASIK. It is estimated that there will be over one million LASIK procedures performed in US in this year. (But, this agreement covers countries outside of the U.S.!) According to VisiJet, the HydroKeratome has been clinically tested and the FDA 510(K) market approval is expected in few months.

SurgiLight believes that more than 100 waterjet devices may be sold within one year from the market approval in the territories covered by the company's exclusive license rights. In addition to the profits from system sales, long term recurring income from the consumable parts associated with these devices will also be collected by the company. The company also notes that it has submitted a 510(k) market application for its UV-laser for psoriasis and vitiligo which is expected to be approved later this year.

In another announcement, SurgiLight issued a press release to clarify events that occurred late in the trading day yesterday. Due to some unexplained trading events late in the trading day on 25 January, there is apparent confusion concerning the 2:1 split. This confusion resulted in an unexplained drop in the bid and asked prices as high as 50% of the trading prices earlier in the day. The company believes that certain market makers may have confused the market and taken advantage of the resulting lower stock price. The company's 2 for 1 stock split recording day was January 25th. The payable day is January 26th. Tomorrow, January 27th, is the execution day when pricing will reflect the 2:1 split.

- 1/26 **ICON Laser Eye Centers** announced the roll-out of a joint marketing agreement with **TruVision**. TruVision has contracted with **Regence Blue Cross/Blue Shield** of Utah to offer LASIK at \$749 per eye to be performed at a new ICON center in Salt Lake City, Utah. ICON, TruVision, and Regence Blue Cross/ Blue Shield jointly launched a newspaper ad campaign to reinforce a mail program sent to 750,000 Blue Cross/Blue Shield members, on January 5, 2000. The new ICON Laser Eye Center is scheduled for a March opening in Salt Lake City. Simone Mencaglia, CEO of ICON stated, "ICON is excited that TruVision is facilitating our initial offering of a special LASIK price of \$749 per eye to such a prestigious group as Regence Blue Cross/Blue Shield of Utah. These affiliations help reinforce our motto of "Excellence at an Affordable Price" in that ICON must demonstrate the quality and effectiveness of its service through substantive due

diligence conducted by our joint marketing partners." TruVision markets value-added vision care programs including laser eye surgery, contact lenses, and eyeglasses through managed care organizations, large employer groups, and insurance broker affiliations currently representing 17 million contracted lives, and contracts with organizations such as ICON to be providers of services and products to the plan and group participants under contract.

- 1/26 I received a copy of Bob Palmisano's **Summit Technology** presentation given at the recent **Hambrecht & Quist Healthcare Conference**, and to be given at the upcoming **Piper Jaffray Conference**. In it, Palmisano outlines Summit's strengths and its "strategic roadmap" to success. He relates the problems the "old" Summit encountered, where the company is in turning itself around, and how technology will lead the company to a bright future. It's technology portfolio includes the Apex Plus/Infinity platform; the Autonomous' LadarVision system; the SKBM II Microkeratome; and CustomCornea. As for CustomCornea, Summit intends to introduce a self-standing wavefront measurement device at the upcoming Spring ASCRS meeting (being developed by **Zeiss Humphrey**, while Phase II will integrate the device into the LadarVision system. Feasibility studies are currently underway, with 20 patients to undergo bilateral LASIK and 20 bilateral PRK using the LadarVision system. One eye of each patient will be randomly assigned to receive CustomCornea. Myopic, hyperopic, astigmatic, and post surgical corrections are all included in the study. The company hope to submit its clinical data to the FDA during 2000, and receive marketing approval by the third quarter of 2001.

During 2000, the company hopes to complete the divestiture of **Lens Express**; launch the wavefront measuring device; complete Phase 2 CustomCornea trials, obtain hyperopia with astigmatism approval with LASIK -- for both the Apex Plus and LadarVision systems; increase its market share; regain a leadership position; and place 150 new laser systems into the worldwide market. All in all, a very ambitious plan.

## **OPHTHALMIC LASER UPDATE -- February 2000**

- 1/24 **Pro Laser**, an Israeli company said it planned to file with the FDA for approval to market its **Rodenstock** DTK refractive laser system in the United States. The laser system is used in diode laser thermal keratoplasty procedures, a minimally invasive procedure to correct hyperopic vision and astigmatism. "The laser has been used on hundreds of patients and shows nearly complete safety and the ability to achieve reasonably predictable results," Pro Laser said in a statement. The laser system is already approved for sale in Europe and other parts of the world. Pro Laser said it had established a U.S. subsidiary, **Pro Laser Medical Systems Inc.**
- 1/27 **IRIDEX** announced that fourth quarter, sales increased 28% to \$8.3 million from \$6.5 million in the corresponding 1998 quarter. Net income for the quarter increased 49% to \$783,000 (11 cents per share) as compared to \$525,000 (8 cents per share) in the corresponding 1998 quarter. For the year, sales reached \$26.8 million from \$23.6 million in 1998, an increase of 14%, while net income was \$1.6 million (24 cents per share) as

compared to \$1.7 million (26 cents per share) in 1998, a decrease of 7%. Record fourth quarter sales were spurred by publication of favorable clinical results of two company sponsored AMD studies. The resulting sales of the company's OcuLight infrared laser product line into the domestic market increased significantly for the fourth quarter as compared to the corresponding quarter of 1998. The company expects increased sales of the OcuLight product line to continue into 2000 as communication of the new ophthalmology procedures expands.

The company also announced award and the publication of U.S. Patent 5,982,789 entitled "Pulsed Laser with Passive Stabilization." This new patent protects the features that enable IRIDEX medical products to provide "power-on-demand", which enables manufacture of small, portable, solid-state laser products with highly accurate control of treatment parameters. Aspects of IRIDEX's ophthalmic and aesthetic laser systems will have retroactive patent coverage dating back to April 1996.

1/27 **Bausch & Lomb** announced that revenues from continuing businesses for the fourth quarter were \$466.6 million, up 9% from the \$428.5 million reported in the fourth quarter of 1998. On December 1st, the company announced a program to consolidate contact lens manufacturing and accelerate global administrative expense savings. In connection with this program, a pre-tax charge of \$56.7 million, (62 cents per share) after taxes, was recorded. The company also reversed previously recorded restructuring reserves related to its 1997 restructuring initiatives in the amount of \$3.2 million before taxes (4 cents per share after taxes) during the quarter. Excluding these items, the company's continuing operations (its vision care, pharmaceuticals and surgical segments) contributed \$51.4 million, (88 cents per share) compared to \$37.5 million (66 cents per share) in the same period last year. Including the 1999 restructuring charges and the results of discontinued operations in 1998, the company reported total net income of \$17.2 million (29 cents per share) compared to a loss of \$43.1 million (76 cents per share) in 1998.

Full year revenues from continuing businesses were \$1,756.1 million, an increase of 10% from the \$1,597.5 million reported in 1998. Surgical segment revenues increased 14% over the fourth quarter of 1998, driven by continued strong double-digit growth in sales of products for refractive surgery in every geographic region. In the accompanying teleconference with analysts, Bill Carpenter, CEO, noted that cataract and retinal product sales were flat, but that refractive product sales were up strongly, reflecting continued placement of lasers and microkeratomes outside of the U.S., with sales accelerating in Europe and Asia. There was nothing to say about U.S. FDA approval, as the company had not had any questions from the FDA about its filing. In discussing customized ablations, Carpenter reported on the results obtained in Germany with topography driven refractions, as it was still early for coupling its aberrometer to its Orbscan device. Carpenter claimed that B&L had a 40%-50% share of new laser placements outside of the U.S., leading him to believe that they would do quite well once FDA approval is in hand. Their keratome continues to hold a worldwide 80% share.

- 1/27 The AAO reported that researchers say long-term contact lens wear may change both the thickness and the shape of the cornea, possibly leading to complications for refractive surgery patients. Results from a study published in the January issue of *Ophthalmology* indicate long-term contact lens wear appears to decrease corneal thickness and increase corneal curvatures and surface irregularity. Although the study did not indicate whether or not vision was affected, the study's authors suggest long-term contact lens wear should be considered a risk factor for people contemplating refractive surgery. "It is necessary and important to measure the corneal thickness in all contact lens wearers who are considering corneal refractive surgery, especially those who have worn contact lenses for many years," the authors stated in the study.

According to the editor of *Contact Lenses Today*, the above information may cause a perception that contact lens wear is likely to cause problems after a contact lens wearer has refractive surgery. It is the common practice of refractive surgeons to wait two weeks after habitual soft contact lens wear and only three weeks after habitual rigid contact lens wear to perform surgery. We have all known for decades that it can take weeks, or in some cases months, for the cornea to stabilize after habitual contact lens wear (as the references in the article point out.) This reiterates the importance of the proper management of patients prior to refractive surgery. But the report leaves many unanswered questions. For instance, how long were the lenses really off the eyes? In the news release, one author of the study says, "We are certainly not suggesting people throw away their contact lenses, we are saying that surgeons and patients need to be aware of the potential risk factors and complications if patients have worn contact lenses for a long time." This study did not investigate post-surgical complications.

- 1/27 **Sunrise Technologies International** announced that it had passed its ISO9001/EN46001 certification audit for the company's Quality system and will be for certified for the International Organization for Standards ISO 9001, European Commission EN 46001, and CE marking.
- 1/28 **NIDEK, Co., Ltd.** announced that the Japanese Ministry of Health and Welfare (MHW) had granted sales approval in Japan for the company's EC-5000 refractive laser system for PRK to correct refractive errors such as myopia and astigmatism. The EC-5000 was approved for myopia to -6.0 D and myopia with astigmatism up to -6 D of cylinder. The laser system had been previously approved for PTK use in Japan in April 1998. Nidek has exported over 500 units of EC-5000, and has delivered 40 units domestically for PTK. With this MHW approval for PRK use, the number of EC-5000 installations is expected to increase in the near future.
- 1/31 According to David Harmon of **Market Scope**, reporting in **OptiStock**, U.S. demand for refractive surgery is expected to continue its rapid growth in 2000, reaching 1,550,000 procedures, a growth of 61.5% as compared with 1999. Growth in 2000 will be driven by a variety of factors, including increased consumer awareness, an ever-expanding universe of patient referrals, and expanded availability of laser centers and refractive surgeons.

1/31 **Summit Technology** announced that revenues for the fourth quarter were \$29.9 million, an increase of 34% over revenues of \$22.4 million for the same period a year ago. Revenues for the quarter from the company's laser vision correction business increased 77% to \$18.9 million from \$10.7 million in the fourth quarter of 1998. Fourth quarter procedure volume in the U.S., as measured by the company's sales of OmniCards and by actual LADARVision procedures, increased 82% over the fourth quarter of 1998 and 12% over the third quarter of 1999. Full year procedure volume, measured as described above, increased 85% over the prior year. In the fourth quarter, the company placed 36 laser systems compared to 6 laser systems in the fourth quarter of 1998. Of the 36, 18 were Apex Plus and 18 were LadarVisions. 106 laser systems were placed during the full year of 1999 versus 51 laser systems in 1998. Of these, 68 were Apex Plus and 38 were LadarVisions. There were 9 laser system upgrades versus 66 in 1998, reflecting substantial completion of the upgrades of the company's installed base of Apex Systems to the Apex Plus (Infinity) model.

The net loss for the fourth quarter was \$0.9 million, (2 cents per share) compared to income from continuing operations of \$3.6 million (12 cents per share) for the fourth quarter of 1998.

Revenues for the full year were \$111.1 million, a 21% increase over revenues of \$91.6 million in 1998. Laser vision correction revenues were \$64.2 million versus \$44.9 million in 1998, a 43% increase. Excluding one-time charges of \$22.6 million associated with the Autonomous acquisition, the net loss for 1999 was \$0.4 million, (1 cent per share). "With the strong momentum in procedure volume and system placements that we experienced in 1999, Summit Technology is well positioned to compete for industry leadership," stated Robert Palmisano, Summit's CEO. "In 1999, we made significant progress in key areas of our business: technology, FDA approvals and customer relationships. We will continue to work towards our stated objective of truly becoming "The Refractive Company", the powerhouse company providing leading edge products and services to refractive surgeons. We have reached milestones in this industry over the past year and I believe the company will return to profitability in the first quarter," he concluded. (That was, of course, prior to the announcement of reduced per procedure fees late in February -- see the brief below.)

1/31 As reported by *Contact Lenses Today*, **Vistakon** Global Franchise president James Callahan said 18% of ophthalmologists currently perform refractive surgery; but in five years, that will rise to 56%. He reported these findings from a J&J Vision Products survey during his State of the Contact Lens Industry address at the recent *Contact Lens Association of Ophthalmologists (CLAO)* meeting. Callahan also said he expects the cost of refractive surgery to drop to about \$2,855 for two eyes, or \$1427 per eye in the next five years.

2/1 **LaserSight** announced that it had ended negotiations and filed suit against **VISX** claiming non-infringement and invalidity of the VISX L'Esperance '418 patent. In addition, LaserSight's suit claims that VISX infringes the Machat '810 "central islands" patent. The

company will sell and ship its LaserScan LSX systems in the U.S. before the end of this quarter, as previously announced. Michael Farris, president and CEO, commented, "After extensive legal review, we are highly confident about our position that LaserSight does not infringe the VISX L'Esperance '418 patent. We further believe that VISX infringes the Machat '810 patent and have taken action to enforce the company's intellectual property rights." LaserSight also announced today that it had received \$12.5 million from the private placement of its common stock priced at a 10% discount to the average closing bid for the past five days. **TLC Laser Eye Centers** provided \$10 million of the \$12.5 million raised, bringing TLC's total investment in LaserSight to \$20 million.

Further, the company said that it would collect a \$260 per procedure fee from U.S. laser users during the litigation, but would share that revenue stream 50/50 with practitioners/laser owners, once a settlement was reached, indemnifying laser owners in the meantime.

Following release of the news that LaserSight was withdrawing from further negotiations with VISX over licensing the VISX patent portfolio, Al Kildani of **Pacific Growth Equities** issued an update report on LaserSight, reiterating a "strong buy" recommendation. He concluded that VISX was not offering licensing terms that would allow LaserSight to economically compete in the laser market and that the Machat patent leverage was not enough to gain an advantage. LaserSight hopes to position its per procedure fee in between VISX's \$260 and the \$0 that **Nidek** is offering with the purchase of its laser system. As noted above, if LaserSight prevails in its litigation, it will rebate approximately half of the \$260 fee it will collect. The company expects strong demand for its systems, that will begin to ship by the end of this quarter, with between 6-8 systems shipped, and ramping up to reach 25-30 lasers per quarter. Kildani expects that the company will ship 50 lasers into the U.S. market this year.

A few days later, **Individual Investor** columnist Craig Schneider kicked in on the VISX market downturn following the LaserSight announcement. He commented on whether it might be time to "buy" VISX. "Unfortunately, if you think an entry point has materialized for VISX, let us be the ones to set you straight. Exhibit A in the argument against VISX is the full-scale assault on it unveiled by its rival LaserSight. LaserSight announced that it had withdrawn from license negotiations with VISX and filed a patent suit against the company. The case alleges that LaserSight has not infringed upon a VISX patent. What's more, LaserSight counters that VISX has violated one of its patents. Now LaserSight plans on shipping its laser by the end of this quarter, charging its customers a \$260 per procedure fee, with a promise to repay the doctor half of that amount should it win the case against VISX. Alternately, surgeons could opt not to receive indemnification from LaserSight, and just pay a lower rate...Since the **Nidek** ruling, VISX's stock has traded down 50%, hitting a 52-week low of \$25.50 last week. Wednesday, it fell \$0.19 to \$26. It can be tempting to turn contrarian and jump back into the shares at these levels, and at least one analyst has done so." "On a valuation basis I think it looks attractive," says Joanne Wuensch at **ING Barings**. She initiated coverage with a 'buy' rating and 12- to 18-month target price of \$38. But for most analysts,

LaserSight's news only added to their bearishness. For example, Greg Simpson of **A.G. Edwards & Sons** lowered his rating to "reduce" from "maintain", believing that the new competitive environment may ultimately mean that VISX shares trade down to the mid-to-upper teens range.

What's more, **Bausch & Lomb** may pose a threat to VISX if, as expected, its laser is approved in the next few months and it decides to follow LaserSight's lead by charging a fee that does not include royalties to VISX. "There are more shoes to drop in the coming weeks," says Ted Huber, an **Advest Inc.** analyst. "I don't see a buying opportunity at these levels." Kate Sharadin, a **Preferred Capital Markets** analyst, said, "We believe that the market should anticipate further market share declines for VISX. Sharadin has a "hold" rating on VISX and a "strong buy" on LaserSight. Huber believes VISX's earnings outlook was compromised by LaserSight's announcement.

- 2/1 **SurgiLight Inc.** announced that it had submitted an application for NASDAQ National Market listing. According to JT Lin, president and CEO, "We are very excited to reach this point in our company and we believe that being listed on the NASDAQ will allow the company to explore and attract new investors including institutional investors." The company is also in the process of raising funds through accredited investors that will assist it to continue the clinical studies of our current technology for the treatment of psoriasis and vitiligo, and to proceed with the development of its new infrared (IR) technology for the treatment of presbyopia and for performing LASIK procedures.

The company is currently negotiating several potential acquisitions related to new technologies for vision correction. The Board of Directors of the company has authorized the initial terms for these potential acquisitions.

- 2/1 **Prime Medical Services** announced that it had restructured its \$100 million senior revolving credit facility. The new facilities were arranged by **Bank of America** and **Bank Boston**. Ken Shifrin, Chairman, stated, "Our previous \$100 million credit facility was put in place to provide for expansion in the lines of business that existed at that time, namely lithotripsy, prostatherapy, and manufacturing. Given our recent entrance into the refractive vision correction (RVC) field and our strategic goal of rapidly growing this business segment, we requested that the banks expand the parameters of the revolver to provide for future RVC acquisitions.

The company also announced that its Board of Directors had authorized an additional \$10 million for the repurchase of shares of its Common Stock. Prime currently operates a fleet of 63 lithotripters and six refractive surgery centers in 34 states. These centers perform approximately 38,000 lithotripsy and 19,000 LASIK procedures on an annualized basis.

- 2/1 **Physicians Resource Group** announced that it had filed for Chapter 11 reorganization. Since December 1998, PRG has been in discussions with **Resurgence Asset Management, L.L.C. (Resurgence)**, which owns or manages in excess of \$92 million



principal amount of the \$125 million principal amount of the company's 6% Convertible Subordinated Debentures due 2001 (the "Debentures"). The company elected not to pay interest on the Debentures that was due June 1 and December 1, 1999 and, as of the filing date, the Debentures are in default. The company expects to finalize and implement a consensual restructuring agreement with Resurgence.

The company also announced that it had entered into a definitive Acquisition Agreement with **AmSurg Corp.** related to the sale by the company of its interest in eleven ambulatory surgery centers, with estimated sale proceeds of up to approximately \$40 million in cash. Additionally, as part of this agreement, AmSurg and PRG entered into a Management Agreement under which, effective January 1, 2000, AmSurg began managing the operations of 15 surgery centers affiliated with PRG, 11 of which are to be purchased pursuant to the terms of the Acquisition Agreement. The Acquisition Agreement also provides that AmSurg may purchase additional centers upon completion of satisfactory due diligence. The Acquisition Agreement and Management Agreement are subject to approval by the Bankruptcy Court. Although this and a number of other conditions must be satisfied prior to the consummation of this transaction, the company anticipates that closing could occur by May 2000.

2/2 **ICON Laser Eye Centers** announced that 4,089 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during the month of January 2000. This represents a 249% growth rate, compared with 1,172 procedures performed in January 1999. This dramatic growth reflects the impact of the company's "Value LASIK" pricing model and its aggressive acquisition strategy. The company said that January was its best month to date for LVC case volume and demonstrated growth of +38%, with the 4,089 procedures performed in January 2000 compared to 2,957 procedures in December of 1999. Simone Mencaglia, CEO of ICON stated, "While the rest of the LVC corporate participants are showing moderate growth in sequential reporting period to period, ICON is showing dramatic increases because of its 'Value LASIK' model and its aggressive acquisition strategy. ICON believes that it is the fastest growing company in the LVC centers business...Approximately 50% of ICON's January procedures were performed in the U.S."

2/2 According to *Dow Jones News Service*, during remarks at the **U.S. Bancorp Piper Jaffray Health Care Conference, Laser Vision Centers'** CEO John Klobnak said that if prices for vision corrective laser surgery fall as some have predicted, his company expects to pay lower royalty fees for the use of surgical lasers. "In the past we have been exclusive to **VISX**. But if the fee stays at \$250 and the price goes down, we will have no choice," Klobnak said. "I can't really talk about it," Klobnak said when asked after the presentation if Laser Vision Centers is trying to negotiate with VISX to lower the royalty fees. "Obviously we are talking together and we are hopeful that things can be worked out."

2/2 **TLC Laser Eye Centers** announced that it had signed Tiger Woods as a celebrity spokesperson for its centers. For years, every time Tiger Woods stepped on to a golf

course, he carried a secret. Without corrective glasses or contacts, the celebrated golfer couldn't see the ball. "Three months ago", said Tiger, "I took the best shot of my life." That was the day he selected TLC Laser Eye Centers to perform corrective vision surgery. "I had heard all of the stories about people claiming that laser vision correction was like a miracle in their lives. I was interested, even curious, but I never imagined how much this procedure would change my life." "It was an amazing examination the first day Tiger visited the TLC office," recalls TLC Executive Director, Reed Laughlin. "Here was America's hottest young super star athlete and the man had terrible vision. I was amazed he had achieved such greatness despite significantly poor eyesight. It just goes to show the kind of stuff Tiger's made of," observed Laughlin. On October 1, 1999, Dr. Mark Whitten, TLC Laser Eye Centers Medical Director in Rockville, Md., assisted by the TLC staff performed the 20 minute LASIK procedure on their celebrated patient. Since then, Woods has won an astounding five straight tournaments.

Now three months after surgery, Woods is so pleased with his results, he's decided to tell the world what TLC Laser Eye Centers has done for him. According to Kathryn Hughes, TLC vice president of marketing, "Tiger Woods is admired and loved throughout the world. His stellar international reputation places him among the top athletes in any sport, not just golf. But like any athlete, his eyesight and his ability to see the world clearly is pivotal to his ongoing success. TLC is honored that we were able to correct his vision and, in our own way, contribute to his amazing career. Tiger's agreement to serve as TLC's spokesperson was the next logical step in our relationship with him," she concluded. "I am genuinely proud to be a spokesperson for TLC and honored to be affiliated with such caring and experienced professionals," said Woods. "When I recall how poor my eyesight was my entire life, I feel like I've experienced a miracle. And it took only 20 minutes! By representing TLC, I hope my story will encourage anyone with poor vision to visit a TLC center to determine if they are a candidate for this life-changing surgery. After doing some research, I felt the experienced professionals at TLC had the credentials and track record for the success I demanded. I was not disappointed," he happily admits.

2/2 **Medjet** announced that it had returned \$700,000 of the \$2 million recently invested in the company by a small group of private placement investors and an investment banking firm. The original investment was made on December 6, 1999 based, in part, on the company's exclusive worldwide refractive surgery license agreement with **Nestle S.A.** and its **Alcon Laboratories, Inc.** subsidiary, which was unexpectedly terminated by Alcon on December 13, 1999. Also, the company said that the investment banking agreement entered into by the company at the time of the original investment was canceled.

2/3 The *Wall Street Journal* reported that the ITC had decided to review a December ruling that held that a Japanese company's laser-vision system didn't infringe on the patents held by U.S. eye-laser giant **VISX**. In a notice issued by the agency, the ITC said it would review part of the decision, which effectively opened up the eye-laser market to Japan's **Nidek Inc.** Previously, VISX, which had fairly broad patents, had a lock on most of the market. The decision covers just one patent claim, for the Trokel '762 patent that covers

the way corneal tissue is removed to correct vision. The ITC said it wouldn't review the L'Esperance '418 patent, which covered the design of the actual laser.

Reaction to the ITC's decision was muted. **Goldman Sachs & Co.** medical-device analyst Lawrence Keusch said the decision was positive for VISX, since the company could conceivably see its patents again enforceable. However, Keusch cautioned that "it's very rare to get (the ITC) to reverse a decision." While ITC reviews are themselves rare, he said, in this case "not only did the company ask for the review, but the attorneys for the ITC did as well."

A few days later VISX commented on the ITC decision. The company said that the ITC granted this review in response to petitions filed by both VISX and the ITC's Office of Unfair Import Investigations following the administrative law judge's December ruling. The ITC will review all of the Initial Determination's findings with respect to VISX U.S. Patent Number 5,711,762. The ITC may, in connection with the final disposition of the investigation, issue an order that could result in the exclusion of Nidek's laser systems and their component parts from entry into the United States and/or cease and desist orders that could prohibit Nidek from installing, servicing, repairing, providing training on, or supplying parts for, the Nidek laser system. The outcome of this proceeding cannot be predicted. The ITC is expected to issue its final determination in this investigation by March 6, 2000. The final determination will be subject to review by the United States Court of Appeals for the Federal Circuit.

2/4 This month's *Refractive Market Perspectives* notes that refractive surgical volume grew 9% in the fourth quarter, bringing the total for the year to about 940,000 procedures, down somewhat from earlier predictions of 980,000 procedures for the year. According to David Harmon, by the end of the year, an estimated 1.1 million people had undergone laser refractive surgery, representing about 0.63% of the vision care population, and of those, approximately 880,000 have had LASIK. An estimated 361 refractive lasers were sold during the year, bringing the U.S. installed base to 862. With 137 in use as secondary systems, there are a total of 725 U.S. laser centers in operation. This compares to 521 laser centers at the end of 1998. Since much of the expansion (224 lasers) occurred during the last two quarters, the full impact of these new lasers is yet to be felt. Growth during the fourth quarter was primarily from the surgeon-owned sector, with most corporate centers, with some exceptions, reporting small declines or flat procedure volumes. As previously noted, VISX reported only a 1% to 2% growth rate for the quarter. However, early reports suggest that January will show a return to double digit industry growth. Harmon estimates that 1.55 million procedures will be done in 2000, representing a 63% growth for the year.

In contrast, my latest estimate is for closer to 76% growth, to 1.65 million procedures, followed by a 61% growth rate in 2001, to reach 2.65 million procedures. Also, since I use a slightly larger vision care population (170 to 180 million people who either wear corrective lenses, or should), my estimates for penetration of vision care shows 0.51% in 1999, 0.94% in 2000 and 1.67% in 2001.

- 2/8 Following the previous announcement of **TLC Laser Eye Centers** signing of Tiger Woods as a celebrity spokesperson, the young phenomenon, as reported by the *National Post*, with his laser-aided 20/15 vision overcame a seven stroke deficit to win his sixth straight PGA tournament at the Pebble Beach National Pro-Am. In fact, the world's greatest golfer hasn't lost a tournament since he had his 20/400 vision corrected to 20/15 on Oct. 1. (However, the following weekend, at the Buick Invitational in San Diego, Woods almost won his seventh straight, after coming from six strokes back to tie on the final day, but lost the match to fellow golfer Phil Michelsen.)
- 2/8 **Laser Vision Centers** announced that its U.S. case volume for its fiscal third quarter ended January 31, 2000, was more than 26,600 compared to over 14,950 for the same period last year, a 78% year-to-year increase and 18% sequential increase. The company said that January was its best month to date for U.S. case volume. Worldwide case volume was 27,520 for the quarter compared to 15,860 a year ago. As of January 31, 2000, LaserVision had 71 lasers in operation in the U.S. and a total of 76 worldwide. More than 660 U.S. surgeons accessed LaserVision's services at 285 locations in 44 states.
- 2/8 **Lasik Vision Corporation** announced the first phase of its Year 2000 United States expansion. Through its wholly owned subsidiary, **Lasik Vision U.S.A. Inc.**, the company will open sixteen centers by June 30, 2000. The first six of these centers will be in the following locations: Anchorage, AK, Beverly Hills, CA, La Jolla, CA, Las Vegas, NV, Long Beach, CA, and Sacramento, CA. Lasik Vision U.S.A. Inc. will offer the LASIK procedure to all its U.S. patients for an affordable, all-inclusive price of \$999 per procedure. The company will perform these procedures using the **VISX** Star S2 Excimer Laser System. "After becoming Canada's number one provider of laser refractive surgery with fifteen clinics coast to coast, we have set our goals on duplicating this success in the United States and becoming North America's number one provider. With \$15 million of financing in place (announced on January 21, 2000) Lasik Vision will continue its expansion into the United States during the Year 2000. Our quality of patient care and affordable price point puts Lasik Vision in a very strong position to continue to gain market share", said Michael Henderson, president and CEO of the company.
- The company also announced that it has launched a new website, **www.lasik-vision.com**. The site will serve as an excellent resource for the company as well as for the industry. In addition, Lasik Vision will shortly be implementing an e-commerce gateway that will allow potential patients to reserve an appointment on-line at any of its North American centers.
- 2/8 Al Kildani of **Pacific Growth Equities** issued his initial report on **Summit Technology** with a "buy" rating, and a target price of \$22 per share. "We believe that Summit stands to benefit from recent developments in the laser vision correction industry, an industry we project will continue to grow at 35-40% a year. We are looking for the following near term catalysts to drive the stock: reaching profitability in Q1:00, strong likelihood of upward revisions to earnings if the company is successful in capturing market share from

competition, and positive news flow on the technology front for the LADARVision and CustomCornea systems." He goes on to comment that the company's excimer laser systems possess the broad range of FDA approvals necessary to perform a majority of the LASIK procedures in the U.S., allowing it to reach parity with industry leader **VISX** while maintaining lead-time over emerging competitors **Nidek**, **LaserSight**, and **Bausch & Lomb**.

He also notes that a strategic miscalculation by market leader VISX, aligning itself with discount providers (**Lasik Vision**) has created a tremendous near-term opportunity for Summit to capture significant market share. Thus, a large portion of VISX's existing customers may be "up for grabs". Until new rival competitors begin marketing excimer lasers with the ability to address a majority of indications for myopia and astigmatism, Summit and Nidek are the only alternatives for frustrated VISX customers. Kildani also notes that the **Autonomous** LadarVision next generation system is positioned for the future, especially as customized ablations come to the fore.

- 2/8 **NovaMed Eyecare** announced that its net revenue rose 61% from 1998 to \$102.6 million. Net income more than doubled to \$4.5 million (equivalent to 20 cents per share, up from 10 cents per share in 1998). For the fourth quarter net revenue of \$30.6 million increased 60% from the fourth quarter 1998. Fourth quarter net income almost tripled to \$1.7 million (7 cents per share), up from 3 cents per share in 1998's fourth quarter.

"We are pleased to report strong fourth quarter and full year 1999 results," said Stephen Winjum, NovaMed chairman, president and CEO. "The combination of our regional density strategy with our operational focus is producing strong, profitable growth. We are committed to continuing our strong growth record in 2000 by focusing on our LVC sales and marketing know-how in each of our six core regional markets and by entering new markets through our affiliation model as well as through additional fixed site laser services agreements. We also plan to continue to invest in our services offerings, particularly e-health, as we leverage our extensive information technology/ASP (application services provider) capabilities and our business-to-business e-commerce platform."

In January 2000, NovaMed reported 4,601 LVC procedures for the fourth quarter (up 171% over the fourth quarter 1998, and up 27% over the third quarter 1999), representing an annual run rate of 18,400 LVC procedures. For the year, NovaMed's LVC procedure volume of 13,366 was up 163% over 1998. Fourth quarter 1999 revenue from LVC (before amounts retained by affiliated professional entities) represented approximately 26% of total net revenue, up from 14% in the 1998 fourth quarter. For the full year 1999, LVC revenue represented approximately 22% of total net revenue, up from approximately 13% in 1998.

- 2/9 **VISX** announced that the Ministry of Health and Welfare (MHW) in Japan had approved the VISX STAR S2 Smoothscan Excimer Laser System, effective Jan. 28, 2000, for the treatment of myopia with astigmatism. It is estimated that more than half the Japanese

population are myopic. VISX is the first and only U.S. company to receive such an approval in Japan. (Joining **Nidek** with a similar approval also announced on January 28th.) Mark Logan, chairman and CEO of VISX, said, "We are delighted with this news. Our largest installed base outside of the U.S. is in the Far East. Approval in Japan expands our reach and provides access to the second largest market for vision correction in the world. With our high quality product and excellent reputation for service, we intend to play a key role in the development of laser vision correction in Japan."

- 2/9 **LCA-Vision** reported financial results for the fourth quarter and 12 months ended December 31, 1999. Results reflect the company's ongoing conversion of its US centers to the new value-priced LasikPlus format, which the company expects to complete before the end of first quarter 2000. LCA-Vision reported fourth quarter net income of \$5.4 million (10 cents per share) compared with net income of \$259,000 (1 cent per share) a year ago. Fourth quarter laser vision correction revenues grew 47% to \$13.7 million, up from \$9.4 million for the same period last year. Laser vision correction procedures for the period grew 50% to 8,541. Total fourth quarter revenues were \$13.8 million compared with \$9.9 million a year earlier.

For all of 1999, the company reported net income of \$10.8 million (21 cents per share) compared with a net loss of \$13.7 million (36 cents per share) in 1998. Laser vision correction revenues for 1999 grew 73% to \$56.4 million, up from \$32.5 million last year. Laser vision correction procedures for the period grew 68% to 33,266. Total revenues for the year were \$57.4 million, compared with \$35.2 million in 1998.

"The positive public reception that value-priced LasikPlus has received is in line with management's expectations," said Stephen Joffe, chairman and CEO. "LasikPlus has made laser vision correction more affordable for potential new patients. The new format's broad appeal has already produced strong increases in procedure volume at our converted centers. We expect to make LasikPlus the dominant provider and volume leader in our chosen markets...We plan the rollout of 10 new LasikPlus centers this year, including two new ones in first quarter 2000."

Commenting on the **National Lasik Network**, Joffe said, "The National Lasik Network has been up and running for about a month now. Our provider network is in place in 65 markets, and **Cole Managed Vision** is beginning to actively market the new laser vision correction benefit to its member organizations. While we are in the very early stages of this program, we expect it to build slowly but steadily throughout the year as Cole member organizations consider adopting the new benefit at contract renewal time. We are using existing personnel and resources to administer this new program, so any additional costs will be minimal."

- 2/10 **Summit Technology** announced that **Autonomous Technologies'** PMA Supplement for treatment of hyperopia with or without astigmatism using LASIK will appear before the FDA Ophthalmic Advisory Panel meeting on March 17, 2000. The PMA Supplement seeks new approvals for the Autonomous LADARVision System for the correction of

hyperopia (up to +6.0 D sphere) with or without astigmatism (up to -6.0 D of astigmatism) using LASIK. This is scheduled to be the first hyperopic LASIK file and the first hyperopic astigmatism file to receive Panel review.

- 2/10 **OptiCare Health Systems** announced it would acquire **Vision Twenty-One** for 6 million OptiCare shares and the assumption of about \$60 million in debt. The merger will combine the companies' laser vision correction and managed eye care businesses, making OptiCare a leader in both market segments, it said. Vision Twenty-One will also divest other operating businesses prior to closing. Once the merger is completed, OptiCare is expected to have annual net revenues of more than \$200 million.

Dr. Dean Yimoyines chairman and CEO of Opticare said, "From an investor standpoint, the combination will provide us with the critical mass to leverage our systems' infrastructure and to be a significant participant in the growing eye care industry." Bruce Maller, chairman of the Board of Vision Twenty-One commented, "We have previously announced our intention to explore strategic alternatives for our company. We're very pleased to be able to announce this combination with OptiCare, which we believe is the best strategic and financial outcome for our shareholders. By combining with OptiCare, our investments in laser vision correction services and managed care will continue to prosper. I look forward to a continuing role in supporting the growth of the refractive business and helping OptiCare implement its strategic initiatives."

- 2/10 **KeraVision, Inc.** reported financial results for the fourth quarter and year. Revenues for the quarter totaled \$1.9 million and consisted largely of sales of surgical instrument sets and start-up inventories of Intacs for correcting mild myopia. This compared to revenues of \$332,000 for the fourth quarter of 1998. Net loss for the quarter was \$9.5 million (52 cents per share) versus \$7.2 million (59 cents per share) for the fourth quarter in 1998. The increase in net loss was primarily due to investments in professional and consumer market-development activities in the U.S. Revenues for the year were \$10.5 million compared to \$0.8 million for the prior year. The net loss for the year was \$27.3 million (\$1.88 per share) compared to a loss of \$24.0 million (\$2.16 per share) in 1998. The increase in losses was primarily due to market development activities in the U.S.

KeraVision chairman and CEO Thomas Loarie said, "Since receiving FDA approval in April 1999 to sell our initial product, Intacs for mild myopia, KeraVision has focused on penetrating the vision correction market. Over 20 million adult nearsighted Americans are believed to be in our initial treatment range. As of December 1999, the company had trained more than 600 surgeons and completed more than 2,300 Intacs procedures. KeraVision is now transitioning from a 'training' company to a 'procedures' company with programs designed to create physician and consumer demand. We intend to grow procedure volume by creating successful practice models and integrating these success models into a core group of 'fast track' surgical centers that have made the commitment to Intacs as the procedure of choice for mild nearsightedness. To support these practices, KeraVision has begun making investments in programs that we believe will pull in our Intacs target group -- that is, people who depend on eyeglasses and contacts for everyday

activities but have been waiting for the next best thing after laser surgery." A surgeon's medical practice is considered integrated when Intacs are performed in over half of his/her mild myopia cases. KeraVision is focusing its procedure-building programs on an initial core group of 30 'fast track' Intacs centers.

Following release of the financial results, **Prudential Securities** downgraded KeraVision from "Accumulate" to "Hold", while **Raymond James** downgraded the stock from "Buy" to "Market Perform".

- 2/11 **CIBA Vision**, the eye care unit of **Novartis**, and **QLT PhotoTherapeutics Inc.** announced that the FDA had issued an approvable letter for Visudyne (verteporfin for injection) therapy to treat the wet form of age-related macular degeneration (AMD). An approvable letter, commonly issued prior to an approval, indicates the agency intends to approve the application. In the letter received by QLT and CIBA Vision, the FDA stated that they have reviewed the application and Visudyne therapy is approvable. The FDA recognizes that any remaining deficiencies identified in the letter may have been addressed by recent information provided to the FDA by QLT, but that material is still under review. Once the review is completed and the information has been found satisfactory, the FDA has indicated they will approve Visudyne therapy specifically for the treatment of AMD in patients with predominantly classic subfoveal choroidal neovascularization (CNV), the indication sought by CIBA Vision and QLT.

"We are pleased that there are no major outstanding issues raised in the FDA's letter or issues requiring additional clinical trials," said Dr. Julia Levy, president and CEO of QLT. "As always we intend to work closely with the agency as it completes its review." Dr. Levy added that QLT doesn't expect any major delays prior to approval. The FDA recognizes that the wet form of AMD is a serious condition that robs patients of their central vision and one for which existing treatments are limited. As such, on August 23, 1999, the Visudyne submission was granted priority status, which required the agency to respond to the application on or before February 12, 2000.

"This is a significant milestone," said Luzi von Bidder, president of CIBA Vision's worldwide Ophthalmics Business Unit. "This letter indicates that Visudyne therapy will soon provide a much-needed treatment for the many patients losing their vision to this devastating condition." Von Bidder added that, in the interim, CIBA Vision will continue to provide treatment to eligible patients through its ongoing Treatment-Investigational New Drug (T-IND) program, in which more than 2600 patients in North America have been treated to date.

Visudyne therapy received regulatory approval in Switzerland on December 16, 1999. Regulatory applications are pending in the European Union, Canada, Norway, Iceland, Australia, and New Zealand. Some medical experts estimate that of the 500,000 new patients afflicted with wet AMD every year around the world, 40-60% will develop predominantly classic lesions during the progression of their disease.



In addition, the FDA also issued an approvable letter to **Coherent, Inc.** for its Opal Photoactivator laser. The joint drug/device submission covers both the photosensitizer and the laser activator. Upon commercialization, CIBA Vision Corporation, the eye care unit of Novartis AG, will market the drug worldwide while Coherent will market the Opal laser. Jim Taylor, president of **Coherent Medical Group**, stated, "Coherent is proud to have developed the laser technology that activates the Visudyne therapeutic drug and to be a partner in the battle to prevent blindness from AMD. This is part of Coherent's on-going commitment to provide ophthalmologists with a full range of products and technologies, and the first major leg of our focus on providing solutions for AMD." Taylor added, "Early adoption of the therapy is expected to be high. Clinician awareness, interest and urgency are all exceeding our original assumptions. We are prepared to respond to this increased demand with the support from the **Coherent Semiconductor Group**, where capacity has been increased to provide the key component, laser diodes, necessary to manufacture the Opal Photoactivator. Our international sales have already significantly exceeded plan in just these market segments and we are at pace to more than meet our total year's projections."

- 2/11 Athlete Se Ri Pak become the second golf super star in a week to sign a spokesperson agreement with **TLC Laser Eye Centers**. Pak joined Tiger Woods, who announced his agreement last week. "TLC has developed a national reputation as being an athlete's first choice when seeking LASIK eye surgery. We're thrilled to have two of the biggest and brightest stars in professional golf speaking on behalf of our doctors, our staff, and our company," said Kathryn Hughes, the company's vice president of marketing. For Se Ri Pak, her 20-minute surgical procedure at TLC Laser Eye Centers in Newport Beach, CA, in January, gave the 22-year-old Korean a new outlook on life. "I never imagined what it would be like to see without glasses," she confided. "Thanks to TLC and Dr. Thomas Tooma, my surgeon, I feel more confident than ever about my future in professional golf." Pak, who resides in Orlando, Florida, is already considered a golfing legend in her native Korea. In the U.S., Ms. Pak was named LPGA Rookie of the Year in 1998, then went on to win an impressive four more victories in 1999.

"I am honored at the opportunity to tell people about TLC Laser Eye Centers and the amazing results I achieved. I was impressed with their experienced staff of professionals," said Pak. "Putting has always been the most important part of my game when it comes to ensuring low scores. Now, I can read the slopes and see the line better than ever before. I am glad to have trusted TLC with my vision," she happily concluded. In her short LPGA career, her total of eight LPGA wins includes two majors -- the 1998 U.S. Women's Open and the 1998 LPGA Championship.

- 2/13 *Reuters* reporter Deena Beasley reported on the "wavefront technologies" presented at the *Optical Society of America* annual meeting held in Santa Fe, NM. As she noted, several companies are working on commercial 'wavefront' technology and at least one version, from **VISX**, priced in the same \$30,000-\$50,000 range as other ophthalmic diagnostic imaging systems, is expected on the market later this year. Tom McKay, marketing manager for VISX said, "Any ophthalmologist can use it. This gives doctors a better

refraction than the current way of doing it." Its best use will be for refractive surgery, but it can also be used for better fitting of contact lenses.

2/14 Personnel from **Summit Technology's** subsidiary **Autonomous Technologies** also presented at the meeting, providing an update on its proprietary wavefront measurement device designed to improve vision quality for patients undergoing laser vision correction surgery. George Petit, chief scientist at Autonomous, Marguerite McDonald, MD, medical director for Autonomous, and Ronald Krueger, MD, a clinical investigator for Autonomous all gave presentations at the meeting. Dr. McDonald, medical monitor of the trials, presented very encouraging data at the annual meeting suggesting that using this method of wavefront measurement in conjunction with the LADARVision System would yield excellent clinical outcomes, potentially better than conventional surgery. Dr. McDonald reviewed post-operative data for the first ten nearsighted patients and post-operative data for the first ten farsighted patients treated with the new technology. Although the timeline and scope of regulatory approvals are now being defined, Autonomous expects to make the wavefront measurement technology commercially available within the coming months as part of a joint venture with **Zeiss Humphrey, Inc.**

**SurgiLight Inc.** announced that it had concluded a Letter of Intent to acquire **IR-Vision**, for approximately \$3.2 million all paid in SurgiLight's common stock. The company is also negotiating with **HOYA, Inc.** (Japan) for laser presbyopia correction new technology. According to the acquisition terms, the company will acquire all assets and shares of IR Vision that was 40% owned by HOYA and 60% owned by the founders of IR Visions and others. The company believes that the acquisition of IR-Vision will further strengthen its technology advantage over its competitors. This acquisition may accelerate its clinical trial approvals using the new infrared (IR) technology for LASIK developed by the company and acquired from IR-Vision. After the acquisition the company will own one U.S. patent and more than nine (9) pending patents in the U.S. and other countries. These patents cover a wide range of IR lasers for medical applications including vision correction (LASIK and presbyopia), dermatology and microsurgery. According to Dr. JT Lin, president and CEO of the SurgiLight, "Adding the IR technology developed by IR Vision, SurgiLight will become the leader of IR lasers for LASIK procedures as well as the pioneer of laser presbyopia reversal."

The company believes that the acquisition of IR Vision may also enhance the initiation of the Joint Venture with HOYA for the marketing and approval in Japan for the company's IR laser for presbyopia correction. The Joint Venture terms are being negotiated through **HOYA HOLDINGS, Inc.**, San Jose, California. HOYA is the leader in eye glasses and the eye care business in Japan with more than 80 retail stores. HOYA also owned 100% of **Continuum**, a leading manufacturer of medical and industrial lasers in California.

IR Vision was founded in 1995 by William Telfair, PhD and Paul Yoder, the co-founder of **Taunton Technologies**, which is now VISX. Dr. Telfair was also the vice president of Research and Development of Taunton and VISX between 1986 and 1994. After the acquisition Dr. Telfair will be hired by the company as a consultant to continue system

development and clinical trials. IR Vision currently has two IR systems being used for ongoing clinical trials; one in Toronto Canada and one in Tulane Vivarium, New Orleans, LA. The Phase I study in Toronto is expected to be completed in March and the IDE for a Phase II study in the United States may start in a few months.

- 2/14 LPGA champ Laura Davies won her first victory in more than a year at the LA Championship and saw the course clearly for the first time. Less than 24 hours before teeing off in last weekend's tournament, Davies had her vision corrected at **TLC Laser Eye Centers** in Brea, CA. Davies, who never wore corrective lenses while playing, credits her improved vision for this victory. "I took a chance and it paid off," Davies said about her pre-tournament surgery. "My putting has been great and I really believe it's because I can see the hole now, where before I was just seeing a fuzzy area," she said. "I could focus on the trophy on the 18th green, which was the main thing. It's the first time I've seen one." Davies' LASIK eye surgery was performed by Dr. Robert Lingua, a renowned area refractive surgeon and Regional Medical Director for TLC.

Davies joins a long line of professional golfers who have turned to TLC Laser Eye Centers to improve their vision and their game, including: PGA sensation Tiger Woods and LPGA pros Se Ri Pak, Pearl Sinn, Patty Hurst, Becky Iverson, Sally Dee, Anna Acker-Macosko and Maggie Will, to name a few.

- 2/14 Raymond Hennessey, writing for *Dow Jones News Service* wrote that, "IPO Could Be Matter Of Survival For **TrueVision International**". For the company, an initial public offering might be the only option for the company to stay afloat. More than most new issues, the company appears to need the offering just to stay in business, according to details in the prospectus. It isn't profitable, losing more than \$842,000 in its 1999 fiscal year ended Sept. 30 on \$3.4 million in revenue. At the end of fiscal 1999, the company had just \$1,495 in cash, with \$1.7 million in short-term debt and roughly \$500,000 in long-term obligations. In November, to help fund its operations, the company took a \$150,000 loan from **TVLC Finance Inc.**, a finance company where Truevision president and chief executive John Homan is also CEO. The debt came in the form of promissory notes due Dec. 1 with a 13% annual interest rate. At the end of its last fiscal year, TrueVision already owed TVLC more than \$40,000 on a previous note, with a 16.5% interest rate.

Because of TrueVision's losses, limited resources and working-capital deficit, the company's auditors, **Pannell Kerr Forster** of San Diego, questioned TrueVision's ability to continue as a going concern. The offering will help. In fact, it's essential. Without the IPO, according to notes attached to its recent financial statements, TrueVision plans the "elimination of all corporate staff," the closing of two offices in Albuquerque and the subletting of expanded office space in Las Vegas. The company only operates in New Mexico and Nevada.

Besides the financial shape of the company, the IPO has other problems. For one thing, it is led by **Dirks & Co.**, not considered a top-tier underwriter. Dirks & Co.'s involvement

in the deal is listed as a risk factor in the prospectus, which says the firm's "lack of experience may impair our ability to develop a public market for our securities." On top of that, the deal has a more complicated structure than the average offering. Instead of shares, investors would buy units worth two shares of common stock and one warrant to buy common stock. The stock and warrants would trade separately 30 days after the IPO, according to the prospectus.

- 2/14 *EyeWorld Week* reported that **Telco Medical Technologies Pty. Ltd.** announced completion of \$11 million in financing so that it could complete development of its Eye:Q solid-state refractive laser. Most of the money was invested by a subsidiary of **Consolidated Press Holdings Ltd.**, which nominated one of its executives, John Evans, to Telco's board.

The news source also reported that the FDA last week presented draft guidance on the reuse of single-use medical devices to the House Commerce Oversight Committee. In its draft policy, the agency identified three ophthalmic products: ophthalmic operating room drapes (medium risk), keratome blades (high risk), and phaco needles (high risk). Reprocessors of these devices -- particularly those designated high risk -- could face more stringent regulatory requirements. For the moment, the FDA is considering applying these guidelines only to hospital and third-party reprocessors, but could eventually apply them to ambulatory surgery centers, as well.

- 2/14 **Asclepion-Meditec AG** of Jena published the first details of its plans to go public. The company announced that it will be quoted on the Neuer Markt in Frankfurt. **Commerzbank** in Frankfurt will take on the role of lead manager. The consortium also includes **DG Bank** in Frankfurt as co-lead manager, and **Landesbank Hessen-Thüringen** as co-manager. The company will be publishing further details of its plans to go public in the next few weeks.

In December 1999, in view of the upcoming quotation, the company changed its name and its legal form from **Aesculap-Meditec** to Asclepion-Meditec. The name change had become necessary as the **Deutsche Effecten-und Wechsel-Beteiligungsgesellschaft AG (DEWB)** had taken over **Aesculap AG & Co. KG's** 60% share in Aesculap-Meditec in June 1999. With 89.5% of the shares, the DEWB is Asclepion's majority shareholder. 10.5% are held by the management. Asclepion represents the fourth company in the DEWB portfolio to go public.

"Billions of people world-wide have poor eyesight, suffer from cataracts or glaucoma or curvature of the cornea. This market has enormous growth potential. We have state-of-the-art products we can use to tap into this potential and to open up new application areas", said Asclepion's CEO, Dr. Bernhard Seitz. At present Asclepion is developing a world first -- laser technology for the pain-free treatment of caries in which the tooth substance is kept largely intact. "By going public our intention is to strengthen our market position and to join the ranks of the three largest providers in the medical laser market",

Dr. Seitz continued. Unlike many newcomers to this business, Asclepion is profitable and is known in the market as a reliable and innovation-led brandname company.

Asclepion-Meditec AG is one of the leading European providers of medical laser systems. For over 20 years now the company has developed, manufactured and distributed laser systems for medical applications and for treatment methods which have hitherto only been possible with other, less innovative techniques. Asclepion has four main business units:

- Business Unit Vision (ophthalmological applications for the safe treatment of vision anomalies and eye disease);
- Business Unit Aesthetic (dermatological/cosmetic applications for patient-friendly cosmetic treatment);
- Business Unit Dental (e.g. for pain-free treatment of caries and periodontosis)
- Service, for customer service and the global maintenance of laser systems.

According to the news statement, Asclepion is distinguished in particular by its high degree of competence in research and development. Ever since it was founded the company has been among the front-runners in the development of new medical treatments based on laser technology. Asclepion has succeeded in developing numerous brand-new medical laser products, making it a technology and innovation leader in this market. Over 20% of its 190 employees work in research and development. Expenditure on the development of new laser systems in the 1999/2000 financial year will, as in previous years, be around 12% of the total sales, which is considerably higher than the average level in the industry. Asclepion is represented in over 60 countries and is a major international player in this dynamic growth market, having installed a total of roughly 5,000 systems world-wide.

At present Asclepion is working on two new systems in the Vision and Dental business units. In the field of eye surgery Asclepion is keen to take on a trailblazing role with "Super Vision". The company is currently developing its "Super Vision" laser which can considerably improve the eyesight of normally-sighted people. In the Dental business unit, Asclepion is developing a unique laser-based treatment method for the substance-retaining conversion of carious tooth material into strong tooth matter.

Asclepion-Meditec AG was founded in 1995 jointly by Aesculap and **Jenoptik**. In 1998/99 (the financial year runs October 1 to September 30) the company increased its sales by almost 30% to over DM34 million from DM27 million the year before.

2/15 **Sterling Vision and Rare Medium, Inc.**, the Web consulting services arm of **Rare Medium Group, Inc.**, announced that they had signed an agreement with respect to the company's development and launching of an extensive network of state-of-the-art web sites designed to provide information, interaction and electronic business-to-business commerce exclusively for the optical community. In addition to a cash payment, Rare

Medium will receive an equity interest in Sterling Vision. As part of a joint initiative, Sterling Vision and Rare Medium will seek to capitalize on the robust growth potential in the business-to-business, e-commerce market by providing comprehensive e-commerce solutions for the buyers and suppliers of business goods and services in the optical industry.

- 2/15 **VisionAmerica Incorporated and ICON Laser Eye Centers, Inc.** announced that they had entered into a joint venture agreement to develop laser eye centers in select markets within the United States. The first joint venture began last week in Tampa, FL and the second began this week in Orlando. During the first week in Tampa, 247 patients were scheduled for LASIK evaluations and surgery. The two companies also confirmed that they have entered into discussions about a possible business combination. In addition, in connection with the joint venture agreement, ICON will acquire 1 million shares of VisionAmerica common stock in a private transaction, in addition to the 440,000 shares that it had acquired on the open market.

Thomas Lewis, president and CEO of VisionAmerica, commented on the joint venture agreement and related developments, "We are excited about the prospects of working together with ICON. This joint venture brings together the developed markets and established infrastructure of VisionAmerica and the marketing and patient acquisition resources of ICON. Together, we can be much more competitive in the rapidly evolving laser vision correction marketplace." Ghassan Barazi, president and CEO of ICON, added, "This new agreement with VisionAmerica will help us achieve our goal of being a major provider of value-priced laser vision correction services in North America and other areas of the world. Currently, over 5,000 procedures per month are being performed by the companies."

- 2/17 **Preferred Capital Markets, Inc.** analysts Kate Sharadin and Jason Mills issued a research report highlighting and providing analysis of the topics covered at the recent *1st International Congress of Wavefront Sensing and Aberration-Free Refractive Correction*. In a six-page overview, the analysts suggest, "The race is on to perfect the latest surgical tool for laser vision correction -- Wavefront Technology. Inasmuch as the concept of improved visual outcomes and 'super vision' could capture the imagination and interest of patients, we conclude that custom ablation technology -- both Wavefront and Corneal Topography -- represents a marketing and advertising 'gold nugget' even in the LVC market of today. However, there is a prevailing level of promotion surrounding Wavefront technology; hence, such conditions could facilitate the fast-tracking of unproven techniques into clinical use before their advantages and shortcomings are clearly defined."

The analysts continued: "Our due diligence suggests that corneal topography technology would produce the best results in the short term linked to current next-generation laser systems. Therefore, we believe that **LaserSight** and **Bausch & Lomb** could potentially lead the way in providing the first true benefits of custom ablation. Finally, we conclude from our surgeon surveys that **VISX** would have a difficult time due to its current

technology platform, and **Summit** could eventually be a leader in Wavefront technology, but still must illustrate more compelling clinical data to support its efforts."

- 2/17 **SurgiLight** announced financial results for the fourth quarter and year. For the year, total revenue increased approximately 170% over 1998, to \$3.1 million from \$1.1 million. The company reported pretax net income of \$210,000 (2 cents per share) compared to a net loss of \$194,000 (\$1.94 per share) for the same period of 1998. The growth of revenues and net income in 1999 were attributed to the company's growth in system sales and procedure income from the Laser Centers.

For the fourth quarter, the company reported net income of \$3,000 compared to a net loss of \$97,000 for the same period of 1998. The company operates four divisions. The Laser Eye Centers, the Cosmetic Centers, the Laser Technology, and Infrared Thermal Imaging Division. In the quarter, the company added 2 international Eye Laser Centers and anticipates to add at least 3 more Laser Centers in the first quarter of 2000.

- 2/18 **Premier Laser Systems** and **Ophthalmic Imaging Systems** announced that OIS had terminated the previously announced merger agreement between the companies. The companies indicated that while the merger of the two companies was not practicable at the present time, the companies planned to continue to work together and to explore ways to take advantage of the potential synergies that the companies believed would have been available through the merger.

- 2/18 *The Wall Street Transcript* published an in-depth interview with Stephen Joffe, CEO of **LCA-Vision Inc.**, in which he talks at length about his company's future. Joffe stated "We are a provider of laser vision correction. We currently have 26 centers. We recently introduced the LasikPlus brand, and have converted virtually all of our US centers to LasikPlus. We have also introduced a managed care network to provide us with access to over 50 million managed care lives. The company started in 1983 as a private company providing laser surgery consulting to hospitals and surgery centers. We then took over one of the very first laser vision correction centers in Canada. In 1996, we went public in the United States as LCA Vision. We intend to continue to grow within our current centers by increasing the amount of procedures being performed, as well as by opening new centers in contiguous regions. We plan to open an additional 10 new LasikPlus centers in the year 2000, and that growth will continue thereafter." Looking forward, Joffe stated, "Short term we plan to complete the conversion of all of our U.S. centers to LasikPlus, to increase our profitability, to open a minimum of 10 new centers this year, to start seeing the impact of our **National Lasik Network** where we have set up an infrastructure to be able to market to the 50 million managed care lives in over 90% of the United States, and to achieve volume leadership market by market as we go forward. We intend to be number one in the laser vision correction industry, and that's a position we want to attain and maintain moving forward."

- 2/21 Bethany McLean of *Fortune Magazine* authored a story about **VISX** entitled, "Why So Few Saw the Warnings on VISX patent euphoria". In it she wrote about the euphoria over

LASIK and how the procedure numbers have soared, and commented that, "So you'd think that VISX, the company whose equipment is used in some 80% of U.S. laser eye surgeries, would be on fire. And it was. In early 1999, VISX's stock cost \$20; by July it had quintupled to \$102 -- or an Internet-like multiple of more than 30 times revenues. But in the past few months, VISX has dropped some 70%. Its story is a good reminder of how Wall Street can be blind to flaws in superstar stocks." The story goes on to detail the company's patent fights with **Nidek**, and how the ITC had ruled that Nidek didn't infringe VISX's patents, which caused a rush of downgrades from Wall Street analysts and a 41% drop in the company's stock price. This was followed by its announcement that fourth quarter procedure revenue (from the \$260 per procedure royalty fee) were flat, while competitor **Summit Technology's** volume was up 12%, causing the company's stock to drop another 30%.

"As they say, hindsight is 20/20. But there were clues. Kate Sharadin, an analyst at **Preferred Capital Markets**, noted on Oct. 1 that VISX's big customers had been complaining about its pricing. Perhaps more important, VISX has had a contentious legal history, including a complaint by the Federal Trade Commission alleging that VISX fraudulently obtained one of its key patents. VISX is also battling with Nidek overseas, and although there are differences in U.S. law, both British and Canadian courts have sided with Nidek. Since last spring some VISX officers, including CEO Mark Logan and VP of regulatory affairs David Patino, have sold significant amounts of shares. Analysts use phrases such as "limited visibility" -- no pun intended -- about VISX's future. Without that recurring-fee revenue, VISX's business turns into low-margin equipment sales in an increasingly competitive market."

McLean concluded by noting that "VISX could still find victory in the courtroom" as it has pending cases against both Nidek and several doctors using that company's lasers. "But rescue by lawsuit is slow and far from sure, especially since the U.S. Patent and Trademark Office is also re-examining one of VISX's key patents. Even at its current below-market P/E, VISX is a risk not worth taking."

2/22 According to **Nidek**, it won another round in the on-going patent disputes with **VISX** as a Federal Multi-district Litigation panel granted Nidek's motion to consolidate the pre-trial activities of six separate legal actions. In five of the actions, VISX had filed pre-trial complaints against Nidek and its customers for alleged patent infringement of excimer laser patents. The sixth action is Nidek's anti-trust complaint against VISX for alleged unfair business practices. Nidek's motion to consolidate and centralize pre-trial proceedings were opposed by VISX in its effort to continue the legal battles one at a time, individually with each party. The panel of seven judges found that consolidation of the six actions will serve the convenience of the parties involved, avoid duplication of discovery, conserve resources, and promote a just and efficient conduct of the litigation. Accordingly, The Northern district of California was judged to be the most appropriate venue for pre-trial proceedings, and transfer of jurisdiction was so ordered.



- 2/22 **Miravant Medical Technologies** acknowledged it will not be the first to market a new type of treatment for the leading cause of blindness in people over the age of 50, but that that could be an advantage. The company's chairman Gary Kledzik said, "They (**QLT Phototherapeutics**) will have worked out all the reimbursement and pricing issues and they have done a great job in raising awareness for the disease." QLT was notified earlier this month by the FDA that its Visudyne treatment for age-related macular degeneration would probably be approved. Miravant doesn't expect to file for approval of its SnET2 (PhotoPoint) treatment until the middle of next year, although it might file a fast track application by the end of this year.

In Miravant's studies, which have so far covered only a small number of patients, those who were treated with SnET2 saw their vision improve. "We are not sure these results will hold up," Kledzik said. Miravant's therapy also will probably need to be administered less frequently than QLT's. "We'll be second, but we think we will have an advantage," Kledzik said, estimating the worldwide market for treatment of the eye disease at \$1 billion to \$2 billion.

- 2/22 The first eyes in the U.S. clinical trials of the **WaveLight** Allegretto excimer laser system were done on February 11th in Phoenix by David Dulaney, MD, at the Barnett Dulaney Eye Clinic, according to Guy Kezirian, MD, of **SurgiVision Refractive Consultants, LLC**, the study sponsor. The procedures were performed under an IDE with IRB supervision. Four eyes of patients underwent LASIK. Dr. Dulaney stated, "The surgery went extremely well. The eye tracker kept the procedure well centered, and we're looking forward to seeing the effects of the wider treatment zone on glare and night driving."

The Allegretto laser is produced by **WaveLight Laser Technologies, AG** in Erlangen, Germany. It has been in use outside of the United States, but this was its first use within the U.S. The laser includes an active eye tracking system and scanning spot technology. A 6.5 mm treatment zone with a blend zone out to 8.1 mm was used.

The clinical study will involve at least 11 sites in the U.S. The current list of principal investigators includes: Thomas Abell, MD (Lexington, KY); Peter Arrowsmith, MD (Nashville, TN); William Bond, MD (Peoria, IL); Stephen Brint, MD (Metairie, LA); Bennett Chotiner, MD (Harrisburg, PA); David Dulaney, MD (Phoenix, AZ); Michael Gordon, MD (San Diego); David Johnson, MD (Brandon, FL); Charles Moore, MD (Houston, TX); David O'Brien, MD (Vero Beach, FL); and Karl Stonecipher, MD (Greensboro, NC).

Note that WaveLight is one of the two German laser companies who will be using the Dresden Wavefront Analyzer for performing customized ablations. I contacted a principal at WaveLight to confirm that customized ablations will eventually be included in their U.S. trials, but not in the initial studies.

- 2/22 Sandra Boodman, writing in the *Washington Post* on discount LASIK surgery, wrote about **LCA-Vision's** LasikPlus model, as she put it, "LasikPlus is a chain of cut-rate

centers selling the procedure for \$2,995 per patient, about 45% less than the usual price of \$5,500." She went to say that the price-cutting strategy had aroused anger and concern among other eye surgeons, worried that the discount pricing would cost them patients, drive down the price of the procedure, which is making some surgeons millionaires, and hurt future business by increasing the number of patients with complications. She went on to say, "Price competition is highly unusual in surgery, even in elective surgery. Since the advent of LASIK about five years ago, surgeons and surgery chains have competed on quality, boasting about the numbers of procedures, the qualifications of their surgeons and the celebrity patients whose eyes they have fixed. But the price wars are a fixture in Canada, where LASIK originated about a decade ago. One discount chain with 17 centers is charging the equivalent of \$995 for both eyes." "In the last few years they've pretty much cornered the market," said David Harmon, of **Market Scope**, who tracks the refractive surgery industry. The story goes on to discuss the strategy behind LasikPlus, and how they can afford to charge only \$2995 for two eyes -- paying a staff surgeon a lowered fixed fee per procedure, but making it up on volume. The question arose of how these relatively inexperienced surgeons would handle the inevitable complications. LasikPlus officials say that their surgeons gain experience very fast. Ron Link, the founder of *surgicaleyes.com*, which tracks complications, put it this way, "I think a surgeon's reputation, experience and accountability are much more important," Link said. "Price is at the very bottom of the list."

2/22 Al Kildani of **Pacific Growth Equities** issued an update report on **Summit Technology**, based on information that one of **VISX's** major customers had decided to abandon the VISX technology platform and perhaps switch over to Summit's laser systems. Kildani also speculated that other large center operators were widely known to be re-evaluating their laser strategies and could conceivably re-direct some of their business to Summit. (Obviously, this report was prepared prior to the VISX blockbuster announcement, below, that they were lowering their per procedure fee from \$250 to \$100!) He reiterated his "buy" rating and \$22 target price.

"Late last week we became aware of one large customer that has decided to abandon the VISX platform. We attribute this decision to continued frustration over two issues: (1) VISX's recent alignment with a discount provider of LVC services (**Lasik Vision**), and (2) a lack of flexibility in VISX's pricing structure (e.g. no volume discounts). We believe that some portion of this customer's business will go to Summit due to Summit's broad range of approved indications and ability to deliver a meaningful number of lasers in a timely fashion. Although it is difficult to quantify the financial impact on Summit, we note that this customer operates approximately 20 high-volume LVC clinics throughout the U.S. and represents one of VISX's single largest customers. In addition, this VISX customer performs more procedures than does any existing Summit customer. We view this development as an early data point supporting our assertion that Summit is positioned to capitalize on recent strategic missteps by VISX. We expect to hear more news of customer wins for Summit at the expense of VISX."

2/22-

2/23 After the close of trading, **VISX** unveiled its "aggressive growth strategy" by announcing that it was immediately lowering the license fee it charges customers (in the form of purchases of key cards to operate the lasers) from \$250 to \$100. As put by Larry Keusch of **Goldman Sachs** during the accompanying teleconference, the initiative "better aligns VISX with the prices now being charged by the centers; creates a more competitive environment with the other laser producers (it was said that **Summit** was charging as little as \$100 to selected customers -- and of course **Nidek** charges nothing, and **LaserSight** had announced previously that it would charge \$260 but give half of that back once litigation with VISX was out of the way); and most importantly, the lowered fee should grow the market.

Commenting on the pricing initiative, Mark Logan, chairman and CEO of VISX, said, "The United States market for laser vision correction has reached a critical juncture in its development. Until now, concern over procedure safety has been the primary barrier to greater market penetration. Now, with 10 years of clinical history, and nearly 5 years of excellent commercial results, this concern has been diminished. We believe that millions of consumers, particularly younger individuals with lower levels of nearsightedness, are now ready to have the procedure. However, research indicates that this group is the most focused on affordability. We are convinced that the majority of our customers will use this price reduction from VISX to invest in growing their procedure volume. Since VISX's business model is closely aligned with the success of our customers, we will also share in the benefits of this growth. A price reduction of this magnitude is unusual. However, VISX is in a unique position because of its large installed base, strong balance sheet and history of profitable operations. This is a market growth opportunity that does not appear very often, and we are determined to seize the moment."

During the accompanying teleconference with analysts, Logan and Liz Davila, COO, noted that the company would now begin charging for retreatments, which previously had been included in the initial license fee. Further, VISX would no longer sponsor national advertisements, but would rather work with clients on local promotional programs. However, field service would be unchanged and the company would continue in its efforts to protect its intellectual property. Incentives on purchases of lasers would continue for multiple purchases. And the key cards would continue to cost \$10 over the license fee. (A total of \$110.) One of the reasons given for the change was the large number of patients going to Canada to take advantage of the lower procedure costs. Another was that by lowering the royalty, it put it closer in line with royalties charged for medical devices (7%-10%) and would allow younger people and those with lower degrees of myopia to take advantage of the lower procedure prices. Logan hoped that this would entice some current and potential contact lens wearers, who tend to have lower amounts of myopia, to switch over to LASIK and further grow the market.

Following the announcement, at least four brokerage firms lowered their estimates for VISX (and Summit). **Lehman** lowered its price and earnings estimates on VISX from \$60/\$1.72 to \$14/\$0.88; and for Summit from \$25/\$0.22 to \$18/\$0.17. **USB Piper Jaffray**

also lowered its recommendation from "buy" to "neutral". **Warburg Dillon Read** analyst Rebecca Irwin lowered her earnings estimates for VISX to 87 cents a share from \$1.60 for 2000 and to \$1.21 from \$1.96 for 2001, while **Preferred Capital Markets'** Kate Sharadin and Jason Mills reiterated their "hold" rating, and reduced FY00 and FY01 EPS estimates to \$0.84 and \$0.99, from \$1.56 and \$1.83, respectively, predicated on lower licensing fees and continued loss of market share to next-generation systems. The analysts further stated, "We suggest that this move by VISX would further exacerbate the negative sentiment surrounding the company on both ophthalmic and investor fronts. Undoubtedly, surgeons using VISX systems would not object to paying a lower royalty fee. However, we believe that these surgeons viewed the \$250 as exorbitant and, therefore, would view the lower fee as being 'a long time in coming.' Consequently, given that Nidek continues to not charge a procedure fee, coupled with the increased presence of superior technology from LaserSight and Summit/Autonomous -- both of whom we believe would likely offer a commensurate pricing model to the one just announced by VISX -- we believe that this move by VISX will not translate into increased market share, nor will it change the negative sentiment of VISX in ophthalmic circles, especially amongst the company's largest customers."

On the reverse side of the picture, the outlooks for the laser vision correction centers suddenly became bright. With a lowered per procedure royalty fee, the centers could either apply it to increased marketing to draw in new business, or take the \$150 straight to the bottom line. In fact, Stephen Joffe of **LCA Vision** stated exactly just that. He said that since his company's LasikPlus charges of \$2995 for both eyes was already below what most other centers were charging, and that they paid their surgeons a fixed fee per procedure, a substantial amount of the \$300 (for both eyes) savings "should fall directly to the bottom line". And Thomas Lewis president and CEO of **VisionAmerica** chipped in, "We applaud this move by VISX to more nearly meet the needs of its laser vision correction customers. A lower cost base will have a positive effect on our bottom line and give us greater flexibility in our pricing strategy."

Several on-line analysts kicked in with their opinions on the VISX announcement. Craig Schneider of **Individual Investor** "wondered who wins from VISX's woes?" Now VISX gets to hold onto its market share while its competitors scramble to match the price. Many analysts say the move had to be made, and we've warned investors to avoid the stock for such reasons since it hit \$50 back in December. "It's pretty shocking," said Richard Leza, a **Craig-Hallum Capital Group** analyst. "Basically they're pricing everyone out of the business." So what does the price reduction now mean for VISX's growth? If anything, this means the growth story for VISX has now come to an end, said some analysts. "VISX is no longer a growth company," says Leza. "It becomes a cash flow story." In fact, Charles Olsziewski, a **PaineWebber** analyst more than halved his 2000 earnings per share estimate to \$0.80 from \$1.65 to reflect the price reduction. Although the earnings cut is mitigated somewhat by the company's plan to repurchase as many as 10 million shares and the stock is nearly 80% off its 52-week high, he maintains a "neutral" rating. "A significant amount of the stock's decline was, we believe, related to investor uncertainty over the company's ability to maintain the per-procedure fee at the

\$250 level," writes Olszewski in a morning note. "But issues concerning intellectual property, licensing agreements and litigation still remain."

Others, including Brian Graney of **Motley Fool**, and Debra McGarry of **CBS MarketWatch** also wrote about the situation. (I have copies of the on-line articles for anyone who is interested.)

- 2/23 **VisionAmerica Incorporated** and **ICON Laser Eye Centers** announced that they had launched a laser vision correction program in Chicago, IL. This represents the third joint effort for the two companies, following the previous two centers opened earlier this month in Tampa and Orlando, FL. Thomas Lewis, president and CEO of VisionAmerica, commented on the new joint effort, "We have been thrilled by consumer response to our first two joint efforts in Florida and anticipate a similar response to the model in our Chicago market. With each new effort, we bring together the developed markets and established infrastructure of VisionAmerica and the marketing and patient acquisition resources of ICON, strengthening our position in the evolving laser vision correction market."

Ghassan Barazi, president and CEO of ICON, added, "Our goal is to be a major provider of value-priced laser vision correction services in North America and other areas of the world. By working with VisionAmerica, the efforts of the two companies combine into a powerful force in the laser vision correction marketplace. We have experienced a strong reception in the two initial markets in Florida and we expect to develop a major presence in Chicago."

- 2/23 As expected, **Summit Technology** joined **VISX** in announcing lowered per procedure fees. The company said it will institute a tiered pricing program for customers effective immediately. Summit's Apex Plus/Infinity product will be value priced and will carry a per procedure licensing fee of \$100. The emphasis disc used by clinicians for astigmatism and hyperopia corrections will be priced at \$25. There is no administrative charge imposed in connection with the purchase of the card used to activate the system. The Autonomous LADARVision system will continue to command a premium price. The per procedure license fee for the LADARVision system will be reduced to \$150 for purchased units. Additionally, the company will adjust its current per procedure pricing model for its existing customers to bring them in line with the new pricing model.

Commenting on the situation, Robert Palmisano, CEO, said, "There are four key drivers in the laser vision correction industry; technology, FDA approvals, intellectual property, and customer relationships. Summit's commitment to delivering against these four imperatives to support the needs of refractive surgeons is unwavering. The company has the most advanced technology on the market today with its small spot scanning LADARVision system with an FDA approved eyetracker and is the only company currently conducting clinical trials for its CustomCornea wavefront measurement device. We believe clinicians are driven by technology which can deliver the best outcomes possible for their patients. We have two laser systems that can deliver outstanding results.

We know, for example, that doctors are achieving superior outcomes for hyperopia on our Apex Plus/Infinity system. With the LADARVision system, the future promises that customized ablations will be the norm for all laser vision correction procedures. We anticipate that our CustomCornea wavefront measurement device will be the first to market providing doctors with a system that offers both the possibility of corrections better than 20/20 as well as a therapeutic use correcting surgically induced problems."

During the accompanying teleconference, Palmisano said that Summit intends to reduce its SG&A costs by at least 10% to partially offset the loss in per procedure royalty income. He further agreed with one analyst's assessment, that the price drop would mean that profitability for the company would now be somewhat delayed, and now occur "sometime this year" rather than in the first quarter as had been anticipated. He also agreed that CustomCornea would drive a further premium price, above and beyond the \$150 per procedure for LadarVision. The company's capacity to supply LadarVision systems is currently at about 12 per month, increasing to 16 per month during the second quarter.

2/24 **SurgiLight Inc.** announced that it had submitted an IDE to the FDA for the new procedure of Laser Presbyopia Reversal using its patent pending technology. The company also expected to obtain the IRB approval from Mt. Sinai Hospital in New York for this new IDE clinical trial soon. In the IDE submission, the company included the results of 19 cases of laser presbyopia correction to support the application for an additional 30 cases. The reported data showed more than 6 months follow-up for patients with age range of 42 to 65 with little or no regressions. Details of the first group of clinical results were reported by the company at the 1999 *World Refractive Surgery Symposium* earlier. The company is concluding the acquisition of **IR Vision, Inc.** and one of their OPO-IR laser systems was delivered to the company for clinical studies including LASIK procedures.

The company will have 3 clinical trials ongoing in Canada, Venezuela and Mount Sinai Hospital in New York. The company is currently selecting Institutions and ophthalmologists to start more IDE clinical sites for various Phase studies and applications. The company is also in the process of developing a world renowned Medical Advisory Panel that will include 5 ophthalmologists and 2 dermatologists to assist with various clinical trials and to assist with product enhancements. In addition to the on-going IDE clinical trials, the company expects to obtain two market approvals within a few months under the 510(K) applications for UV-laser psoriasis and WaterJet for eye surgery.

(We have been unable to learn the type of techniques being investigated for presbyopia correction by SurgiLight, however, an informed source relates that Dr. Lin "has patented 5 different treatment techniques and has tried two of them on patients in Venezuela...One seems to work better than the other (but) he wants to try another one before going to Mt. Sinai in New York...All are scleral treatments, not corneal treatments."

2/24 **Bausch & Lomb** said that the FDA had approved its Technolas 217 Excimer Laser System, for performing LASIK. With FDA approval in hand, Bausch & Lomb, is ready to begin marketing the world's leading laser, immediately in the U.S.

"Our advanced flying spot Technolas 217 Excimer Laser System is the technology leader around the world, and we intend to make it a leader in the U.S. as well," said Hakan Edstrom, Bausch & Lomb senior vice president and president of Global Surgical. "This technology will provide better surgical outcomes for patients, which is the ultimate goal of Bausch & Lomb's complete approach to vision correction."

The FDA PMA clinical study results showed that 99.7% of all patients who underwent surgery with the Technolas 217 saw 20/40 or better without glasses or contact lenses; this was 14.7% higher than FDA Guidance requires, and 87.3% saw 20/20 or better. The Technolas 217 effectively corrects the refractive error by utilizing its small beam profile to flatten the cornea centrally, and then "polishes" the periphery, or transition zone, to produce an extremely smooth cornea.

The Technolas 217, widely established outside the U.S. as the market leader for treating both myopia and hyperopia, with or without astigmatism, is the only laser designed ergonomically for LASIK. The U.S. approval allows surgeons to treat up to -7.00 diopters of myopia and up to 3.00 diopters of astigmatism (95% of people with myopia fall within this range of correction, and approximately 40% of this population also have some degree of astigmatism).

The Technolas 217 is also the platform for the next generation of LASIK technology -- personalized vision correction -- also referred to as customized ablation. In the first half of 2000, Bausch & Lomb plans to introduce proprietary technology that allows surgeons to prescribe and design personalized laser vision correction treatments with the Technolas 217 laser, in conjunction with its Orbscan II corneal diagnostic equipment, and new wave-front technology that measures aberrations throughout the eye. Bausch & Lomb will initiate clinical trials for this technology in the U.S. in the next few months. The technology will be marketed outside the U.S. beginning in the second half of 2000.

The introduction of the Technolas 217 laser in the U.S. makes Bausch & Lomb the only company to offer a complete suite of laser surgery products -- lasers, microkeratomes, blades and diagnostic equipment -- illustrating its commitment to providing surgeons and patients with comprehensive vision correction solutions.

The Technolas 217 laser lists for \$525,000. The cost to the eye-care professional will vary according to the laser system design. The company will offer individualized payment programs based on the combination of annual procedures and surgical products used (bundling?). With regard to procedural fees, Bausch & Lomb has evaluated the complex issues presented by various patents in the U.S. and believes that it can market the Technolas 217 without obtaining further rights under third-party patents. The company will collect a fee of \$100 for each procedure performed with its laser. In light

of current patent litigation pending against doctors performing LASIK using certain competitive lasers, the company will indemnify its customers for costs associated with any third-party patent infringement lawsuit, if that becomes necessary.

During an accompanying teleconference, Bill Carpenter and Hakan Edstrom noted that the Technolas was the majority leader in new laser sales outside of the U.S., and that they expected to obtain at least a 1/3 market share of new laser sales within the U.S. over the next several years.

According to an article by Ben Dobbin of the *Associated Press*, Bausch & Lomb said its laser-eye products account for about 10% of its \$1.8 billion in revenues. It said it commands about one-third of the overseas market with 500 machines in place, and its next closest competitor is Japan's **Nidek Co.** with 430 machines. The article goes on to report that VISX operates an estimated 500 machines in the United States and 360 machines abroad, while Summit Technologies has 235 machines in this country and 170 abroad. (These numbers appear to have come from the most recent **Market Scope** "Report on the U.S. Refractive Surgical Market".)

Following Bausch & Lomb's announcement, **Deutsche Bank Alex Brown** said it had raised its rating on Bausch & Lomb to "strong buy" from "buy" and set a price target of \$74.

2/24 And **LaserSight** joined the fray, by halving its per procedure fee from the previously announced \$260 (with half being returned to users once the **VISX** litigation had been settled), to just charging the \$130, which would be recorded as revenue. The company also announced that it had taken sales deposits for its LaserScan LSX excimer laser system with shipments expected to occur in March. The company also expects to conclude its negotiations with a significant corporate centers company regarding a strategic commercial arrangement in the near future. (This is widely speculated to be **TLC Laser Eye Center**.) Early indications show a high level of interest in the company's state-of-the-art small spot scanning technology platform.

Michael Farris, president and CEO of LaserSight commented, "We believe technology and clinical outcomes are the most important factors in the decision to purchase a refractive surgery laser system. We believe that scanning technology will become the surgeon's choice in the United States just as it has become in the international market. We do not intend to change the business model previously announced, as we believe the \$130 per procedure fee to be reasonable for our state-of-the-art small spot scanning technology. Our pricing will remain responsive to customers based on the volume of procedures performed and a willingness to make a long term commitment to the LaserSight technology platform."

The company said that clinical data supported the superiority of the LaserScan LSX small spot scanning system, differentiating it from the clinical trial data of the VISX Star S2 and the **Summit Technology** Apex Plus broad beam laser systems. The data from FDA



clinical trials shows that with respect to symptoms such as corneal haze and night vision problems the LaserSight LSX produced superior results to the corresponding data for the VISX and/or Summit systems. These qualitative improvements are a result of the technological features of the LaserScan LSX, which include larger treatment zones and a small scanning spot resulting in smoother ablation surfaces.

Michiel Kritzinger, MD, a highly renowned international refractive surgeon, recently reported the results of a study of 279 eyes treated. The results, using the international version of the LaserScan LSX (operating at 200 Hz, and with an active tracker), showed 99% of the patients treated for myopia and myopic astigmatism achieved uncorrected visual acuity of 20/20 or better after 3 months follow-up. Ninety-one percent of the patients treated for hyperopia and hyperopic astigmatism in the study achieved uncorrected visual acuity of 20/40 or better and 59% 20/20 or better.

The company is also working on developing custom ablation treatments referred to as *Advanced Shape Technology Refractive Algorithms* (ASTRA) (using interactive programmed corneal topography -- CIPTA) for both irregular and regular corneal surfaces. In September 1997, Giovanni Alessio, MD performed a customized approach to corneal ablation utilizing a LaserSight system at the *University of Bari* in Italy. This early research allowed LaserSight to discover the value of not only treating irregular corneal surfaces but also improving the quality of vision for all patients undergoing laser vision correction. To date, more than 3,000 cases have been performed utilizing LaserSight's technology in 13 different centers in Italy. Approximately 30% of these cases are re-treatments on patients previously treated by broad beam lasers. With this extensive background of experience, LaserSight is again pioneering and leading the way in the development of patient specific treatment plans that establish a new standard of care that maximizes the quality of vision achieved. The ASTRA technique under development by LaserSight, will not only treat the segment of the population with irregular corneas currently unable to be treated by existing laser systems, but will also establish a new standard of quality care to be made available to all refractive surgery patients. LaserSight expects to complete its international trials and launch this product in the international market during the third quarter of this year. U.S. clinical trials for the ASTRA technique are anticipated to be completed by year-end with a U.S. commercial launch expected some time next year.

During the accompanying teleconference Michael Farris noted that the customized ablation algorithms might allow the company to charge a per procedure fee internationally for the first time. He also said that retreatments would be without charge for the first six months as a surgeon was learning how to use the laser. After that, each retreatment would constitute another \$130 charge. Farris indicated that LaserSight expected to ship 5-7 U.S. LSX systems this quarter and 15+ during the second quarter, accelerating the shipments thereafter. Commenting on how the company might achieve sales in the U.S., Farris said that a significant portion of the U.S. installed base had been paid for and thus high volume surgeons/centers would be amenable to the purchase of a second system. Also, newer surgeons who had been using alternative access programs,

might have built up enough marketing exposure to enable them to go out on their own. He concluded that the company will also have a significant trade-in program, for those who might want to move to next-generation small spot scanning systems.

- 2/25 **Lasik Vision** announced that consumer response to its high-quality, affordable care model continues to experience high consumer acceptance. The recent announcement by **VISX** to aggressively reduce its excimer laser licensing fee will make a significant contribution to Lasik Vision profitability this year as the cost base of the company's existing forecasts were based on the former fee. The company said that it continued to experience rapid growth in procedural volume spurred by the high word-of-mouth referral of satisfied patients. "We are very encouraged by the response of the public to our high standards of care and our focus on affordability," said Michael Henderson, president and CEO. "This fee reduction is very exciting for us, as we believe that cost is the most significant factor keeping people from having this procedure. This new lower fee gives us more flexibility in our pricing structure and allows us to ensure we will be able to offer the best price to our patients. It will also enhance the company's ability to capture a larger portion the growing market for LASIK."
- 2/25 **ICON Laser Eye Centers, Inc.** announced that it would soon file a form 13-D as required by the U.S. Securities Laws disclosing its purchase of a strategic block position equal to 14% of the common stock of **VisionAmerica**. Of the 1.4 million shares acquired, 440,000 shares were bought in open market purchases at varying prices and 1 million shares were acquired from the company's treasury at \$4.00 per share. The agreement anticipated ongoing discussions toward a business combination on terms yet to be negotiated.
- 2/25 And then the inevitable shoe dropped for **VISX**. Three law firms, **Milberg Weiss; Cohen, Milstein, Hausfeld & Toll, PLLC**; and **Barrack, Rodos & Bacine**, all announced that they were filing class action shareholders suits in the United States District Court for the Northern District of California on behalf of all persons who purchased the stock of VISX between March 1, 1999 and February 22, 2000, inclusive (the "Class Period"). The three complaints, with minor variations, charge VISX and certain of its officers with violations of the federal securities laws by making false and misleading statements about the company's business and revenue growth relating to its Excimer Laser Systems. The complaint alleges that during the Class Period, the individual defendants, who controlled and were senior officers of VISX, were aware that the company's per procedure fee (and therefore its future revenues and earnings) was being severely threatened by competitors who did not charge the fee and that VISX was losing market share. The complaint charges that the individual defendants, with the knowledge that the company's future results would not be as favorable as defendants had led the market to believe, sold 1.4 million shares of VISX stock, reaping insider trading proceeds of more than \$96 million. According to the complaint, when the competitive pressures resulted in the company announcing a drop in revenues and reduction in the company's per procedure fee, the price of its stock plummeted to \$16 per share from a class period high of over \$103. The plaintiff seeks to recover damages on behalf of all purchasers of VISX stock during the Class Period.

## OPHTHALMIC LASER UPDATE -- March 2000

- 2/16 *The Globe and Mail* contains an interesting profile of **Lasik Vision** and its strategy for entering the U.S. market. Peter Kennedy wrote that Lasik has targeted the U.S. market with its price-cutting strategy, that has put the company at the top of Canada's chart for laser eye surgery.

"After opening its first clinic in Vancouver three years ago, the company has followed a strategy of discount pricing aimed at grabbing market share from rivals such as **TLC Laser Eye Centers Inc.** of Mississauga, **LCA-Vision Inc.** of Cincinnati, and **Laser Vision Centers Inc.**, of St. Louis. On any day, visitors to the company's 15 Canadian clinics are confronted with a black computer screen that flashes the number of new bookings as they are registered through Lasik's Burnaby, B.C. operations centre. "It's a bit of an incentive for everyone to know that the business is busy," said Michael Henderson, CEO, whose personal holdings of eight million Lasik shares are worth \$26.4 million. Far from content with their success, Henderson and his partner, University of British Columbia eye surgeon Dr. Hugo Sutton, hope to capitalize on the growing public acceptance of laser vision-correction surgery with an assault on the lucrative U.S. market."

Backed by the recently announced \$15 million in new debt financing, with another \$15 million to come, the company hopes to open 100 U.S. clinics over the next 3 years.

- 2/18 Ted Huber of **Advest** issued an update report on **VISX** titled, "More Stormy Waters Ahead for VISX". This report was prepared following the company's "flat" 4th quarter growth announcement. Huber expects that VISX's growth for January was up 10%-15% sequentially over December, similar to that for most corporate providers. However, he warns that the company's end of year 75% share of procedures and 61% share of in installed lasers could be in jeopardy, with his current model calling for laser share to drop to 54% and procedure share to drop to 69% by year-end. He also noted that the company had strained relationships with its major customers, who were looking for pricing options. "Several high-volume VISX surgeons have already added second **Nidek** lasers, and we fear that corporate customers will follow suit with lower-cost non-VISX laser technology." (This report was obviously issued prior to the cascade of announcements about per procedure pricing policies issued at the end of the month.)

- 2/28 Kate Sharadin, senior analyst, and associate analyst Jason Mills of **Preferred Capital Markets** issued a note concerning the prevailing sentiment among LVC corporate centers and independent surgeons affected by **VISX's** new procedure fee model. "After three days of discussions with LVC corporate and independent 'decision-makers,' we found that there is an elevated level of discontent within the industry with respect to several aspects of the 'discount' pricing model promulgated last week by VISX. The feedback we have been getting from end users depicts a confounded and incensed group of customers. On the surface, we relate that surgeons are obviously not discontented that the procedure fee across the board in LVC is now as much as 60% less than historic levels; on the other hand, it is the less conspicuous subtleties of VISX's new pricing model that

aggravates these parties. The primary sore spot with corporate customers surrounds the Vision Key Card inventory issue. Contrary to guidance received during the conference call, we found that VISX's largest corporate customers are holding a significant key card inventory that has already been paid for at the former \$250 price. Other disconcerting issues are re-treatments, cross-cylinder procedures, and Parts/Service arrangements."

- 2/29 **Prime Medical Services, Inc.** announced that it had entered into a partnership with the **Mann Berkeley Caplan Laser Center** and will acquire a 60% interest in its Austin, Texas, refractive vision correction center. Doctors Paul Michael Mann, Ralph Berkeley, and Michael Caplan, and Mark Micheletti, Executive Director, will retain the remaining 40% ownership interest, and the physicians will continue to perform procedures at the Austin site.

The company also announced record revenues for 1999 of \$112.2 million, up 7% from the \$104.6 million reported in 1998. Revenues for the fourth quarter were \$27.6 million compared to \$27.9 million for the year ago period. Net income (before non-recurring income of \$.6 million) for the year of \$14.7 million produced record earnings per share of \$.86, a 16% increase over the \$.74 per share on \$13.9 million in net income (before nonrecurring events) reported for the year ended 1998. Net income for the fourth quarter 1999 was \$3.6 million (22 cents per share) compared to \$3.7 million (21 cents per share) (before nonrecurring events) for the year ago period.

Ken Shifrin, chairman, commented, "For several years, we have indicated our desire to add growth businesses to complement Prime's very profitable lithotripsy operations. Our first step was the addition of our manufacturing unit, which continues to provide us excellent growth, turning in a record performance for 1999. Effective September 1999, we entered the rapidly growing refractive (LASIK) surgery field with two major acquisitions of six laser centers. As a result of the refocusing efforts in our lithotripsy operations, we re-engineered 15 limited partnerships and added 165 new physician partners. I am pleased with our 1999 financial results and look forward to a strong performance in 2000. Growth this year will reflect both internal development as well as an aggressive acquisition effort, the first of which is the Mann Berkeley Caplan Laser Center in Austin, Texas, announced today.

- 2/29 Additional class actions lawsuits were announced against **VISX**, with suits filed by **Stull, Stull & Brody**, and **Wechsler Harwood**. By mid-March, at least 15 suits had been filed. It is assumed that these will be combined into a single class action suit at some future time.
- 3/1 **Sunrise Technologies International** announced financial results for the fourth quarter and year ended December 31, 1999. Revenues for the quarter were \$5,000 compared to \$90,000 for the comparable period in 1998. Operating expenses were \$5.3 million compared to \$3.7 million for the same period of 1998. The net loss was \$6.1 million (13 cents per share) compared to a net loss of \$4.0 million (14 cents per share) in the comparable period of 1998. For the year, revenues were \$26,000 compared to \$594,000

for the same period in 1998. Operating expenses were \$18.9 million compared to \$12.7 million for the comparable period of 1998. The 48% increase in operating expenses for the year, as compared to the same period of 1998, reflects the company's increased expenditures in development, engineering and manufacturing as it geared up activities associated with the FDA approval process. Net loss for the year was \$26.1 million (60 cents per share) compared to a net loss of \$17.8 million (52 cents per share) in the comparable period of 1998. Cash and cash equivalents as of December 31, 1999 were \$10.6 million. This amount does not include the \$11.7 million raised on January 11, 2000 through a new financing.

- 3/1 **TLC Laser Eye Centers** held a conference call with analysts and investors in which CEO Elias Vamvakes discussed the company's strategy going forward and what it intended to do with its business to business subsidiary **eyeVantage.com**. Starting with the lasers it intended to purchase in the future, Vamvakes said that future purchases would be small spot scanning laser types, primarily from **LaserSight** and **Summit** (Ladarvisions), and possibly the Technolas from **Bausch & Lomb**. Although the company currently operates 55 **VISX** laser systems, that company's plans to begin charging for enhancements and service, along with the current inventory of \$250 Key Cards -- with the price now at \$110, led to this decision. Vamvakes said that LaserSight was willing to consider its volume of procedures, and price its royalty payments accordingly, along with volume discounts in the purchase price of laser systems.

The company plans to spend about \$50 million in marketing during fiscal 2001, which will include radio, print, and some TV advertising. All will be on a local basis, with the largest amounts in areas where it appears to do the most good.

As for pricing, Vamvakes continues to believe that TLC can command a premium for the services it provides. He will let the local market determine what level the premium will be in the future, while not competing directly on price, except through its corporate advantage program, which already (after just two months of operation) accounts for approximately 20% of procedures. Expansion continues on track, with 5 new clinics set to begin contributing during the current fiscal quarter. Finally, its internet website initiative, which has generated more than 300 cases done to date, will continue. This is completely separate from its B2B subsidiary eyeVantage.com. EyeVantage, which marries doctors and suppliers doing business over the internet, will be finalizing a round of venture capital financing over the coming few weeks and is being considered for spin off to its shareholders.

- 3/2 **ICON Laser Eye Centers** announced that 4,612 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during the month of February 2000. This represents a 244% growth rate, compared with 1,340 procedures performed in February 1999. This dramatic growth reflects the continued impact of the company's "Value LASIK" pricing model, its aggressive new LVC centers development program and its initial joint efforts with **VisionAmerica Incorporated**. The February number also

reflects a 12.8% increase over January 2000, which itself showed a 38% increase over December 1999.

- 3/2 **IRIDEX Corporation** announced that enrollment had commenced in a company sponsored twenty center clinical trial which could validate an effective therapy for the majority of patients with wet age-related macular degeneration. The study titled "Transpupillary Thermotherapy (TTT) Of Occult Subfoveal Choroidal Neovascular Membranes (CNV) In Patients With Age-Related Macular Degeneration" (shortened to TTT4CNV) is a prospective, randomized, sham-controlled, multicenter clinical trial intended to ultimately determine the effectiveness of TTT in the treatment of occult CNV caused by AMD when compared to no treatment.

The study protocol uses a low dose of infrared laser light, without adjunctive therapeutic drugs, for the treatment of eyes with occult wet AMD. The laser used for the study is the company's commercially available IRIS Medical OcuLight SLx infrared laser photocoagulator. A retrospective pilot study performed by Elias Reichel, M.D., Assistant Professor of Ophthalmology at the **New England Eye Center**, Tufts University School of Medicine, reported successful reduction in fluid caused by AMD in 94% of treated eyes and stabilization or improvement in vision in 75% of treated eyes. The TTT4CNV study design was based on the protocol developed by Dr. Reichel during the pilot study.

- 3/2 As previously reported (see the February 22nd brief in last month's newsletter), **WaveLight Laser Technologie AG** announced that it had gained FDA approval for its initial clinical trial of the Allegretto scanning spot LASIK laser system, to be carried out under the guidance of Dr. Guy Kezirian of **SurgiVision Refractive Consultants**.

- 3/2 **Lasik Vision** announced plans to open 4 new laser centers in the U.S. The new clinics will be located in Pasadena, CA; Garden City, NY; St. Louis; and Portland, OR, and will be opened by the end of April. The company operates 15 centers in Canada, and through its U.S. subsidiary, **Lasik Vision USA**, operates a center in Bellevue, WA, with an additional 10 centers currently in development across the U.S.

- 3/3 **ICON Laser Eye Centers** said it had signed multiple contracts with Austrian ophthalmologists to expand its roll-on/roll-off laser vision service into Austria with planned laser sites in Vienna, Innsbruck and Salzburg. ICON's laser mobile subsidiary currently operates in approximately 35 cities in Italy with roll-on/roll-off service. **ICON LaserMobile** operates 3 mobile surgery systems and 2 fixed LVC centers using **Bausch & Lomb** Technolas 217 lasers and **Chiron** microkeratomes. ICON also delivers a full medical and technical team (which includes a laser surgeon) to the ophthalmologist client. ICON expects to soon enhance its service with the Bausch & Lomb's Topolink custom ablation system to be introduced into each of its units later this month. Simone Mencaglia, CEO of ICON stated, "ICON is the leader in Italy with both fixed LVC centers and mobile service. Austria is our first mobile venture outside of Italy and we plan to further impact the total European market which today numbers 600 million people."

- 3/6 Addressing the **Raymond James Healthcare Conference**, Stephen Joffe, **LCA-Vision** chairman and CEO, told investors that he expects first-quarter laser vision correction procedures to be at least 20% higher than the 8,541 procedures performed in the fourth quarter of 1999. "The open access centers we converted to value priced LasikPlus in the fourth quarter are beginning to hit their stride," Joffe said. "We are currently on track to easily surpass 20% consecutive-quarter growth when we report first-quarter procedures about a month from now. This would translate into at least a 40% year-over-year increase in first-quarter procedure volume." He also reiterated LCA-Vision's support for the recently announced royalty reduction by laser manufacturer **VISX**. "We applaud VISX's decision to lower the royalty payment. It will provide a substantial boost to net income this year and spark even faster growth in the LVC sector. Their decision validates our long-held position that affordability is the key to accelerating growth."
- 3/6 **SurgiLight** announced that it had signed a Letter of Intent with **MicraUSA** to form a Joint Venture in the United Kingdom to assemble and market the Escan, IR-3000, and IR-3001 laser systems. **MicraUK, Ltd.** is a wholly owned subsidiary of MicraUSA. MicraUK gained ISO 9002 and EN 46002 certification for its quality system in 1995 and it is fully accredited for European CE marking. The company manufactures instruments for U.S. companies like **Bausch & Lomb**, **Pharmacia & Upjohn**, **Alcon**, and **Codman** (a **Johnson and Johnson** Company) and international companies like **Corneal** and **Tomey**. MicraUK also has a distribution network in more than fifty countries around the world and the Joint Venture Agreement will allow the company to use the MicraUK distribution network where it is determined to be advantageous.
- 3/6 **DRS Technologies** announced a sizable order in the rapidly growing laser vision correction industry -- a milestone that marks the company's expansion into a new commercial market. As the exclusive manufacturer of electro-optical modules for the LADARVision System used in corrective laser eye surgery, the company's **DRS Optronics** unit in Palm Bay, Florida, captured a \$10.3 million order from **Autonomous Technologies Corporation**, a unit of **Summit Technology, Inc.** DRS will produce the upper optics module, which contains the unique high-speed eye tracker and microscope elements, the precision laser optics, and the excimer laser enclosures.
- 3/6 **VISX** announced that the ITC had issued a Notice of its decision in the investigation of the activities of **Nidek Co. Ltd.** and its United States subsidiaries. The Commission adopted portions of the Initial Determination of the ITC issued in December 1999, ruling that Nidek and its United States subsidiaries have not violated Section 337 of the Tariff Act of 1930, as amended on the basis that the Nidek laser system does not infringe the VISX's United States Patent No. 5,711,762 and that VISX does not practice that patent. With regard to the validity and enforceability of the patent, the Commission did not affirm the Initial Determination and took no position. The Commission did not review the findings of the ITC administrative law judge with respect to VISX's U.S. Patent Number 4,718,418. That ruling upholding the enforceability of the '418 Patent but finding that it was not infringed by the Nidek System is therefore final.

The Commission's determination is subject to review by the United States Court of Appeals for the Federal Circuit and VISX may appeal all or a portion of the decision.

Nidek also issued a press release following the decision, putting its spin on the ITC decision. Nidek claimed that the final decision was a loss for VISX, stating that the Commission concluded that Nidek was not infringing either of the two patents in the investigation, the '418 L'Esperance and the '762 Trokel. Earlier, VISX had dropped another patent (L'Esperance '148). The full ITC Commission also concluded that VISX had not established that it was using either patent and thus had failed to establish a domestic industry. In view of these sweeping outcomes, the Commission took no position on the earlier decision by the ALJ finding the Trokel patent to be invalid and unenforceable. Thus, the findings in the Initial Determination that the Trokel '762 patent was invalid and unenforceable due to improper inventorship remain intact. From Nidek's perspective this result provides future strategic advantage.

The final decision by the ITC allows Nidek to continue to freely import and sell its Nidek EC-5000 Excimer Laser System in the U.S. without any trade restrictions. The final determination of non-infringement of these patents also has potential industry wide importance, for other manufacturers such as **LaserSight** and **Bausch & Lomb**. LaserSight has previously been sued on the '418 patent.

"We are elated with the Commission's final ruling in this case, as it further substantiates the decision that was made in December 1999 by the ALJ," stated Hiroshi Okada, vice president and general manager of Nidek, USA. "The decision by the Commission is final and will allow Nidek to continue to provide the ophthalmic community with a state-of-the-art, innovative and quality product in the U.S. market."

3/7 **Paradigm Medical Industries, Inc.** reported it had received its anticipated FDA notification on its "Intent to Market Submission" for its laser system for Cataract Removal. Thomas Motter, chairman and CEO, stated the comments of the FDA are "in line" with what the company had anticipated. "We had prepared for this line of questioning and will have all of their comments answered quickly." The company is comfortable that it will receive final FDA approval within 60 days. Paradigm is working to complete its recently announced acquisition of **DICON** and is continuing to ramp up its manufacturing facility.

3/7 A public-private affiliation between the **University of California, Berkeley** and **Pacific Laser Eye Center** will establish a laser refractive surgery clinic at the *School of Optometry's Meredith Morgan University Eye Center* this March. In announcing the addition to the University Eye Center, Dean Tony Adams and Associate Dean Ed Revelli noted that refractive surgery using a laser has become an accepted procedure for many patients and that optometrists play a key role in care leading up to, and following, laser procedures. In recognition of this trend, Pacific Laser Eye Center (PLEC) has pioneered an approach that forms family optometrists and ophthalmologists into teams, with optometrists providing preoperative and postoperative care, including refractive



measurements, while surgeons concentrate on the operation itself. The affiliation, between UCB and Pacific Laser Eye Center, will better prepare students entering the profession for filling this vital role by providing a wide variety of educational and research opportunities.

3/7 **TLC Laser Eye Centers Inc.** announced paid procedure volumes for the three-month period ending February 29, 2000, with over 33,300 paid laser procedures performed at the company's refractive centers. This is a 30% increase from 25,612 the same period a year ago and was a new record volume quarter for TLC. Paid procedure volumes for the 9 months ending February 29, 2000 were more than 98,300. This represents a 60% increase over the first nine months of fiscal 1999. TLC has already performed more procedures in the first 3 quarters of fiscal 2000 than the entire fiscal 1999 year.

3/7 This month's issue of *Refractive Market Perspectives* headlined "the week that was" reporting on **VISX**, **Summit**, and **LaserSight** all cutting their per procedure fees, along with the **Bausch & Lomb's** Technolas 217C approval and its cut-price royalty fee.

The newsletter also reported that the surgeon-owned center segment gained share over both corporate and institution-owned centers during the fourth quarter. While the overall fourth quarter growth of procedures was 9.1%, the surgeon segment gained 12.6% and corporate center growth was 6.8%, while institutions gained only 2.3%. In the corporate sector, at the end of the year, TLC held a 28.0% share; LaserVision was at 22.1%; Clear Vision at 11.4%;, with LCA-Vision at 7.8%; Aries at 5.5%; and Prime Medical, Vision 21, VisionAmerica, and NovaMed holding 4.1%; 4.1%; 2.8%, and 4.2% respectively. Dave Harmon echoed early reports that procedure growth during the first quarter of 2000 is looking very good for the corporate sector.

3/7 **BioShape AG**, based in Berlin, Germany sent an email message informing me that they would be presenting on their EyeShape system at the upcoming ASCRS meeting in Boston. (I originally wrote about this company back last May, see the May 14th brief.) According to the message, "With the EyeShape system we have found a way to control the laser during refractive surgery. The result using this technology is a 100% correction each time that refractive surgery is carried out. BioShape does not use nomograms. It actually measures the cornea with an accuracy previously not attainable during refractive surgery and guides the laser to achieve optimal results. This is the key selling point for customers seeking laser treatment. They want to have it done right the first time and do not want to go through any further "enhancements". A patient would rather pay a fee for the BioShape technology and have the optimal vision after just one surgical procedure. The BioShape technology is protected by a patent in up to 40 countries. At the ASCRS Congress, we will present first results of our new flying spot laser prototype. As you might remember, we proved our technology with a stand alone measuring unit end of last year. We then decided to built a complete laser system because we wanted to present the EyeShape technology in a fully equipped running system. So our new machine can do both, treat a cornea with online control via the incorporated EyeShape module and also

use the EyeShape system with any commercial system to evaluate the real treatment of patients's corneas. The second feature will be used in clinical trials starting soon."

Much more information is available about BioShape and their EyeShape system on their website: [www.bioshape.com](http://www.bioshape.com). In checking out the webpage, I found an article on an ultraviolet fringe projector for online topometry during refractive surgery. I assume this is the instrument that they refer to in the announcement above. There is also information that the laser they are using is from **TuiLaser** of Germany -- but doesn't say which one. I assume it is their excimer laser, which is also used in the **LaserSight** system. I will report more on this development following the ASCRS meeting.

3/8 **WaveLight Laser Technologie AG** announced that it had nearly doubled its sales in the first half of the 1999-2000 business year compared to the same period a year ago, thereby setting a pattern of considerable growth into the new millenium. The company posted sales of DM 6.96 million (3.56 million Euros, or about \$3.6 million) between August 1, 1999 and January 31, 2000. Sales for the same period of the previous year were DM 3.99 million (\$2.0 million). (For the quarter ending January 31, the company had revenues of \$1.9 million.) The sales increase has placed WaveLight in an excellent position for meeting its sales projections for the entire business year. While sales in the area of eye lasers increased in January 2000, a pivotal factor in the overall positive business development has been the increased market demand for laser systems in the areas of dermatology and urology.

WaveLight is also well ahead of schedule with its planned entry into the world's largest market for eye laser systems, the United States. In November, roughly 6 months earlier than originally planned, WaveLight began the FDA process for obtaining market approval for its ALLEGRETTO laser system. In the middle of January 2000, WaveLight was granted FDA approval to begin a series of clinical studies with its excimer laser system. The first trials for gathering important patient data have already begun. In light of this expedited progress in the matter of regulatory affairs, WaveLight now anticipates that sales of its ALLEGRETTO system in the U.S. market will begin far sooner than originally expected.

The business operating results for the first half year was a loss of DM 5.54 million (\$2.8 million) and the DVFA result was DM -2.70 million (\$1.4 million). Expenses associated with the FDA approval procedures are reflected in these figures. Cash-flow according to DVFA is currently DM -2.44 million (\$1.25 million). For the second quarter, the loss was (\$1.1 million), the DVFA result was (\$1.1 million), while the cash flow was (\$0.9 million).

According to the company's quarterly report, for the half year, 48% of revenues were generated within Germany; 27% in the U.S.; and the remainder in the rest of the world. Ophthalmic lasers represented 55% of sales, while urology had 21%; dermatology 16%; with the remainder from service and training.

With the aim of expanding direct sales of dermatological laser systems into Europe, WaveLight acquired **NWL Laser Technologie GmbH** based in Lauf-Ottensoos in the middle of February from **Laserscope Inc.** Beyond the aim of gaining access to direct sales networks, the move was conceived to expand WaveLight's product line in the area of dermatology. The acquisition is WaveLight's first since its IPO in September 1999.

- 3/8 **VisionAmerica** announced that 2,077 vision correction procedures were performed by surgeons practicing at VisionAmerica centers during the first two months of 2000, with 984 performed in January and 1,093 in February. The year to date total represents a 57% growth rate compared with 1,327 procedures performed in the same period in 1999. In a month-to-month comparison, the 984 procedures performed in January 2000 represents a 46% growth rate over the 673 procedures performed in January 1999, and the 1,093 procedures performed in February 2000 represents a 67% growth rate over the 654 procedures performed in the same period in 1999. These results include the procedures performed under the company's recently announced joint effort with **ICON Laser Centers**. The first joint effort with ICON, established in Tampa, Florida, is already off to a strong start with over 1,200 procedures booked and 117 laser vision correction procedures already performed over eight days of surgery in February. To put this in perspective, this center performed a total of 525 procedures in all of 1999.

In addition, the company reported that 1,462 and 1,731 cataract procedures were performed in January and February, respectively, by surgeons in VisionAmerica eye care centers across the country. The year to date total of 3,193 cataract procedures represents a 17% growth rate compared with 2,721 procedures performed in the same period last year.

- 3/8 **CIGNA HealthCare Mid-Atlantic** announced a new program which enables its participants to receive favorable pricing for laser vision correction at the **Wilmer Eye Institute**. Effective immediately, CIGNA HealthCare participants will receive the reduced price of 20% off regular charges for LASIK and PRK corrective vision procedures, when a full-time member of Wilmer's faculty performs the surgery. The Wilmer Eye Institute is an entity of **Johns Hopkins Medicine**.

- 3/9 **LaserVision Centers** announced that revenue for its third fiscal quarter ended January 31, 2000, increased 60% to \$22.5 million compared to \$14.1 million for the same period a year ago. Revenue for the nine month period was up 92% to \$64.3 million from \$33.6 million. LaserVision said that it would have posted a quarterly record net income of \$4.0 million had a one-time \$2.4 million charge not been incurred. In addition, the company would have reported pre-tax earnings of \$0.12 per share for the third quarter. The company concluded its analysis of the new program offered by **VISX, Inc.**, currently LaserVision's principal laser supplier. After completing discussions with VISX, LaserVision said it would take a non-recurring charge of \$2.4 million due to the changes announced by Visx. (I assume because of an inventory of the higher-priced Key Cards.)

For the quarter, net income including the charge was \$1.6 million (6 cents per share) compared to net income of \$2.3 million (11 cents per share) for the quarter. Net income for the nine month period which also included the one-time charge, was \$9.6 million (38 cents per share) compared to \$3.6 million (17 per share per share) for the same period a year ago. LaserVision stated that the company's case volume continues to be one of the best in the industry. LaserVision reported that case volume for the month of February increased 54% over the same month a year earlier.

Commenting on the impact of the new VISX program and the quarter, LaserVision chairman and CEO John Klobnak said, "The one time charge related to the VISX announcement is disappointing. Despite the fact that we represent a significant portion of VISX domestic business, we were not consulted about this program and received no warning. We continue to review our options. However, it is clear this mandates the company move even faster into its previously announced market development and limited partnership strategy whereby we can leverage the lower fee more fully." Klobnak said the company had signed 19 sites to market development agreements and 11 of those sites are fully operational. The company said it expects to have 50 market development agreements in place by the end of its next fiscal year. LaserVision said that seven limited partnerships have now been signed and expect to have a total of twelve limited partnerships in place by April 30, 2000. The company said that it has added 181 new sites in the first nine months of fiscal 2000.

Klobnak noted that the move to add more market development agreements and limited partnerships in which the company sets the price and keeps a greater percentage of the patient fee had already been accelerated. Additional front-loading of both personnel and marketing during the quarter in connection with this acceleration resulted in less than one cent per share shortfall from consensus estimates (excluding the one time VISX charge).

3/10 **ICON Laser Eye Centers Inc.** announced that it had filed a Form 13-D with the U.S. Securities and Exchange Commission (SEC) outlining the terms of its purchase of 440,000 common stock shares of **VisionAmerica Inc.** in open market transactions and 1 million newly issued VisionAmerica shares from the VSNA treasury or 14.4% of the VisionAmerica commission shares outstanding. The companies have agreed to expand and implement ICON's "ValueLASIK" model in select VisionAmerica centers.

In the first month of operations, in excess of 2,400 LVC procedures have been paid for and scheduled for consultations in five joint VSNA centers. ICON and VisionAmerica intend to roll-out at least 5-6 additional joint centers in the month of March and plan to launch additional joint operations in April. Ghassan Barazi, president and COO of ICON, said, "ICON will roll-out pre-opening campaigns in planned VisionAmerica markets promoting our special opening prices. ICON has a challenge to integrate VisionAmerica LVC centers with ICON's aggressive introductory campaigns that will target up to 2 markets per week. ICON controls the speed of center openings and the delivery of a quality LASIK result by seeking to affiliate with the best ophthalmic and/or optometry groups in each market that it enters and then begins upgrading their methodology and

technology. It is a formula that works for us and allows us to capture first mover advantage."

3/10-

3/13 **LaserSight Incorporated** announced that it had purchased all intellectual property relating to a technology development project under design to provide an integrated refractive diagnostic work station that includes front-to-back analysis of aberrations within the total eye from **Premier Laser Systems**. LaserSight also entered into an exclusive worldwide license to certain topography patents related to the technology under development. Total consideration is \$4 million in cash, which will be paid in three installments over the next 60 days.

Following the initial announcement, the company discussed its acquisition and held a conference call to answer questions. Michael Farris, president and CEO of LaserSight commented that, "The technology we acquired includes the acquisition of two U.S. patents, six foreign patents, and a pending patent application along with an exclusive license to nine patents that will allow the company to complete development of an integrated refractive diagnostic work station. This diagnostic tool is intended to be utilized with our Advanced Shape Technology Refractive Algorithms (ASTRA) system, for personalized treatment plans. Upon completion of development, the new work station will integrate wavefront analysis and corneal topography into a single instrument with additional diagnostic capabilities. ASTRA represents a new standard of eyecare that goes beyond conventional laser vision correction by individualizing the laser treatment utilizing a patient-specific set of diagnostic criteria intended to address and control both refractive error and optical aberrations." The company intends to launch international studies for ASTRA next month. The physicians involved in the studies include Jeff Machat, MD, Michiel Kritzinger, MD, Jose Guell, MD and Jack Holladay, MD. A commercial release for the international market is targeted for the third quarter of this year.

As part of the technology transfer LaserSight announced that David Liu, Ph.D. had joined the company. Dr. Liu brings to LaserSight an impressive background in ophthalmic instrumentation, having served as director of research and development at **Premier Laser Systems** and prior to that at Premier's **EyeSys Ophthalmic Division**. Dr. Liu was instrumental in envisioning and developing the next generation ophthalmic instrument (TopoMax) for refractive diagnostics. He helped create the EyeSys Topographer and EyeSys Software brand name and led the development of EyeSys System 2000 and Vista instrumentation. The company also secured the services of Edwin Sarver, Ph.D. the co-inventor of the TopoMax. Dr. Sarver, president of **Sarver & Associates**, is a specialist in computer graphics and image processing and will provide consulting services to LaserSight on an exclusive basis for systems design and software development related to measurement and simulation of the human visual system and its correction.

The company has begun upgrading its 10 LASIK clinical trial sites to include eyetracking technology and advanced laser technology with a repetition rate of 200 Hz. This small

precision spot high speed scanning technology with advanced eyetracking represents a unique platform for surgeons that will be looking for market differentiation and the next generation of technology that is designed with the future in mind. The data from these clinical trials is expected to be filed with the FDA in the third quarter for both myopia and hyperopia with astigmatism for LASIK. The company's excimer laser system approved in the U.S. for laser vision correction will be upgraded to include the 200 Hz laser repetition rate and the advanced eyetracking system upon FDA approval of a PMA supplement scheduled to be filed in the second quarter of this year. The company also reported that the manufacturing and sales activities for the LaserScan LSX is proceeding on schedule for shipments this quarter.

Following the announcements, Al Kildani of **Pacific Growth Equities** issued an update report on LaserSight with his take on the news. Commenting on the intellectual property acquired from Premier Laser Systems, "The Company intends to develop a diagnostic workstation that will be integrated with its proprietary software, ASTRA, that acts as a surgical planner which is then executed by the excimer laser. The technology will incorporate a number of diagnostic features, notably waterfront analysis and corneal topography, that will provide a complete front-to-back analysis of the eye. A prototype of the workstation has been built and the company intends to begin international clinical trials next month and expects international commercialization of the device to begin in Q3:00. We expect results of initial treatments using the system to be available at this May's American Society of Cataract and Refractive Surgeons (ASCRS) meeting. U.S. clinicals are expected to begin late this year. The desktop workstation will likely be sold as a stand-alone product which can be easily integrated with the LaserScan LSX. By facilitating the next step in LVC technology, custom ablation, the company can derive an additional per procedure revenue based on royalties charged for use of this technology. We believe the stand-alone workstation could be unveiled as early as this year's American Academy of Ophthalmology (AAO) meeting in Q4:00. We believe that a system incorporating the diagnostic workstation will capitalize on the key strengths of the laser technology -- the small spot laser beam and its high repetition rate."

Kildani went to note that as expected, the company should begin shipping initial U.S. LaserScan LSX units this quarter, with 4-5 units shipped in Q1:00, and substantial ramp-up over the remainder of the year. The company will file a PMA supplement to allow the LSX to be upgraded to include an eye tracker and to boost the repetition rate to 200 Hz. It is also on track to file a PMA for LASIK myopia, hyperopia, and astigmatism in Q3:00. He concluded, "The race toward custom ablation is on and LaserSight has shown that it is at least keeping pace with the competition. We continue to believe that LaserSight is in a strong position to compete for next generation laser placements along with **Summit Technology** and **Bausch & Lomb**. We are currently reviewing our financial model to incorporate incremental revenues from per procedure royalties and higher expenses associated with **VISX** litigation. We expect our updated model to be available shortly. We look for the following catalysts to drive the stock toward our price target: (1) news of product orders as well as initial shipments, (2) approval for astigmatism and

additional indications, and (3) progress in the development of an integrated custom ablation system. We reiterate our **Strong Buy** rating.

- 3/13 **Lasik Vision Corporation** announced that it expected first quarter laser vision correction procedures to be more than 30% higher than the 19,173 procedures performed in the fourth quarter of 1999. "As the North American leader in providing affordable laser vision correction, Lasik Vision continues to see the validation of its business model through procedural growth, the increasing demand for its services and the decision of our competitors to lower their prices. We expect to surpass 30% consecutive-quarter growth when we report first-quarter procedures in the first week of April. Based on this outstanding sequential growth, Lasik Vision would achieve a more than 400% year-over-year increase in first-quarter procedural volume," said Michael Henderson, president and CEO.

According to a story from *Street Wire*, Lasik Vision and its director, Dr. Hugo Sutton face another eye surgery suit. In the latest eye surgery suit, a 36-year-old Edmonton software company controller claimed he had suffered significantly impaired vision since Dr. Sutton performed bilateral LASIK eye surgery for myopia on March 13, 1998. The company cautioned that the allegations have not yet been proven in court, statements of defence have not yet been filed, and a number of suits from other disgruntled patients of Dr. Sutton have been hotly contested and vigorously defended. The vast majority of eye surgeries performed by Lasik and Dr. Sutton have been successful. In the suit, filed Friday in the Supreme Court of British Columbia, Vancouver, lawyer Peter Butler of **Farris Vaughan Wills & Murphy** claimed his client Darren Steele's earning capacity as a controller, or other professional accounting position, could be seriously affected. The suit also claims the surgery had significantly affected Steele's life, as he has to be careful about driving a motor vehicle, his depth perception is not good, he is unable to read for long periods of time and he is unable to water-ski or do some of his other hobbies. Steele claims he went to Dr. Sutton to correct his short-sightedness, and he previously wore contact lenses and glasses. The suit claims the LASIK, surgery performed by Dr. Sutton caused severe pain and has led to continued pain, excessive tearing, extreme light sensitivity, blurred and distorted vision in both eyes, severe headaches and eye strain. Steele claims the left eye was so painful and vision was so damaged by the surgical procedures that on Jan. 4, 1999, he was forced to obtain a corneal transplant. The suit claims that after initially determining Steele's eye flaps were short (?), Dr. Sutton should have replaced the flaps without any lasering and had the patient return two to four months later for the procedure. The suit claims that correcting the problems to Steele's right eye will now be very difficult, if not impossible, because of the "irregular ablation" pattern. In the suit, Butler claims Steele's vision in his right eye is permanently damaged, and the severe and permanent damage to his left eye was to such an extent that he was forced to undergo corneal transplant surgery.

- 3/13 **ICON Laser Eye Centers, Inc.** announced the completion of the acquisition of a 100% interest in the **Exximer Laser Center** of Vancouver, British Columbia. The arms-length transaction consisted of convertible notes totaling (CDN)\$200,000 and future service

contracts. The convertible notes are convertible into approximately 33,500 ICON shares. Simone Mencaglia, CEO of ICON stated, "Vancouver is one of the most competitive markets in the world. It is important for ICON to be in the Northwest, in that ICON currently owns 100% of the **London Place Eye Centers** of New Westminster and Prince George, British Columbia, the two leading centers in the world offering the premium-priced proprietary "No Touch" laser vision correction procedure...Excimer and its founding surgeons Dr. Malcolm McLean and Dr. Craig Beattie have the finest reputations in the market. ICON is fortunate that they have joined our family."

3/14 **LCA-Vision** announced that it had completed the conversion of its open access laser vision correction centers to value-priced LasikPlus operations. With the conversion of centers in suburban Chicago and Southern California, all 20 U.S. LCA-Vision locations are now operating as LasikPlus. Commenting on completing the conversion to LasikPlus, LCA-Vision chairman and CEO Stephen Joffe said, "As promised, we completed the conversion to value-priced LasikPlus before the end of the first quarter. Along with the two brand new centers we will open in the next few weeks, LCA-Vision will begin the second quarter with 22 LasikPlus centers ready to contribute to our goal of doubling procedure volume in 2000." LCA-Vision performed 33,266 laser vision correction procedures in 1999.

3/14 **Sight Resource** announced results for the fourth quarter and the year ended December 25, 1999. Revenue for the fourth quarter increased 23% to \$15.5 million compared to \$12.6 million for the comparable 1998 period. The net loss in the fourth quarter was \$3.3 million (36 cents per share) versus a net loss of \$1.2 million (14 cents per share) in the prior year. Fourth quarter 1999 results include the operations of **Shawnee Optical**, acquired effective January 1, 1999, and **Kent Optical**, acquired effective April 1, 1999. Results for the fourth quarter include expenses of approximately \$150,000 for the consolidation of laboratories and the closure of under performing stores. Sales in optical divisions, excluding 1999 acquisitions, were essentially flat compared to the prior year. The company operated 130 vision centers as of December 25, 1999, compared to 93 vision centers as of December 26, 1998.

For the year, revenue increased 22% to \$67 million from \$55 million reported in 1998. The net loss for the year was \$2.9 million (31 cents per share) versus a loss of \$1.0 million (11 cents per share) for the prior year. In 1999, a charge of \$1.2 million was recorded as an allowance for doubtful accounts related primarily to certain old managed care receivables and a charge of \$323,000 for deferred financing fees. Sales in optical divisions, excluding 1999 acquisitions, were down one percent, compared to the prior year.

Commenting on the quarter and full year results, Bill Sullivan, president and CEO stated, "This past year has been much more challenging for the company than originally planned and has been a difficult time for our industry. Our management team recognizes that our performance in 1999 failed to meet both our internal goals and the expectations of our shareholders. Simply, our performance was unacceptable. We are committed, as a



company, as a management team, and individually, to exploring every viable avenue for improving our performance for our shareholders, employees, and business partners. We understand that we have much work to do, both to enhance our sales volumes, and to better manage our costs...Laser vision correction is a growing segment of the market and will continue to grow as consumers become more educated on the procedure. During 1999, the company entered into a refractive laser access agreement with **Laser Vision Centers, Inc.** The company benefits with this partnership by being affiliated with a major laser vision correction company, without incurring major capital expenditures. LVCI provides the laser access and affiliated ophthalmologists perform the procedure. Sight Resource performs pre-screening, post-operative care, and performs all of the administrative tasks while maintaining the relationship with our patients."

- 3/15 **Miravant Medical Technologies** announced financial results for the fourth quarter and the year ended December 31, 1999. Revenues, net interest, and other income for the fourth quarter decreased to \$4.0 million from \$4.8 million for the same period in 1998. The net loss for the quarter decreased to \$5.9 million (33 cents per share), compared to a net loss of \$7.0 million (44 cents per share) for the same period in 1998. Revenues, net interest, and other income for the year were \$15.4 million compared to \$13.7 million for the same period in 1998. The company reported a 1999 net loss of \$22.3 million (\$1.25 per share), compared to a net loss of \$28.1 million (\$1.94 per share) for the same period in 1998. The company has cash and marketable securities of \$22.8 million and \$7.5 million available under a credit agreement with **Pharmacia & Upjohn**.

"In 1999 we expanded our research base, achieved important milestones in targeted disease programs, and moved PhotoPoint closer to our first drug approval," stated Gary Kledzik, chairman and CEO. "This year, with the hard work and focus of our scientific and business teams, we expect to build on last year's accomplishments and accelerate our progress on all fronts."

- 3/15 **Presby Corp.** announced that it had filed suit against **Surgilight, Inc.** for patent infringement on March 14th in the United States District Court for the Middle District of Florida, Orlando Division. Presby Corp. and its parent company, **RAS Holding Corp.**, own multiple domestic and international patents directed to methods, devices and systems for the treatment of presbyopia and other eye disorders. One such patented methodology is directed to the use of laser irradiation to weaken the sclera (the white of the eye), to thereby manipulate the ciliary muscle to treat presbyopia. Presby Corp. developed its proprietary methods, devices and systems, generally referred to as "scleral expansion", for the reversal of presbyopia. Presby Corp.'s international patent portfolio is directed to, and includes within its scope, any means and methodology that increases the effective working distance of the ciliary muscle in the presbyopic eye.
- 3/15 **CIBA Vision**, the eye care unit of **Novartis AG**, and **QLT PhotoTherapeutics, Inc.** announced the expansion of the ongoing Treatment-Investigational New Drug (T-IND) clinical program for Visudyne (verteporfin for injection) therapy for the treatment of the wet form of age-related macular degeneration (AMD). The program, in which more than

3,000 patients in North America have already been treated, will be expanded to provide Visudyne therapy, prior to regulatory approval, to additional patients with the predominantly classic form of wet AMD who meet specific eligibility criteria. The program began September 15, 1999, with 200 participating sites each able to enroll up to 20 patients. An amendment to the T-IND filed March 15, 2000 with the FDA will allow for the addition of up to 200 new sites which will enroll up to 10 patients each. In addition, current sites will now be able to treat up to 10 additional patients.

- 3/16 **SurgiLight Inc.** clarified its position regarding its pending patents and disclosed certain information on its lasers for presbyopia. The company also responded to the patent issues relating to the potential infringement suit from **Presby Corp.** The company believes there is no basis for this suit and that the allegations are without merit and completely false. SurgiLight currently has three patents pending regarding the laser techniques for presbyopia correction. These patents were filed in November, 1998, and in May and September, 1999. These pending patents cover a broad range of wavelengths for the correction of presbyopia, and innovative laser beam reshaping techniques. The company believes that these pending patents are extremely innovative and very different from anything in the prior art. The company also believes that it is the first and the only company to develop a complete laser system that has performed actual clinical cases for the treatment of presbyopia in patients between the ages of 42 to 65. This data was reported at the October, 1999 ISRS Conference in Orlando.

The company received a letter from **RAS Holding Corp.**, which represented Presby Corp., last month requesting that the company disclose confidential information regarding the company's pending patents in an attempt to discuss a possible Licensing Agreement to use the patents owned by Presby Corp. The company categorically rejected the proposal by RAS Holding Corp to disclose confidential and proprietary information regarding the company's patents as they are still pending and have not yet been granted. The company believes that Presby Corp. (and RAS Holding Corp) has limited knowledge regarding the company's innovative technology and the intent to sign this Agreement was an attempt to gain more information about the company's new technology. Prior to these patents being granted, the company will not consider disclosing any of its proprietary information nor will it negotiate any agreements or offer licenses with any party.

In the patent suit filed by Presby Corp they claim that one of their patents covers the use of thermal laser radiation to weaken the sclera for presbyopia correction. The company believes that its pending patents cover innovative techniques including the laser parameters and the clinical aspect which are totally different from what Presby Corp. proposed as thermal lasers. In fact, the company's new lasers for presbyopia correction require single-mode, small spot and a wavelength that produces very limited amounts of heat or "cold" laser energy, and other clinically related issues that have not been disclosed to the public to protect the validity of the patent claims. The company also believes that Presby Corp has not tested a laser suitable for presbyopia correction and has been limited to the uses of a mechanical device.

- 3/16 **LaserVision Centers** announced that its Board of Directors had authorized a share repurchase program of up to five percent (5%) of the company's common stock. LaserVision expects the approved repurchases to be effected from time to time in the open market in privately negotiated transactions, or otherwise, subject to the market price of the common stock and overall market conditions. The purpose of the repurchase plan is to meet the company's obligations under its stock option plans and other stock-based plans, while minimizing dilution to shareholders.
- 3/16 The April 1st issue of *Ocular Surgery News* available online two weeks prior to publication, contained an excellent (8 page downloaded) overview of "the week that was", in the story entitled, "Tumultuous Week Shakes Excimer Makers".
- 3/17 **ICON Laser Eye Centers, Inc.** announced that it expected first quarter laser vision correction procedures to be up more than 40% over the 9,614 procedures performed in the fourth quarter of 1999. Simone Mencaglia, CEO of ICON stated, "As the world's leading 'Value LASIK' provider, ICON continues to experience strong growth in the face of competitors who are adjusting their business models towards the delivery of very favorable refractive results at reduced prices. It is ICON's goal to bring a quality LASIK result to everybody desiring to experience the miracle of laser vision correction. ICON is currently operating 23 LVC centers excluding VisionAmerica laser eye centers, which ICON anticipates being rolled out into the ICON model at a rate of approximately 2 every week. ICON should operate at least 50 LVC centers across North America and Europe by July 2000 when it expects its **VisionAmerica** roll-out program to be fully implemented. These programs will reinforce ICON as the world's fastest growing LVC provider."
- 3/19 As reported by *CL Today*, through a new website, **MedicineOnline.com**, consumers can bid for medical services, including refractive surgery. Consumers log on and post an anonymous procedure-specific request. Within 72 hours, they receive fee quotes from several practitioners. There are 36 procedures offered at the site.
- 3/20 **Summit Technology** announced that the FDA's Ophthalmic Advisory Panel had unanimously recommended approval of **Autonomous Technologies'** PMA Supplement for treatment of hyperopia with or without astigmatism and mixed astigmatism using LASIK, with conditions. The Panel recommended approval of the LADARVision System for up to +6.0 diopters of hyperopia, as well as an astigmatism range of up to -6.0 diopters. Final acceptance of the Panel's recommendation by the FDA would result in Summit systems having the broadest range of approvals of any FDA approved laser. The Autonomous LADARVision System is presently approved for the treatment of Myopia (up to -10.0 D sphere and up to -4 D of astigmatism) using PRK.
- 3/20 **WaveLight Laser Technologie AG** provided some details about the FDA clinical trial underway in the U.S. The purpose of the clinical study, carried out in the context of market-approval procedures stipulated by the FDA, is to gather data that demonstrate the safety and effectiveness of the ALLEGRETTO excimer laser system. The first clinical

trial involving WaveLight's innovative laser system for LASIK was conducted on February 11, 2000 in Phoenix, Arizona. The laser procedures were carried out by Dr. David Dulaney at the Barnet Dulaney Eye Clinic. The principal investigator of the trial series that is being carried out at various laser centers in the United States is Dr. Guy Kezirian, president of **SurgiVision Refractive Consultants, LLC**. Senior Medical Monitor is Dr. Theo Seiler, MD, from the University Eye Clinic in Zurich, Switzerland. The ALLEGRETTO excimer laser system operates with an ultra swift, active eye-tracker and is equipped with a Scanning Spot system that works at a pulse frequency of 200 Hz. A 6.5 mm diameter optical zone was used.

At the end of the trial, Dr. Dulaney expressed his satisfaction both with the laser system's performance and the surgical results achieved. Above all he praised the precision of the active eye-tracker, which directs the laser beam on-line at a frequency of 250 Hz and thereby ensures precise corneal sculpting even under surgical conditions involving rapid-twitch eye movements.

- 3/20 **Aris Laser Vision Institute** has named "**theAgency**" as agency of record for their chain of laser surgery centers. Awarding the \$4 million creative and media business to the somewhat mysterious shop, Aris looks to "theAgency" to increase the current number of eye surgeries performed in their California, Utah, and Boston institutes while leading their expansion across the country. "In today's constantly changing market landscape, we need an advertising partner who understands the retail environment as well as brand building," said Catherine McCallum, Director of Marketing for Aris Laser Vision Institute. "We are delighted to have theAgency as our partner and look forward to a long and prosperous business relationship."
- 3/20 Richard Burnett of *The Orlando Sentinel* wrote about the trials and tribulations of JT Lin and his **SurgiLight** enterprise, in an article entitled, "Laser Entrepreneur Seeks New Beginning". In the story, Burnett chronicled JT's past history with both **LaserSight**, and **Photon Data**, and the troubles he had with the latter with both the SEC and FDA (who seized his lasers). Now a public company, SurgiLight seeks to turn around the former image by playing it straight and innovating in both ophthalmology (with a laser treatment for presbyopia) and in dermatology (with laser treatments for psoriasis and vitiligo (?). The presbyopia treatment apparently involves treating the sclera to allow the natural lens to regain room for contraction and expansion, similar to what **Presby Corp.** is doing with scleral band inserts. And the latter is suing SurgiLight claiming infringement of Presby's patents. Clinical trials for the dermatological conditions are underway at Mt. Sinai Hospital in New York, while trials for the presbyopic application should begin shortly at the same institution.
- 3/21 **LCA-Vision** announced that it had added two new LasikPlus centers, in the Chicago suburbs of Oak Brook and Riverwoods. Along with last week's conversion of LCA-Vision's three-year-old center in the western Chicago suburb of Schaumburg, the company now has three value-priced LasikPlus centers serving the 6 million consumers that live in the greater Chicago metropolitan area. Commenting on the new LasikPlus

centers in the Chicago area, LCA-Vision chairman and CEO Stephen Joffe said, "Consumer response to LasikPlus has been a resounding success wherever it has been introduced. Our market research clearly indicates that price has been a major hurdle for many Chicago area consumers who have already decided that they want laser vision correction. With three LasikPlus centers in the greater Chicago area, we are well positioned to tap this pent-up demand." Joffe also noted that having three centers in the same media market would allow the company to leverage its marketing dollars across multiple centers. "This makes our saturation marketing efforts far more cost effective, and allows us to quickly establish LasikPlus as the most prominent provider in the Chicago area. We plan to open at least eight more U.S. centers this year, and the advantages of multi-center marketing will continue to play a critical role in siting new locations in existing markets."

- 3/22 **Bausch & Lomb** announced that it was launching Zyoptix, an integrated system for personalized laser vision correction. The system will debut during live LASIK (Laser in-situ Keratomileusis) surgery demonstrations broadcast to surgeons at 25 different sites around the world. These live procedures will be broadcast from Toronto, as well as Milan, Italy, on March 25 as part of Video Refrattiva 2000, the largest annual international satellite congress on refractive surgery bringing together more than 10,000 ophthalmic surgeons around the world via satellite and the Internet.

The Zyoptix system integrates the new Zywave wavefront analysis device with 3-D corneal mapping from the Orbscan II. The new integrated system calculates an optimal corrective solution and then displays the simulated patient outcome for the surgeon's review and approval before moving on to the laser correction. The Technolas 217, modified with the Zylink upgrade, utilizes both a 2-mm and a 1-mm flying spot beam to quickly create the prescribed treatment. "This technology may literally deliver life changing vision," said Hakan Edstrom, senior vice president and president of the surgical division of Bausch & Lomb. "Zyoptix goes beyond correcting refractive conditions to increase the possibility of actually improving the eye's visual capabilities to enable patients to see better than ever before. This technology reinforces and advances our commitment to provide refractive surgeons with the technologies to achieve 20/10 vision for their patients by 2010."

The Zyoptix system is not yet available for sale in the United States. Following the demonstration of Zyoptix at Video Refrattiva 2000, Bausch & Lomb plans to initiate clinical trials for this technology in the United States. The technology will be marketed outside the United States beginning in the second half of 2000.

- 3/22 Staff Writer Craig Schneider, writing in *individualinvestor.com*, noted that **Summit Technology**, "the No. 2 maker of lasers for vision correction, may be only a few months away from making the lasers of market leader **VISX** a whole lot less attractive." With the recent FDA Ophthalmic Panel recommendation for Summit's subsidiary's LadarVision approval for farsightedness with and without astigmatism. With the new indications, "Summit's laser would have all that **and** a next generation scanning spot technology to

boot. Visx would be forced to compete with its older wide-beam technology almost entirely on the basis of price." Quoting Al Kildani of **Pacific Growth Equities**, "They (doctors and centers) would have 100% capability of swapping out of a Visx laser to a Summit laser." With Summit also awaiting approval of severe nearsightedness, Kildani expects Summit to get approval for all of these indications in the next two to three months. And when that happens, "Visx's 70% to 75% market share is ripe for the picking."

According to Schneider, analysts have reduced revenue expectations for laser makers in 2000 to reflect cuts in procedure fees, but many still see Summit gaining market share from VISX. **Warburg Dillon Read** expects VISX's revenue to fall to \$195 million from \$271 million in 1999. Revenue estimates for Summit range widely from **Chase H&Q's** \$125 million to **Pacific Growth's** \$145 million, both up from \$111 million in 1999. (In a mini-survey I conducted with six of the analysts following either or both of the two companies, I came up with a consensus of \$138 million for Summit, and \$193 million for VISX. This compares with my revised estimates of \$125 million for Summit and \$165 million for VISX.)

Schneider's bottom line: Summit, particularly with the pending FDA approvals, looks to be well positioned to benefit from the expected changeover in the industry to the next generation laser technology and will likely continue to gain market share from VISX.

- 3/22 **SurgiLight Inc.** announced that **OTC Financial Network**, a division of **National Financial Communications Corporation (NFC)** of Needham, Massachusetts, had issued an in-depth analytic report on the company. The report is available online, at [www.otcfn.com/srgl/4page.html](http://www.otcfn.com/srgl/4page.html). Written by Geoffrey Eiten, president of National Financial Communications, the report puts the company in a very favorable light. Eiten commented, "The market for laser applications in the ophthalmology and dermatology industries is enormous, and SurgiLight, Inc. has the innovative technology to assume a position of leadership."
- 3/23 **Lasik Vision** announced that it had agreed to an on-line advertising program with **Stockgroup.com**. Lasik Vision will be featured for six weeks on Stockgroup.com's new program, Investor Marketplace, which includes strategically-placed banner ads on more than 30 of the top on-line investment sites, including **WallStreet Research Net**, **Reuter's MoneyNet**, **thomasoninvest.net**, **MSN Money Central**, and **Motley Fool**, which will provide a link to Lasik Vision's company snapshot and stock information.
- 3/24 **VisionAmerica** accepted the resignation of Ronald Edmonds, CFO, effective immediately. Immediate efforts are underway to recruit a new CFO. The company anticipates that the filing of its Form 10-K for 1999 will be delayed. The 1999 audit has not been completed and may not be completed for several weeks. A principal reason for this delay is the recent discovery by the Board of Directors of substantial amounts of unpaid payroll taxes. The company estimates that \$3.5 million of additional payroll,

withholding, and other taxes, penalties and interest liabilities exist, in addition to a previously accrued \$5 million payroll tax liability. The company has engaged outside expertise in attempting to obtain an agreed repayment schedule for this \$8.5 million payroll tax liability. The company expects charges to operations as high as \$3.5 million related to this issue. The periods to which such charges may be allocated have not been determined, but such final determination may result in the restatement of previously announced results for 1999.

Although complete 1999 financial results are not available, the Company estimates fourth quarter losses (excluding any potential impact of the payroll tax issue discussed above) of approximately \$2 million, of which approximately \$1.2 million is attributable to restructuring expenses for certain management contracts. As a result of these matters, the Company is in violation of certain covenants of its credit agreement with its primary lenders.

The company also announced the election of Ernest Remo and Ghassan Barazi to the company's Board of Directors, which has been expanded to eight positions. Remo is vice-chairman of the board of **ICON Laser Eye Centers, Inc.**, and Barazi is president and COO of ICON. ICON has pledged its support and continuing efforts to develop joint refractive surgery programs in VisionAmerica markets. Currently, the companies have developed five joint campaigns and have plans to launch these programs in four more VisionAmerica markets in the next several days.

- 3/24 **Robertson Stephens** senior medical technology analyst Wade King, MD reiterated his \$30 price target on VISX. "Shares of VISX are trading at a little more than five times our year 2001 revenue estimate of \$232 million, and less than 15 times our year 2001 earnings per share estimate of \$1.20," said King. "We consider this to be an inordinately low valuation for far and away the market leader in U.S. LVC, run by a management team with such experience and capabilities. Moving forward, we believe the reduction in end-user pricing for LVC surgery could help to expand the overall market," said King. "In our opinion, procedures in the first quarter of 2000 are tracking nicely, and VISX's reduced license fee has generated significant interest from LVC market participants that were previously not VISX customers. For 2000, we forecast 1.3 million U.S. LVC procedures, with more than 900 thousand performed on VISX lasers."
- 3/24 Debra McGarry, of **CBS MarketWatch**, wrote "The vision thing: **Bausch & Lomb** sees opportunities in lasers", in which interviewed COO Carl Sassano about B&L's strategy for entering the laser portion of the refractive surgery market. However, "Bausch has no doubt of its ability to gain market share over all its competitors in the U.S.," said Sassano. He said Bausch & Lomb's narrow beam technology is superior to machines offered by its rivals." The Technolas, which is used for the fastest growing procedure for vision correction...LASIK, costs more than its competitors, about \$500,000 per machine. The technology has a 95% to 98% success rate -- which means a higher percentage of people return to 20/20 vision the first time around, according to Sassano. "BOL's share of

procedure volume is likely to grow in the range of 30% to 50% in 2 to 3 years," said Sassano.

Sassano said he thinks Bausch's stock has been unfairly punished by the recent happenings in the ophthalmic market. Bausch hopes to unseat VISX's command, approximately 70%, of the LVC market with its technology, which the company claims is superior to its competitors. "We produce better results for the doctor -- that's our selling point," noted Sassano. "BOL is going to win a lot of business," he added. Bausch has additional competitive advantages because it sells a comprehensive line of refractive surgery products, everything from blades to diagnostic tools such as the OrbScan, which some of its competitors don't yet offer.

### **OPHTHALMIC LASER UPDATE -- April 2000**

- 3/21 Dave Therkelsen of **Dain Rauscher Wessels** initiated coverage of **Akorn, Inc.** with a "strong buy" recommendation. Akorn is primarily an ophthalmic drug company, and the only reason I mention Therkelsen's new report on the company is because of the company's involvement in the laser treatment of AMD using its indocyanine green (ICG) as part of **Iridex's** clinical trials in the AMD arena. Currently, ICG is used as a diagnostic for identifying the feeder vessels for AMD, but might also be used therapeutically in closing these vessels using Iridex's diode laser. Akorn expects to file an NDA for the use of the drug for this application in the fourth quarter of 2003, with potential approval anticipated in late 2004.
- 3/24 **U.S. Vision, Inc.**, as part of its announcement of fourth quarter and year-end results, noted its co-management agreement with **Laser Vision Centers** to provide laser vision correction to customers in four major U.S. markets - Chicago, Illinois; Denver, Colorado; Philadelphia, Pennsylvania; and Los Angeles, California. This arrangement will allow the company's customers the expertise of LVCI in performing the procedure and the convenience of follow-up visits with a certified OD at any specified U.S. Vision location, while enhancing foot traffic in these major markets.
- 3/25 An *Associated Press* piece by Peggy Andersen, "New Border Battle Rages Over Laser Eye Surgery", discussed the cross-border battle between U.S. and Canadian eye surgeons "having all the civility of a hockey brawl". American doctors typically charge between \$4000 to \$5000 for both eyes, while centers like **Lasik Vision Canada**, which operates 15 clinics north of the border, only charges \$999 for both eyes as well as all pre- and post-operative visits. Michael Henderson of Lasik Vision Canada, scoffs at the U.S. rates as "gouging" and notes his company "did over 46,000 eyes" last year.

U.S. doctors fret that price isn't the best reason for choosing a health-care provider. "More people fear blindness than fear death, so it's interesting so many people would be willing to risk it," says Dr. John Sonntag in Boise. Henderson dismisses the liability issue, saying malpractice claims are based on "a surgeon making a mistake - rarely from seeing someone on a post-op visit." Stateside doctors and health administrators say it's not that



simple. "Our court system is funny that way. You typically inherit some liability" by providing follow-up care for a procedure that has a bad result, said Ken Taylor, vice president and health-care-industry consultant with **Arthur D. Little** in Cambridge, Mass.

Suing for malpractice in Canada -- where judges generally decide damages -- is not as lucrative. A patient unhappy with Canadian clinic results may go after the U.S. doctor who provided follow-up and has relatively deep pockets through malpractice insurance, said administrator John Bell with **Maine Eye Care Associates** in Waterville, Maine. Some doctors are willing to do follow-up if they know the surgeon or clinic involved. But they prefer advance arrangements.

- 3/27 Following the March 24th announcement about the unpaid payroll taxes, **VisionAmerica** announced that its Board of Directors had instructed management to redirect the company by first paying down a substantial portion of its \$40 million of debt owed mainly to its primary lending banks and the Internal Revenue Service. The company will begin immediately to interview investment banking firms towards the goal of selling subsidiaries that strategically do not fit and towards raising new capital with minimum dilution -- a quest to enhance shareholder value.

Separately, Ghassan Barazi was appointed COO. Barazi has expertise in developing and implementing laser vision correction programs and in managing high volume cataract surgery practices. Barazi is a board member and also COO of **ICON Laser Eye Centers**. Thomas Lewis, president and CEO, stated that "VisionAmerica is in a state of restructuring, and we believe that we understand the issues and can implement plans and strategies to redirect the company for the ultimate benefit of our shareholders. The company, our primary lending banks and our new investor, ICON, were all surprised by these recent developments and all are insisting that the company meet its obligations and then preserve and enhance shareholder value. Our immediate plans are to negotiate a settlement plan with the IRS, substantially reduce our debt, get back to profitability and then build from a solid base toward being a leader in the eyecare industry with laser refractive and cataract surgery leading the way."

The company also announced that four additional VSNA/ICON Laser Eye Centers were opening this week. With the addition of these four new centers, VSNA and ICON will have jointly developed nine laser vision centers. The first five joint laser vision centers having generated approximately 5,100 LASIK evaluations during their first few weeks of activity. These same centers collectively performed an average of 20 LASIK procedures per week in 1999.

- 3/27 **Escalon Medical Corp.** reported on the significant progress at **IntraLase Corporation**, in which Escalon Medical currently holds an equity investment. IntraLase was created in December 1997 through the combination of Escalon's ultrafast laser business with the licenses and technology of the **University of Michigan**. IntraLase's Femtosecond Laser Keratome System was granted 510(k) marketing approval by the FDA in December enabling IntraLase to market, sell and distribute its laser system as an alternative to

mechanical microkeratomes for LASIK vision correction procedures. IntraLase plans to begin selling the laser device at the American Academy of Ophthalmology meeting in Dallas in October 2000. Richard DePiano, chairman and CEO of Escalon said, "IntraLase has made considerable progress since its creation just over two years ago. While the IntraLase laser is configured to create superior hinges for the popular LASIK procedure, this is only the first and simplest application of the fascinating technology. Many new applications are on the horizon. We hope surgeons will eventually view the IntraLase laser as a multi-purpose tool, replacing a stable of microkeratomes for high volume surgeries."

3/27 **LaserSight** announced financial results for the fourth quarter and year. Revenues for the quarter increased approximately 40% to \$4.6 million from \$3.3 million in the fourth quarter of 1998. The company reported a net loss of \$4.6 million (26 cents per share) for the quarter, compared to a net loss of \$6.0 million (46 cents per share) in the same period of 1998. Internationally, the company sold 13 LaserScan LSX excimer laser systems in the fourth quarter, an increase of over 60% compared to the 8 sold in the fourth quarter of 1998. For the year, the company sold 65 laser systems internationally in 1999, including 14 sales (upgrades) to existing customers, a 30% increase over the 50 total systems sold in 1998.

For the year, revenues were \$21.7 million, an increase of about 22% from \$17.8 million in 1998. The company reported a net loss for 1999 of \$14.4 million (89 cents per share), compared to 1998's loss of \$15.5 million (\$1.26 per share). The company's increased loss in 1999 was attributed to costs associated with developing, testing and launching the company's new MicroShape family of keratome products and development of the infrastructure necessary to support the introduction of the LaserScan LSX excimer laser system into the U.S. The company received clearance to market the LaserScan LSX excimer laser system in the U.S. late last year, and announced that it will ship the first of its LaserScan LSX refractive laser systems to ophthalmologists in the U.S. this week.

During the accompanying teleconference, Michael Farris noted that the new user-friendly eyetracker, ready for international marketing, was based on pattern recognition and did not require eye dilation. He also noted the receipt of a purchase order from South Korea for 14 laser systems to be delivered over the rest of this year. (He mentioned that there currently were over 150 older lasers in this market, and that the new systems were probably replacement units.) **TLC Laser Eye Centers** represented about 10% to 15% of 1999 laser sales. According to the analysts, Farris said that LaserSight is expected to sell about 50 laser systems in the U.S. this year, and that the company has the capacity to far exceed that total, with capacity for about 25 systems now, ramping up to 30-40 systems per quarter shortly. The company will announce developments and progress towards customized ablations at the upcoming ASCRS meeting at the end of May.

Following the release of the financials, Al Kildani of **Pacific Growth Equities** released an update report on LaserSight. Adjusting his financial model to reflect recent company's changes, i.e. the lengthy process of negotiating with **VISX** and the subsequent decision

to not license VISX's patents, which resulted in a delay in marketing the company's lasers, and the decision to collect royalties (which Kildani had previously thought would go to VISX as part of a licensing arrangement), he now projects revenues of \$56.9 million (up from \$54.2 million) in 2000 and \$98.0 million (up from \$86.9 million) in 2001. He further commented, "We believe LaserSight is positioned for an eventful 2000 as it begins the full-scale launch of excimer lasers and keratome products in the U.S. In an industry where technology leadership will be increasingly critical, LaserSight is making important strides in the development of its technology platform. We look for positive news flow on the clinical front (myopia, hyperopia, custom ablation) as well as progress in penetrating the U.S. LVC market to drive the stock in 2000. In the near term, we are particularly watching for news of customer orders as well as approval for astigmatism (expected Q2:00)."

3/28 **Refractec, Inc.** announced that it had gained FDA approval to begin treating both eyes of patients on the same day which they are enrolled in the company's Phase III clinical trial of Conductive Keratoplasty (CK). The FDA approved the change based on the Refractec's solid stability data, which is equal to or better than the hyperopic stability data from **Summit** and **VISX** during the same 1 to 9 month period. "Our data continues to be exceptional with demonstrated stability between 3-6 months post-operatively," said Mitchell Campbell, president and CEO of Refractec. "We also provided the FDA additional data at 9 months that demonstrated stability at levels significantly lower than what has been demonstrated with LTK and comparable to LASIK for hyperopic treatment." In addition to the positive stability data, the CK procedure has had a total absence of adverse events during the first six months of the trials. Adverse events are described as "events" that effect the patient's vision. VISX reported 3% adverse event during the same period in their clinical trial prior to their approval by the FDA.

3/28 **CIBA Vision** and **QLT PhotoTherapeutics** announced that 2-year follow-up from the Phase III clinical study of Visudyne (verteporfin for injection) showed the therapy to be safe and effective in the treatment of predominantly classic age-related macular degeneration. Additionally, 1-year follow-up from a separate, continuing Phase IIIb study showed Visudyne therapy to be effective in the treatment of choroidal neovascularization due to pathologic myopia. According to the companies, the FDA has not received the data from the studies and does not need it to complete its review of the new drug application filed for Visudyne last year. The companies plan to present a more complete analysis of the results at the Association of Research in Vision and Ophthalmology (ARVO) later this month.

"These results are significant," said Dr. Neil Bressler, Chair of the Visudyne Study Advisory Group, and retinal specialist and Professor of Ophthalmology at the Wilmer Eye Institute of the Johns Hopkins University School of Medicine in Baltimore, Maryland. "Visudyne therapy showed a sustained benefit over two years with no additional safety issues and fewer treatments required in the second year."

"We are pleased to see Visudyne has a durable effect based on the 24-month follow-up data. We are equally encouraged with the results in the pathologic myopic patients," said Dr. Julia Levy, president and CEO of QLT. "Until now this group of younger patients have had very little hope once diagnosed with the condition -- a devastating proposition given that the vast majority of them are still in the workforce. We intend to discuss this potential new indication with the FDA to determine the viability of a supplemental NDA for Visudyne." Visudyne therapy is currently under review by the FDA as a treatment for AMD in patients with predominantly classic CNV.

**Phase III TAP Investigation-Wet AMD:** The study results show that the beneficial effect of Visudyne therapy observed at the 12-month time period has been fully maintained out to two years. These findings are based on 24-month follow-up data from 609 patients with wet AMD who participated in two Phase III multi-center randomized placebo-controlled trials known as the TAP (Treatment of AMD with Photodynamic therapy) Investigation. In the 242 patients with predominantly classic CNV (those cases for which the therapy is currently under review by the FDA), 59.1% of patients treated with Visudyne therapy lost less than 3 lines of vision, or 15 letters, on a standard eye chart, compared to 31.3% of patients administered placebo ( $p > 0.001$ ) at 24 months. Visudyne patients also exhibited statistically significant positive results in a number of additional areas including stable contrast sensitivity -- which may be important for activities such as reading and recognizing faces -- slower lesion growth and reduced leakage. Further, the percentage of Visudyne-treated patients that experienced an improvement in vision remained at 13% over the 24 months. The results confirm that Visudyne therapy is safe and well-tolerated in the longer-term. The average number of treatments required in the second year decreased from 3.4 to 2.1 for a total of 5.5 treatments over the 24-month period. The effect of Visudyne therapy for the primary endpoint at 24 months also remained statistically significant in the overall population in the combined studies. Patients who elected to continue treatment beyond the 24-month follow-up period are being followed for an additional 2 years in an open label study called the TAP extension.

**Phase IIIb VIP Trial-CNV due to pathologic myopia:** The results for patients with CNV due to pathologic myopia are based on a single study involving 120 patients with the condition who were enrolled in a Phase IIIb 24-month multi-center randomized placebo-controlled study called the VIP (Verteporfin In Photodynamic therapy) Trial. At 12 months, patients showed a definite benefit from Visudyne therapy with respect to visual acuity, contrast sensitivity, lesion size, amount of leakage and other outcomes. Specifically, 86.4% of patients receiving Visudyne therapy lost less than 3 lines of vision, or 15 letters, on a standard eye chart, compared to 66.7% of patients administered a placebo ( $p > 0.01$ ). Patients in the study received an average of 3.4 treatments during the 12-month period and will continue to be followed for an additional 12-months. CNV due to pathologic myopia is caused by abnormal blood vessels that grow under the center of the retina as a result of an abnormal elongation of the back of the eye associated with severe near-sightedness or myopia. It generally occurs among people over 30 years of age and can result in a progressive loss of vision for which there were no proven

treatments. The worldwide incidence of CNV due to pathologic myopia is estimated to be 50,000 new cases per year.

**Phase IIIb VIP Trial-Wet AMD:** One-year results of an additional Phase IIIb multi-center randomized placebo-controlled trial involving 339 AMD patients with a different pattern of CNV, that were not eligible for inclusion in the TAP Investigation, did not show a statistically significant benefit with respect to the primary endpoint at 12 months. Forty-nine per cent (49.3%) of patients treated with Visudyne therapy lost less than 3 lines of vision, or 15 letters, on a standard eye chart, compared to 45.6% of patients on placebo. These patients will continue to be followed for an additional 12-months. These findings have no impact on the recommendation regarding the beneficial effects of Visudyne therapy for predominantly classic CNV in AMD.

3/28 **ICON Laser Eye Centers**, announced that its wholly owned U.K. subsidiary, **ICON Eye Academy**, had negotiated an exclusive agreement whereby **Virgin Group** employees participating in the Virgin group discount and travel scheme would receive preferential pricing for LASIK. Virgin will promote the ICON Eye Academy as the LASIK provider of choice for its employees, and ICON's preferential pricing for Virgin employees will be extended throughout ICON's global network of 48 laser eye centers. Virgin Chairman Richard Branson had LASIK surgery performed in 1999 by a competitive company. Other Virgin executives have had successful LASIK performed at the ICON Eye Academy on Harley Street, London.

3/29 **LCA-Vision** announced that it had agreed to license the company's LasikPlus brand name to Japan's **Rei Corporation**, among that nation's largest operators of outpatient aesthetic and dermatological laser surgery clinics. Privately held Rei plans to open LasikPlus centers throughout Japan, beginning with three centers in Tokyo in the next few months. In addition to exclusive rights to the LasikPlus name in Japan, the agreement calls for LCA-Vision to provide The Rei Corporation with administrative and marketing advisory services in return for an initial per center licensing fee plus 12% of gross annual revenues. REI will also undertake a \$2 million marketing campaign to support the opening of its first three centers in Tokyo, and plans to aggressively promote laser vision correction throughout Japan.

LCA-Vision chairman and CEO Stephen Joffe commented, "The Rei Corporation is a respected and highly successful operator of outpatient laser surgery centers. They understand the market, the culture, and the power of a strong brand name. Rei is perfectly positioned to begin the aggressive introduction of laser vision correction in this large and promising market. With patient acceptance still in its infancy in Japan, our short term revenue expectations are extremely modest. However, Japan has a well-educated population, very high per capita income, and, in terms of procedure numbers, it is today where the U.S. was in late 1995 when the FDA first approved laser vision correction. Given the homogeneous nature of the market, we, and Rei, believe acceptance will grow dynamically once the market becomes more aware of the procedure's outstanding record for safety and efficacy."

- 3/29 **Summit Technology** announced that on March 28, 2000 its Board of Directors approved the adoption of a shareholder rights plan to replace the company's existing plan, in place since 1990, which expires pursuant to its terms today. Like the existing plan, the new plan provides that one right will be issued for each share of the company's Common Stock outstanding. The new rights will be issued to shareholders of record on March 29. Stock issued after that date will be issued with an attached right. Each new right would initially represent the right, under certain circumstances, to purchase 1/1000 of a share of a new series of preferred stock of the company at an exercise price of \$90 per share. The company stated that the rights are not being issued in response to any perceived threat, but simply as a prudent matter in light of expiration of the existing rights plan. The rights will not affect the company's reported earnings per share.
- 3/29 **Gimbel Vision International** announced that for 1999, the company performed 23,501 refractive vision correction procedure volumes, an increase of 45% over the prior year volumes of 16,182. The company's five Canadian based centres completed 12,596 procedures, a 45% increase over 1998. The company's three centres based in the United States completed 5,400 procedures also representing a 45% increase over the prior year. Refractive procedure volumes completed at the company's centres outside North America increased by 32% in 1999 to 5,792. For the year, the company generated revenues of \$21.2 million as compared to \$20.8 million in the prior year with 93% of total revenues being generated from North American operations as compared to 72% in 1998. Although procedure volumes rose 45%, revenues did not increase at a corresponding rate due to price compression which occurred in the Canadian market early in the first quarter of 1999. By December 31, 1999, Canadian based centres had significantly increased procedure volumes to offset the effects of the price compression.

Earnings from continuing operations before other items (loss on disposal of assets, loss on write-off of investments, and equity in earnings of associated company) were \$2.3 million as compared to \$3.0 million in the prior year. The decrease in 1999 was due to the aforementioned price compression that occurred in the Canadian market. As of December 31, 1999, the company had written-off its investment in Brazil. This investment consists of a subsidiary of the company, **Gimbel Vision International do Brazil Ltda.**, which owns 51% of **Gimbel Guimaraes Vision Centres S/C Ltda.**, which in turn owns a refractive centre in Belo Horizonte and 51% of **Laser Ocular Brasil-Canada Ltda.**, a refractive centre in Rio de Janeiro. Ongoing operational difficulties with the company's investment in Brazil and doubt with respect to achieving an adequate return for shareholders had resulted in management taking proactive steps to exit its Brazil investment. In conjunction with Brazilian counsel, efforts are being made to expedite the company's divestiture of this investment. Management does not expect additional liabilities to result from the divestiture process. A charge of \$457,983 recorded in the 1999 statement of earnings fully recognizes the estimated cost of the write-off of this investment. The divestiture of this investment will allow the company to more fully concentrate its efforts and resources on competing in the North American market which is the current strategic focus of its refractive vision correction activities.

During 1999 the company took aggressive action to strategically restructure its pricing in the Canadian market to increase market share. This realignment significantly increased procedure volumes while at the same time maintaining healthy profit levels. Profits from centres based in the United States also continued to grow and produced greater profits than in the prior year. Net earnings per share were well above the prior year at \$0.05 per share. Three new refractive vision correction centres were announced in 1999 and will begin performing refractive vision correction procedures in the second quarter of 2000. The company will focus on increasing utilization at its existing and new refractive vision correction centres, and will pursue other opportunities for profitable growth in the ophthalmic industry.

- 3/29 **ING Barings** said it initiated coverage of eye care products firm **Bausch & Lomb** at a "buy" rating, with a 12-month price target of \$75 per share. The investment firm said Bausch & Lomb has spent much of the last four years restructuring its product lines and cost structure to shape the company into the pre-eminent vision company in the world. Vision care, representing 58% of total revenues, is a \$4.8 billion business worldwide, with its surgical division giving 25% of total revenues and 17% for its pharmaceutical division.
- 3/29 Ted Huber of **Advest** issued an update report on **TLC The Laser Center**, entitled, "The Leader Stumbles". Its major points note that although TLC leads a rapidly growing industry, it had lost market share and momentum with its new strategy dictating a reduced earnings per share for 2001. Although the company's share price was low, Huber saw no catalyst for near-term improvement. The basis for his comments are the expansion of the LASIK discounters in 2000. "If a larger percentage of patients are attracted to discounters than we currently project, TLC could fail to generate our targeted procedure growth at projected prices...We believe prices will fall in 2000, with discounters in most major markets pricing at near \$1000 per eye, and high-end providers like TLC pricing near \$1750 per eye. We expect TLC's net revenue after doctor compensation to fall by about \$100 over the next year. Steeper declines would result in lower levels of profitability for TLC."

In looking at the competition, Huber is now forecasting the following sustainable pricing tiers for LASIK surgery in the U.S.:

- Deep Discounters -- **Lasik Vision** (and **ICON**) @ \$1100 per eye;
- Value Players -- **LCA-Vision** @ \$1400 per eye;
- High-End Players -- **TLC** @ \$1750 per eye.

- 3/29 **Presby Corp.** announced that the FDA had approved and the company had begun its Phase I clinical trials of the Surgical Reversal of Presbyopia (SRP) using the Scleral Expansion Band (SEB) at six sites in the United States.

The sites and lead investigators conducting the surgeries are the following: Barnes-Jewish Hospital at Washington University School of Medicine in St. Louis -- Dr. Jay Pepose;

Dean A. McGee Eye Institute at the University of Oklahoma in Oklahoma City, Oklahoma -- Dr. Thomas Wolf & Dr. Reagan Bradford; Jules Stein Eye Institute at UCLA in Los Angeles, California -- Dr. Brian Boxer-Wachler; New York Eye and Ear Infirmary in New York -- Dr. Barrie Soloway; Stanford University School of Medicine in Stanford, California -- Dr. Ed Manche & Dr. Steven Plager; and Storm Eye Institute at the Medical University of South Carolina in Charleston, South Carolina -- Dr. Kerry Solomon & Dr. Sydney Seltzer.

- 3/30 **ICON Laser Eye Centers** has requested that **VisionAmerica Incorporated** renegotiate the provisions of its agreement dated March 3, 2000 whereby ICON received 1 million shares of VSNA common shares in return for \$4 million. Additionally, ICON is scheduled to receive 1 million warrants if certain agreements as they relate to registration of the 1 million shares are not completed prior to July 31, 2000. The exercise price of the warrant is the average trading price during this period. In the ICON/VSNA agreement, VSNA made certain representations and warranties as they pertain to the accuracy and completeness of VSNA's 1998 10-K, the September 30, 1999 10-Q and any subsequent material information available to ICON's Board of Directors which might influence ICON in their investment decision. These documents have been disclosed to be materially non-reflective of certain negative information pertaining to the inappropriate use of employee withholding funds due to the IRS.

Ernest Remo, Vice-Chairman of ICON stated, "ICON entered into an agreement with VSNA in good faith through which it believed that shareholder value would be developed for all by assisting the VisionAmerica management to redirect a segment of its assets toward the "Value LASIK" concept that ICON has shown to be effective. ICON in its agreement invested \$4 million directly into the company based on disclosure documents filed with the SEC and signed-off by the Board of Directors of VSNA. It has been disclosed that less than the entire Board knew these documents to be materially misstated. Recission will not get ICON much in that it would merely mean that VSNA would increase its debt obligations to \$44-\$45 million. ICON has retained counsel to review its rights toward recission of this agreement. The Board of Directors of VSNA approved all of those documents and it is now highly likely that past periods may need restatement because of the magnitude and longevity of the unusual activity of using IRS employee funds to finance the company. ICON's interest is parallel with that of the VSNA shareholders. Unfortunately the VSNA Directors and Officers are being distracted by a review of unauthorized and inappropriate activities that happened during their watch."

- 3/30 In the **Dain Rauscher** weekly comments, Dave Therkelsen noted that **QLT PhotoTherapeutics** had released data on the effectiveness of Visudyne for treating the predominately classic form of wet AMD, with no significant benefit for patients with the occult (diffuse) form. (See the brief above.) He said that this suggested an opportunity for **Iridex** and others. Therkelsen also commented on the announced strategic partnership of **LCA-Vision** with **Rei Corporation**, a Japanese operator of aesthetic laser surgery centers, in which LCA will license its LasikPlus brand name and provide consulting services in exchange for a portion of Rei's laser vision correction surgery revenues. (Also,



above.) Therkelsen expects a relatively modest near-term impact to LCA's revenues, although longer-term he viewed this as a low-risk investment in the Japanese market.

- 3/30 In recognition of the need for continuous improvement of medical technology and understanding of the LASIK procedure, the **LASIK Institute** has announced it will be awarding \$50,000 in research grants this year. The definitive source in LASIK education will award grants to support biological, clinical or technology-related research projects, with a maximum award of \$12,000 per project. Applications from researchers of all types are welcome, including but not limited to universities, hospitals, non-profit organizations and private practices.
- 3/30 **Sterling Vision** announced that it had retained **McDonald Investments Inc.** (a **KeyCorp** corporation), a national investment bank with a specialty in optical industry transactions, to explore alternatives that will provide a more advantageous use of the company's assets in support its recently announced business-to-business Internet strategy. This strategy, which is currently being implemented through the company's new division, **Emerging Vision**, was launched in December 1999 as the first business-to-business, Internet-based portal for the optical industry.
- 3/30 The first of what is assumed several class action law suits has been filed against **VisionAmerica** by the law firm of **Cauley & Geller, LLP**. The complaint charged that the company and certain of its officers and directors violated the federal securities laws by providing materially false and misleading information about the company's financial condition during the Class Period. Among other things, the Complaint alleges that the company failed to properly pay and account for large payroll taxes. As a result, the company faces massive tax liabilities, penalties and interest. As a further result, the company is in default of certain credit agreements with its primary lenders. When the truth about the company's financial disarray was revealed, the price of the stock dropped significantly, causing unwitting shareholders to suffer losses.
- 3/30 **STAAR Surgical** reported revenue of \$59.2 million for its fiscal year ended December 31, 1999, a 7.4% increase over revenue of \$55.1 million for the prior year. The revenue increase for the year was primarily due to the increased sales of STAAR's Intraocular Lens (IOL) in the U.S. as a result of increased market share and strong sales of the company's TORIC IOL. Additionally, the company sold a record number of Implantable Contract Lenses (ICLs) with sales of the lens up nearly 50% for the year.

Following the financial release, Richard Leza of **Craig-Hallum Capital Group** issued an update report on the company. Leza maintain his "BUY" rating, expecting two major near-term announcements from the company -- one of which was the approval of its "collamer" IOL, the same material used in its ICL, and expecting the company to discontinue its laser center business. In his report, Leza stated, "There are currently five excimer lasers that have been placed by the company in specific doctors' offices, and at present, these lasers are generating a nominal loss. The company does not intend to place any additional lasers until it has a clear indication of how the industry will handle its

current round of price reductions and future consolidation. Given our belief that price competition will become an increasing fact of life with laser surgery, we do not expect the company to place any additional lasers. Our initial 2000 estimate assumed \$13.2 million in incremental revenues based on 20 laser placements at the end of 2000. With no plans for placing additional lasers, we are reducing our 2000 revenue estimate by \$11.0 million, assuming \$1.2 million in revenues will be generated during the year by the existing lasers."

- 3/31 **Summit Technology** announced that on March 28, 2000 its Board of Directors voted to approve a restructuring of the company to fully integrate its laser vision correction businesses. The Board also voted, subject to shareholder approval at the Annual Meeting in May, to change the name of the company to **Summit Autonomous Inc.** The company plans to take a first quarter pretax restructuring charge of \$3 million and estimates that the reorganization will result in a reduction of approximately 20 personnel.

The annualized benefit of the restructuring is expected to be \$3 million. There will be an additional one-time charge of \$8 million to terminate a strategic alliance agreement with **Ciba Vision Group Management, Inc.** which was inherited as part of last year's acquisition of **Autonomous**. In addition to the charges, the company has also identified approximately \$5 million in expense reductions in its planned year 2000 spending.

After weighing the impact of recent changes that have taken place in the laser vision correction industry, the Board of Directors decided to accelerate the integration of the Summit and Autonomous operations. This process had begun in January when the company consolidated its sales operation into a single group. Also, many Autonomous manufacturing activities had already been transitioned to the company's Cork, Ireland facility in 1999. Under the restructuring, the company will be realigned into three operational groups. The commercial organization encompassing sales, marketing, after sales support and clinical education will report to Bernard Haffey, who has been named executive vice president and Chief Commercial Officer. Charline Gauthier, OD, PhD, most recently COO at Autonomous, has been named executive vice president and COO. Dr. Gauthier will oversee research and development, quality, regulatory, clinical affairs and operations. The administrative organization for Summit remains largely unchanged and continues to provide corporate and staff services for the company reporting to Robert Kelly, executive vice president and CFO. The departments within the administrative organization are finance, human resources, information technology, corporate communications and investor relations. Haffey, Kelly and Gauthier will report directly to Robert Palmisano, CEO. Palmisano's other direct reports will be James Lightman, senior vice president and General Counsel and Randy Frey, most recently president of Autonomous, who will undertake the critical role of Chief Technology Officer.

"Business during the first quarter continues to be strong. It is ironic that at a time when our products are being so well received and we are growing our market share industry dynamics necessitated a restructuring," commented Robert Palmisano, CEO of Summit. "However, the consolidation of our Autonomous and Summit organizations into one

entity will result in a more streamlined organization and we are confident that the changes we have undertaken will create no disruption in service to our customers. Our number one priority is to deliver the highest level of customer support to our doctors and corporate customers and we believe that the new alignment of the company into three operating groups will provide our customers a more focused, responsive and effective organization," he concluded.

We have learned that as part of the restructuring, Verne Sharma, formerly COO, will leave the company. Further, the termination of the "strategic alliance" with Ciba Vision eliminated the 6% royalty fee paid on LadarVision revenue, which would end when revenues hit \$10 million, and was replaced with a one-time \$8 million payment, that could be written off in one lump sum. According to a company official, this would have the effect of increasing LadarVision operating margins by 6% over the next several years. Dr. Glen Bradley, Ciba Vision's CEO, remains on the Summit/Autonomous board.

- 3/31 **ICON Laser Eye Centers** announced that it has begun performing surgery in its newest company-owned center in Seattle, Washington, the nineteenth center under operation. Simone Mencaglia, CEO of ICON stated, "Seattle provides the American component of ICON's strategic growth plan in the Pacific Northwest. Along with our 3 centers in Vancouver, Canada, ICON's opening in Seattle consolidates the company's presence in one of the most competitive laser vision correction markets in the world. ICON also feels that it has added another top surgeon to its roster with the hiring of Dr. Steven Phillips and is happy to welcome him to the ICON team."

The company also announced the opening of its 20th center, in Chicago. Dr. Mark Golden, ophthalmologist of Chicago is the center's medical director. ICON is responsible for all aspects of the laser vision program while **VisionAmerica** provides the facility and personnel. The initial pricing of the "Value LASIK" promotion has been set at \$749 which includes all pre- and post-operative care, surgery and an ICON follow-up guarantee. Ghassan Barazi, president and COO of ICON stated, "The Chicago and Midwest market is a targeted ICON market. We are also in Quincy, Illinois and plan to increase our market average and penetration shortly. Our initial bookings in Chicago are very strong and in line with our expectations. ICON expects to do at least 400 procedures per month per center in all our major city "Value LASIK" centers."

- 3/31 The *National Post* of Canada had an article, "Custom LASIK is the next milestone", about customized ablation, discussing **TLC's** Dr. Jeffrey Machat's role in evaluating the technique. He is evaluating two lasers, the **B&L Technolas 217C** and the **LaserSight LSX**, although the article only discusses the B&L approach, calling B&L the "creator" of Custom LASIK. According to the article, currently only three ophthalmologists in the world are licensed by Bausch & Lomb to perform the procedure: one in Germany, one in Italy, and Dr. Machat of TLC. Apparently, Machat has treated 150 patients to date, with half obtaining "superior" or better vision than obtainable with eyeglasses. "We're seeing results in the 20/10 range." People with 20/10 eyesight can read the letters on an eye chart from six metres away that average eyes can read at three metres. Custom

LASIK also reduces night glare and reduces the chances of needing follow up minor corrections, Dr. Machat said.

- 3/31 **Sterling Vision** reported its 1999 financial results, with income from continuing operations of \$110,000 as compared to a loss for 1998 of \$6.8 million. For the year, the company reported a net loss of \$2.3 million (which included non-cash charges of \$2.4 million related to the issuance of warrants and induced warrant conversion costs), as compared to a \$17.8 million net loss for 1998 (which loss included non-cash charges of \$11.0 million related to an increase in the company's provision for doubtful accounts and amortization of debt discount, store closings and an extraordinary item). There was no breakdown of revenues or losses from its refractive surgery operations.
- 4/3 **LaserVision Centers** announced that it had signed its eighth limited partnership agreement with **Eye Associates of New Mexico**. The agreement covers four Eye Associates facilities in Albuquerque, Santa Fe, Farmington and Clovis, New Mexico. A fixed laser will be located at the Albuquerque facility and a LaserVision Roll On/Roll Off system will service the other three sites. Previously, LaserVision had said that it intends to have twelve limited partnership agreements in place by April 30th. LaserVision had already been providing Roll On/Roll Off services to the three satellite sites, but Eye Associates had been operating independently at its main facility in Albuquerque. Under the agreement, LaserVision will now also provide its services to the Albuquerque facility that the company believes will add 1,000 additional procedures in calendar 2000 and approximately 1,800 in calendar 2001.
- 4/3 **Moria**, of Antony, France, and **Microtech, Inc.** announced that they had signed a letter of intent for Moria to acquire Microtech, its U.S. distributor. Mike Bartell and Charlie Mastellone, the founders of Microtech, Inc., and Alain Duprat, CEO of Moria, believe the merging of the two companies will further strengthen the companies' ability to participate to the rapidly growing LASIK market and to provide better products, service and education to the ophthalmic community worldwide.
- 4/4 **LCA-Vision** reported a 46% sequential increase in consolidated procedure volume for the first quarter of 2000. Laser vision correction procedures performed in the first quarter rose to 12,504, up from 8,541 procedures for the fourth quarter of 1999. On a year-over-year basis, procedure volume grew 65%, up from 7,591 procedures for the first quarter a year ago. "The dramatic increase in procedure volume versus last quarter and last year validates our aggressive conversion to value-priced LasikPlus," said Stephen Joffe, chairman and CEO of LCA-Vision. "By making laser vision correction affordable to a much broader segment of the population, LasikPlus has opened up a huge market opportunity for LCA-Vision. Laser vision correction is on its way to becoming the preferred means of achieving vision correction, and LCA-Vision intends to play a leadership role in making that happen."

LCA-Vision currently owns and operates a total of 25 laser vision correction centers in the U.S., Canada, and Europe. LCA-Vision also operates *The National Lasik Network*, a

provider network that, in partnership with **Cole Managed Vision**, offers laser vision correction services in markets serving more than 90% of the U.S.

In the **Dain Rauscher** weekly comments, Dave Therkelsen noted that the LCA-Vision procedure volume was significantly higher than his estimate. Although encouraged by the renewed momentum in procedure growth, he revised his revenue estimates higher, but lowered his near-term EPS estimates because of LCA stepping up its rate of new center expansion.

- 4/4 **NovaMed Eyecare** announced that its LVC volume for the first quarter ended March 31, 2000 totaled 5,323 procedures, an increase of 119% over the 2,432 LVC procedures performed in the first quarter of 1999 and sequentially 16% over the fourth quarter of 1999, when 4,601 LVC procedures were performed. The first quarter procedures represent an annual run rate of approximately 21,300 LVC procedures. "We are pleased with our first quarter LVC procedure growth," said Stephen Winjum, chairman, president and CEO of NovaMed. "We expect strong LVC procedure growth to continue in 2000 as we leverage our sales and marketing programs and other demand generation activities in each of our six core regional markets."

The company also confirmed that it will report its financial results for the first quarter on April 19, 2000, when it will comment further on first quarter LVC procedure growth. NovaMed owns and operates 12 eye surgery and laser centers and operates seven laser vision correction centers in six core U.S. regional markets.

- 4/4 **ICON Laser Eye Centers** announced that 14,917 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during Q1 2000. That represented a sequential quarter to quarter growth rate of approximately 55%, up from the 9,614 procedures performed during Q4 1999 and also represented a year to year growth rate of approximately 244% up from the 4,335 LVC procedures performed during Q1 1999.

The company also announced that it had launched its "Value LASIK" concept in 12 U.S. markets in the last 45 days, mainly at its special opening price of \$749 per eye. Of these LVC centers, only three began surgeries in the month of March: Tampa, Seattle and Chicago. Of these markets, 9 are joint operating agreements with VisionAmerica. ICON hopes to roll-out a total of 22 to 25 centers in joint agreement with VisionAmerica over the course of the next 60 to 90 days supplemented with LVC centers acquired by ICON independently.

Ghassan Barazi, president and COO of ICON stated, "ICON is primarily focused on delivering the highest quality patient care and LVC outcomes to the consumer. Because VSNA has the entire LVC infrastructure in place, ICON is able to roll-out its "Value LASIK" programs and know the very best medical teams are available to give the patient the excellence that they deserve. ICON of course realizes that an opportunity exists to acquire market share by aggressive pricing in this period of strategic adjustment in the

LVC industry. ICON is a consolidator and is looking independently to acquire the best local ophthalmologists and/or optometrist groups to join the ICON team."

The following day, the company announced that 6,243 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during the month of March 2000. That represented an approximate 242% growth rate, compared with 1,823 procedures performed in March 1999 and up from 4,612 LVC procedures in February 2000, a month to month sequential growth rate of approximately 35.3%. On an annualized basis using March numbers, ICON is operating at a quarterly rate of 18,729 procedures and a yearly procedure rate of 74,916. The monthly total of 6,243 differs slightly from the 6,257 monthly total reported in an earlier release and subsequently the new quarter total is 14,944 procedures, different from 14,917.

- 4/5 **WaveLight Laser Technologie AG** announced that it had begun its road show for the year 2000 in the United States. Further stops along the way are planned for various cities in Germany and throughout Europe. In the middle of March, the company introduced itself for the first time in New York to an audience of U.S. financial analysts and institutional investors. In general, the U.S. financial representatives were very open to the idea of investing on the **Neuer Market**. The WaveLight company in particular was the subject of special interest and admiration in virtue of its high innovative potential and the high technological standards of its products. Further recognition and respect was paid in regard to the company's thoughtful management policies and its clear focus on high-growth markets, such as the life science sector to which ophthalmology and dermatology belong. A very positive response was also expressed in acknowledgement of the company's strong international presence.

WaveLight is the first German laser manufacturer to receive approval to conduct a clinical study in accordance with the requirements established by the FDA. The study involves WaveLight's ALLEGRETTO excimer laser system for use with LASIK. The approval procedure effectively opens the door for WaveLight in the American market, the world's largest in the area of eye lasers.

- 4/5 **Lasik Vision** announced that 26,673 paid laser procedures were performed at the company's refractive centres in the first quarter ended March 31, 2000. This is a 424% increase from 5,092 the same period a year ago and represents a new record volume quarter for Lasik Vision. The first quarter procedures represent a 36% sequential increase from the 19,567 procedures performed in the fourth quarter of 1999. "Lasik Vision continues to lead the laser vision correction industry both in year-over-year procedural growth and in providing affordable treatment to the North American market. While the rest of the industry has been re-evaluating their pricing strategies, Lasik Vision has been focused on increasing its penetration of the U.S. market in the first quarter of 2000 with the successful opening of five new U.S. centres. We believe our continued rapid expansion, procedural growth and our leadership role in making laser vision correction more affordable will drive Lasik Vision forward towards its goal of becoming the world's

largest provider of laser vision correction in 2000," said Michael Henderson, president and CEO.

Lasik Vision operates 15 centres in Canada, and through its subsidiary, **Lasik Vision U.S.A. Inc.**, operates 6 centres across the United States.

4/5 **LaserSight** announced that it had delivered a total of 19 LaserScan LSX excimer laser systems in the first quarter, with 6 systems sold into the U.S. market and 13 systems sold internationally. The company also gave an update on sales of its UltraEdge keratome blades. During the third and fourth quarters of 1999 blade sales were approximately 2,000 and 12,000 units, respectively. Blade sales increased approximately 41% in Q1 2000 from the prior quarter, with more than 17,000 blades being shipped. Michael Farris, president and CEO commented, "We are pleased with the high level of interest in the LaserScan LSX. With only a six-week period from February 16, 2000 through March 31, 2000 to accomplish our goal, we were successful in shipping 6 LSX systems to U.S. refractive surgeons. Sales and production remain on schedule and the LSX shipments made during the first quarter represent the first state-of-the-art precision beam LSX scanning systems to be shipped to U.S. ophthalmologists. The company will continue to accelerate its manufacturing activity to meet the anticipated demand over the next quarters."

4/6 **Lasik Vision** announced plans to open six new laser vision correction centres in the U.S. The new clinics are located in San Francisco, Irvine, and Santa Monica, CA; Cincinnati, OH; Honolulu, HI; and Scottsdale, AZ. Along with the centres currently under development in Las Vegas, NV; Pasadena, CA; Garden City, NY; and St. Louis, MO, Lasik Vision will have 16 centres operating in the U.S. by the end of June 2000.

These new Lasik Vision clinics will operate with the advanced VISX Star S2 Excimer Laser System.

4/6 **LaserVision Centers** announced that its U.S. case volume for the month of March increased 43% compared to the same month a year ago. The company said that March was its best month to date for U.S. case volume.

4/7 **VisionAmerica** announced that **ICON Laser Eye Centers, Inc.** had requested that VisionAmerica re-negotiate certain provisions of the Agreement dated February 24, 2000, wherein ICON purchased 1 million shares of VisionAmerica common stock for a total purchase price of \$4 million. The Agreement further provides that a warrant for an additional 1 million shares of VisionAmerica common stock will be issued to ICON if, among other things, a registration statement is not filed for the original 1 million shares by July 31, 2000. VisionAmerica is studying ICON's request for re-negotiation and intends to address it more fully with ICON in the near future. ICON and VisionAmerica are continuing to cooperate in establishing laser vision programs and have now initiated such programs in nine of VisionAmerica's markets.

On March 29, 2000, an action was filed in the Federal District Court for the Middle District of Tennessee allegedly on behalf of all individuals and institutional investors that purchased or otherwise acquired publicly-traded securities of VisionAmerica between November 5, 1998, and March 24, 2000. The company, Ronald Edmonds, former CFO, and Thomas Lewis, CEO, are named as defendants. ICON is not a party to this proceeding. The complaint alleges violations of federal securities laws based upon the provision of allegedly false and misleading information about VisionAmerica's financial condition during the above period. The complaint also alleges that certain shareholders suffered financial losses as a result of the alleged false and misleading information, and the complaint requests class action status for the plaintiffs. The company has not filed an answer or other responsive pleading and is analyzing the complaint. Until the allegations are fully analyzed, the company is unable to determine the potential impact of this action.

4/7 This month's issue of *Refractive Market Perspectives* notes that low price LASIK is now in at least 45 markets, with approximately 64 centers, led by **LCA-Vision** with 22 locations; **ICON Laser Eye Centers** with 17, with plans to have at least 50 by year's end; and **Lasik Vision** with six, and plans to open an additional 16 during the first half of 2000. According to a graphic accompanying the article, it appears that Dave Harmon is forecasting that close to 180 low price centers will be in operation by year's end, competing with an additional 765 higher price centers; making up nearly 20% of centers, but probably having as much as 25% of procedure volume. Harmon forecasts that this will drive the average procedure pricing down to the \$1800 per eye by year's end. (The real question is, what will it do to total volume? Will all of our forecasts of between 1.5 to 1.65 million procedures for the year become obsolete? Only time will tell.)

In addition, Harmon also wrote about the "wavefront" and "custom ablation" phenomenon that is taking place. He noted some of the issues surfacing: methods and measures of vision quality; the benefits of optical aberrations and patients neural ability to benefit from the elimination of aberrations; and most important, changes to the natural lens associated with aging and the impact that will have on optical aberrations. He notes that there are now at least seven commercial wavefront diagnostic developments underway, including those from **Summit/Autonomous**; **VISX**; **Bausch & Lomb**; **Dresden** (including **WaveLight** and **Schwind eye-tech solutions**); **Nidek**; **LaserSight**; and **Tracey Technologies**. He describes the efforts of several, except Nidek, LaserSight, and Tracey.

4/10 **ICON Laser Eye Centers** announced that LVC procedures are now being performed at **VisionAmerica Incorporated's** laser eye centers in Houston and San Antonio, Texas. The two markets are the result of a continuing agreement between ICON and VSNA that introduces ICON's "ValueLASIK" pricing and marketing concepts into selected VisionAmerica laser vision centers. Since the beginning of its joint marketing arrangement with VSNA in January, over 4,235 LVC procedures have been paid for and scheduled for consultations in 10 joint ICON/VSNA centers. ICON and VisionAmerica intend to roll out additional joint centers over the next two months.



- 4/11 **Block Buying Group LLC** is seeking to block a merger between its former parent company, **Vision Twenty-One** and **Opticare Health Systems Inc.** Block Buying claims that Opticare's purchase of Vision Twenty-One for 6 million Opticare shares and the assumption of \$60 million in debt would violate pre-existing non-compete agreements with its former parent company, the company said. Michael Block, president of Block Buying, repurchased the buying group from Vision Twenty-One last June after the company announced plans to leave that business.

"OptiCare's stated goal in its company prospectus is to cross-market its services to eyecare providers," Block Buying's president said in a statement. "That obviously includes buying group services."

Vision Twenty-One, Inc. commented on the action seeking to enjoin the proposed transaction between the company and OptiCare Health Systems, Inc. Vision Twenty-One stated that it has substantial defenses to Block's claims and it is in the process of preparing a motion to dismiss the action. The consummation of the proposed transaction between Vision Twenty-One and OptiCare is subject to certain conditions, including resolution of the above action to OptiCare's satisfaction. Vision Twenty-One still anticipates that the merger with OptiCare will close during the third quarter of this year.

- 4/11 **PhotoVision Pharmaceuticals, Inc.** announced that it had received notice of US patent allowance on its latest configuration of agents for the PhotoTarget drug delivery systems being developed for treatment of age-related macular degeneration. In addition, the company announced it has completed its current round of capital fund raising. PhotoVision is developing diagnostic and therapeutic platforms initially focused on the management of AMD, utilizing proprietary methods of targeted drug delivery and photodynamic therapy.

According to Dr. Morton Goldberg, Professor and Chairman of the Wilmer Ophthalmologic Institute at The Johns Hopkins University, "Photodynamic therapy as performed today is a very encouraging new avenue in the fight against vision loss caused by the 'wet' type of age-related macular degeneration. However, we already realize that the current treatment is not a panacea. Photodynamic therapy would be a much better treatment if the damage to the abnormal vessels was more intense and specific. Based upon the results obtained in animals, the photo-occlusion technology developed at our institute appears to have the necessary characteristics to advance current therapy. The results are very encouraging and justify efforts to initiate clinical trials."

- 4/11 **Schwind eye-tech-solutions** announced that it would be unveiling its 6th generation refractive laser, the ESIRIS spot-scanning excimer system, at the upcoming ASCRS meeting in Boston. According to the information provided, the laser system includes a 200 Hz scanning spot combined with a 300 Hz high speed eye tracker, a gaussian beam profile, and an optimized refractive keratectomy (ORK) link for either topography (with just about any topography system), or wavefront (with the Dresden Analyzer), for customized treatments with either PRK or LASIK. The system offers revolutionary

customized treatment possibilities in refractive surgery, such as the correction of aberrations for perfect optical correction up to a visual acuity of 20/6. In addition, the 300 Hz eye-tracking-system allows following every single saccade of the eye during surgery, while the integrated control panels and the flexible TFT-monitor and the adjustable patient bed allow easy physician control of action.

- 4/12 **Paradigm Medical Industries, Inc.** announced record revenue for year ended 1999, at \$1.7 million compared to \$1.2 million for the comparable period in 1998. The company had a net loss of \$3.6 million (54 cents per share), compared to a net loss of \$2.7 million (69 cents per share) for the previous year, an increase of \$863,000. The increase in net loss was attributable to a reduction in sales of the Precisionist system as a result of delays in the release of its new fluidics module, sales returns pursuant to restructuring the company's now completed Phase II clinical study sites and other non direct business items.

In commenting about year-end results, Thomas Motter, chairman, president and CEO stated, "Fiscal 1999 was a crucial year for developing building blocks for the company through creative acquisitions. Completion of these acquisitions, along with final FDA approval of our Photon Laser Cataract Removal System, will facilitate future profitability. The year 2000 is a year to ramp-up manufacturing and produce significant value for our shareholders. We have answered all questions from the FDA regarding our clinical trials with the Photon Laser Cataract Removal System and have submitted them for final review. Once approved, Paradigm will create and access a \$200 million market with patent protection and put a new face on cataract surgery worldwide."

- 4/12 **TLC Laser Eye Centers Inc.** announced results for its fiscal third quarter and the nine months ended Feb. 29, 2000. Net revenues grew to \$49.3 million, up 19% from \$41.3 million for the same period a year ago. Refractive net revenue grew to \$46.7 million, up 24% from \$37.6 million for the same period a year ago. TLC reported a net loss of \$2 million (5 cents per share). Despite making significant investments in people, information systems, the TLC Advantage Program, and marketing to expand its leadership position, the company continues to generate positive cash flow, demonstrated by the \$5.9 million increase in cash provided by operating activities in the quarter. Over 33,300 paid laser procedures were performed at TLC refractive centers in the third quarter of fiscal 2000, up from 25,612 for the same period a year ago.

For the nine months, net revenues increased 49.1% to \$149.5 million from \$100.3 million in fiscal 1999. Refractive net revenue grew to \$142.2 million, up 57% from \$90.8 million for the same period a year ago. TLC reported net income of \$5.5 million (15 cents per share). Over 98,000 paid laser procedures were performed at TLC refractive centers in the nine months, up from 61,400 for the same period in fiscal 1999. TLC has already performed more procedures in the first nine months of fiscal 2000 than the entire fiscal 1999 year. Indeed, TLC is poised to perform as many procedures in fiscal 2000 as were performed in fiscal 1999, fiscal 1998, and fiscal 1997 combined.

Elias Vamvakas, TLC's president and CEO, commented that, "TLC continues to make significant investments to expand our leadership position in this exciting industry. We believe very strongly that the tremendous opportunities and future benefits provided by these investments, including the incubation of our eye care B2B subsidiary, **eyeVantage.com**, far outweigh the short-term expenses associated with them. It is important to note that, despite the pricing pressures in the industry and the strong success of TLC's Corporate Advantage Program, our net revenue after doctor compensation per procedure declined less than 5% from year-ago levels. This clearly demonstrates the value consumers have placed on TLC's quality of care and on the strength and reputation of the TLC brand."

Following the financial information release, Al Kildani of **Pacific Growth Equities** issued an update report. In it he notes that the company finished the quarter with 58 centers in North America, and planned to open 5 new centers during its fourth quarter (ending in May), and he expected the company to add another 10-15 centers in fiscal 2001. Longer term, TLC is exploring strategies to expand its geographic reach in order to meet the growing demand driven by the Corporate Advantage program, which accounted for approximately 20% of procedures during the third quarter, however the fourth quarter will essentially be the first quarter in which a majority of the Corporate Advantage members are eligible. The company expects to see continued growth from this program potentially driving as much as 50% of procedure volume within the next 2 years. In addition to its own expansion plans, TLC is considering a number of franchising options that would offer greater geographic reach. This will be necessary to capture the full potential of the Corporate Advantage program, which now covers well over 50 million lives in the U.S.

Discussing the company's Canadian Custom LASIK trials, Kildani noted that Dr. Jeffrey Machat, TLC's co-national medical director, was using both the **Bausch & Lomb** Technolas 217 and **LaserSight's** LaserScan LSX to perform these procedures. In the near future, Dr. Machat will also begin using the **Summit Autonomous** LADARVision system. Dr. Machat has performed approximately 100 custom LASIK procedures to date (over 150, according to the National Post story above) with very strong results. All patients have achieved 20/20 or better with about 50% achieving 20/15 or better. Kildani expects TLC to be at the forefront of this evolving procedure. The company will continue to evaluate all 3 small spot scanning beam laser platforms, however TLC is working closely with LaserSight to develop a unique, customized laser. From a financial standpoint, the custom LASIK procedures currently being performed by Dr. Machat command premium pricing. The current charge is \$3,000 (Canadian), well above the standard LASIK price, especially in Canada. When TLC brings its custom LASIK to the market more broadly, it is expected that it will continue to command a premium price. More importantly, custom LASIK will play an important role in differentiating TLC from the competition and potentially opens up a new market segment of patients who want "perfect vision" (i.e. 20/10), not just improved vision.

4/12 **LaserVision Centers** provided an update for investors on the company's progress in its transition from an access provider model to its Market Development business model and its forecasts for its fiscal fourth quarter which ends April 30, 2000. The company also provided a preliminary outlook for fiscal 2001, which begins May 1, 2000. The company reported that it had made significant progress in the transition to its new business model. As of April 12, 2000, the company had signed 22 Market Development agreements and 18 of these agreements were operational. The company

also reported it had signed eight Partnership agreements as of April 12, and that all of those agreements were operational. A Market Development agreement is an arrangement between a local surgeon and LaserVision whereby LaserVision provides significant resources including marketing, personnel, training, laser access and practice development in exchange for a higher percentage of the global patient fee than it received under the company's old "access" model. A Partnership agreement is an agreement whereby LaserVision and a local surgeon invest in a partnership to provide refractive surgery. The company receives a percentage of the profits as well as a management fee. LaserVision said its basic mobile laser access business remains strong and it plans to continue to grow this segment of its business as well.

Laser Vision Centers chairman and CEO, John Klobnak said the new strategy which the company recently reported, employs lower, more competitive pricing without "bricks and mortar". "LaserVision has an extensive network of surgeons and locations throughout America as well as the country's largest fleet of excimer lasers. With our much lower overhead, we now will be able to compete with discount centers. Because we are very well capitalized, we will not be required to incur debt to finance these new centers. Based on our initial beta site results and research we are very bullish on this model."

During March, Klobnak reported that the company performed more than 10,000 surgical cases, provided access to more than 700 surgeons and served over 300 sites. "In the first five Market Development market sites, we have seen case volume increase on average 157%."

Laser Vision further said that the new strategic initiatives will require an investment of as much as \$6 million to fund existing opportunities. This, as well as the recent change in pricing by laser manufacturers will cause a decline in earnings during the first two quarters of fiscal 2001, however, the company said it does not expect to report a loss during the transition period. The company noted that it had previously recorded the \$260 laser royalty fee in its sales and the reduction to \$110 will contribute to a major percentage of this decline in revenue. The company said that while VISX lowered its royalty fee, it raised certain other fees. This change required the company to move to the new model to take advantage of the new lower royalty fees. Based on its current projections, the company believes it will end the fourth quarter of fiscal 2001 on an annualized run-rate of \$16 million in pre-tax earnings. Net of the decrease in the royalty fees, the company projects revenues to increase by about 35% and surgical case volume to increase by about 50% during fiscal year 2001. The company stated it believes that it will record between \$0.07 and \$0.09 in pre-tax earnings for the fourth quarter of fiscal year 2000. "The recent changes in our industry's environment require that we make these investments at this time in order to position the company for the future," said Klobnak. "As we have previously discussed, while we expect the next several quarters to be transitional we are extremely positive about the long term prospects for the positioned company."

Following the announcement, as reported by *CBS MarketWatch*, share prices of the company fell, dropping about 18%. The 7-9 cents earnings per share forecast was below the 12 cents forecast by analysts.

Al Kildani of **Pacific Growth Equities** issued a company update following the above announcement. In it he said he was revising his estimates based on the new guidance from management. "In order to counteract the effects of reduced per procedure laser expenses (recall that LVCI will pass all \$150 of the savings to its physician customers), the company is expanding

its market development and partnership programs. This will serve two key purposes: (1) to increase LVCI's ASP, and (2) to gain control over setting the global fee. In markets where LVCI retains control over the global fee, it may choose to employ a discount model. The new strategic focus will require roughly \$6 million of increased spending over the next several quarters. The good news is that the company is endorsing 50% procedure growth in FY:01 and just recorded its first 10,000-procedure month in March. Higher procedure growth, lower pricing and higher operating expenses lead us to raise our revenue estimate in FY:01 while decreasing EPS. We now estimate revenues of \$97.7 million and fully taxed EPS of \$0.22 in FY:01, compared with our previous estimates of \$82.4 million and \$0.40. The company also announced that Q4:00 (April) would fall below Street expectations on the bottom line. Despite the changes to our model, the company is projected to remain profitable throughout the transition process."

4/12 **CIBA Vision and QLT PhotoTherapeutics Inc.** announced that the FDA had approved Visudyne (verteporfin for injection) therapy for the treatment of the wet form of age-related macular degeneration (AMD). Specifically, the FDA approved Visudyne therapy for the treatment of AMD in patients with predominantly classic subfoveal choroidal neovascularization (CNV). Medical experts estimate that of the 500,000 new patients that develop wet AMD every year around the world, 40-60% will develop predominantly classic lesions during the progression of their disease. Patients with this condition lose their ability to read, drive and recognize faces in as little as two months to three years.

"The approval of Visudyne therapy to treat AMD is a landmark event within the field of ophthalmology. As the first approved drug therapy for this devastating condition, Visudyne provides new hope to many of the 200,000 Americans who lose their vision from wet AMD every year," said Luzi von Bidder, president of CIBA Vision's worldwide Ophthalmics Business Unit. "This therapy will be available to eye care professionals and their patients across the country within 24 hours." "This is a proud day for all QLT and CIBA Vision employees," said Dr. Julia Levy, president and CEO of QLT. "We have worked toward this day since we treated the first AMD patient with Visudyne therapy in clinical trials just five years ago. The relatively short development time from discovery to market illustrates not only QLT's capabilities but the importance of having a committed partner like CIBA Vision."

The approval was based on 12-month data from two 24-month randomized, double-masked, placebo-controlled Phase III trials known as the TAP (Treatment of AMD with Photodynamic therapy) Investigation. The results of the TAP Investigation were published in the October 1999 issue of *Archives of Ophthalmology*, a leading international medical journal. The primary finding of these trials showed that in 243 patients with predominantly classic CNV, vision remained stable or improved in 67% of patients treated with Visudyne therapy compared to 39% of patients on placebo ( $p < 0.001$ ). Top-line data has recently been released showing that the beneficial effect and the favorable safety profile of Visudyne therapy observed at the 12-month time point has been maintained out to two years with fewer treatments required in the second year.

Visudyne therapy is currently approved and commercially available in Switzerland and Malta. Regulatory applications are pending in the European Union, Canada, Norway, Iceland, Australia, New Zealand, Brazil, Argentina, and India, among others. While regulatory reviews are ongoing, Visudyne is currently being made available under various expanded access programs in more than 25 countries.

Visudyne therapy involves the use of a specifically designed laser that produces the low level, non-thermal 689 nm light required to activate the drug. These lasers have been developed by two of the world's leading laser companies, **Coherent Inc.**, and **Zeiss Humphrey**, and comprise the two device PMAs approved today in conjunction with the NDA.

Coherent, Inc. issued a statement following the approval announcement, saying that its Opal Photoactivator special purpose 689 nm-diode laser had been approved for use with Visudyne. Jim Taylor, president of **Coherent Medical Group**, stated, "Coherent is proud to have developed the laser technology that activates the Visudyne therapeutic drug and to be a partner in the battle to prevent blindness from AMD. This is part of Coherent's on-going commitment to provide ophthalmologists with a full range of products and technologies, and the first major leg of our focus on providing solutions for AMD." (Coherent Medical's marketing department was so efficient that I received a FedEx package two days after approval, offering to sell me an Opal laser kit for \$39,350 to work with my Zeiss or Haag Streit slit lamp, or for either \$48,850 with a Haag Streit, or \$51,450 with a Zeiss slit lamp.)

The *American Academy of Ophthalmology* also issued a press release following the approval. In it, Emory University retinal specialist and Academy spokesperson Paul Sternberg, MD, said, "This is the first major advance in the treatment for this type of macular degeneration. Before, very little could be done to prevent vision loss in people with this form AMD. So far, studies show that photodynamic therapy can be used to treat approximately 20% to 40% of the AMD patients with the wet form of the disease with fewer side effects than other treatments. It's certainly a promising development." Until now, the most common treatment has been laser photocoagulation, in which a thermal light laser is used to destroy the abnormal blood vessels. However, it can only be used in a small percentage of patients and sometimes destroys the area around the abnormal blood vessels, resulting in some permanent vision loss.

4/12 **ICON Laser Eye Centers** announced that revenue for 1999 was \$9.5 million, up 122% over the \$4.3 million recorded for 1998. For the year, laser vision correction procedures managed by ICON were 22,412, up 284% over 5,824 LVC procedures in 1998. The net loss for 1999 was \$1.5 million (13 cents per share), compared to net income of \$316,399 (3 cents per share) in 1998. In May 1999, the company acquired two Italian LVC companies and accounted for this transaction as a reverse takeover. As a consequence, the 1998 results reflect only those of the Italian clinics, which were profitable. Aside from the comparative effects of the above reverse takeover accounting, the net loss in 1999 as compared to 1998 arose primarily from: one-time charges of \$621,907 related to debt financing costs; losses from newly acquired clinics and amortization of goodwill associated therewith; and significant legal and other costs of completing such acquisitions and becoming a publicly listed company.

Simone Mencaglia, CEO, commenting on the 1999 fiscal year results said, "The results for the year were well within our expectations given the intensive level of activity of acquiring new clinics and the associated costs. Significantly, as ICON clinics performed closer to target in the first quarter of 2000, our losses were significantly reduced. The core ICON business model is a very profitable one."

For the first quarter of 2000 laser vision correction procedures were reported at 14,917 up 244% over the 4,335 LVC procedures reported for the first quarter of 1999. Based on the increase, LVC

procedure volume of first quarter 2000 ICON expects to report first quarter 2000 revenue in excess of \$8 million.

At the end of 1999, ICON owned and operated 16 laser vision correction (LVC) centers, including 5 in Canada; 5 in the U.S.; 2 in the United Kingdom; and 2 fixed centers, 1 mobile surgery suite and 1 roll-on/roll-off unit in Italy.

- 4/13 **Bausch & Lomb** announced that revenues from ongoing product lines for the first quarter were \$406.9 million, up 4% from the \$389.8 million reported in the first quarter of 1999. The company reported net earnings of \$39.1 million (68 cents per share) for the first quarter, compared to \$22.4 million (39 cents per share), in the same period last year. Revenues in the company's surgical segment were up 14% from the prior year, and were up 18% excluding the impact of foreign currency exchange rate changes. These gains were driven by continued strong double-digit growth in sales of products used in refractive surgery, including very positive response in the U.S. to the company's Technolas 217 excimer laser following its February marketing approval from the FDA.

Commenting about the surgical segment, Bill Carpenter, chairman and CEO said that refractive surgery revenues were up +70%, with the demand for the Technolas and Orbscan outside of the United States exceeding the company's capability to ship products. He felt that the introduction of Zyoptix was driving this demand. Zyoptix will be introduced to the ophthalmic community at the upcoming ASCRS conference, with a controlled launch in Europe and Asia during the third quarter. During the four weeks following FDA approval, the company had sold 5 Technolas lasers in the U.S., and he expects to place at least 30-40 systems by year's end, resulting in about \$10 million in laser sales. He forecast procedure revenues from the U.S. placed Technolas units at \$6 million this year, anticipating a 4% penetration of procedures, and \$20-\$25 million next year with a 10% penetration of procedures.

- 4/13 **VISX** announced financial results for the first quarter, with revenues of \$64.0 million compared to \$53.9 million for the comparable period of the prior year. Net income was \$19.6 million (30 cents per share) compared to net income of \$19.7 million (29 cents per share) in the comparable period of the prior year. Commenting on the announcement, Mark Logan, chairman and CEO of VISX, said, "The excellent growth in shipment of VisionKey cards, an increase of 17% over the fourth quarter of 1999 is, I believe, a key indicator of the health of our business. Although it is too early to state that our Strategic Growth Initiative has produced the desired objectives, the indicators at this juncture are positive and on target."

During the accompanying conference call, it was announced that the company had shipped 86 lasers during the quarter, an increase of 35% over Q1 of 1999. Of the lasers placed, 47 were in the U.S., while 39 were shipped overseas, primarily to the Far East -- to Taiwan, Korea and Japan. With the 47 U.S. lasers, the company now has an installed base of over 550 systems. Although there had been a 17% increase in key cards sold, representing an increase in procedures, royalty revenues only increased 3%, representing the lowered royalty fee rate. The company intends to introduce a next generation variable spot scanning laser system for custom ablations at the upcoming ASCRS meeting. Few details were made available, except that current customers would be able to upgrade their systems with the new capabilities. VISX intends to use its current wide area ablation system for 95% of the intended correction, with the customized 5% optimized portion done by a scanning small spot capability. The 20/10 wavefront diagnostic will be commercialized later this year. (Apparently not at ASCRS, as discussed at last Fall's AAO meeting.) However, the company is planning to hold a two-hour session introducing the new laser technology at ASCRS.

Following the financial results announcement, Wade King, MD, of **Robertson Stephens** raised his rating of VISX from "Long-Term Attractive" to "Buy". "VISX reported strong first quarter results ahead of expectations, with revenue of \$64 million and earnings-per-share of \$0.30. We are upgrading VISX to a Buy rating with a \$30 price target, based upon the strength of the quarterly results and what we view as a compelling valuation".

- 4/14 **CIBA Vision** and **QLT PhotoTherapeutics** announced that *The Committee for Proprietary Medicinal Products* (CPMP) of the *European Medicines Evaluation Agency* (EMA) had recommended the granting of a Marketing Authorization for Visudyne (verteporfin) therapy for the treatment of wet age-related macular degeneration (AMD). The committee unanimously concurred that Visudyne therapy is safe and well-tolerated, with minimal adverse events relating to treatment. The Norwegian and Icelandic CPMP members agreed with the recommendation. The EU Commission is expected to make a final decision regarding the approval of the Visudyne application in the next several months.
- 4/15 I received information about the Refractive Technology Forum, sponsored by **Medical Laser Insight**, to be held in conjunction with the upcoming ASCRS meeting in Boston. The Forum will be held on Sunday afternoon, May 21st at the Ritz Carlton Hotel, and features presentations by Ken Taylor of **Arthur D. Little** on the market growth; Bill Link, formerly of **Brentwood Investments**, and an investor in **Refractec** and **IntraLase**, discussing technology investments; a speaker from **Autonomous/Summit** on LadarVision custom LASIK; Joseph Bille of **20/10 Perfect Vision** discussing the **VISX** wavefront technology; Michael Farris and Jack Holladay representing **LaserSight** and discussing their scanning spot/custom ablation program; a representative from **Bausch & Lomb** discussing their custom LASIK program; Marguerite McDonald talking about conductive keratoplasty (Refractec); Randy Alexander and Ron Kurt of IntraLase about their laser microkeratome; a spokesperson from **Sunrise Technologies** on laser thermal keratoplasty; Scott Macrae representing **Nidek** and their ARK 1000 custom ablation program; Tom Silvestrini of **Keravision** on Intacs; Prof. Theo Seiler on the **WaveLight Allegretto** (and **Dresden Analyzer**); Prof. Dieter Dausch on topography-guided LASIK; and a wrap-up panel discussion. All in all, an ambitious, well thought put together program. I urge you to attend. For information on attending, contact Michael Moretti at 949-830-5409, or email him at morettim@aol.com.
- 4/17 According to *EyeWorld Week*, **Technomed GmbH** has sold its C-Scan technology to **MedRx Technologies Inc.**, so it could enter a "strategic alliance that combines several smaller high-tech companies which are oriented toward refractive surgery," said Technomed chief executive Herbert von Wallfeld. (I have attempted to contact the company for further clarification.)
- 4/17 **CIBA Vision** and **QLT PhotoTherapeutics** have agreed to broaden their partnership to actively develop other compounds used either alone or in combination with photodynamic therapy agents to treat diseases characterized by neovascularization, a growth of abnormal blood vessels in the eye. Age-related macular degeneration (AMD) is one of a number of ocular diseases caused by this condition; others include macular edema and diabetic retinopathy. Any compound capable of preventing the opening, canalization or growth of ocular neovascularization, such as anti-angiogenic agents, will be considered candidates for in-licensing or development.



"The same combination of strengths and expertise that allowed QLT and CIBA Vision to rapidly develop Visudyne therapy to treat AMD will be utilized in the expanded alliance," said Luzi von Bidder, president of CIBA Vision's worldwide Ophthalmic Business Unit. "This will mean new products to help preserve the sight of many thousands of patients."

Terms of the agreement are such that research and development activities will be conducted and managed jointly and both companies will share equally in research and development costs and sales revenues from resulting products net of related commercial costs. CIBA Vision will retain the main responsibility for the sales and marketing of any compound that is commercialized within the alliance. "Our partnership with CIBA Vision has been a successful and rewarding experience," said Dr. Julia Levy, president and CEO of QLT. "We are happy to see the relationship strengthened by this agreement and to capitalize on our successes to further build our ophthalmology franchise."

4/17 **KeraVision** reported revenues of \$1.0 million for the first quarter, up 112% over the \$472,000 in revenues for the same quarter a year ago. As part of the planned reduction in surgeon training, training-related surgeon kit sales were down from the fourth quarter which resulted in a reduction from fourth quarter revenues of \$1.9 million. The changing revenue mix reflects a transition toward building on-going sales from Intacs procedures, the focus in the first quarter, and away from one-time sales from surgeon startup kits, which was the focus in 1999 following FDA approval in April 1999. Net loss for the period was \$9.8 million (54 cents per share) vs. \$9.5 million for the previous quarter and \$7.3 million (60 cents per share) for the first quarter in 1999. The increase in net loss was primarily due to investments in professional and consumer market-development activities in the United States.

KeraVision chairman and CEO Thomas Loarie said, "We believe we have demonstrated with our "Fast Track" program that we can develop successful Intacs distribution points. Our next step is to implement several consumer marketing programs designed to create demand for Intacs and to link consumers directly to the group of Fast Track practices. By supporting Fast Track practices with consumer programs and adding new Fast Track practices as we go, we feel KeraVision has the right strategy to accelerate the rate of procedure growth."

Total procedures for the first quarter were estimated to be approximately 1,100. About 90% of these procedures were performed by surgeons who had completed Intacs training and proctoring and were performing Intacs on an ongoing basis. The record growth in "post-training" procedures was led by the Fast Track group which was up 47% from the previous quarter. Loarie added, "KeraVision's record procedure volume in the first quarter indicates that Intacs are gaining in the marketplace. The fact that nine out of 10 of these procedures were post-training procedures means that a growing number of surgeons are starting to perform Intacs on an ongoing basis."

(With only 1100 Intac procedures performed during the first quarter, Intacs represented about 0.3% of the estimated 412,500 refractive procedures performed during the quarter -- assuming a full year run-rate of 1.65 million. Unless the Intacs pace picks up considerably, they will never hit even the 3% to 5% penetration rate that I have forecast.)

4/17 **Zeiss Humphrey Systems** finally got around to announcing that its Visulas 690s laser system had been approved for activating Visudyne therapy for the treatment of AMD. (Recall that **Coherent Medical** announced its Opal laser the same day the FDA marketing approval was announced by **CIBA** and **QLT**.) "This is an extraordinary advance in the treatment of AMD and Zeiss Humphrey

Systems is proud to help bring this therapy to patients who suffer with this degenerative disease," noted Lothar Koob, president of Zeiss Humphrey Systems.

- 4/17 **NovaMed Eyecare** announced that it had entered into a long-term agreement with **Dean A. McGee Eye Institute (DMEI)**, of Oklahoma City, OK. NovaMed and DMEI have agreed to jointly pursue the large LVC opportunity in Oklahoma City and future markets in the Southwestern U.S. In connection with entering into the agreement, NovaMed acquired the excimer laser used by DMEI and will provide LVC sales and marketing services and LVC-related e-services from NovaMed's application services provider (ASP) information technology platform. The agreement provides for a fixed-site LVC procedure-based fee and monthly recurring fees associated with the installation, hosting and maintenance of the information technology and ASP services, the related LVC e-services, and the LVC sales and marketing services. Additionally, DMEI and NovaMed will share in the earnings of the related LVC joint venture.

"We are pleased and honored to partner with the Dean A. McGee Eye Institute to pursue the LVC opportunity together," said Stephen Winjum, NovaMed chairman, president and CEO. "The Institute's reputation for the highest quality patient care is renowned and consistent with that of NovaMed's affiliated eye care clinics." "We are pleased to be partnering with NovaMed," said David Parke II, MD, president and CEO of Dean A. McGee Eye Institute. "They are leaders in laser vision correction, and we are excited to access their industry-leading sales and marketing expertise, anchored by their unique and impressive information technology offered through the ASP agreement. Their considerable strengths will complement our organization's capabilities and the expertise of our physicians."

- 4/18 **Lasik Vision** announced its financial results for the 12 months ended December 31, 1999. (All figures are in Canadian dollars). Results reflect the company's ongoing aggressive expansion strategy that has seen Lasik Vision open 13 new clinics in North America in 1999 and will see the company open an additional 15 new clinics in the U.S. in the first six months of 2000. Laser vision correction revenues for the year were \$32.5 million. The company reported a net loss of \$3.3 million (11 cents per share). The net loss reflected the development costs associated with the company's rapid expansion that are expensed when a lease is signed for a new clinic, as well as start-up costs, which are incurred from the period between the signing of a lease and the commencement of operations. The net loss is also attributable to development costs incurred in 1999 to build the company's International Call Centre, which handles 2,000 calls per day, and the company's new Corporate Head Office in Vancouver.

For the year, Lasik Vision had positive cash flows from operating activities of \$43,475 before changes in non-cash working capital items. More than 46,000 paid laser procedures were performed at Lasik Vision refractive centres during the year, a 462% increase up from the 8,292 procedures performed in 1998. "Lasik Vision made great progress in 1999. We opened 13 clinics in North America, hired new expert surgeons, acquired new state-of-the-art lasers and increased market share to become Canada's largest operating laser eye surgery company," said Michael Henderson, president and CEO. "Revenue and income results met our expectations and we were very encouraged we reported positive cash flow from operating activities during a time when we incurred significant costs. More importantly, our business model was validated in 1999 as Lasik Vision grew to become the fastest growing provider of laser vision correction to North American consumers."

- 4/18 **SurgiLight** announced financial results for the first quarter, with revenues increasing 61% over the same period in 1999. Revenues for the quarter rose to \$761,000 from \$472,000 for the same period of 1999. The growth of revenues and operational income were attributed to the company's growth in system sales and procedure income from the Laser Centers. For the first quarter, the company reported an operating income of \$20,000, excluding the facility depreciation of \$50,000. The net loss (after the facility depreciation) was \$30,000 (1 cent per share), compared to a net loss of \$16,000 (1 cent per share) for the same period of 1999. The total revenues for the first quarter was attributed to the company's two divisions, the Laser Eye Centers and sales of systems. In addition, the company also obtained incomes from Advanced Marketing Technology for the Cosmetic Laser Centers and EMX for night vision products. In this quarter, the company established two more Eye Laser Centers in Asian countries and now has a total of 20 Laser Eye Centers.

The company hopes to receive FDA clearance for the EX-308 laser for the phototherapy treatment of psoriasis and related skin disorder soon. In anticipation of this clearance, the company appointed Claude Burton, MD, Associate Professor of Medicine and Director of the Laser Clinic at Duke University Medical Center, as Medical Advisor.

- 4/18 **Paradigm Medical Industries** reported first quarter sales of \$1.0 million. Jim Shubert, vice president of Sales and Marketing stated, "Paradigm's first quarter sales figures are reflective of the company's strengthening product position in the ophthalmic market, and our phaco and diagnostic products are perfectly designed to take advantage of the changing healthcare provider marketplace."

- 4/19 **Sterling Vision** announced that it officially changed its name to **Emerging Vision, Inc.** The name change is another step towards realizing the company's business-to-business Internet objectives. Emerging Vision's redevelopment strategy as the preferred Internet optical portal for distributors, manufactures and retailers is based on the value proposition of providing efficient and simplistic access to diverse resources. To further its strategy, Emerging Vision intends to establish multi-year partnerships with major optical companies as significant equity investors and participants.

- 4/19 Following the decision of company shareholders on March 31, 2000 to approve the takeover of **NWL Laser Technologie GmbH**, the **WaveLight Laser Technologie AG** executive committee has increased its sales forecast for the current business year. The company now expects sales revenues in the amount of \$12.1 million at the close of the current business year on July 31, 2000, up from the previous revenues forecast of \$9.3 million. The revised sales forecast takes into account the NWL Laser Technologie GmbH's consolidated sales for the third and fourth quarters of the business year.

Max Reindl, the company's chief executive confirmed that WaveLight will reach the break-even point in the current business year, when not factoring in the company's non-operational costs, including its IPO, the acquisition of NWL and the initiation of market-approval procedures for the ALLEGRETTO eye-laser system in the United States.

In the current business year, WaveLight is expected to secure 60% of its total revenues from outside of the domestic German market. "Regional sales development will change dramatically in the coming 2000-2001 business year, with increased sales revenue coming primarily from Europe and North America," said Reindl. "Spearheaded by assured sales of our ALLEGRETTO system,

WaveLight is well on the way to becoming an international player in the area of high tech medical devices."

- 4/19 **VisionAmerica** announced updated developments concerning several matters. The company, the Internal Revenue Service, and the company's senior lenders have been in constructive discussions regarding tax liens filed with regard to the company's unpaid payroll and withholding taxes. As a result of these discussions, the Internal Revenue Service has entered into a limited Subordination Agreement designed to permit cash advances to the company by the senior lenders. In addition, while discussions are underway, the Internal Revenue Service has agreed to a standstill arrangement. Discussions toward a more permanent solution are ongoing. The company has requested of its senior lenders an overline credit facility to supplement the company's existing credit facility. The senior lenders are considering this request.

The company and **ICON Laser Eye Centers, Inc.** have been in discussions regarding the renegotiations of ICON's previous \$4 million investment in VisionAmerica. These discussions are near completion and the company anticipates a joint announcement with ICON concerning such renegotiations later this week. The company has engaged the law firm of **Alston & Bird** of Atlanta, Georgia to represent it in connection with the class action litigation filed recently against the company in the United States District Court for the Middle District of Tennessee in Nashville. The company intends to vigorously defend this matter.

Based on recent circumstances, including the resignation of the company's CFO, the company's financial statements have not been finalized and therefore the audit for 1999 has not been completed and its Form 10-K has not been filed and is delinquent. The company and its independent auditors have continued to work towards completion of the 1999 audit. Management anticipates that the audit will be completed and the Form 10-K will be filed by May 1, 2000.

- 4/19 **Novamed Eyecare** announced that its net revenue for the first quarter increased 50% to \$31.6 million compared to the first quarter, 1999. Net income for the quarter more than tripled to approximately \$1.5 million (6 cents per share), compared to pro forma net income of \$400,000 (2 cents per share) in the first quarter, 1999. Of total revenues, surgery and laser center revenues were \$9.9 million, up from \$5.9 million for the same quarter last year. "We are pleased to report strong first quarter operating results," said Stephen Winjum, chairman, president and CEO. "The combination of our regional density strategy, our LVC sales and marketing activities and our operational focus is producing strong, profitable growth. Our margins are improving, as are our returns on invested capital. We are focused on profitably growing in our six core markets, even while we selectively enter new markets and continue to invest in our sales and marketing activities and our application services provider (ASP) platform and related e-services. We expect strong, profitable growth to continue throughout 2000."

Earlier in April, NovaMed reported its first quarter LVC procedures increased 119% to 5,323 over the first quarter 1999 and represented an annual run rate of 21,300 LVC procedures. For the first quarter, 2000, LVC revenue represented approximately 28% of total net revenue, up from approximately 20% in the first quarter, 1999 and up from approximately 22% for the full year 1999.

- 4/19 **IRIDEX** announced that sales increased 44% compared to sales in the corresponding 1999 quarter, jumping from \$5.7 million in Q1'99 to \$8.2 million in Q1'00. Net income for the quarter

increased 284% compared to net income in the corresponding 1999 quarter, increasing from \$185,000 (3 cents per share) in Q1'99 to \$711,000 (10 cents per share) in Q1'00. First quarter sales surged primarily due to increased sales of ophthalmology products, particularly products used to treat the "occult" form of AMD. Sales of the company's dermatology products also increased compared to sales for the corresponding 1999 quarter. In addition, the company has introduced a new dermatology hair removal product and expects to begin shipments within three months.

Expanding physician interest in Transpupillary ThermoTherapy (TTT) for treatment of wet "occult" AMD is the primary reason for the increased sales of ophthalmology products. IRIDEX's "TriMode" OcuLight SLx laser products have finally given physicians the tools to treat wet "occult" AMD patients. The resulting sales of these products into the domestic market increased over 300% for the first quarter as compared to sales for the corresponding quarter of 1999. The company expects sales of the OcuLight SLx product line to continue at similarly high levels throughout the year. "Clearly the message is getting out to physicians that TTT is available to treat the wet "occult" form of AMD. The "occult" form of wet AMD accounts for over 70% of all wet AMD cases", commented president and CEO, Theodore Boutacoff. "Prior to the discovery and validation of the TTT approach, approximately 140,000 new "occult" wet AMD patients in the U.S. each year had no treatment available. Publication of favorable clinical study results using TTT sparked interest in this new treatment approach late last year. We believe this is an excellent treatment. Since wet "occult" AMD is generally considered an earlier and less severe form of AMD, IRIDEX has initiated the TTT4CNV clinical trial to confirm whether patients treated earlier with still relatively good vision can be stabilized and spared from progressing to severe loss of vision.

We believe that the TTT procedure's role in the physician's office will take on much more significance with the recent FDA approval of the PhotoDynamic Therapy (PDT) agent, Visudyne (developed by **QLT PhotoTherapeutics, Inc.**), for the "predominantly classic" form of wet AMD, a form which accounts for about 15% of all wet AMD cases. We believe "predominantly classic" accounts for about half of "classic" wet AMD cases. Since TTT and PDT treatments are complementary, by addressing different forms of wet AMD, physicians now will be able to outfit their practices to offer treatments for both the "occult" and "classic" form of wet AMD to meet the needs of their patient pool. IRIDEX's "TriMode" OcuLight SLx appears to be ideal for TTT. We are pleased with the adoption rate of the TTT procedure and expect it to continue worldwide and are pleased with the success of the OcuLight SLx's ability to meet the demanding needs of the physician."

The company also provided an update on its program for the prophylactic treatment of "dry" forms of AMD, announcing an increase to 23 in the number of enrolling centers participating in the company's sponsored PTAMD Clinical Trial. All centers are actively recruiting AMD patients with bilateral soft drusen (BSD), the form of "dry" AMD which is present in both eyes and are at risk of severe vision loss from progression to wet AMD. Eligible patients are enrolled and randomized with one eye to observation and the other eye to treatment. The treatment is administered with the company's IRIS Medical OcuLight SLx infrared (810 nm) diode laser system.

TTT and PDT represent a substantial and welcome addition to the physician's arsenal to fight wet AMD. However, the goal of the PTAMD Clinical Trial is to determine whether severe vision loss in patients can be retarded by attacking the disease much earlier in its course. Specifically, the PTAMD Clinical Trial is designed to answer the question of whether the proven reduction of drusen induced through a prophylactic laser treatment administered at the "dry" AMD stage, can

effectively prevent or delay the progression toward the devastating "wet" stage. A recent publication has concluded that the addition of a 10% effective bilateral prophylaxis to the treatment regimen for AMD, would more than double the prevention of legal blindness in the BSD population.

- 4/20 **LaserVision Centers** announced that it had been served with an administrative complaint issued by the CDRH of the FDA. The administrative complaint and notice of opportunity for hearing relates to a subpoena served on and disclosed by the company in March, 1998 regarding the company's prior use of so-called "international cards", software that enabled its excimer lasers to be used to perform laser eye surgeries for higher myopia cases (greater than -6.0 diopters) than what was initially approved by the FDA. The FDA ultimately approved the use of an excimer laser for higher myopia cases in January 1998. LaserVision supplied all of the information requested under the subpoena and had no contact from the FDA after May, 1998. The company understands that the subpoena was part of an industry-wide investigation into the use of international cards prior to the FDA's approval of the use of excimer lasers for higher myopia cases. The company does not know if any other companies or individuals have been served with similar complaints.

Many ophthalmologists have taken the position that FDA restrictions on physicians' use of laser equipment through software control -- rather than the traditional means of labeling -- deny physicians the flexibility to treat individual patients as the physician deems medically necessary, and represent an unwarranted intrusion upon physicians' rights to practice medicine according to their best medical judgment. Currently, ophthalmologists routinely treat patients with high myopia (greater than -10.0 diopters) and the FDA now allows eye surgeons to elect to exceed its approved parameters as a practice of medicine decision. It is estimated that more than 900,000 laser eye surgeries were performed in the U.S. in 1999.

Neither LaserVision, nor any of the hundreds of other users of excimer lasers in America, which employed these same procedures, have utilized international cards since early 1998. Therefore, this matter will not have a material impact on the company's operating model, however, the company could incur increased legal costs in connection with this matter. The complaint seeks civil penalties from LaserVision and four of its executives in amounts not to exceed \$1 million each. The named individuals are John Klobnak, James Wachtman, Robert May and Rikki Bradley.

## **OPHTHALMIC LASER UPDATE -- May 2000**

4/18-

- 4/20 In the **Dain Rauscher** weekly notes, Dave Therkelsen noted that **KeraVision's** reported 1Q procedure volume was less than he had expected, but he maintained his buy rating. He also noted that **Iridex** showed strength in its ophthalmology business, which was benefiting from the company's advancing studies into the treatment of AMD, and raised his FY2000 estimates for EPS to \$0.40 from \$0.36, while maintaining his buy-speculative rating.

- 4/24 I received two additional analysts reports on **TLC Laser Eye Centers**; Cameron Groome's of **National Bank Financial**, and Charles Olsziewski's of **PaineWebber**. Both were issued following TLC's release of its fiscal 3Q results. Groome believes that TLC is "Looking Sharp - A Great Speculation Gives an In-Line Q3", while Olsziewski also

wrote that the 3Q loss was in line with expectations. Groome wrote, "After a strong Q1, the price of TLC shares have continued to erode, driven by worries about profits, LASIK pricing, business seasonality, stock volatility, and increased marketing expenditures. While the lower prices makes TLC share increasingly attractive from a fundamental perspective, the stock needs a catalyst to break the downward trend...We expect an increase in procedures of 38% for the May 2001 fiscal year, for an average of about 215 procedures per center per month, at an average net-net price of \$1153 per eye."

Olszewski didn't break any new or different ground than had previously been covered in either Groome's report, or that from Al Kildani of **Pacific Growth Equity** (see last month's newsletter).

- 4/24 **Sight Resource Corporation** announced that it had retained **PaineWebber Incorporated** as its financial advisor to work with management in exploring strategic alternatives to support the future growth of the business and maximize shareholder value. William Sullivan, president and CEO, said, "We believe our current stock price does not reflect the underlying value of the company. We believe it prudent to explore a full range of strategies available to the company including mergers, joint venture agreements, strategic partnerships and equity or debt financing."
- 4/24 I received a communique from **BioShape** informing me that the company intended to begin clinical testing of its EyeShape technology in the second half of 2000, with a fully equipped laser system to treat a cornea with online control (while the ablation is taking place) using the incorporated EyeShape module. The system uses a single laser pulse of ultraviolet light and a high-resolution digital camera to ensure that the cornea is measured with maximum accuracy. In use, the UV laser pulse hits a fine screen or grating, projecting striped patterns of UV light onto the cornea. These patterns emit visible blue fluorescence, which is measured with a digital camera. The measuring method is called "fringe projection" of the surface of the cornea. The technology can be used with all commercial refractive lasers. BioShape plans to sell the technology to a major laser producer or chain of laser eye centers in the United States. The technology will be showcased at the ASCRS meeting in Boston next month.
- 4/24 **Laser Vision Centers** announced that it had signed a partnership agreement with Bruce Grene, MD of Wichita, KS, the company's ninth partnership agreement. The agreement calls for a fixed laser system to be installed at the **Grene Laser Center** in Wichita and LaserVision will also provide mobile service to up to two additional locations using one of its Roll On/Roll Off excimer laser systems. The partnership said that the global patient fee will start at \$1,499 per eye. In addition, Grene will join LaserVision's Clinical Advisory Group. The Clinical Advisory Group acts as a clinical and business resource to LaserVision by providing a refractive surgeon's perspective on market competition, proposed policies and operational strategies and also acts as a clinical resource to LaserVision affiliated surgeons.

- 4/24 **VISX** announced that the FDA had approved the VISX STAR S3 Excimer Laser System which includes patented, state-of-the-art active eye tracking technology. Introduction is planned for May 2000 at the ASCRS meeting in Boston. The new STAR S3 extends the capabilities of the existing VISX technology platform and an upgrade path will be made available to current VISX STAR customers. The most notable feature of the STAR S3 is its active eye tracker. The tracker uses dual side-mounted infrared cameras to compensate for patient eye movement during a procedure. In addition, the STAR S3 tracks the entire natural pupil, rather than the pupil center, totally eliminating the need for pupil dilation or pre-imaging.
- 4/25 **Coherent, Inc.** announced financial results for its fiscal second quarter ended April 1, 2000. Sales and net income for the quarter were \$136.7 million and \$8.4 million (31 cents per share), respectively. Sales increased by \$20.1 million (17%) and net income increased \$3.0 million (56%), compared to the second quarter of the prior year. Incoming orders for the quarter were \$159.8 million, representing a new record for the company and an increase of 45% from the same quarter last year. Sales and net income for the six months were \$263.9 million and \$15.1 million (57 cents per share). Sales increased by \$41.7 million (19%) and net income increased \$5.4 million (56%), compared to the prior year period. Improved earnings resulted from higher sales volumes, improved gross profit percentages, and lower operating costs as a percentage of sales. The Medical segment achieved its third consecutive quarter of profitability and its highest level since the second quarter of fiscal 1998. Medical product sales were \$50.6 million during the quarter, up from \$46.8 million for the previous quarter. Bernard Couillaud, Coherent's president and CEO commented, "The hair removal product line within our medical segment continued to perform well as we shipped over \$16 million of the product during the quarter." The company has over 1000 systems installed worldwide. He also commented that the company had begun shipping its Opal PDT photoactivator laser for use with Visudyne for treating AMD, with 70 units shipped overseas and over 100 orders in hand for the U.S. The company expects to ship at least 600 units this fiscal year.
- 4/26 **Summit Autonomous** announced that revenues for the first quarter were \$32.1 million, an increase of 25% over revenues of \$25.7 million for the same quarter of 1999. Revenues for the quarter from the company's laser vision correction business increased 53% to \$20.7 million from \$13.5 million in the first quarter of 1999. Aggregate first quarter 2000 procedure volume in the US, as measured by the company's sales of OmniCards, actual LADARVision procedures, and OmniCard shipments after February 23, 2000 for retreatments under the company's new retreatment program, increased 17% over the fourth quarter of 1999, paced by a 113% growth in LADARVision procedures. Procedure volume for the first quarter of 2000, similarly measured, increased 63% over the first quarter of 1999. The company's first quarter procedure volume, exclusive of OmniCard shipments after February 23, 2000 for retreatments, increased 12% over the fourth quarter of 1999 and 55% over the first quarter of 1999.

The company placed 41 laser systems in the first quarter of 2000, (37 in the US and 4 internationally), compared to 12 systems in the first quarter of 1999 and 36 systems in



the fourth quarter of 1999. Of the 41 systems shipped, 26 were LadarVision and 15 Infinitys. The company also sold 26 keratomes during the quarter, compared to 15 in the previous year's first quarter, and expects to sell at least 140 keratomes this year.

The net loss for the quarter was \$12.3 million, (26 cents per share) compared to net income of \$2.4 million (8 cents per share), for the first quarter of 1999. The year ago first quarter does not include any activity for the LADARVision system, as the acquisition of **Autonomous Technologies, Inc.** was not finalized until April 30, 1999. As previously disclosed, the net loss includes a one time restructuring charge of \$3.0 million taken in conjunction with the consolidation of the Autonomous and Summit laser system operations. It also includes a charge of \$8.1 million for the termination of the strategic alliance with **Ciba Vision Group Management Inc.** Excluding these one time items, the net loss for the quarter was \$1.3 million (3 cents per share).

On March 31, the company announced its decision to fully integrate the Summit and Autonomous laser vision correction businesses, take a first quarter restructuring charge of \$3 million and terminate the strategic alliance with Ciba Vision Group Management. In addition, pending shareholder approval, the company announced that it would change its name to **Summit Autonomous Inc.**

"The first quarter of 2000 was one of great change for the laser vision correction industry," stated Robert Palmisano, CEO of Summit Autonomous. "There were some negatives associated with the decrease in licensing fees and there continues to be much discussion surrounding intellectual property issues. However, there were many positives for this period. Among the highlights are robust procedure volume growth and record laser system placements, driven in large part by market demand for our premier technology, the LADARVision system, which offers the industry's only FDA approved laser radar eye tracker. We also gained FDA panel recommendation for treatment of hyperopia with or without astigmatism and a new indication, mixed astigmatism using LASIK, on our LADARVision system. Additionally, the FDA approved an expanded trial for CustomCornea. Of particular importance during the quarter was our reorganization resulting in a fully integrated, more efficient, less costly and streamlined organization. As I look out over the next several quarters, I anticipate continuing the gains in market share we have achieved over the past three quarters, obtaining key FDA approvals on our LADARVision and Infinity systems and maintaining a keen focus on our number one priority, delivering the best products and highest level of customer support to our doctors and corporate centers".

The company also announced that it would be introducing a new LadarVision 4000 model, containing a 4000 Hz tracker, at the upcoming ASCRS meeting. In addition, the sale of Lens Express was imminent.

Al Kildani issued an update report noting that of the impressive placement of 41 lasers, half of the 26 LadarVision's were placed into corporate centers (**TLC** and **NovaMed**,

among others). Kildani, who previously had thought that the company would ship about 150 laser systems this year, has raised his estimate to 170 or more.

4/26 **Prime Medical Services** announced that it had entered into a partnership with **Caster Eye Center** and will acquire a 60% interest in the Beverly Hills, California, refractive vision correction center. This state of the art center was opened in the fall of 1998 by ophthalmic surgeon Andrew Caster, MD, who will continue to own 40% of the center. Prime paid approximately \$5.8 million in cash for this acquisition, which was effective March 1, 2000. Caster's makes the 8th laser center operated by Prime.

4/27 **Sunrise Technologies International** announced financial results for the first quarter, with revenues and operating expenses of \$18,000 and \$5.0 million, respectively, compared to \$13,000 and \$5.2 million, respectively, for the same period in 1999. This represents a small increase of \$5,000 in revenues and a small decrease of \$135,000 in operating expenses compared to the first quarter in 1999. Net loss for the quarter was \$16.0 million (35 cents per share), compared to a net loss of \$8.5 million (21 cents per share) in the same period in 1999. Approximately \$10.3 million or 64% of the net loss for the first quarter (22 cents per share), was primarily attributable to non-cash expenses associated with the financing costs for the January 2000 and January 1999 financings. Approximately \$4 million (10 cents per share), or 47% of the net loss for the first quarter of 1999, was attributable to non-cash expenses.

"Our first quarter results were in line with our expectations as our company is expanding rapidly. In particular we have expanded operations, manufacturing and sales and marketing in anticipation of the Hyperion LTK System launch," said Russell Trenary, president and CEO.

4/27 **KeraVision** announced two new financing programs that are designed to make the Intacs technology easier for physicians to acquire. The KeraUse program is a "pay as you go" usage arrangement in which the Intacs technology is acquired over a 39-month period, with the first payment deferred for three months. To participate, ophthalmic surgeons must commit to buying at least 216 Intacs inserts, at \$697 each, over the course of the program. The KeraLease program is a 36-month lease arrangement that offers the Intacs technology for \$1,499 per month. Included are a surgical instrument set, valued at \$36,000, and start-up inventory of 18 Intacs inserts, valued at \$500 each. As with the company's original purchase plan, surgeon training and follow-up in-field proctoring are provided at no charge to physicians who buy or lease the Intacs surgical instrument set.

"The KeraUse and KeraLease programs are designed to remove the cost barriers to expanding a surgeon's refractive practice into the mainstream mild myopia segment, which is the segment for which Intacs are especially designed," said Steve Henderson, KeraVision vice president - Sales. "These programs make it easier to become a comprehensive refractive provider." Both financing programs provide special incentives to surgeons who quickly adopt Intacs as part of their practice once they have completed Intacs training and proctoring. KeraVision's original purchase program will continue to

be offered. That program provides a "start-up" surgeons' kit consisting of an instrument set and 18 Intacs inserts, for \$45,000.

- 4/27 **LCA-Vision** reported financial results for the first quarter, reflecting significantly stepped up procedure growth as well as higher marketing, advertising, employment and other expenses resulting from the company's aggressive conversion to its new value-priced LasikPlus format. The company achieved break even profitability for the first quarter versus net income of \$1.6 million (4 cents per share), a year ago. First quarter laser vision correction revenues grew 36% to \$18.2 million, up from \$13.4 million for the same period last year. Versus a year ago, laser vision correction procedures rose 65% to 12,504. On a sequential basis, procedure volume was up 46% from the fourth quarter of 1999. Including multi-specialty laser management services, which the company has phased out, total first quarter revenues rose to \$18.2 million compared with \$13.9 million a year earlier.

"With the conversion behind us, the strength of LasikPlus is clearly evident in first quarter revenue growth", said Stephen Joffe, chairman and CEO. "The 46% sequential increase in first quarter procedures underscores the positive reception value-priced LasikPlus has received. We believe it validates our value-pricing strategy and positions LCA-Vision to be the dominant provider and volume leader in its chosen markets. As expected, the conversion produced additional marketing, advertising, employment and other costs that impacted profitability. Nevertheless, at break even, we finished the quarter ahead of published analyst estimates. To capture what we see as burgeoning demand for laser vision correction, we have stepped-up our schedule of new center openings and now plan to open five new centers by mid-summer. This will impact profitability in the current quarter, but we anticipate that strong demand, expanded market coverage and a winding down of our conversion expenses will have a positive impact on profitability in the second half."

- 4/27 **QLT PhotoTherapeutics Inc.** reported that a civil suit had been filed by **Massachusetts Eye and Ear Infirmary (MEEI)** with respect to an ongoing and previously disclosed ownership dispute involving an issued U.S. use patent to which QLT, **Massachusetts General Hospital (MGH)** and MEEI have co-ownership rights. The patent under dispute is U.S. Patent No. 5,798,349 and was issued in the U.S. on August 25, 1998. There are no non-U.S. counterparts to this patent. The complaint which has not yet been served, is pending before the United States District Court of Massachusetts. QLT has negotiated in good faith to secure an exclusive license position to the co-ownership rights of both MGH and MEEI in return for a reasonable royalty on Visudyne (verteporfin) sales in the U.S., consistent with industry standards. In December 1998 QLT successfully concluded negotiations with MGH to pay an appropriate royalty on U.S. Visudyne sales, but had been unable to reach an agreement with MEEI based on comparable terms.

"We see this law suit as an ill-conceived attempt on the part of MEEI to obtain a more generous royalty," said Kenneth Galbraith, executive vice president and CFO of QLT. "QLT has a strong proprietary position for Visudyne reflected by a number of different

composition of matter, formulation and use patents exclusively owned or licensed by the company. We don't believe the threat of litigation is an effective way to resolve these types of disputes. Frivolous lawsuits such as this are all too common in our sector following the launch of breakthrough products like Visudyne." Galbraith added, "We believe their claims are without merit and we are prepared to vigorously defend any part of our patent portfolio."

According to the *Wall Street Journal*, QLT had agreed to pay less than 1% of its Visudyne revenue to MGH, and that it expected to negotiate a similar royalty with MEEI.

- 5/1 **Sunrise Technologies International** announced it had received conditional approval from the FDA to exchange the company's new HYPERION LTK System for the Sun 1000 Holmium Laser System at all of its clinical investigational sites. The conditional approval will enable the clinical investigators who are participating in the current expanded clinical study to use the new HYPERION LTK System. The current study is for treatment of persons aged 40 years and over with hyperopia (farsightedness) from +1.25 to +5.625 diopters. The study uses a modified algorithm that utilizes a 32-spot treatment pattern.

In January, the company's HYPERION LTK System was recommended for approval by the FDA's Ophthalmic Devices Panel for the temporary reduction of low to moderate hyperopia in the range of +0.75 to +2.50 diopters with certain conditions. That study utilized a 16-spot treatment pattern. Discussions between the FDA and Sunrise since the Panel meeting have been productive as both work toward final approval of the Sunrise PMA. The combined patient populations of these two clinical studies together represent over 95% of the estimated 60 million Americans age 40 and over who have hyperopia.

The FDA has also approved the addition of three new clinical investigation sites. They are under the direction of Brian Boxer Wachler, MD, Director of Refractive Surgery at **Jules Stein Eye Institute** at UCLA in Los Angeles, CA; Mark Milner, MD, Assistant Clinical Professor at Yale University and Partner of the **Eye Center -- A Medical & Surgical Group** in Hamden, CT; and Doyle Stulting, MD, Associate Clinical Professor at Emory University in Atlanta, GA, and Director of Refractive Surgery at the **Emory Vision Correction Center**.

- 5/1 **LaserSight** announced financial results for the first quarter, with revenues increasing approximately 78% to a record \$8.7 million from \$4.9 million in the first quarter of 1999. Compared to the fourth quarter of 1999, revenues increased approximately 88% from \$4.6 million. The improvement during the first quarter primarily resulted from increased revenues related to sales of laser systems and keratome products. As previously announced, during the quarter, the company sold 19 refractive laser systems, including 6 to U.S. customers, compared to 13 systems in the fourth quarter of 1999.

The company reported a net loss of \$2.8 million, (14 cents per share) compared to a net loss of \$3.3 million (25 cents per share) reported for the first quarter of 1999.

Additionally, the net loss for the first quarter of 2000 narrowed significantly compared to the net loss of \$4.6 million (26 cents per share) reported in the fourth quarter of 1999. "The first quarter of 2000 marked a major milestone for LaserSight," commented Michael Farris, CEO of LaserSight. "We began our commercial activities for the LaserScan LSX refractive laser in the U.S. after February 16, 2000. With only a six-week period of sales activity, we booked orders for the LSX system and shipped six units into the domestic market. As we had previously experienced internationally, the domestic market has responded very positively to the availability of a state-of-the-art precision beam scanning system that has the unique characteristics and features offered by the LaserSight Laserscan LSX. The high level of interest in the LSX has continued into the second quarter. Our goal is simple and straightforward. We intend to reach profitability by ramping up production to meet demand, provide world class service and support and continue the tradition of innovation and leadership in product advancements."

Sales and marketing activities for the MicroShape keratome product line continued to ramp up during the first quarter. As previously announced, the company shipped more than 17,000 UltraEdge keratome blades during the quarter, an increase of approximately 41% over the prior quarter. With sales of its keratome blades and UniShaper Single-use Keratomes, LaserSight is now in a position to realize per procedure related revenues, and participate in the worldwide growth of refractive procedures. Farris continued, "During the first quarter we continued our regulatory and clinical activities and expect to have our astigmatism approval within 90 days from the March 24th date of the filing of the PMA supplement. Product development activities continue as we plan to deliver to our customers the state-of-the-art performance features that will further differentiate our LaserScan LSX and other refractive products from our competition. The LaserSight LaserScan LSX is already a very advanced and unique platform when compared to other refractive laser systems."

5/2 **Bausch & Lomb** unveiled a strategic partnership with the *University of Rochester* that creates the **Alliance for Vision Excellence** - a clinical and academic research collaboration dedicated to improving the technology, techniques and products used to correct vision-impairing anomalies of the eye, enabling millions of people to see better than ever before. The Alliance teams Bausch & Lomb with the University's Center for Visual Science and its Department of Ophthalmology. Together they are setting out to take the enhancement of people's vision to a new level of precision through customized eye care. A grant of approximately \$3 million from Bausch & Lomb provides the initial funding for the first five years of Alliance operations. In addition to research, the Alliance will establish a clinical practice in refractive surgery, fully equipped with the most technologically advanced instruments, devices and diagnostic tools made by Bausch & Lomb. The leading-edge equipment will include Bausch & Lomb's recently FDA-approved Technolas 217 excimer laser, which will be available for use by ophthalmologists in the Rochester community.

Scott MacRae, MD, an international authority on refractive surgery and customized ablation who was recruited from the prestigious **Casey Eye Institute** of the Oregon

Health Sciences University in Portland, will serve as medical director of the Alliance. He will conduct clinical research under a program related to the clinical use of devices and equipment designed, manufactured and supplied by Bausch & Lomb. David Williams, PhD, head of the Center for Visual Science and a professor of brain and cognitive science, optics and ophthalmology, will oversee basic science research in the area of ophthalmic and adaptive optics.

The University of Rochester Medical Center will conduct a range of clinical trials that will give patients early access to Bausch & Lomb's most advanced products. This arrangement will dramatically broaden the base of patients available to Bausch & Lomb for new product studies. The work of the Alliance will advance research and development for all parts of the Bausch & Lomb business: contact lenses, ophthalmic pharmaceuticals and surgical products. Bausch & Lomb also will have a royalty-bearing license to any new technology developed by scientists associated with the Alliance.

While this is the most extensive collaboration between Bausch & Lomb and the University of Rochester, it is not the first. Scientists at Bausch & Lomb and the Center for Visual Science worked together to create a pioneering diagnostic device originally called the aberrometer. The device, now trademarked by Bausch & Lomb with the name Zywave, is a key part of the new refractive technology. The Zywave can detect minute defects even in the eyes of people with 20/20 vision. The device is grounded in a technology known as adaptive optics, which astronomers use to sharpen images from telescopes. The Zywave marks a milestone in vision care, detecting visual distortions so subtle that physicians didn't even know they existed until Williams' laboratory developed the device, which has its roots in the 'wavefront sensor' invented by Junzhong Liang at the University of Heidelberg in 1989. Today, a visit to the eye doctor focuses mainly on two types of aberration -- astigmatism and improper focusing of the eye -- and most prescriptions are intended to correct these two defects. The Zywave can measure up to 65 different aberrations. This type of precise diagnostic data allows eye-care practitioners to provide individuals with truly personalized vision solutions -- from customized contact lenses to customized laser surgery. Williams has led a decade-long effort to apply the technology to improve ordinary human vision. The Alliance for Vision Excellence is scheduled to be fully operational in June of this year.

Bausch & Lomb also conducted its annual meeting of shareholders. Chairman and CEO William Carpenter said, "Bausch & Lomb is uniquely poised to drive the new frontiers of eye care, such as customized vision correction, and leading-edge solutions for hard-to-treat sight-threatening back-of-the-eye diseases. With ever advancing technology and innovation, Bausch & Lomb can truly enhance the way people see, and our future will be characterized by increasing growth and profitability, as well as by significant contributions to the field of eye care." Carpenter reviewed the three areas that are key to achieving the company's vision to be 'number one in the eyes of the world'. "In surgical -- Bausch & Lomb is the worldwide leader in products for refractive surgery. The company is the only competitor in refractive surgery that offers everything the doctor needs to perform the LASIK procedure, the most popular form of laser eye surgery. In

each segment of the category, Bausch & Lomb offers the best technology in the market, including the Technolas 217 excimer laser, which gained FDA approval for U.S. marketing in February, and is the market leader outside the U.S.

Carpenter also reaffirmed the company's objective to increase research and development spending each year by at least a half of a percentage point of total company sales. In the past four years, R&D spending had gone from 4% of sales to 6%. This year, Bausch & Lomb will spend nearly \$120 million in pursuit of advanced technologies for the health of the eye.

5/2 **Akorn, Inc.** announced that it had entered into a worldwide exclusive license agreement with Johns Hopkins University Applied Physics Laboratory. The agreement grants Akorn exclusive rights to two patents covering the methodology and instrumentation for a method of treating age-related macular degeneration. The agreement is for the life of the patents, and involves up-front license fees, milestone payments and a royalty on worldwide sales of the product/procedure when it is approved. Floyd Benjamin, president and CEO of Akorn said, "We are very excited about the opportunity presented for the treatment of both the occult and classic versions of age-related macular degeneration through dye-enhanced photocoagulation. The signing of this licensing agreement marks the first milestone in our development of this process. We expect to file an Investigational New Drug application by the end of June." (According to reports written by Dave Therkelsen of **Dain Rauscher** on Akorn, the dye is indocyanine green (ICG), which will play an important role in both the diagnosis and therapeutic treatment of AMD.)

5/3 **Bausch & Lomb** announced that it had received a U.S. patent that adds significant protection for its blades, blade designs and blade holders that are intended for use with pivoting microkeratomes such as the company's Hansatome microkeratome, the world's best selling microkeratome for laser eye surgery. The patent, No. 6,051,009, is in addition to previously issued U.S. patent, No. 5,624,456, on the Hansatome. Bausch & Lomb, the preeminent global technology-based healthcare company for the eye, holds exclusive rights to both patents, as well as other patent properties covering microkeratome technologies. In order to protect its patented product, Bausch & Lomb filed suit in U.S. District Court in Santa Ana, California, against two manufacturers, **Visionar** and **Med Logics**. The lawsuit alleges infringement of the newly issued blade patent. In the suit, Bausch & Lomb seeks an injunction against further manufacturing of the blades, as well as unspecified damages.

Last August, Bausch & Lomb filed a lawsuit in U.S. District Court in Philadelphia against French microkeratome manufacturer, **Moria**, and its U.S. distributor, **Microtech**. That lawsuit alleges that the two companies were infringing on the previously issued Hansatome patent by marketing and selling a product called the Carriazo-Barraquer microkeratome in the United States. In its U.S. complaint, Bausch & Lomb requests that Moria and Microtech be found to have willfully infringed the Hansatome patent. The lawsuit seeks unspecified damages, as well as a permanent injunction against the

companies. Bausch & Lomb intends to modify this lawsuit to include the recent blade patent.

- 5/3 **VISX** announced that the FDA had granted 510(k) clearance for its WaveScan Wavefront System. The VISX WaveScan Wavefront System is the only FDA-approved system that allows physicians to instantly measure refractive aberrations using highly advanced optics. The optics project light into the eye and precisely analyze the returning wavefront using a Hartmann-Shack sensor containing thousands of tiny lenslets. From the system, surgeons will obtain a WavePrint, much like a "fingerprint" of the eye, which illustrates an accurate assessment of the patient's refractive errors. The company expects the VISX WaveScan system to be commercially available later this year.

The company also announced that the first refractive treatments using precise VISX WaveScan measurements were initiated in the U.S. by David Hardten, MD and Richard Lindstrom, MD of **Minnesota Eye Consultants** in Minneapolis, MN, and Manus Kraff, MD and Colman Kraff, MD of the **Kraff Eye Institute** in Chicago, IL. Further information will be presented later this month at the ASCRS Meeting in Boston.

- 5/3 **Laser Vision Centers** announced that its Board of Directors had authorized a share repurchase program of up to 4.9% of the company's common stock. This authorization was in addition to the repurchase announced in March 2000 under which the company repurchased a total of 1.3 million shares in open market transactions at prices ranging from \$4.03 to \$7.10 per share. The company expects the approved repurchases to be effected from time to time in the open market in privately negotiated transactions, or otherwise, subject to the market price of the common stock and overall market conditions. The purpose of the repurchase plan is to meet the company's obligations under its stock option plans and other stock-based plans, while minimizing dilution to shareholders.

- 5/3 **Pharmacyclics** announced preliminary results from an ongoing Phase II dose-ranging study with Optrin (motexafin lutetium, also know as Lu-TeX) for the photodynamic therapy of patients with age-related macular degeneration. The results were presented at the annual meeting of the *Association for Research in Vision and Ophthalmology (ARVO)* in Fort Lauderdale, FL.

"The preliminary results of this trial are encouraging," said Mark Blumenkranz, MD, professor and chairman of the Department of Ophthalmology at Stanford University School of Medicine. "The stabilization of visual acuity is promising, though longer follow-up is needed. Optrin's fluorescence properties may allow us to image and visualize the diseased tissue, potentially enabling us to better target and pinpoint the treatment with light." The study, sponsored by **Alcon**, is being conducted at four leading ophthalmology centers in the United States, including Stanford, Massachusetts Eye and Ear Infirmary, Manhattan Eye and Ear Institute and the Jules Stein Eye Institute at the University of California, Los Angeles.



5/3 **VisionAmerica** announced an interim agreement with the IRS. The IRS has agreed to withdraw existing liens against company assets for unpaid federal employment and employee withholding taxes, and has agreed to refrain from taking any further collection actions against the company or the company's assets. In exchange for such withdrawal and forbearance the IRS will be the beneficiary of a \$3.0 million letter of credit provided by the company's senior lenders, represented by **Banc of America Commercial Finance Corporation**. The \$3.0 million letter of credit may be drawn upon by the IRS upon the occurrence of certain events, and in any event after twelve months if the company and the IRS have not reached a comprehensive settlement of these unpaid taxes, which settlement the company has agreed in good faith to pursue during the term of the one year arrangement.

The company also retained the firm of **Casas Ellen & White, LLC** as management and financial advisor to assist in the evaluation and implementation of strategic initiatives.

5/3 Investigators presented results from clinical trials studying Visudyne (verteporfin) therapy for the treatment of various eye diseases, including age-related macular degeneration (AMD), at the *Association for Research in Vision and Ophthalmology (ARVO)* annual conference held this week in Fort Lauderdale. The results included data that led the FDA to approve Visudyne on April 12, 2000 as a treatment for AMD patients with predominantly classic subfoveal choroidal neovascularization (CNV).

Some of the conclusions presented during the various sessions included:

- \* After two years of treatment Visudyne therapy was confirmed to be safe and effective.
- \* Approximately twice as many patients on Visudyne therapy with predominantly classic CNV -- the more aggressive type -- lost less than 3 lines of vision, or 15 letters, on a standard eye chart, compared to those patients on placebo (59.1% vs 31.3%, respectively) at 24 months.
- \* Patients averaged 5.5 treatments during a two year period.
- \* Visudyne therapy was well-tolerated. Injection site reactions and visual disturbances were the most frequently reported adverse events.
- \* Photosensitivity reactions, commonly associated with other photosensitizers, rarely occurred (0.6%) following Visudyne treatments. This result was obtained in patients advised to stay out of direct sunlight and strong ambient light for 48 hours.
- \* Early detection and treatment is important since further analysis of results showed that the majority of vision loss in patients on placebo occurred in initial months and patients with smaller lesions, on average, had better visual outcomes.

\* Visudyne is beneficial in ocular conditions involving neovascularization beyond AMD. Positive results were demonstrated with Visudyne in patients with CNV caused by pathologic myopia -- a degenerative form of near-sightedness that occurs among people over 30 years of age and promising results were obtained in patients with ocular histoplasmosis syndrome, a condition caused by a fungal infection of the retinal area.

5/3 Senior PGA Tour golfer Hale Irwin is the latest sports legend to undergo corrective LASIK surgery. Irwin, who at age 54 is America's all-time Senior PGA Tour career earner, reveals he underwent the 20 minute operation at **TLC Laser Eye Centers Atlanta**, one of 60 TLC surgical centers in the U.S. and Canada. He now sees 20/15. Dr. Jonathan Woolfson, who treated Irwin, recently performed the procedure on the golfer's manager, his daughter Becky, his son and his son-in-law. "It's the ultimate family togetherness story," laughs Irwin. "Now we all walk around the house smiling and saying 'Nice to see you,' to each other. It's just great."

5/3 **ICON Laser Eye Centers, Inc.** announced that 6,662 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during the month of April 2000. This represents an approximate 255% growth rate, compared with 1,876 procedures performed in April 1999 and up approximately 6.7% from 6,243 LVC procedures in March 2000. On an annualized basis using April numbers, ICON is operating at a quarterly rate of 19,986 procedures and a yearly procedure rate of 79,944. In ICON's monthly total, 1,181 LVC procedures can be attributed to ICON's joint venture partnership with **VisionAmerica** in Tampa, Orlando, Chicago, Houston, San Antonio and the newest center in Albuquerque. Of the 15 centers where ICON and VSNA have currently rolled out the ICON "Value LASIK" marketing programs, 6 of these centers reported attributable procedures in April 2000. ICON is targeting to roll-out up to 22 locations by the end of Q2 2000.

5/4 **OptiCare Health Systems** announced financial results for the first quarter. Net revenues increased 92% to \$34.7 million compared to \$18.1 million for the same period last year and a 9% increase over the \$31.7 million reported in the prior quarter. For the quarter, the company reported net income of \$294,000 (3 cents per share), an increase of 112% over the \$139,000 reported in the prior quarter, and net income of \$79,000 (22 cents per share), after including the effect of a preferred stock dividend, for the same quarter of the previous year.

During the quarter, the company announced it entered into a definitive merger agreement to acquire **Vision Twenty-One**. The merger will combine the two companies' laser vision correction and managed eye care businesses, creating leadership positions in both market segments. The company anticipates it will close the Vision Twenty-One acquisition, which is subject to the satisfaction of certain conditions, in the third quarter.

5/4 **Lasik Vision** announced its results for the first quarter reflecting record revenues and profitability based primarily on strong growth in the number of laser vision correction procedures performed in Lasik Vision's North American refractive centres. First quarter

laser vision correction revenue grew to \$20.1 million, up 476% from \$3.5 million for the same period a year ago. Lasik Vision performed 26,673 paid laser procedures in the quarter. This is a 423% increase from 5,092 the same period a year ago and represents a new record volume quarter for Lasik Vision. The first quarter procedures represent a 36 % sequential increase from the 19,567 procedures performed in the fourth quarter of 1999. Net profit for the quarter was \$1.0 million (2 cents per share (\$0.02 per share), compared to a net loss of \$2.2 million (5 cents per share) for the first quarter of 1999. "The first quarter was a period of strong growth and achievement for Lasik Vision. We began our aggressive expansion into key U.S. markets with the opening of five new clinics and the development of an additional ten new centres to be opened by the end of June 2000. We gained significant market share in every new location we opened and expanded consumer same-store growth in our existing centres. In the U.S. and Canada, the demand for laser vision correction is increasing dramatically and more and more consumers are choosing Lasik Vision," said Michael Henderson, president & CEO.

5/4 **Summit Autonomous** announced that the company had entered into a definitive agreement to sell its **Lens Express** business unit to **Strategic Optical Holdings, Inc.** for \$31 million cash, plus a minority equity interest in the acquiror. The transaction is subject to customary closing conditions. "We are pleased to have entered into a definitive purchase and sale agreement for Lens Express," commented Robert Palmisano, CEO of Summit Autonomous. "I have stated previously that Lens Express is no longer strategic to our goal of becoming the leading developer and marketer of differentiated ophthalmic products and services for refractive surgeons. By divesting the company of the Lens Express business unit, we can better focus our efforts on growing market share and widening the technological lead we have established with the LADARVision laser system -- the only system which incorporates FDA approved laser radar eye tracking," Palmisano continued.

5/4 I received a copy of **Dain Rauscher's** David Therkelsen's new research report on "Age-Related Macular Degeneration -- The Next Frontier in Ophthalmology". This treatise on AMD covers the subject completely, including wet and dry conditions and treatments, and the companies sponsoring those treatments. In addition, the report initiates his coverage of **QLT PhotoTherapeutics** and **Miravant**, in addition to previously picked up coverage of **Iridex** and **Akorn**. (The current PDT research underway by **Pharmacyclics** is also included, although the company is not covered in detail.) Those of you interested in this subject, I urge you to obtain a copy of the report from Dain Rauscher. (The only aspect of AMD left out, which Dave and I have discussed, is the diagnostics necessary to detect the disease at an early stage for either preventative or early treatment. Dave assured me that he intends to delve into this aspect as well, as soon as time permits.)

5/4 **VISX** announced that it had achieved settlements of several lawsuits in which claims had been asserted against the company. Among the claims settled were the antitrust and other claims against VISX filed by Jon Dishler, **DTC Eye Surgery Center, Inc.**, **DTC Eye Associates, PC**, **Laser Institute of the Rockies, LLC**, and **TELCO The Excimer Laser company Pty, Ltd.** in the U.S. District court for the District of Colorado. The settlement

also included a resolution of the claims filed in 1996 by **Pillar Point Partners, Summit Partner, Inc.** and **VISX Partner, Inc.** against those same parties.

Also settled was the action filed by John Taboada against Stephen Trokel, VISX, and VISX Partner, Inc. in the U.S. District Court for the Western District of Texas seeking, among other things, a declaration that Taboada is the inventor of VISX's U.S. Patent No. 5,108,388 (the '388 Patent) and a payment of royalties received by VISX for the '388 Patent. In connection with that settlement, the parties have signed and will file with the court a stipulated judgment stating that Dr. Trokel is the sole inventor of the '388 Patent. Finally, VISX settled an action filed against it by a group of former clinical investigators of the laser system made by **Taunton Technologies Corporation** in which the plaintiffs alleged federal antitrust law violations, breach of contract, and unjust enrichment.

Although no details of the individual settlements were forthcoming, VISX said that it paid a total of approximately \$12 million in one-time payments and related costs and fees. The company plans to take a one-time litigation charge of approximately \$0.12 per share after taxes in the quarter ended June 30, 2000.

5/4 **Prime Medical Services** reported financial results for the first quarter with revenues increasing by 16% to a record \$29.4 million from \$25.4 million for the comparable year ago period. Net income for the quarter was \$3.3 million compared to \$3.2 million a year earlier, while earnings per share rose 11% to a first quarter record of \$.20 per share compared to \$.18 per share in the first quarter of 1999. Ken Shifrin, chairman, stated, "We are pleased that we can once again announce record earnings for the first quarter. Notably, our refractive vision correction (RVC) procedures grew 20% sequentially, to 5,543 procedures in the first quarter of 2000 from 4,609 procedures in the fourth quarter of 1999. This significant growth was achieved through increases in same store sales as well as through acquisitions, giving us continued confidence that our RVC endeavor will meet the strong growth expectations that we have projected."

Prime currently operates a fleet of 65 lithotripters and eight refractive surgery centers in 31 states. These centers perform approximately 38,000 lithotripsy and 22,000 LASIK procedures on an annualized basis.

5/4 **Health Net** announced the launch of what is believed to be a first-of-its-kind discount program in California allowing members to receive steep discounts on LASIK vision correction services. Effective May 1, 2000, LASIK services are available to Health Net members at discounts ranging from 15% to 30%. These services, while not a part of Health Net's regular benefits plan or coverage, provide discounts on lifestyle-enhancing LASIK procedures for Health Net members. Under the LASIK discount program, Health Net members receive services -- including a vision exam, pre-operative care and post-operative care for one year -- through two well-known companies with facilities throughout California: **TruVision** and **Cole Vision**. These organizations work with experienced ophthalmologists and have provided discounts and other vision services to millions of people nationwide.

5/5 **Miravant Medical Technologies** announced that baseline demographic data from Phase III clinical trials of SnET2 (tin ethyl etiopurpurin) were presented at the 2000 annual meeting of ARVO in Fort Lauderdale, FL. SnET2 is an investigational drug being co-developed by Miravant and its partner, **Pharmacia Corporation**, for PhotoPoint photodynamic therapy of sub-foveal choroidal neovascularization (CNVM), also known as the wet form of age-related macular degeneration.

The Phase III trials, which are ongoing and fully enrolled, consist of two randomized, double-masked studies in which over 900 patients with wet AMD are treated with SnET2 (0.5 mg/kg and 0.75 mg/kg, placebo) and a diode laser using 664 nm wavelength (from **Iridex**). Eligibility criteria required some component of wet AMD, a maximum lesion size-greatest linear diameter of 3.0 mm for entry and up to 4.5 mm for retreatment, and a best-corrected visual acuity of 15-60 letters. As of December 1999, data were reviewed from 758 patients. Of these patients, the mean age was 76.6 years and 58% were female. A data safety-monitoring board, established to review the data at three-month intervals, has not identified any significant safety issues to date. Final results will be available later this year after the data have been fully analyzed. The results will be submitted for publication in a peer-reviewed medical journal.

5/5 **QLT PhotoTherapeutics** reported financial results for the first quarter. (All amounts, unless specified otherwise, are in Canadian dollars.) For the quarter, QLT reported a net loss of \$12.5 million (19 cents per share) compared to a net loss of \$5.9 million (10 cents per share) for the same period in 1999, and a net loss of \$12.1 million (19 cents per share) for the fourth quarter of 1999. "The increased loss for the quarter can be directly attributed to QLT's share of costs for the Visudyne (verteporfin) expanded access program and accelerated Visudyne pre-marketing activities by **CIBA Vision**," said Kenneth Galbraith, QLT's executive vice president and CFO. These costs have been recorded in the Statement of Operations as "Market Development and Other Joint Business Costs" net of amounts received from commercial sales in Switzerland and cost recovery under the expanded access program outside of North America. Our marketing partner, CIBA Vision, recorded approximately \$5.7 million in net revenues from both the cost recovery from the expanded access program outside of North America which is underway in over 20 countries and commercial sales in Switzerland."

Galbraith continued, "First quarter sales exceeded our expectations and we look forward to reporting results in the future from the U.S. launch of Visudyne which commenced on April 12, 2000." Royalty revenues on PHOTOFRIN (porfimer sodium) sales were \$619,000 during the first three months of 2000, equivalent to the first three months of 1999. As announced on May 1, 2000, the company has entered into an agreement to sell the worldwide rights to PHOTOFRIN to **Axcan Pharma**, which is expected to close in the second quarter of 2000. "During the first quarter, the company's financial position was strengthened with additional cash resources from borrowings under a long-term lending facility for the company's new headquarters and research facilities." The company ended the first quarter with total cash resources of approximately \$271 million.

The company also held its annual general meeting in Vancouver, BC, where shareholders voted to change the company name to **QLT Inc.** The new name is intended to reflect the company's emergence as a large, well-diversified biopharmaceutical enterprise as it expects to broaden the product pipeline to include opportunities involving other technology platforms in addition to photodynamic therapy.

- 5/5 **Sight Resource** announced results for the first quarter with revenues increasing 11% to \$17.5 million compared to \$15.8 million for the first quarter of 1999. The net loss in the quarter was \$287,000 (3 cents per share) versus net income of \$173,000 (2 cents per share) in the first quarter of 1999. First quarter 2000 results included the operations of **Kent Optical**, acquired effective April 1, 1999. Comparable store sales in the first quarter were down 1.7% versus last year. The company operated 130 vision centers as of March 25, 2000 compared to 100 vision centers as of March 27, 1999.

Sales in Sight Resource's laser vision correction business were less than last year by \$500,000 due to the termination of the company-owned laser operations in New England, offset somewhat by the initial procedure volumes in laser vision correction operations stemming from Sight Resource's partnership with **Laser Vision Centers Inc.**

- 5/8 **Gimbel Vision International** reported that during the first quarter, refractive procedure volumes for the company totaled 4,823, a 16% increase over the comparable period in 1999. First quarter volumes from North American operations amounted to 4,444, a 15% increase over the prior year. Other non-North American operations generated volumes of 379 as compared to 296 in the prior year first quarter. In order to provide a meaningful comparison from ongoing operations, comparative volumes referred to for the 1999 first quarter exclude operations from Brazil which were written off at the end of fiscal 1999. Consolidated revenues for the first quarter of 2000 amounted to \$4.8 million, essentially unchanged from the prior year first quarter revenues of \$4.9 million. It should be noted that the 1999 first quarter results included \$455,000 in revenues from Brazilian operations. Revenues from North American operations increased 7% over the prior year which is in line with the procedure volume increase from that market.

On a geographic basis, profits from Canadian operations were \$155,614 in the first quarter as compared to \$321,183 in the first quarter of 1999. The decrease in current year first quarter Canadian profits as compared to the prior year was mainly due to an increase in operating costs due to growth at existing centres and costs required to support the start up of new refractive vision correction centres. Canadian procedure volumes were lower than expected at the start of the first quarter 2000. However, volumes continued to increase during the quarter and returned to acceptable levels by quarter end.

A \$129,636 loss was recognized in the United States geographic segment for the first quarter as compared to profit of \$55,806 in the first quarter of 1999. This decrease was predominantly due to lower than expected volumes during the initial months of the first quarter which, similar to Canadian volumes, returned to expected levels by the end of the quarter.

5/8 This month's issue of *Refractive Market Perspectives* notes that procedures grew 15.7% during the year's first quarter, and that 110 new lasers were sold. Procedure growth was significantly better than the 9% for the fourth quarter, and the 9.8% for the third. Dave Harmon is holding with his 1.55 million procedures for the year, which represents a 63.2% growth over 1999. (I'm still holding with 1.65 million procedures, a 76% growth rate.) Harmon claims that there were 900 lasers in operation at the end of last year, and with the 110 new lasers sold, minus the five trade-ins, the installed base is now at 1005, and with 180 of those representing secondary lasers in ongoing centers, the total number of laser centers/mobile lasers (serving multiple sites) is now at 825, up 80 from the end of the year. (Of the 110 new lasers sold, VISX had 47, Summit Autonomous 37, LaserSight 6, and Bausch & Lomb 5, which leaves 15 for Nidek (?). Dave also believes that over 400 new lasers will be sold in the U.S. in 2000 -- which may be conservative.

Harmon also noted that competitive pressures were driving lower average prices for LASIK during the quarter, with about 12% of surgical sites now offering LASIK at less than \$1500 per eye; while about 20% are now averaging \$1500 to \$1800; the \$1800 to \$2100 group decreased to about 33%; the \$2100 to \$2400 group decreased dramatically from 35% to 22%; while those charging over \$2400 remained constant at about 12%. The overall average price fell from about \$2077 in the fourth quarter, to \$1940 for the first quarter. (Harmon has predicted that the average price will drop close to \$1800 by year's end.)

The newsletter also has an interesting article about market penetration in some key areas of the country. According to Market Scope's research, of the areas researched, Denver and Colorado Springs have the highest penetration rates, based on their populations, while San Antonio and Houston have the lowest rates. The cumulative U.S. rate, based on the total population, is about 0.36% penetration. (According to my estimates, by the end of 1999, about 861,000 people had had refractive surgery performed since 1995, representing about 0.51% of the vision care population, and 1.44% of the target population (those most likely to have refractive surgery).

5/9 **Paradigm Medical** announced that it had received the CE Mark allowing it to import its new cataract removal system called the "Photon" to all countries in the European Economic Community.

5/9 **Nidek, Inc.** announced that the FDA had granted supplemental pre-market approval for the company's EC-5000 Excimer Laser System for the treatment of LASIK. Nidek can now market and sell its excimer laser for LASIK procedures, for the treatment, reduction and elimination of myopia with and without astigmatism, ranging in severity from -1.00 to -14.00 diopters, in term of manifest refraction spherical equivalent (MRSE), with refractive astigmatism of less than or equal to -4.00 D cylinder by manifest refraction, in patients who are over 21 years of age.

"With this additional FDA approval for the Nidek EC-5000, we uphold our long-standing commitment to providing refractive surgeons with expanded applications for the laser system," stated Hiroshi Okada, vice president and general manager of Nidek, Inc.

- 5/9 **Laser Vision Centers** announced that it performed 100,798 procedures for its fiscal year ended April 30, 2000, up from 56,753 the previous year, a 78% increase. LaserVision said that worldwide case volume was over 104,686 for the year, up 73% over the previous year. During the fourth quarter ended April 30, the company said that 29,293 cases were performed in the U.S. compared to 19,962 procedures during the fourth quarter of 1999, an increase of 47% year-over-year. LaserVision operates 81 excimer lasers in the United States and 86 worldwide. More than 715 surgeons accessed LaserVision's services at more than 300 locations throughout the U.S.
- 5/9 **Summit Autonomous** announced that the FDA had granted the company approval to expand its IDE studies for wavefront guided ablations using the combination of its patented CustomCornea Wavefront System and its LADARVision System. In October of 1999, CustomCornea was the first wavefront measurement device of its kind to begin clinical studies in the U.S. The CustomCornea Wavefront System is the only measurement device designed to objectively measure the unique optical aberrations in each patient's eyes and then link the information to the LADARVision System in order to treat the patient with a customized wavefront-guided ablation pattern to reshape the cornea. The expanded multi-site CustomCornea trials include bilateral LASIK patients. Indications include myopia, hyperopia, and astigmatism as well as ocular abnormalities such as irregular astigmatism and irregularities as a result of a prior refractive surgery.
- 5/10 **LCA-Vision** announced the opening of its newest value-priced LasikPlus center -- the company's 23rd U.S location -- in the upscale Chicago suburb of Naperville, Illinois. With the opening of the new facility, LCA-Vision has four LasikPlus centers available to serve the 6 million residents of the greater Chicago metropolitan area. Naperville is the third of ten new LasikPlus centers LCA-Vision plans to open this year.
- 5/10 **Lasik Vision** announced that included in its financial statements for the first quarter (see 5/4 brief above) was an amount of \$2.2 million which was inadvertently recorded as procedural revenue but was in fact **marketing assistance** and constituted "Other Income" for the company. The company is currently reviewing the method by which this "Other Income" should be reported and anticipates re-issuing its first quarter financial results prior to May 31, 2000. In addition, the company will also restate certain balance sheet amounts, principally concerning the re-classification of specific amounts included in current liabilities which should be shown as long-term liabilities.

According to two sources, **Preferred Capital Markets'** Kate Sharadin and Jason Mills, and David Baines of *The Vancouver Sun*, the "other income" may have been marketing assistance provided by **VISX**, as part of its deal in conjunction with Lasik Vision's planned purchase of 100 VISX Star lasers.



Preferred Capital, in a First Call note, reported that, "A May 10, 2000 press release from LASIK Vision -- one of the most aggressive price discounters in the U.S. -- indicates that the company received marketing assistance from another company. Today, we had a conversation with a source at LASIK that characterized this assistance as a "bonus" from an 'un-named' supplier. While LASIK Vision has more than one supplier of lasers and related equipment in Canada, the company and VISX signed an agreement in January 2000, in which it was agreed that VISX would be LASIK Vision's exclusive supplier of excimer laser systems in the US. After talking with a plethora of industry contacts, we concluded with a high level of confidence that VISX was the "supplier" that provided this marketing assistance." Sharadin and Mills note went on to state, "Based on the obvious concern and disparagement expressed by ophthalmologists when the VISX/LASIK Vision agreement was announced, we believe that when both current VISX users and those docs contemplating a laser purchase learn of the "marketing assistance" that VISX provided to their most detested competitor amongst LVC providers (i.e. individual doctors and other corporate centers), we would likely see heightened disdain for VISX from these surgeons. We believe that this revelation increases the risk profile for investors and exacerbates the negative sentiment in the professional LVC community for VISX. Whether some of the current VISX surgeons would switch to a competitor's system or new surgeons contemplating a VISX S3 system purchase would look elsewhere remains to be seen; however, we conclude that one or both of these occurrences are likely now more than ever due to this discovery. We believe that VISX' potential loss in this regard would be a boon for **Summit**, **LaserSight**, and **Bausch & Lomb**, all of which are aggressively competing with VISX currently in the US market selling next-generation small beam scanning lasers, which we believe is fast becoming the favored platform of laser technology among surgeons in the US concurrent with such a paradigm shift that has already taken place internationally."

David Baines article in the *Vancouver Sun* also noted that a "review of the company's (Lasik Vision) affairs also shows its previous quarter was unprofitable, contrary to an earlier statement by Lasik president Michael Henderson. Further inquiry into the company's financial condition raises questions about its ability to finance its aggressive expansion plans."

Discussing the "other income" and how it should be reported, Baines reported that Henderson said, "It's possible that instead of all of it being booked in the first quarter, it will be spread out over the remaining three quarters," he said. If so, the \$1-million profit that was earlier reported may turn into a loss. The Sun has since learned that the fourth quarter (which was not broken out from the 12-month results) was unprofitable: The company appears to have lost more than \$800,000.

The company raised \$15 million US subsequent to year end, which was expected to be sufficient to fund this year's expansion program, but further expansion would require "additional financing from outside sources." Henderson said that at the time the statements were prepared, the company planned to increase the number of clinics to about 35. With plans now calling for 50 clinics, the company must now find financing

for about 15 outlets. How the company will finance these additional clinics is not clear. In January, the company announced it had arranged a two-part financing of up to \$30 million US. The first part was a \$15-million loan from **Arbor International Inc.** of Pal Alto, Calif. However, industry sources also suggest that Visx, rather than Arbor International, funded the \$15-million US convertible loan. Henderson again declined comment due to confidentiality provisions with both Visx and Arbor: "All I can say to you is that Arbor was the investor. The funds were provided through Arbor." The question is critical because it helps quantify the extent to which Lasik is being subsidized by Visx and, therefore, Lasik's dependence on that supplier for its continuing viability.

(We learned at ASCRS, that "marketing assistance" was offered to other LVC center, but only if they would sign exclusivity licenses with VISX. Since most declined to do so, it is probable that only Lasik Vision received this "marketing assistance".)

- 5/11 **Summit Technology** announced that the FDA had granted approval for the company's LADARVision System for the treatment of myopia (less than -9.0 D) with or without astigmatism (less than -3.0 D) using LASIK. Industry analysts credit this technique for the explosive growth in the laser vision correction market. The LADARVision System incorporates sophisticated software designed specifically for LASIK, including a new feature that protects the corneal flap created during LASIK from laser ablation. According to the company, no other laser vision correction system offers this advanced feature.

"We've reached another milestone by acquiring LASIK approval for the LADARVision System," stated Robert Palmisano, CEO of Summit Autonomous. "This most recent LASIK approval will allow our customers to use our unique LASIK software, which speaks to the sophisticated design and technology available only with our LADARVision System. Doctors will now be able to deliver even more outstanding results for their patients with this effective and efficient LASIK software. By obtaining new FDA approvals on our premium technology, we deliver on our pledge of meaning more to our customers".

- 5/11 **Razorfish**, the global digital solutions provider, announced it was developing a new consumer web site for **KeraVision**. The site, set to launch June 1, will help educate consumers about a new category of vision correction, Intacs micro inserts, as an alternative to eyeglasses, contact lenses and procedures that permanently alter the eye's central optical zone. The new site will also direct interested consumers to the most experienced or high-volume Intacs eye doctor in their area.

- 5/11 **STAAR Surgical** reported results for the first quarter, with revenues of \$14.1 million, compared to \$14.8 million for the first quarter 1999. Net income was \$271,000 (2 cents per share) versus \$673,000 (5 cents per share) for the first quarter last year. The company also announced plans to restructure its assets. "The Board of Directors and management's goal is to be a \$250 million company within the next three to five years," stated William Huddleston, COO. "This goal requires us to maximize revenues and earnings as well as

minimize timing of approvals of the AQUA-FLOW glaucoma device and the Implantable Contact Lens (ICL). To achieve this goal we must make changes to our management, operations and financial structure. We have already reviewed our management and made some changes. The operations of the company are being scrutinized to make them as efficient as possible. The company has also analyzed its financial structure. The Board and management has initiated an aggressive cost savings program that involves the reduction of personnel and expenses unnecessary to meet the company's current goals."

The Board of Directors gave preliminary approval for a financial restructuring plan that will involve one-time charges of \$15 to \$17 million in the second quarter of 2000. These charges will involve the write-off of the company's investment in the **Canon STAAR** Joint Venture in Japan; write-off or restructuring of under-performing subsidiaries, write off of old or unnecessary patents and write-off of inventory which the company believes may become obsolete or does not fit the future strategy of the company and **a write-off of the company's investment in its laser centers.**

5/12 **VisionAmerica** announced that it anticipated reporting significant write-offs and losses for 1999. The company completed a comprehensive review and evaluation of substantially all operating units. This assessment of the company's operating units resulted in a write-off of approximately \$19.2 million, primarily an impairment adjustment to intangible assets, and the initiation of a divestiture plan. The provision for doubtful accounts increased approximately \$2.6 million to reflect deterioration in the aging of accounts receivable. The allowance for contractual adjustments was increased approximately \$2.2 million, which decreased center net revenues, and, therefore, center profit margins. The operational deterioration of certain centers as noted above and the start-up cost of the refractive surgery initiative also negatively impacted center profit margins in 1999. During the year, general and administrative expenses increased approximately \$2.8 million due primarily to increased spending on the development and implementation of new information systems and increased professional fees incurred in conjunction with the company's operational and administrative difficulties.

Primarily as a result of these factors, net losses for 1999, including all write-offs, are estimated to be approximately \$33 million. As previously disclosed, the company is in default of certain covenants of its credit agreement with its senior lenders. As a result of these defaults and other factors that could affect the company's ability to attain sustained profitability, it is anticipated that the 1999 audit opinion will contain a "going concern" explanatory paragraph. The proceeds from the divestiture plan noted above are expected to be used to pay down debt under the company's senior credit facility. The centers, which ultimately are expected to be disposed of, contributed approximately \$14.4 million in center net revenues and incurred approximately \$462,000 in center operating losses during 1999.

The company is undergoing a number of changes. Considerable time and energy has been spent on assessing the core business operating units and strategic alternatives. This effort has led to the decision to scale back on practice management activities. Also,

VisionAmerica has spent several months developing joint laser center programs with **ICON**. To date, thirteen VisionAmerica markets have been jointly developed with ICON to establish consumer value-LASIK campaigns. Early results indicate a strong acceptance in each of the markets these campaigns have launched. As previously reported, the company is in active negotiations with ICON regarding the renegotiations of ICON's prior investment in the company and the terms of a joint operating agreement relating to the laser center programs. The emerging company anticipates having a reduced number of centers and an aggressive laser eye center business built jointly with ICON.

- 5/12 **Miravant Medical Technologies** announced financial results for the first quarter with decreased revenues of \$1.4 million from \$2.4 million for the same period in 1999. The net loss for the quarter was \$5.0 million (28 cents per share) compared to a net loss of \$6.0 million (35 cents per share) for the same period last year. The company has cash and marketable securities of \$23.1 million and \$7.5 million available under a credit agreement with **Pharmacia Corporation**. During the quarter, Miravant continued its focus on the development of PhotoPoint photodynamic therapy for the treatment of 'wet' age-related macular degeneration (AMD). Patients enrolled in the nationwide phase III clinical trials are now being followed for safety and efficacy evaluation.

"We are looking forward to certain milestone events that will unfold this year, most importantly, the follow-up data on the 934 patients treated with PhotoPoint in our macular degeneration clinical trials," said Gary Kledzik, chairman and CEO. "We are hopeful the PhotoPoint treatment will offer a better therapeutic alternative to patients who are losing sight from this serious disease."

- 5/12 **VISX** announced that the FDA's Ophthalmic Devices Advisory Panel had unanimously recommended approval with conditions for the VISX STAR Excimer Laser Systems for the treatment of hyperopic astigmatism. The recommendation stated that the Star system should be approved for the reduction or elimination of hyperopia (up to +5 D) with or without astigmatism (up to +4 D) with a maximum manifest refraction spherical equivalent of +6 D using PRK. The company presented data on 237 eyes at 12 months. The panel's recommendations included significant changes in labeling to give patients more information about effectiveness and visual expectations and to alert them to the lack of stability at 12 months. The FDA now has several months to consider its panel's recommendation.

- 5/15 *EyeWorld Week* reported **LaserSight** had received a warning letter from the FDA concerning statements made on the company's web site. The company said that it was correcting promotional material for its LaserScan LSX laser that appeared on the web site. LaserSight said that the agency had sent a letter on April 14, expressing concern that information on its web site, [www.lase.com](http://www.lase.com), suggested use of the LaserScan to correct refractive errors beyond those approved by the FDA. A LaserSight spokesperson announced that an unauthorized deletion changed the meaning of the information

appearing on the web site, and that the company had responded promptly to the FDA's concern.

- 5/15 **Allergan** announced that it had entered into an exclusive, multi-year, distribution agreement with **Surgical Instrument Systems AG (SIS)** of Biel, Switzerland. Under the agreement, Allergan maintains the right to commercialize the Amadeus microkeratome in both North America and Latin America. SIS will be responsible for the manufacture and supply of the Amadeus microkeratome (and blades), approved by the FDA. The Amadeus microkeratome combines a unique and simple-to-use computer monitoring unit, one-handed operation, a highly reliable vacuum system, and an integrated blade-loading system. These design features provide safety, simplicity and predictability to the refractive surgeon.

"Allergan is very pleased to enter into the microkeratome (and blade) distribution agreement with SIS for the Amadeus. This superb Swiss-made device is viewed by the leading refractive surgeons involved in the clinical testing protocols as one of the finest and most precise microkeratomes available on the market today," said David Pyott, Allergan's president and CEO. "This SIS agreement, combined with our recently established marketing alliance with **VISX Incorporated**, the market leader in excimer laser systems in the U.S., will provide the market with an unparalleled procedural product offering within the nearly \$3 billion U.S. refractive ophthalmic surgical market. These arrangements add additional breadth and strength to Allergan's ophthalmic pharmaceutical and cataract surgery franchises."

VISX also issued a press release about its marketing alliance with Allergan for the U.S., to co-promote refractive surgery products. Both companies will be making their products available to each other's customers in the U.S. through joint promotional efforts. New VISX laser purchasers can include the Amadeus as well as other Allergan products in a package deal with customized financing. Existing laser owners can include the Amadeus along with VISX's Technology Protection Plan, which allows customers access to the latest developments in laser vision correction from VISX. Similarly, current Allergan customers can purchase VISX products as part of long-term purchase agreements designed to fit their needs. "VISX and Allergan each have a reputation for high-quality and high-performing products," commented Jim McCollum, vice president of Marketing and Sales for VISX. "Our product lines compliment each other's offerings and create greater choice and flexibility for customers."

- 5/15 **VisionAmerica** and **ICON Laser Eye Centers, Inc.** announced that they had signed a Letter of Intent which formalized the laser eye center joint venture activity between the companies (**VSNA/ICON**) and restructured ICON's prior investment of \$4 million in VisionAmerica. To date the two companies have launched **VSNA/ICON Laser Eye Centers** in various VisionAmerica markets and more are planned. Joint MD/OD patient care programs and consumer responses have been favorable in each campaign. For example, in 1999, VisionAmerica Centers performed a total of 10,483 refractive laser procedures. This year through April, while the VSNA/ICON Centers have only been

operating for a few weeks, VisionAmerica Centers have already performed 5614 laser surgeries including 2349 procedures that were performed in VSNA/ICON Centers. In addition, VSNA/ICON Centers have accepted deposits and scheduled approximately 4700 additional patients for laser eye surgery evaluations. In the VSNA/ICON model, approximately 95% of those patients who have an evaluation go on to have laser eye surgery, indicating a pipeline of nearly 9000 additional laser eye surgeries to be performed as of this date (assuming two laser procedures per patient). Total laser eye surgeries performed at VisionAmerica and VSNA/ICON Centers this year could exceed 40,000 laser procedures.

As outlined in the letter of intent, each company would have a 50% interest in the VSNA/ICON joint ventures and each company would be reimbursed for the costs of its contribution of goods and services to the joint ventures. The definitive joint venture agreement is subject to approval by the board of directors of both companies and the approval of the companies' senior lenders. Also pursuant to the LOI, ICON's prior purchase of 1 million shares of company stock will be rescinded and ICON will be issued a \$4 million subordinated convertible debenture with interest at 5%, convertible into company common stock at the conversion rate of \$1.00 per share and maturing May 31, 2005. ICON will also be issued warrants to purchase 1 million shares of company common stock at a price of \$.06 per share and the parties will exchange full mutual releases. These proposed transactions are subject to a definitive agreement being approved by the board of directors of both companies, the approval of VisionAmerica's shareholders and the approval of the companies' senior lenders.

- 5/16 **TLC Laser Eye Centers** announced that it's subsidiary, **TLC The Laser Center (Tulsa)**, had concluded its litigation with its former Medical Director, Dr. Marc Abel. On August 19, 1999 TLC filed a lawsuit against Dr. Abel to enforce, among other things, the non-competition provision of its contract with Dr. Abel. On April 13, 2000, the contracts between the parties, and specifically the restrictive covenants contained therein, were found to be valid and enforceable. The Court entered a judgment in favor of TLC the Laser Center (Tulsa) against Mark Abel, D.O. for the sum of \$1.8 million.
- 5/16 **Prime Medical Services Inc.** announced that it had acquired a 65% interest in **New York Eye Specialists**, a Manhattan-based refractive vision center owned by Kenneth Moadel, MD. Prime paid approximately \$8.9 million for this acquisition, which is effective April 1, 2000. Dr. Moadel will own the remaining 35% interest in this center, which is devoted exclusively to refractive surgery. The acquisition was the ninth refractive vision center for the company.
- 5/16 **SurgiLight** announced that it will introduce the world's first IR-laser for presbyopia treatment at the American Society of Cataract and Refractive Surgery (ASCRS) to be held at Boston this week.
- 5/16 **Summit Autonomous** said that it would introduce two new products at its upcoming Annual Shareholders Meeting and during the ASCRS conference. Robert Palmisano,

CEO of Summit Autonomous and members of the Summit Autonomous management team will unveil the LADARVision 4000 laser system and the freestanding CustomCornea Wavefront System (WS) for shareholders, customers and Summit Autonomous employees on Friday, May 19, 2000 during the company's annual meeting and at its exhibit booth at ASCRS.

- 5/17 **Asclepion-Meditec AG** announced that it would be premiering new technology at ASCRS for the treatment of vision defects. The CCA (Cone for Controlled Atmosphere) significantly improves the excimer laser treatment of vision defects, by removing smoke and debris from the ablation field. "It eliminates all the inhibiting factors in laser-based eye operations. This makes the operation even safer for patients", said Bernhard Seitz, Asclepion's CEO.

CCA is a modular extension to the MEL 70 G-Scan excimer laser from Asclepion and is part of the VIP (Vision Improvement Package) package, which provides the necessary treatment precision when using wavefront aberration diagnostic. This means that the visual acuity even of people without vision defects can be increased to well 20/ 20.

CCA is a technology which disposes of the tiny quantities of smoke, particles and odor which arise during an eye operation. The laser beam is then guided to the eye with much greater precision and the results of the treatment are improved to an unrivalled extent. The oft-discussed risk of infection for surgeons during an operation is considerably reduced by the CCA.

For over 20 years, Asclepion-Meditec AG has been a world technology and innovation leader in the field of medical lasers. Many groundbreaking new products in this field are the result of the large amounts invested in research. These new products include the first excimer laser for the correction of vision defects in 1986 and the first erbium laser for the treatment of cataracts. Since March 22nd, Asclepion-Meditec AG's shares have been traded on the Frankfurt Stock Exchange's Neuer Markt. The company's sales increased last year by 28% on average, totalling roughly DM 67 million in the 1998/99 financial year, with a net income of DM 7.2 million.

- 5/17 Dr. Kristin Pisacano, Medical Director of Refractive Surgery at **New York Eye Surgery Center** in the Bronx, together with **MedWorld Publishing**, has written "LASIK Vision Correction", a book to help consumers understand the procedure that is designed to correct vision and significantly reduce the need for glasses and contact lenses. As part of MedWorld's "Doctor to Patient" series, LASIK Vision Correction (which retails for \$12.95), was written as a guide for patients interested in the procedure but unsure if it is right for them. It addresses key issues surrounding LASIK including the possible side effects, recovery and contraindications, answering the following questions:

- What is LASIK?
- Is this surgery safe?
- Who is a candidate?

- Who should perform the surgery?

5/17 **Presby Corp** announced it had filed a patent infringement suit against Howard Straub, DO and the **Colorado Eye Institute** on May 15, 2000, in the United States District Court for the District of Colorado. Presby Corp and its parent company, **RAS Holding Corp**, own numerous domestic and international patents directed to methods and devices for the treatment of presbyopia and other eye disorders. Generally, Presby Corp's international patent portfolio relates to various techniques for increasing the effective working distance of the ciliary muscle in the presbyopic eye, such as laser irradiation to weaken or make incisions in the sclera or the use of any device for insertion in the sclera to achieve this result. Presby Corp believes Straub and the Colorado Eye Institute have infringed one or more of Presby Corp's patents, including those patents relating to a device called a "Scleral Expansion Band". Presby Corp developed the Scleral Expansion Band procedure for the treatment of presbyopia, in which a surgeon inserts an SEB in the surface of the sclera thereby restoring the ability of the eye to focus at near.

Straub attended lectures sponsored by Presby Corp and became an outspoken proponent of SRP. Presby Corp believes that Straub has performed or arranged for the performance of multiple SRP procedures in foreign countries, in which unauthorized copies of Presby Corp's patented SEBs were used. By manufacturing, advertising, selling, or inserting the allegedly infringing bands, or by encouraging patients to use the allegedly infringing bands, Straub and the Colorado Eye Institute are believed to have infringed Presby Corp's patents.

5/18 **Lasik Vision** announced that the company performed its 100,000th vision correction procedure on a patient on May 17, 2000. "This is a significant event in our relatively short company history. We have reached the 100,000-procedure milestone faster than we had anticipated. In fact, Lasik Vision has performed more than 59,000 procedures in the last nine months at its centres across Canada and the U.S. At this incredible growth rate, we will become North America's and the world's largest provider of laser vision correction services before the end of 2000," said Michael Henderson, president and CEO of Lasik Vision Corporation.

5/18 Intacs micro-inserts, a flexible new vision correction product for people with mild nearsightedness, is being introduced to consumers in more than 20 cities this week in the first major advertising and direct mail campaign by **KeraVision** since the product was approved by the FDA. Radio, print and direct mail are targeted to support a core group of "Fast Track" practices that are leading the consumer launch of Intacs. The company plans to spend up to \$5 million as this consumer campaign is expanded to support additional "Fast Track" practices. KeraVision president and COO John Galantic said, "The new Intacs campaign is targeted at contact lens and eyeglass wearers who are interested in permanent vision correction but apprehensive about being locked into a permanent choice for the rest of their lives. Intacs offer consumers crisp, clear, maintenance-free vision, with the flexibility to allow changes in prescription as people's eyesight changes naturally with age. These are the unique benefits behind the new



campaign theme, 'The Power to Change Your Vision, the Freedom to Change Your Mind'.

- 5/19 **Lasik Vision** announced plans to open a new laser vision correction centre -- the company's 16th U.S. location -- in Washington, D.C. Lasik Vision's rapid U.S. expansion will see the company open centres during the first and second quarters of 2000 in Beverly Hills, CA, Anchorage, AK, La Jolla, CA, Sacramento, CA, Long Beach, CA, Las Vegas, NV, Garden City, NY, San Francisco, CA, Pasadena, CA, Santa Monica, CA, St. Louis, MO, Cincinnati, OH, Irvine, CA and Honolulu, HI.

The company also provided the following legal update: On May 8, 2000 the **Foundation For Better Medicine** served a summons and complaint, which were filed in the Los Angeles Superior Court in Santa Monica, California, against **Lasik Vision (California) Inc.** alleging violation of certain provisions of the California Business and Professions Code including among other things that Lasik Vision California is not lawfully carrying on business in the state of California. The company's search results disclose that the Foundation For Better Medicine is a California non-profit corporation organized on May 24, 1999, whose registered agent is Antoine Leon Garabet, MD. The company's search results further disclose that Dr. Garabet is a licensed physician in California who is the founder of **The Laser Eye Center**, a competitor of Lasik Vision California. The company has retained counsel to represent it in diligently and aggressively defending the allegations set forth in the complaint for which the company sees no foundation or merit.

(**TLC Laser Eye Centers** quickly issued a press release noting that "neither the Foundation For Better Medicine, nor Dr. Antoine Leon Garabet, nor "the Laser Eye Center" mentioned in Lasik Vision Corporation's press release have any affiliation or association whatsoever, past or present, with TLC Laser Eye Centers Inc. or any of its subsidiaries.")

- 5/19 **ICON Laser Eye Centers** announced that it had renegotiated its prior \$4 million equity investment in **VisionAmerica Incorporated** in exchange for new \$4 million subordinated debentures convertible into 4 million VSNA shares, paying at an interest rate of 5% and due May 31, 2005. Ghassan Barazi, president and COO of ICON, stated, "Unfortunately, the financial unsettling at VSNA has slowed down our progress toward creating a network of 'Value LASIK' vision correction centers throughout the VSNA system. We have however rolled out our campaigns in 15 markets and have generated a backlog of more than 6000 patients. We are doing surgery in 8 of those markets at an approximate rate of 300 eyes per month, per center as we achieve levels of efficiency consistent with the ICON 'Value LASIK' model. ICON hopes that its 'Value LASIK' concept will be the catalyst to fix VSNA's financial shortcomings."

The company further announced that even without a formalized agreement but on a 50/50 profit sharing arrangement, ICON has rolled out its 'Value LASIK' marketing programs for 15 VisionAmerica laser vision correction centers. The rollouts were first implemented in under-performing VSNA centers that were averaging less than 50 procedures per

month. Since the implementation of ICON's programs, procedure throughput has increased to an average of over 300 procedures per center, per month as the LVC centers approach maturity. Full maturity takes approximately three to six months. A mature ICON mature center should perform 300 to 600 procedures per month.

Ghassan Barazi stated, "It is ICON's strategy to expand into up to 100 U.S. markets over the next 12 to 18 months. VSNA has 22 locations where ICON could quickly rollout its 'Value LASIK' marketing programs. ICON currently has 8 U.S.-based ICON owned 'Value LASIK' centers in addition to its VSNA joint-venture centers. We continue to believe in the value of our relationship with VSNA and hope that the accelerating cash flow from our joint effort will begin to positively impact VSNA's program to reduce and then eliminate its senior lender debt."

- 5/22 **Summit Autonomous** announced that it had received a 510(k) concurrence letter from the FDA permitting it to market its CustomCornea Measurement Device in the United States.
- 5/22 **Nidek Co.** announced that the decisions of the International Trade Commission (ITC) in favor of Nidek have now been finalized. Despite indications to the contrary, **VISX** did not appeal the decisions of the Commission to the Court of Appeals for the Federal Circuit. This announcement comes after a 30-day period in which VISX had the opportunity to appeal the decisions. "The decisions by the ITC are now final as the time for appeal has lapsed," said Hiroshi Okada, vice president of Nidek, Inc. "The finality of the ITC closes this chapter of the legal dispute with VISX with a sweeping victory for Nidek left intact. That VISX ultimately chose not to appeal the ITC decision substantiates Nidek's stance that it was not infringing on VISX patients," added Okada. "Nidek is pursuing its antitrust claims against VISX and this ending to the ITC further highlights the anti-competitive actions by VISX."
- 5/22 In a joint announcement, **KeraVision** and **Clinical Research and Statistics, LLP (CRS)**, said an IDE is expected to be filed with the FDA in the next 90 days for possible new vision treatment options using Intacs, for people with little chance for better vision -- including keratoconus corneal disease patients, consumers with certain post-LASIK complications, and people with severe nearsightedness. Approval would allow physician-sponsored clinical trials to begin at CRS-affiliated sites throughout the U.S. "CRS believes the Intacs technology may fill a gap for patients who are ineligible for other vision-improving treatments because of thin, visually unstable corneas," said Charles Casebeer, MD, CEO and Medical Advisor of CRS. "Intacs present the possibility of improving these patients' vision by normalizing the curvature of their cornea and doing so in ways no other technology can -- without removing tissue or further weakening the corneal structure."
- 5/22 **Sunrise Technologies** reported that its activities at ASCRS in Boston had generated excellent attendance among the ophthalmic community and investment analysts. Sunrise had six of its new HYPERION LTK Systems on display and available for demonstration, and provided demonstrations of its breakthrough LTK technology to many physicians

from the United States and abroad who are currently practicing refractive surgery, as well as to those wishing to enter the refractive surgery arena. Russell Trenary, president and CEO of Sunrise Technologies, said, "The high level of interest in the HYPERION LTK System and the SUNRISE LTK Procedure demonstrated at ASCRS solidly reaffirms our long-held belief that ophthalmologists are eagerly waiting to offer their farsighted patients age 40 and over a new treatment option that is designed to be extremely safe and easy to undergo as demonstrated in U.S. clinical trials."

5/23 **Paradigm Medical** CEO Thomas F. Motter, and Karl Braun, U.S. Sales Director of **Pharmacia Corporation** announced a strategic alliance renewal contract. This contract continues the alliance between the two companies and increases their competitive capability in the ophthalmic cataract surgical marketplace. Paradigm supplies the surgical equipment and Pharmacia provides the surgical products (Healon, Viscoelastics & CeeON IOLs) for cataract surgery. "This alliance is extremely beneficial to both companies and we look forward to a long successful relationship," stated Motter. "The market continues to be very competitive and Paradigm, along with its alliance partners intends to be a force in this dynamic market by providing innovative equipment like our PHOTON Laser Cataract Removal product presently awaiting FDA approval," continued Motter.

5/23 **Medjet** announced that it had prevailed in the lawsuit against New Jersey Institute of Technology, (NJIT), a New Jersey state university, regarding ownership of a basic patent on the use of a waterjet for vision correction surgery. The claim by NJIT that it was the legitimate owner of Medjet's eye surgery patent had been rejected. On May 22, 2000, Honorable Nancy Sivilli, JSC, Superior Court of New Jersey, granted Medjet's Motion for Summary Judgement, finding no merit in NJIT's claims to ownership of the patent. Medjet is now evaluating whether to seek damages from NJIT.

About 3½ years ago NJIT asserted an unspecified and undefined ownership interest in Medjet's new patent. This assertion put ownership of Medjet's key patent in doubt. Two years ago Medjet sued NJIT in NJ Superior Court seeking a declaratory judgement to end the school's assertion of ownership. There still remains a claim to co-ownership asserted by NJIT in US District Court of New Jersey. NJIT claims that two of its employees should be listed as co-inventors on the Medjet patent. Medjet has moved to dismiss that action. In making the announcement of the verdict, Eugene Gordon, Medjet's founder, chairman of the board and CEO, jubilantly explained, "NJIT's initial assertions were inexplicable and were hurting our ability to move forward. We were stunned and appalled by NJIT's later ownership claims. The stated factual basis was totally without merit. Nevertheless the litigation made it difficult and costly for Medjet to raise money, resulting in substantially slowing the pace of product development and introduction. The present court ruling removes a significant obstacle to the company's ability to proceed."

5/23 **Clarity Vision**, a **Highmark Company**, and **Laser Vision Centers** announced that they had entered into an agreement that will allow Highmark vision members access to outpatient eye laser surgical procedures through LVCI's network of laser refractive

surgeons. "We're pleased that LVCI can offer Highmark vision members access to laser refractive surgery," said Ted Christianson, vice president and COO for Clarity Vision. "Because of its cost, laser eye surgery has been relatively unattainable for many people," Christianson said. LVCI refractive surgeons will offer a discount that is approximately 30% off the typical charge, representing a savings of several hundred dollars. "We're continuously striving to meet our customers' needs, whose satisfaction remains our top priority."

5/23-

5/24 **VisionAmerica** announced that it had filed its Form 10-K for the year ended December 31, 1999. The company also reported net losses of \$31.5 million (\$3.44 per share) for the fourth quarter, compared to net losses of \$425,000 (5 cents per share) for the fourth quarter of 1998. Net losses for the year were \$33.1 million (\$3.67 per share) compared to net earnings of \$1.2 million (14 cents per share) for the year ended December 31, 1998. Losses from continuing operations were \$28.3 million (\$3.09 per share) on revenues of \$10.7 million for the fourth quarter, compared to net earnings from continuing operations of \$489,000 (5 cents per share), on revenues of \$13.9 million for the fourth quarter of 1998. Losses from continuing operations were \$28.8 million (\$3.20 per share) on revenues of \$57.1 million for the year, compared to net earnings from continuing operations of \$1.7 million (19 cents per share), on revenues of \$54.0 million for the year ended December 31, 1998.

As recently reported, the company has just completed a comprehensive review and evaluation of substantially all operating units. This assessment of the company's operating units resulted in an impairment adjustment to physician practice management assets of \$19.2 million in the fourth quarter of 1999, and the initiation of a divestiture plan. Indicative of the deterioration at the impaired centers, revenues declined by approximately \$3.4 million or 23% in the fourth quarter of 1999 versus the same period in 1998, and more dramatically, by \$5.7 million or 35% from the third quarter of 1999.

In addition to the impairment charge, other factors contributing to the decline in results for the year in relation to 1998 were as follows. The provision for doubtful accounts increased approximately \$2.6 million reflecting a deterioration in the aging of accounts receivable. Center profit margins as a percentage of revenues declined from 21.8% in 1998 to 10% in 1999 reflecting an increase in the allowance for contractual adjustments, the operational deterioration of certain centers as noted above, and the start-up costs of the company's 1999 refractive surgery initiative. During the year, general and administrative expenses increased approximately \$2.8 million due primarily to increased spending on the development and implementation of new information systems and increased professional fees incurred in conjunction with the company's operational and administrative difficulties.

The following day, the company released results for the first quarter, reporting a net loss of \$2.3 million (24 cents per share), compared to net earnings of \$594,000 (7 cents per share), for the first quarter of 1999. The net loss from continuing operations for the first

quarter was \$2.5 million (26 cents per share) on revenues of \$14.5 million, compared to net earnings from continuing operations of \$513,000 (6 cents per share), on revenues of \$15.0 million for the first quarter of 1999.

- 5/24 **American Dental Technologies** announced that it had entered into a 3-year contract to manufacture an ophthalmic laser on an OEM basis, for an unnamed ophthalmic company. The initial order is for \$170,000 with a minimum purchase of \$510,000 of lasers for the first 12 months and approximately \$1,000,000 in the second and third years, thereafter to maintain exclusive rights to the laser in the ophthalmic field. The first delivery is scheduled for June.

"We have asked our shareholders to approve the change of the company's name to **American Medical Technologies, Inc.**," said Ben Gallant, president and CEO, "This is our first product outside the dental field and we expect to introduce other products for the medical and/or veterinary fields this year."

- 5/24 Thomas Wilson, president and COO of **LCA-Vision** announced that he intended to purchase up to an additional 100,000 shares of the company's common stock in the open market, for long-term investment purposes.

- 5/24 **Summit Autonomous** announced that it had received CE Mark approval for its LadarVision system, giving the company the ability to market the product throughout the European Economic Area. The EEA is formed by the fifteen Member States of the European Union including Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom as well as Iceland, Norway and Liechtenstein.

- 5/24 **Prime Medical Services Inc.** announced that its **Barnet-Dulaney Refractive Center** in Phoenix, had been chosen as the first in the U.S. to participate in clinical trials of the **WaveLight** Allegretto Excimer Laser System. The WaveLight System is an investigational laser delivery system that employs an active eye-tracker mechanism, a scanning-spot system beam delivery with a large treatment zone and a small spot size. "WaveLight technology has been in trials outside the U.S. for over a year. Thus far, approximately 500 LASIK procedures have been performed utilizing the WaveLight System," said David Dulaney, M.D. "This Wavelight System is designed to be used in conjunction with Wavefront Technology analysis and we anticipate that this feature will be incorporated into a later phase of the investigation."

Guy Kezirian, MD of **SurgiVision Refractive Consultants LLC**, the study sponsor, added, "We expect this technology to address some of the most important challenges faced by LASIK surgeons -- night vision and glare. The wider treatment zone and active tracking device may reduce glare by keeping the treatments centered, and by covering a larger area of the cornea."

- 5/25 **Coherent, Inc.** announced it had received over 300 orders for the Opal Photoactivator in the United States since April 13, 2000, the date the FDA approved the Opal Photoactivator and Visudyne (verteporfin for injection) therapy to treat the wet form of AMD. Jim Taylor, president of **Coherent Medical Group**, stated, "I am delighted to see that our order rate (has) far exceeded our best expectations. In anticipation of the FDA approval, Coherent had increased production capacity and inventories of the Opal Photoactivator during the second quarter. This is part of Coherent's on-going commitment to provide ophthalmologists with a full range of products and technologies, and the first major leg of our focus on providing solutions for AMD."
- 5/25 **LaserSight** announced the formation of a *Regional Reference Center Strategy* to strategically affiliate with leading ophthalmologists within both community-based practices and academic medical centers. Specifically, the Reference Centers are purchasing the LaserSight LaserScan LSX state-of-the art, precision flying spot scanning system, committing to a minimum number of procedures per year and will provide education and training for other physicians considering the purchase of a LaserSight LSX. The Reference Centers will also participate in various clinical studies and research, provide leadership in regional users meetings, publish and present clinical results and serve as the company's media designates within the regions. The plan is to have approximately thirty Reference Centers across the country. Currently the company has commitments from over ten centers and expects the thirty reference center relationships to be in place by the end of the year.

The company introduced its FDA approved LaserScan LSX laser at the ASCRS meeting in Boston. LaserSight has been selling the laser systems internationally for the past five years and currently has over 300 installations around the world performing an estimated 200,000 to 300,000 procedures annually.

The company also introduced its line of Astra CustomEyes products at a private reception of over one hundred ophthalmologists. Dr. Jack Holladay presented on cases treated with the LSX in clinical studies in Monterey Mexico utilizing the AstraPro custom ablation planning software and showed the first cases with a post-operative prolate shape utilizing this technique. According to Dr. Holladay, "The future is here today. LaserSight's AstraPro software will allow surgeons to provide an optimized corneal ablation for each patient by planning the ablation utilizing measurements of refractive error, corneal thickness, fully dilated pupil size, intended optical zone and asphericity. Our objective is to return the patient's corneal surface to its naturally occurring aspheric, or prolate, shape. We believe that preserving the natural shape of the cornea will reduce the post operative complications of glare, halo and loss of contrast sensitivity that has been reported to occur from the spherical aberrations resulting from oblate post operative corneal surfaces."

LaserSight's line of Astra products includes AstraTrack, the next generation intelligent eye tracking system designed to meet demands for performing the CustomEyes procedure, AstraPro, the software for planning the CustomEyes treatments and

AstraMax, an integrated ophthalmic diagnostic workstation that provides the necessary analysis and data required to plan the CustomEyes treatment, including wave front analysis. The Astra CustomEyes technology, together with LaserSight's LSX narrow beam scanning excimer laser system, combines to offer an advanced platform for personalizing refractive surgical treatments for individual patients.

Jeffery Machat, MD, commented, "From the ASCRS meeting it was clear that LaserSight is the first laser manufacturer to recognize and move toward preserving the natural prolate shape of the cornea with the AstraPro software. I think this will have definite and very positive clinical impacts on the quality of vision patients are able to achieve. Custom ablation and aspherical ablation profiles are the future in laser refractive surgery. The combination of flying spot technology, 0.8 mm spot size, low fluence, high repetition rate and effective eye tracking makes the LaserSight LSX the ideal laser system platform to achieve the next milestones in custom laser vision correction. With LaserSight's AstraPro and AstraMax the potential of these laser features can finally be harnessed to provide truly superior visual quality with LASIK."

The company has successfully completed the clinical proof-of-concept trials and intends to commence U.S. clinical trials and commercially launch AstraPro internationally in the third quarter. The company intends to sell the AstraPro software and charge a per procedure fee within the international market for use of the AstraPro software to perform the CustomEyes treatment. The AstraPro software will be offered on laser systems sold internationally during and after the third quarter of this year. In addition the AstraPro software may be easily installed as an upgrade to the installed base of LaserSight systems. The company currently anticipates that the software will sell in the range of \$50,000 to \$60,000 and intends to charge a procedure fee in the range of \$100. Michael Farris, CEO of LaserSight, commented, "The reception to LaserSight's refractive products at the ASCRS meeting was very positive. Our LaserScan LSX is already a very advanced and unique platform when compared to other excimer laser systems. The combination of Astra products with the advanced capabilities of the LaserScan LSX will provide surgeons all the tools necessary to perform personalized refractive surgical treatments. These products represent a new and expanded revenue opportunity for LaserSight. Laser sales remain strong and our manufacturing ramp-up is on schedule. We expect to exceed our original number of U.S. laser shipments planned for the second quarter of this year."

5/26 Laura Johannes of *The Wall Street Journal* broke the story about the potential acquisition of **Summit Autonomous** by **Alcon Laboratories**, that was rampant on the floor at ASCRS. According to her story, the deal by the **Nestle** unit is for a premium over Summit's current stock-market valuation, about \$600 million. Spokespeople from both companies were not commenting. After the story broke, a hold was placed on trading in Summit's stock. Johannes reported that, "Alcon was formerly Visx's world-wide marketing partner, and it once had high hopes of being a big player in the laser eye business. But those hopes were dashed late in 1995, when Visx terminated its contract with Alcon in order to settle a shareholder suit. The suit alleged mismanagement at Visx

and Alcon and claimed that Alcon had a conflict of interest in its role as a distributor of the new machines, because the rise of laser eye surgery would threaten its contact-lens product business." (My former employer, **Arthur D. Little**, was involved in looking into that allegation for the principal shareholder involved in the suit. My involvement with the work was minimal, as the study was conducted by Arthur D. Little's European offices.)

Later in the day, a joint announcement was made by both Summit Autonomous and Alcon Laboratories, stating that they had entered into a definitive agreement under which Alcon would acquire Summit Autonomous for \$19.00 per share in cash. Alcon expects to commence a tender offer for all outstanding shares of Summit Autonomous for \$19.00 per share by June 5, 2000. Any shares not purchased in the offer will be acquired for the same price in cash in a second-step merger. The merger agreement had been unanimously approved by the boards of directors of Alcon and Summit Autonomous. The offer and the merger are conditioned upon, among other things, normal regulatory approval.

"Alcon has long been committed to entering the strategically critical refractive surgical market," said Tim Sear, Alcon's president and CEO. "Our comprehensive global technological review and, above all, the advice of top refractive surgeons, led us to the firm conviction that Summit Autonomous is the clear technological leader in the refractive field. I am confident that the combination of Alcon's powerful, worldwide surgical sales and marketing organization with the highly skilled Summit Autonomous team will be in the best interest of both surgeons and patients." Robert Palmisano, CEO of Summit Autonomous added, "It is a tribute to everyone in the Summit Autonomous family that such a well respected organization as Alcon has decided to purchase our Company. I believe these two companies will combine into a powerhouse organization that will deliver leading edge products to customers around the world."

## **OPHTHALMIC LASER UPDATE -- June 2000**

5/22 Following the ASCRS meeting, Rob Faulkner and Tatyana Daniels of **Chase H&Q** issued a report on their observations about **Summit** and **VISX** from the meeting. Some of the highlights:

- The ASCRS meeting showed continued momentum for Summit Autonomous, and a key defensive product introduction for VISX.
- We expect Summit to continue to gain share of laser placements and procedures.
- VISX's new tracker and programs for custom ablation will likely retain its installed base.
- Summit Autonomous appears significantly ahead in developing custom ablation as VISX plays catch up in the prerequisite technologies.



- VISX is not to be counted out, but has no concrete response to Summit in 2000 and timing for further technology enhancements to achieve perceived parity is unclear.
- We reiterate our Buy on Summit Autonomous and VISX, with preference for Summit Autonomous.

In summing up what the analysts perceived as the "mood" of the meeting for the two companies, they had this to say, "Summit was enjoying relatively unquestioning acclaim for its system and sold more lasers on Saturday than they did in a quarter a year or so ago. The booth was a buzz with questions about the wavefront device. The upgrades on the LADARVision laser were well received. Executives from laser center companies were abundant. This was a company reborn in spirit with momentum, determined not to let arrogance or technology get in their way again. The company was confident in its pioneering efforts to better the procedure. The mood at VISX seemed defensive and, at times, representatives were evasive of technical questions by doctors regarding the new tracker and laser. It appeared there was uncertainty over just what the device was. We do not imply that VISX has done the wrong thing to follow, just that the leader who happened to speak against trackers and small spots for a long time is bound to catch some heat for doing an about-face. Emotions aside, we reiterate that VISX owners are a lot happier to have the new tracker than no tracker."

5/23 Julie Sevens of the *San Jose Mercury News* wrote about a San Francisco Bay Area eye center having to notify 2700 patients that they could have been exposed to infectious diseases because the blades used in their laser surgery may have been routinely reused on other patients before being discarded. The **LaserVue Eye Center** sent the letters notifying their patients that disposable microkeratome blades were routinely reused on patients undergoing laser eye surgery at the company's San Francisco and Santa Rosa locations. For more than two years, doctors at both sites reportedly rinsed the equipment in a water solution before using them again, even though medical protocol calls for blades to be thrown away after use. Furthermore, the blade holders were sterilized only after every fourth patient, a violation of medical guidelines, according to a state health department investigation. The doctors have since stopped the practice, and the state medical board is reviewing the case.

Drs. Sanjay Bansal and Swati Singh told health department investigators they reused blades in an attempt to give patients the best eye care possible. The physicians contended that they only reused those blades that served them well in prior surgeries, and that they threw away any that had visible blood on them. Other eye surgeons said they were appalled by the practice of reusing surgical blades and believe the LaserVue case is rare among eye clinics. The first patients began receiving their letters earlier this month, and many remain in a state of disbelief. "I thought it was a joke," said Debbie Shubin, a Sebastopol mortgage broker who paid \$4,400 to have her eyes operated on last year. "I could not believe that Dr. Bansal, with all of these diseases that are out there, would reuse an unsanitary blade on more than one patient. I would never have had the surgery had I

known he was going to be reusing blades," she said. "I don't know anybody who would put themselves through that."

- 5/29 **ICON Laser Eye Centers** announced that revenue for the first fiscal quarter ended March 31, 2000 was \$8.5 million, up 476% from \$1.5 million in the first quarter of the prior year. Managed laser vision correction procedures in the first quarter were 14,944, up 351% over the 3,313 procedures reported for the first quarter of 1999, and up 55% on a sequential basis over the fourth quarter of 1999.

The net loss for the quarter was \$545,645 (3 cents per share), compared to Q1 1999 net income of \$271,235 (3 cents per share). In May 1999, the company acquired two Italian LVC companies and accounted for this transaction as a reverse takeover. As a consequence, the Q1 1999 results reflect only those of the Italian clinics, which were profitable. Aside from the comparative effects of the above reverse takeover accounting, the net loss in the first quarter of 2000 as compared to 1999 arose primarily from: losses from recently-acquired centers and amortization of goodwill associated therewith, and amortization of debt issuance costs associated with ICON's financing of its investment in **VisionAmerica**.

Simone Mencaglia, CEO, commenting on the first quarter results said, "Our results for the first quarter, particularly procedure volumes, met expectations. Our core operating results continue to improve as is evidenced by our cash flow from operations. The company's main challenge at this time is to finalize our agreements with VisionAmerica and complete the integration of those centers into our North American network. We believe that in the final analysis the VisionAmerica transaction will be good for ICON."

At the end of the first quarter, ICON managed 23 LVC centers, including 6 in Canada; 9 in the USA; 2 in the United Kingdom; 2 in Sweden; and 2 fixed centers, 1 mobile suite and 2 roll-on/roll-off units, in Italy. Currently ICON owns and/or operates 28 LVC centers.

- 5/30 **Lasik Vision** announced that it had reviewed certain transactions entered into during the three months ended March 31, 2000 and determined that they were incorrectly reported in the company's press release of May 4, 2000. The significant items included an overstatement of revenue and earnings and the misclassification of certain amounts initially recorded as current assets and liabilities.

The corrected revenue for the quarter was \$17.9 million, instead of \$20.1 million. The company should have reported a loss of \$1.0 million, instead of income of \$1.0 million.

- 5/30 At a press conference held in Munich, the executive committee of the Erlangen-based **WaveLight Laser Technologie AG** offered a decidedly positive assessment of the company's business development since its IPO nine months ago. Max Reindl, the CEO, expressed his delight at the company's positive development. In particular, he pointed to three events that are expected to give WaveLight a substantial growth spurt in the coming

two years. These events include 1) FDA market approval for the company's ALLEGRETTO laser system in the United States, 2) the exploitation of the synergistic effects arising from the acquisition of **NWL Laser Technologie GmbH** and 3) the acquisition of a participating interest in **Realeyes AG**, a company that operates eye-laser treatment centers.

WaveLight's activities in the United States are of particular importance in terms of overall strategy and sales volume to the company's further development. By obtaining FDA approval, WaveLight will have assured itself access to the U.S.-American market, the world's largest in the area of eye lasers. LASIK was performed on the first U.S. patients with the WaveLight ALLEGRETTO eye-laser system in February 2000. During these U.S. clinical trials, patients will be treated at a total of eleven renowned hospital clinics. Completion of the FDA approval procedures and commencement of the system's market introduction are expected in the year 2002. Since FDA approval represents a kind of quality-assurance certificate, it is also expected to have a positive effect on sales of the system and other WaveLight products in other regions of the world.

Through its acquisition of NWL Laser Technologie in February 2000, WaveLight secured further growth potential. The addition of NWL's product line has elevated WaveLight to the status of a comprehensive supplier of dermatological laser systems. WaveLight now offers a laser system for every recognized dermatological laser procedure carried out today in dermatologists' offices.

Through its participation in Realeyes, WaveLight broadens its sales structure in the area of medical eye-laser applications. The Realeyes business plan includes the establishment of eye centers offering diagnostic, refractive and surgical services combined with high quality standards in terms of equipment and personnel. The centers are to be introduced in Germany and other German-speaking countries in Europe. While the patients are to receive maximum care at the Realeyes centers, the pre- and post-operative investigations are carried out by the referring physicians, the so-called CMDs (co-managing doctors). Strategically, WaveLight strengthens its competitive edge through its participation in Realeyes by sharing the responsibility for implementing high medical standards.

5/30 **Asclepion-Meditec** announced its results for the first half of the current financial year. The company had net sales of E17.7<sup>1</sup> million, versus E14.6 for the previous half-year, an increase of 22%; with income before taxes (EBT) of E1.2 million. This compared to an EBT of E0.5 million in 1999, an increase of 121%. Net income for the half-year was E523,338 (E130 per share), versus E663,728 (E170 per share) for the previous reporting period. The company's Vision business had a 77% increase in sales, led by its MEL 70 G-Scan excimer laser. The effectiveness of this system was recently enhanced by the addition of the CCA (Cone for Controlled Atmosphere), which removes debris and

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<sup>1</sup> As I don't have the appropriate symbol to represent the Euro on my keyboard, I will use the capital letter E for this new currency.

smoke from the ablation field. In the Aesthetic business unit, which declined by 35%, the company recently concluded the establishment and expansion of its second specialized sales organization, laying the ground work for strong growth in the future. The 48% growth in the Service business unit was higher than expected, with sales of E2.1 million posted in the quarter, up from E1.4 million for the same quarter in the previous year.

From a regional perspective, the sales growth in the Americas was 25% and in Asia-Pacific 180%, while growth in Germany declined 22%, and was up 5% in the rest of Europe. During the half year, Asia-Pacific represented 32% of sales, Germany 23%, the rest of Europe 34%, and the Americas 11%.

The investment in research and development increased to nearly 14% of sales, with some of the projects with particular growth potential including customized ablation to achieve "Eagle Eyes", and a pain-free caries removal treatment called SaveDent. The latter, currently undergoing pre-clinical testing, will enable dentists to offer a minimally invasive treatment for carious teeth, removing the caries while leaving the tooth structure intact. (I will report more about this potentially important PDT-like technique shortly.)

5/31 **Eye Care International, Inc.** announced the signing of an agreement with **TLC Laser Eye Centers** to allow ECI member patients access to LASIK surgeries at substantially reduced costs with flexibility of provider choice. "We selected TLC primarily as a result of its shared commitment with us to quality eye care at affordable rates," stated Clark Marcus, ECI's president and CEO. "When it comes to eyes, our members' safety and well being are ECI's primary concern. In this rapidly expanding field of vision correction, TLC is outstanding in its selection of quality professionals and laser equipment - key elements to the successful outcome of a LASIK procedure. We are proud to now offer this valuable benefit to our members, nationwide."

5/31 **LaserSight** announced that it had filed a declaratory judgment and injunctive relief action in connection with its 1997 License and Royalty Agreement with Luis Ruiz, MD, and Sergio Lenchig (regarding the company's microkeratome). The action relates to the January 2000 Amendment to the Agreement that provided for the royalties payable under the Agreement to be reduced in exchange for the company making up front cash payments totaling \$7.6 million and issuing 555,552 shares of the company's common stock. The cash payments and stock issuance in question were to be made only if the company, using its reasonable best efforts, raised \$15 million in capital by May 31, 2000, or if the company, at its sole option, decided to make the payments and issuance despite the fact that the \$15 million had not been raised. Less than \$15 million was raised and the company has elected not to exercise its option. However, Dr. Ruiz and Mr. Lenchig have offered to provide the deficiency (\$1.75 million) by purchase of company stock at \$10 per share, and claim that the company's failure to accept their offer constitutes a material breach of the January 2000 Amendment. The company's complaint (filed in the U.S. District Court, Eastern District of Virginia, Alexandria Division) alleges that the offer of Dr. Ruiz and Mr. Lenchig is an attempt to change the terms of the January 2000, Amendment and that the company is not in breach.

- 6/1 **CIBA Vision** and **QLT Inc.** announced that the **Therapeutic Products Programme of Health Canada** approved Visudyne (verteporfin for injection) therapy for the treatment of the wet form of age-related macular degeneration (AMD). "Visudyne therapy is an important advance in the treatment of AMD. Before today, there was little to offer patients. I am now hopeful that we will be able to preserve and even improve, in some cases, the vision of many of these patients," said Dr. Patricia Harvey, Retina Unit, Vision Science Research Program, Toronto Western Division, University Health Network.
- 6/1 **IRIDEX** announced that a clinical study presented at the annual *Association for Research in Vision and Ophthalmology (ARVO)* meeting held last month in Fort Lauderdale, Florida, concluded that eyes that responded to a grid infrared (810 nm) diode laser treatment using the company's laser system demonstrated a reduced incidence of progression from dry AMD to the more vision-threatening wet form. The paper presented by Joseph Olk, MD reported the 4-year results of a pilot study which was conducted at four clinical centers in the U.S. The study included 229 eyes of 152 patients with dry AMD that were randomized to either receive a single treatment with the company's IRIS Medical OcuLight Slx infrared laser photocoagulator or be observed in a control group. The 4-year results confirmed the pilot study's 2-year results, which were published in the November 1999 issue of *Ophthalmology*.

The 4-year data confirmed that the accumulated deposits (drusen) associated with the early stages of dry AMD were significantly reduced following a single treatment in 78% of the eyes compared to 8% of observed eyes. In addition, consistent with the 2-year results, visual acuity was significantly improved by this treatment with an improvement of two or more lines in 34% of selected treated eyes, compared with none in the control group. All eyes with visual acuity improvement had drusen reduction. The study indicated that eyes which had a reduction in drusen (i.e., responders) progressed to wet AMD at a lower rate than eyes which did not respond to treatment (non-responders). During the 4-year follow-up period of the 35 eyes that progressed to wet AMD, 34 were either in the observation group or non-responders to treatment.

Dr. Olk, Director of The Retina Center of St. Louis County, St. Louis, commented, "Since 34 of 35 eyes which progressed to wet AMD were either in the observation group or were eyes which did not respond to treatment, and since nearly 80% of the treated eyes did respond to the treatment, this strongly suggests the possibility of an effective prophylactic treatment. This treatment is important because wet AMD is the major cause of AMD-related blindness, and halting or delaying the progression of the disease from the dry form to the wet form would be a great contribution toward reducing the incidence of blindness in our society."

"In Dr. Olk's study, only one of the eyes that responded to the treatment developed wet AMD in 4 years," commented Theodore Boutacoff, president and CEO of IRIDEX, "suggesting that grid infrared (810 nm) diode laser treatment may have a high prophylactic efficacy. Given that there are about 50 million people worldwide with AMD with an incidence of about 5 million new cases each year, and since there is no effective

treatment for preventing the progression toward legal blindness in a substantial number of these people, I believe these pilot study findings have important implications. The follow-on PTAMD Clinical Trial, sponsored by IRIDEX and currently enrolling patients, should provide definitive answers to where prophylactic treatment of dry AMD will fit within the treatment regimen for the disease."

- 6/1 **LCA-Vision** announced that it had signed lease agreements for eight new LasikPlus locations. The planned openings will bring to 12 the number of new centers opened this year. LCA-Vision expects to have 33 LasikPlus centers in operation before the end of the third quarter. Thomas Wilson, president and CEO of LCA Vision stated, "Our strategy is to become the dominant provider of laser vision correction in each of our chosen markets. By combining the best available technology, highly skilled surgeons and staff, value pricing and aggressive marketing, we will build a commanding presence in each of our markets."

Commenting on current industry conditions, Wilson said demand for laser vision correction remains strong but characterized today's marketplace as "fiercely competitive." He added, "The reduction of the **VISX** per procedure license fee should have improved overall industry profitability. This hasn't happened because discount providers, willing to use below-cost pricing to buy market share, have put considerable pressure on pricing and margins in some markets. These deep discounters are thinly capitalized and burning large sums of money. They need extremely high patient volumes just to break even. For this reason, we do not believe today's low pricing levels are sustainable long term. LCA-Vision is not about to surrender the marketplace. We have the financial strength necessary to compete with them on the basis of superior technology, clinical experience, quality outcomes and marketing resources. When forced to do so, we can also compete on price. As a competitive response, we are testing regional pricing based on local market conditions and may expand this practice going forward, if necessary. While this would raise our break-even point and could reduce operating results below last year's levels, we believe that achieving our goal of market leadership will substantially enhance LCA-Vision's competitive position and the company's long-term value for its shareholders."

Following this announcement, Dave Therkelsen of **Dain Rauscher** lowered his target price target for the company's stock to \$5.00 from the previous \$8.00. He noted that given continued price pressure in certain markets, LCA was shifting away from the \$2995 global fee toward a market-specific pricing strategy, which will allow LCA to market effectively against multiple competing business models. However, lower pricing will further delay a return to profitability and could re-ignite investor concerns over the health of this sector.

- 6/1 **Blue Cross and Blue Shield of North Carolina (BCBSNC)** unveiled **Optic Blue**, an innovative discount program that saves customers nearly 40% off the average cost of laser eye surgery. Optic Blue is the first program of its kind in North Carolina and one of the first in the nation. With approximately 15 locations for customers throughout the

state, Optic Blue is one of the most comprehensive laser eye surgery discount programs available. With Optic Blue, customers pay \$1,395 per eye for corrective surgery, a savings of \$800 per eye off the average cost in North Carolina. All services related to the laser surgery are included for the quoted per-eye price. There are no additional fees required and no claims for customers to file with BCBSNC.

Beginning August 1, customers can simply present their BCBSNC ID card at a participating ophthalmologist to receive the Optic Blue discount. "With Optic Blue, we're able to make laser vision correction more affordable for our customers without compromising quality or convenience," said Bob Greczyn, BCBSNC president and CEO. "Customers have the comfort of knowing they can get the services they want close to home from a reputable, board-certified physician. In many cases, these are local doctors who have taken care of Blue Cross customers and their families for years."

A list of Optic Blue doctors will soon be available on the internet at [www.bcbsnc.com](http://www.bcbsnc.com). The Optic Blue discount is available at any participating ophthalmologist, and includes the consultation, surgery and all follow-up visits. It also covers any additional corrections or related services that may be needed. Optic Blue is the latest innovative, customer-focused program from BCBSNC. All participating Optic Blue doctors are credentialed by **OptiCare Eye Health Networks**. Based in Rocky Mount, it is one of the nation's largest and most respected eye care providers. "OptiCare and Blue Cross are now able to offer a very attractive program for one of the most requested elective procedures in America," OptiCare president and CEO Dean Yimoyines said.

6/5 **ICON Laser Eye Centers** announced that 7,664 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during the month of May 2000. That represented an approximate 221% growth rate, compared with 2,384 procedures performed in May 1999 and up approximately 15% from 6,662 LVC procedures in April. (While April was up only 7% over March.) On an annualized basis using May numbers, ICON is operating at a quarterly rate of 22,992 procedures and a yearly procedure rate of 91,968. Of the monthly total, 2,034 LVC procedures were attributed to ICON's joint venture partnership with **VisionAmerica Incorporated**. Of the 15 centers where ICON and VSNA have currently rolled out the ICON "Value LASIK" marketing programs, 7 of these centers reported attributable procedures in May 2000 since ICON only reports surgeries not consultations. Consultations are being booked in all 15 joint venture centers. ICON is targeting to roll-out additional VSNA/ICON locations by the end of Q2 2000.

6/5 In a "wavefront" analysis comparing the newest method of vision correction surgery -- Intacs micro-inserts -- with a popular laser-based procedure (LASIK), only Intacs produced a naturally shaped cornea that is necessary for optimum visual performance. Results of the comparative clinical study were recently presented at a meeting of the **American Society of Cataract and Refractive Surgeons (ASCRS)**. "Intacs create a naturally-shaped 'prolate' cornea which, based on medical literature, is the best shape for avoiding the large spherical aberrations that can result from other refractive procedures," said Terry Burris, MD, of Northwest Corneal Services in Portland, Ore. Noting that

laser-based procedures create an oblate (or negative prolate) shape, Burris added, "The study suggests that while both Intacs and laser procedures are effective in providing 20/20 vision or better, not all 20/20 vision is equal." (For more on oblate vs. prolate shapes, see my article on "Customized Ablations: Getting Closer Yet", included with this copy of the newsletter.)

In Burris's comparative study, wavefront analysis was performed on nine patients to measure optical "waves" of light reaching the retina to produce visual images. Five people were treated with Intacs and three with LASIK. One patient was treated with both: Intacs in one eye and LASIK in the other eye. Burris observed that corneas treated with Intacs mimicked the natural shape of normal corneas -- steep in the center and flat in the corneal periphery (a condition known as prolate asphericity). Corneas treated with the laser-based procedure were the reverse shape -- flat in the corneal center and steep in the periphery (a condition known as oblate asphericity). According to medical literature, prolate asphericity is linked to optimum visual performance and is the least likely to produce certain major visual distortions.

6/6 **LCA-Vision** announced that its board of directors had authorized the repurchase of up to 5 million shares, or approximately 10% of the company's common stock, in the open market. The timing and amounts of any stock repurchase will depend on many factors, including the market price of the common stock and overall market conditions. The repurchase program is expected to continue through the end of 2000, unless extended by the board of directors. Stephen Joffe, chairman and CEO of LCA Vision, stated, "At current price levels, we believe our stock is undervalued. The repurchase of LCA-Vision common stock is in the best interests of our stockholders, and will provide significant value over the long term. We remain confident in the underlying strengths of LCA-Vision and its growth opportunities."

6/6 **Sight Resource** announced that **Optometric Providers, Inc.**, doing business as **Cambridge Eye Doctors** and **Optometric Care, Inc.**, doing business as **Vision World**, had been approved as a provider for **CIGNA Healthcare of Massachusetts**. CIGNA has approximately 58,000 participants in Massachusetts.

6/6 **TLC Laser Eye Centers** announced that over 35,800 paid laser procedures were performed at TLC refractive centers in fiscal Q4-00. This was up 8% from last quarter and a 23% increase from the 29,272 procedures for the same period a year ago. More than 134,000 paid procedures were performed at the company's refractive centers in the fiscal year-ended May 31, 2000. That was a 48% increase over 1999 paid procedure volumes.

TLC achieved this strong growth while maintaining its position as a premium provider in the face of an escalating industry price war, involving a growing list of participants. TLC strongly believes that quality of care and outstanding results will be the long-term determinant of success in the laser vision correction industry. The company has, therefore, made the strategic decision not to participate in the industry price war.



However, TLC does intend on taking full advantage of the current tumult. The frantic race by many of TLC's corporate and individual competitors to beat already "below-cost" pricing has provided the company with a unique opportunity to secure its position as one of the few remaining premium providers in this industry. It is TLC's goal to continue to partner with the best doctors and provide patients with the continued high quality of care and the best possible results, even beyond 20/20 vision.

Towards that end, TLC is currently executing a new strategic initiative designed to unite premium doctors across the country -- eye care professionals that wish to continue to provide high quality laser vision services and to differentiate themselves through advanced training, superior technologies and clinical outcomes. The company plans to add to its significant platform of highly trained and experienced doctors from which it intends to bring Custom LASIK and other new and proprietary refractive technologies and surgical techniques to market.

Elias Vamvakas, TLC's president and CEO, commented, "TLC doctors were the first to perform the popular LASIK procedure in both Canada and the United States. We have led this fast growing and quick changing industry ever since. Through a continuing commitment to providing patients with the best possible results, and by clearly differentiating ourselves in terms of technology and quality of service and care, TLC is positioning itself to build on its already dominant market position well into the future."

As previously announced, the company will report a fourth quarter net loss. The loss will include stepped-up marketing spending, operating costs, research and development costs, and TLC's continuing investment in its e-commerce subsidiary **eyeVantage.com**. The company also expects to incur charges against earnings resulting from the recent sale of some older lasers and from consolidating centers that geographically overlap in two current TLC markets. Including the effect of these investments and charges, the company expects to record a fourth quarter after-tax loss ranging from \$0.23 per share to \$0.27 per share. Actual fourth quarter and year-end results will not be available until mid-July and could differ from the estimated range announced today.

6/6 **Laser Vision Centers** announced that it had signed an agreement with **Clarity Vision** to offer excimer laser surgery to Clarity's nearly 2 million members. Under the agreement, Clarity's members are provided the opportunity to have their refractive vision disorders treated at select Laser Vision locations throughout the United States. "We are excited about being able to offer Clarity's members the opportunity to have their vision corrected at a reasonable price by a high quality LaserVision affiliated surgeon, said LaserVision's chairman and CEO, John Klobnak.

Clarity Vision is a wholly-owned, for profit subsidiary of **Highmark, Inc.**, with a comprehensive national Preferred Provider Network of more than 11,000 ophthalmologists, optometrists, and optical suppliers, and the largest vision insurer in Pennsylvania.

6/6 According to a news release from the AAO, in the wake of the eye surgery patient safety lawsuit filed by the AAO, the *Wisconsin Academy of Ophthalmology* and the *State Medical Society of Wisconsin*, the *Wisconsin Optometry Examining Board* announced on June 2, 2000 that it had rescinded its action authorizing optometrists in that state to perform laser surgery.

The Optometry Board's original action that authorized Wisconsin optometrists to perform laser surgery prompted great concern over patient safety from Eye MDs and other medical doctors around the nation, who believe that allowing mid-level practitioners to perform laser surgery on the eye would jeopardize the safety and welfare of patients.

On May 30th, the AAO joined the Wisconsin Academy of Ophthalmology and the State Medical Society of Wisconsin in filing a lawsuit to prevent the Optometry Board's plan from taking effect. "We are pleased to see the immediate impact of our legal action," said Ken Tuck, MD, President of the AAO. "No one in the public is calling for such authority to be granted, only the optometry lobby. The public clearly understands the health risks of a mid-level practitioner performing laser surgery on the eye. Wisconsin citizens understand: Optometrists are not medical doctors. Yet, the action by the Wisconsin Optometry Examining Board would have given optometrists the responsibility of medical doctors without the necessary education and training."

Although the Optometry Board rescinded its decision to allow optometrists in Wisconsin to perform laser surgery, the Board announced action to undertake a rulemaking process that will place this issue before the Wisconsin state legislature for review. "I am confident that Wisconsin state senators and representatives, when given the opportunity to fully review the Optometry Examining Board's action and request, will reconfirm that lasers remain outside the scope of practice of optometry and that, in the interest of patient safety, laser surgery should be performed only by medical doctors," said Dr. Tuck.

The following week, in its June 14th issue, an article about the decision appeared in the *Milwaukee Journal Sentinel*. Richard Jones of the Sentinel staff, wrote, "A Dane County judge said on June 13th he wants to know whether optometrists are performing laser eye surgery even though the state's Optometry Examining Board rescinded its ruling that they could perform the popular surgery. Seeking answers to that question and others, Circuit Judge Paul Higginbotham let the legal battle proceed between ophthalmologists and optometrists over the procedure.

The judge granted the ophthalmologists' request to seek sworn testimony from the board chairman and others, and rejected a motion by the state to dismiss the case. "I'm going to permit discovery here because I think we have to find the truth," Higginbotham said. "Is eye surgery being permitted to be done by optometrists? I think that's a fair question. And under what legal authority? That's a fair question."

At the behest of optometrists, the state regulatory board agreed unanimously on May 12 that laser eye surgery was within the scope and practice of the profession. The procedure

has become an increasingly popular means of correcting poor vision. That decision drew strong protests from ophthalmologists, who argued that as physicians, only they could perform the operation."

The story went on: The Wisconsin Academy of Ophthalmology and the State Medical Society filed suit against the optometry board, alleging among other things that the rule was adopted without public notice or hearings. Even if the board followed proper rule-making procedures, the eye doctors questioned whether optometrists legally could perform the surgery. The statute governing the profession does not specifically list laser surgery as part of the practice of optometry.

Drawing fire from lawmakers as well, the board by unanimous vote June 3 rescinded its earlier decision. But it agreed to draft a new rule to state that optometrists can do laser surgery. The rule in the works would detail the necessary training. Though the board rescinded the rule, Terry Hottenroth, an attorney for ophthalmologists, said the legal battle was far from over. Hottenroth said judging from their statements in the press, board members still believe optometrists could perform laser surgery. Yet, she noted that Marlene Cummings, secretary of the Department of Regulations and Licensing, said optometrists could not do so without a rule.

Hottenroth sought permission to take legal depositions from Cummings, Optometry Board Chairman Chris Hubbell and others to end the confusion and determine the facts, including whether the board had concluded optometrists could perform laser surgery, under what circumstances and by what authority. Higginbotham granted that request over the objections of Assistant Attorney General Bruce Olsen, who sought dismissal of the case. "This is the classic example of an unripe case," Olsen said. Higginbotham said from the start, he was struck by the need for more information in the case. More is at stake than the competing interests of optometrists and ophthalmologists, he said. "We're really talking about the health, safety and welfare of public citizens of this community, and frankly, that's my bigger concern," Higginbotham said.

After the hearing, Charles Brownlow, an optometrist from Weyauwega and executive vice president of the Wisconsin Optometric Association, told reporters he did not know whether any optometrists were performing laser surgery. When asked whether he thought optometrists could legally perform laser surgery, he said yes. "If the optometrist is doing laser procedures consistent with optometric means and instrumentality and considers it to be within optometric science, the answer is yes," he said.

Still, Brownlow said Wisconsin has 750 licensed optometrists and he couldn't say whether any of them were performing the operation. "Optometrists are autonomous in their practice," he said. "They don't seek my guidance each time they decide to do a procedure or not. Never have, and I'm kind of glad they don't."

6/6 In this month's issue of *Refractive Market Perspectives*, Dave Harmon noted that corporate-owned laser center market share surged in the first quarter, surpassing the

growth at surgeon-owned and institution-operated centers. Overall, the number of laser refractive procedures grew by 15.7% over the fourth quarter, while procedures at corporately owned centers grew 25.9%. Procedures at surgeon-owned centers grew by 9.8%, while institution centers grew only 1.4%. On a share basis, surgeon-owned centers slipped from a 44.4% share, to 42.2%. Most of the decline was due to corporate acquisition of high volume centers, resulting in the market shift.

Corporate center share now stands at 46%, up from 42.2%, while institutions dropped from 13.4% to 11.8%. The corporate market leader continues to be **TLC** with a 25.1% share; followed by **Laser Vision Centers** at 21.2%; **Clear Vision** at 10.3%; and **LCA-Vision** at 9%. In a tightly knit group, **Icon** now has 5.4%; **Aris** holds 4.2%; **Prime Medical** 4%; **NovaMed** at 3.8%; and **VisionAmerica** at 2%. Other corporate centers (including **Lasik Vision**) hold the remaining 14.9%. Harmon expects that aggressive corporate expansion plans and further acquisitions of large refractive practices should lead to additional corporate gains in market share during the remainder of the year.

6/7 **Laser Vision Centers** announced that its U.S. case volume for the month of May increased 44% compared to the same month a year ago. The company said that May was its best month to date for U.S. case volume.

6/7 Dr. Kerry Assil, International Medical Director of **Aris Laser Vision, Inc.** and Director of the **Sinskey Eye Institute** was the first surgeon in the United States to perform the FDA's first Phase III Artisan Phakic Intraocular Lens (IOL) procedure for the correction of farsightedness. On June 7th, at the Sinskey Eye Institute in Santa Monica, California, Sean Aubert, a 27 year old Internet business development executive, underwent this delicate procedure at the hands of Dr. Assil to correct his extreme farsightedness. This breakthrough in technology has been long awaited. Dr. Assil was selected to participate in the FDA supervised clinical trials. This last trial phase is the final check prior to the procedure becoming commercially available.

"This is very exciting technology," said Dr. Assil. "Being able to treat farsightedness so precisely, including levels beyond the capability of LASIK is made possible by the Artisan Phakic Intraocular Lens." The procedure is specifically for the correction of farsightedness and is not to be confused with the ongoing studies of the Artisan Lens for nearsightedness.

6/7 Vijay Singh, the 2000 Masters Champion, underwent the LASIK procedure at **TLC Laser Eye Centers** in Rockville, Maryland, on May 31st. The surgery was performed by TLC Regional Medical Director, Dr. Mark Whitten. Singh joins the growing list of golf professionals that have had their vision corrected at TLC Laser Eye Centers, including Tiger Woods, Jesper Parnevik, Hale Irwin, Fred Funk, Laura Davies, and Se Ri Pak. Despite his recent success, Singh related his desire to continue improving his game as the primary reason for having the procedure. "I am constantly searching for a competitive edge," said Singh. "I anticipate this will assist in my perception around the green and my putting."

6/8 **WaveLight Laser Technologie AG** continued its pattern of steady growth in the third quarter of the business year. In the fiscal year's first nine months, through April 30, 2000, the company had sales revenues of E7.87 million. With revenues for the same three-quarter period a year ago of E3.21 million, corresponding to an increase of approximately 145%. In the third quarter alone, WaveLight posted an increase in sales to E4.31 million, following second-quarter revenues of E1.89 million. Compared to the second-quarter results, WaveLight was able to boost its sales by E2.42 million, or by 128%. The EBIT (earning before income taxes) figure for the third quarter showed a loss of E2.09 million, and for the nine month period, a loss of E3.46 million, an amount corresponding to company projections.

The figures for the third quarter included those for **NWL Laser Technologie GmbH**, which WaveLight acquired in February 2000. This acquisition has enabled WaveLight to reinforce its core competence in the area of dermatological laser applications and to exploit NWL's direct sales contacts so as to expand its overall sales network.

In the current quarter, WaveLight acquired a 49% interest in **Realeyes AG**, a company that operates eye-laser treatment centers (primarily for refractive surgery) in Germany and other German-speaking countries in Europe. Through its participation in the Realeyes company, WaveLight has taken an important strategic step in reinforcing its sales structure, and anticipates that the move will provide an additional sales impetus for its ophthalmologic laser systems, which currently account for 51% of total sales revenues. Furthermore, the continuous exchange with Realeyes is expected both to promote an improvement in WaveLight's product line of eye-laser equipment and to bolster WaveLight's technological leadership in this segment. Realeyes opened its first refractive surgery center in Munich in May.

In addition to ophthalmology, dermatology accounted for 19% of revenues; industrial sales 10%; urology 12%; and service and training for the remaining 8%.

WaveLight will continue to expand its technological head start, as it continues to establish itself as a global key player in the area of medical laser applications. WaveLight's chief executive, Max Reindl, expressed the hope that the company's successful efforts will also find a strong echo in the performance of its shares on the stock market in the coming weeks. "During the past few months, we turned all the traffic lights on the high road to sustained growth to green," Reindl remarked.

I noted in the company's quarterly report that it had secured the non-exclusive international sales and marketing rights (except for the Americas) to the **SIS (Surgical Instrument Systems AG)** microkeratome. It should be also be noted that, as reported last month -- see the 5/15 brief, **Allergan** has an exclusive multi-year distribution agreement with SIS for both North America and Latin America, and that Allergan had established a marketing alliance with **VISX** for this microkeratome. Very interesting.

6/12 *EyeWorld Week* reported that Svyatoslav Fyodorov, MD, the ophthalmic surgeon credited with pioneering some of the specialty's most important innovations, died June 2 in a helicopter crash near Moscow. He was 72 years old. Considered a giant in ophthalmology, Fyodorov not only helped launch the field of refractive surgery with his introduction of radial keratotomy, but made landmark contributions to cataract surgery as well, as an early proponent and developer of intraocular lenses. He was one of the original members of the International Intraocular Implant Club and, in 1968, introduced an IOL design that came to be known as the Sputnik lens. He also helped the technology gain acceptance in the United States by teaching several of the first American implant surgeons and supplying them with IOLs before they were available domestically. Most recently, Fyodorov developed one of the first phakic IOLs; the technology was licensed by **Staar Surgical** and incorporated into its Implantable Contact Lens, now in clinical trials.

"There are very few people who have been major pioneers in both cataract and refractive surgery. He was an extraordinary contributor," Douglas Koch, MD, president of the *American Society of Cataract and Refractive Surgery*, said. The cause of the crash was unknown at press time, though the Russian news agency *ITAR-Tass* reported that witnesses said the helicopter was emitting black smoke just before it went down. All four people aboard were killed.

6/12 **Prime Medical Services** announced that it planned to relocate its central business office from Fayetteville, N.C., to Austin, Texas, by year end in conjunction with the purchase and implementation of a new practice management system. The central billing office handles the scheduling, billing, and collecting functions for most of Prime's lithotripsy and prostatherapy procedures. Prime will take a one-time restructuring charge of approximately \$500,000-\$600,000 for the relocation. Ken Shifrin, chairman, stated, "The decision to move the CBO was made following an evaluation of the existing scheduling and billing system. In view of our recent entry into the refractive vision correction industry, the significant growth we anticipate in this segment, and other opportunities before us, it was determined that the system needed to be upgraded. The system we have chosen is state-of-the-art and importantly, flexible enough to be tailored to Prime's specific needs. In light of our evolving business and the efficiencies available through appropriate use of technology, the decision was made to locate the new scheduling and billing functions in Austin, Texas, in close proximity to most of our senior management and accounting staff."

6/13 Continuing a nationwide roll-out of new value-priced LasikPlus centers, **LCA-Vision** announced it would open the company's first facility in the fast-growing Atlanta market on June 23. The company expects to open three more LasikPlus locations in the booming Southeastern city and its suburbs to serve a metropolitan population now approaching four million. Commenting on the opening of the company's 27th facility, chairman and CEO Stephen Joffe said, "Metropolitan Atlanta, a location we have been looking at for some time, is a natural site for laser vision correction services. It is currently underserved; the economy is booming; and the population is large, growing, relatively

young, and sophisticated. A major marketing effort was launched earlier this week, focusing on the LasikPlus value-priced message. Initial consumer response to the ads, and inquiries, have been most encouraging." Joffe added that the planned opening of additional centers in the Atlanta metropolitan/suburban area, serving its large population, will enable the company to cost-effectively leverage essential marketing expenses, utilizing a single broadcast/print advertising campaign for all of the locations.

Joffe also took the opportunity of the Atlanta announcement to amplify on last week's disclosure that the LCA-Vision board has authorized the repurchase of up to 5 million of the company's shares. "By any measure, our current price levels simply do not reflect the company's progress, its continued growth, and exciting future in what is still a hugely untapped national market. I reiterate that this buy-back will provide very substantial value for our shareholders over the long-term."

- 6/13 **ICON Laser Eye Centers** announced that it had recently acquired a laser center in a suburb of Chicago. The center, formerly known as the **Future Vision Laser Center**, will remain under the directorship of Dr. Rick Foulkes, who is a leading ophthalmologist in the Chicago market, well known for developing advanced surgical techniques to enhance the safety and effectiveness of LASIK. Dr. Foulkes and ICON anticipate developing two additional laser eye centers in joint partnership in the Chicago area. The Future Vision centers are in addition to ICON's current operations in downtown Chicago.

Dr. Foulkes commented, "Patients in the Chicago market are in the very early phase of LASIK acceptance and Future Vision has been dedicated to developing unique techniques designed to achieve good results with safety first. The opportunity to joint venture with ICON in Chicago was an obvious match. ICON shares my passion for providing the best technology at affordable rates to the patient." Ghassan Barazi, COO of ICON stated, "Chicago continues to be an ideal marketplace for ICON and its laser vision correction services. Along with our existing operations in the downtown core, the company believes that Dr. Foulkes will enable ICON to become the dominant laser vision provider in the Chicago area. ICON feels very lucky to have as a partner, a surgeon of Dr. Foulkes's caliber and expertise and we look forward to developing additional facilities with him."

- 6/14 In joint press releases, **WaveLight Laser Technologie AG** and **Coherent, Inc.** announced that **Coherent's Medical Group** had finalized an international distribution agreement between the two companies. Under the terms of the agreement Coherent obtains exclusive distribution rights for the next five years for the Allegretto Refractive Laser System developed by WaveLight, for countries in Europe, Asia, and Latin America. (It is interesting to note that the WaveLight release also included distribution rights for Canada, but neither release mentions rights for the United States.) The WaveLight release goes on to state: Excluded from the arrangement are those marketing regions handled by WaveLight itself, and those already subject to existing and successful agreements with local distributors and dealers. A joint marketing arrangement for Coherent and WaveLight will apply to the domestic German market.

According to WaveLight chief executive, Max Reindl, WaveLight has found the ideal sales partner in Coherent. Founded in 1966, Coherent employs more than 2,500 workers at over 20 company locations world-wide. More than 25,000 ophthalmologic laser systems have been installed by Coherent around the world. The California company belongs among the leading laser manufacturers, and has an established global sales and service network. "As technology leader in the area of eye-laser systems, the marketing agreement with Coherent has enabled us to take a giant step in the direction of achieving our goal of becoming a global key player," said Reindl. "At a single stroke, the marketing agreement assures us of access to important sales markets." WaveLight's announcement states that the company expects to realize a sales volume of more than E20 million on sales of the Allegretto system in the first three years of the agreement, and could exceed that amount with the provision for sales of other WaveLight products (see below).

Jim Taylor, president of Coherent Medical Group, stated, "Coherent is pleased to be collaborating with WaveLight, a company with extensive background in refractive surgery and an innovative product incorporating the latest technology. As the market leader in ophthalmic lasers, it is a natural for Coherent Medical to distribute a state of the art refractive laser in our on-going commitment to provide ophthalmologists with a full range of products and technologies. During the past year, we have significantly strengthened our global distribution and are positioned to quickly bring new products like the Allegretto laser to our customers."

The Allegretto Laser is CE marked and is currently under PMA investigation in the US.

It is my belief, although nothing was officially announced, that there is some sort of an understanding between the two companies regarding the U.S. market. I would expect that the current agreement would be extended to include the U.S., once WaveLight gains FDA marketing approval. No official announcement of U.S. marketing rights may be inferred to preclude any premature legal battles between the companies (WaveLight and Coherent) and **VISX** and **Summit** (and perhaps **LaserSight**) over intellectual property rights.

On another front, as noted in the WaveLight announcement, the renewable agreement also makes provision for the sale of further "top-rate WaveLight products". Again, although neither company would comment, I wonder if the agreement includes the SIS microkeratome, at least in the countries in which WaveLight has rights for sale. (See the 6/8 brief above.)

The following day, **Coherent, Inc.** announced that it had filed a registration statement with the SEC for an offering of 3 million shares of its common stock. **UBS Warburg LLC**, is acting as lead manager, and **CIBC World Markets, U.S. Bancorp Piper Jaffray** and **BlueStone Capital Partners, L.P.** are co-managers for the offering. It is expected that the underwriters will have an option to purchase up to an additional 450,000 shares of common stock from the company solely to cover over-allotments. Coherent intends to use the net proceeds from its sale of shares in the offering for acquisitions of and



investments in businesses, technologies and products, continued development of new technologies and general corporate purposes.

- 6/15 Kate Sharadin, senior analyst, and associate analyst Jason Mills of **Preferred Capital Markets, Inc.**, initiated coverage of **Iridex** and stated their belief that one of IRIDEX's strongest competitive advantages is the adaptability of its semiconductor-based laser technology platform to develop and validate new medical applications. Furthermore, this technology is characterized by its efficiency, laser output consistency, low cost ownership, and small size. IRIDEX's laser technology has been adapted several times since 1989 with very few changes to the core platform to address various diseases and conditions in both ophthalmology and dermatology. Specific to the eye, IRIDEX is currently employing its laser technology in several studies to treat the various stages of age-related macular degeneration, diabetic retinopathy, and glaucoma, the three leading causes of blindness worldwide.
- 6/16 **Zeiss Humphrey Systems** announced that worldwide demand for the VISULAS 690s PDT Laser has surpassed expectations. Over 500 VISULAS 690s lasers have been sold worldwide since the release of the product. "I am delighted to see retina specialists around the world have made our PDT laser the laser of choice when treating this devastating degenerative disease. We were able to enhance the lives of many AMD patients throughout the Phase III clinical trials and now have over two years of efficacy and safety information," noted Dr. Victor Miranda, PDT Marketing Manager of Zeiss Humphrey Systems. "Over 500 lasers is an extraordinary success for Zeiss in bringing this therapy to patients who suffer with this degenerative disease and sales of this magnitude represent a significant step towards improving the lives of thousands of people around the world. Working with our partners, **CIBA Vision** and **QLT PhotoTherapeutics**, we will continue to innovate in the treatment of this disease. The technology has proven to be safe and effective and I am positive that by using our laser, Visudyne will set the standard for treating AMD," commented Lothar Koob, president of Zeiss Humphrey Systems.
- 6/16 *The International Society of Refractive Surgery* announced that its ISRS World Refractive Surgery Symposium (WRSS) will be held in Miami July 19-21. The annual meeting will address the ground-breaking issues in laser vision correction and refractive surgery.
- 6/19 Speaking to investment analysts at the **U.S. Bancorp Piper Jaffray Conference** in Minneapolis, Ronald Eidell, executive vice president and CFO of **NovaMed Eyecare** confirmed that the company is on track to continue its strong record of profitable growth in 2000. "We are executing on all three aspects of our growth strategy," Eidell said. "We continue to expand in our six core regional markets, we are selectively targeting and entering new markets and we are extending our leadership in information technology, which we believe is the gateway to a significant long-term e-health opportunity in the eye care industry. Demand for eyecare services and products will reflect the aging of the U.S. population, fast-growing demand for laser vision correction and other refractive surgery procedures, and significant, research-driven medical advances for eye care. These trends

all link well with our operating model, in place today in six core regional markets with approximately 25 million eye care patient-consumers. Our model features multiple access points and a full range of eye care services for patient-consumers in each regional market. This results in multiple, diversified revenue and earnings streams, and allows us to focus on creating 'lifetime revenue' for each patient-consumer, better covering our costs and leveraging our investments."

6/20 **OptiCare Health Systems, Inc.** announced that it had notified **Vision Twenty-One, Inc.** of its intent to terminate its previously announced merger as a result of, among other things, Vision Twenty-One and its banks' failure to timely enter into the Standstill Agreement and the Letter of Intent for a replacement credit facility, on terms satisfactory to OptiCare, as required by the merger agreement. Dean Yimoyines, CEO of OptiCare stated, "We are disappointed that the inability of Vision Twenty-One and its banks to reach agreement on continued financing of Vision Twenty-One will have deprived the stockholders and customers of both companies the benefits anticipated from the merger. OptiCare remains interested in certain assets of Vision Twenty-One. Nonetheless, OptiCare's management expects continued growth from continuing operations through the rest of 2000 and shall continue its efforts to enhance shareholder value."

Vision Twenty-One responded by saying that it had notified OptiCare Health Systems, of OptiCare's failure to obtain a satisfactory \$30 million financing commitment required as a condition to the merger agreement and had given OptiCare until June 29, 2000 to obtain such financing commitment. In the event OptiCare fails to obtain financing as contemplated under the agreement, Vision Twenty-One may elect to terminate the merger agreement. OptiCare has notified Vision Twenty-One that it believes that Vision Twenty-One has failed to perform certain of its obligations under the merger agreement and will seek to terminate the agreement and enforce its rights thereunder. Vision Twenty-One has notified OptiCare that it rejects OptiCare's contentions and believes that Vision Twenty-One is in material compliance with its obligations under the merger agreement and will aggressively defend that position.

Vision Twenty-One expects to complete its previously announced exit from the business of managing optometry and ophthalmology practices in the near future. The bank group related to Vision Twenty-One's principal credit facility has cooperated with Vision Twenty-One as it has restructured and streamlined its business operations. Vision Twenty-One is confident based upon its continued dialogue with the bank group that its debt can be restructured if necessary in the near future to facilitate Vision Twenty-One's continued business as a stand alone company.

6/21 **VISX** announced that the U.S. Patent and Trademark Office has issued a Notice of Intent to Issue a Reexamination Certificate in the reexamination of VISX's U.S. Patent No. 5,108,388, known as the '388 Patent. During the reexamination, which began more than two years ago, VISX amended the original five claims of the patent and added 60 new claims that pertain to methods of performing laser vision correction. The patent will expire in 2009. "We are extremely pleased that this broad and fundamental laser vision

correction patent is finally emerging from the Patent Office," said Mark Logan, Chairman and CEO of VISX. The Company expects the Reexamination Certificate to be issued by the U.S. Patent and Trademark Office within the next few months.

Several analysts pitched in with their opinions: "I think it will be very difficult for any other player to prove that they didn't infringe this patent," said Benjamin Andrew, an analyst at **William Blair & Co.** He cautioned, however, that it was too soon to gauge the impact of the reissue on the company's financial picture. "We don't know what their strategy will be. They could try to enforce licenses, pursue lawsuits or preliminary injunctions."

Kate Sharadin of **Preferred Capital Markets** echoed Andrew's remarks, "Once the patent is reissued, VISX could use it as ammunition in its court battles." She went on, however, that there was still some uncertainty for the company, which has seen its majority share of the market for laser vision correction challenged as competitors pile into the fast-growing field. "The patent is pivotal to their whole technology, but there is still an issue of enforceability," Sharadin said, referring to questions that have been raised about prior patents closely-related to the VISX technology. The ultimate enforceability of a patent lies with the court system. "VISX hasn't sued Bausch & Lomb yet, but I think they and the others could countersue on the grounds that the patent is tainted."

**Deutsche Banc Alex. Brown** analyst Sheryl Zimmer reiterated her strong buy rating on **Bausch & Lomb** in light of Visx Inc.'s announcement. "We urge that investors keep in mind that nothing firm has occurred. We emphasize that the PTO has agreed to examine proposed amendments to the patent, not accept all of those proposed amendments. We expect a more definitive outcome to materialize in the next three to four months. Even if some of the proposed amendments were accepted, Visx would still need to go through long and tedious lawsuits to prove infringement...As far as BOL is concerned, the company had always expected the '388 patent to be in effect and valid when it decided to enter the U.S. market without taking a license from Visx. There will be no changes in the company's position or in the company's marketing strategy (i.e. to retain the entire \$100 per procedure fee). We expect the news to worry some investors, particularly in view of BOL's recent price move (a rise of 47% since its interim low on April 1 compared with a 1% fall in the S&P 500). However, we reiterate our strong buy rating and would consider any weakness to be a buying opportunity."

Robert Faulkner and Tatyana Daniels of **Chase H&Q** also issued a report on the announcement. Highlights include:

- The US Patent and Trademark Office (PTO) issued a notice of intent to issue a reexamination certificate of the '388 Patent, upholding and strengthening VISX's key method patent. A draft of the patent was disclosed in a recent FTC proceeding. If the final is similar, it offers a definitive response to infringers, we believe, but must still be enforced through the courts, a multi-year process.

- We believe this event puts the rest of the industry back on the defensive for IP. If VISX can enforce the patent in its ongoing litigation, this can be significantly positive for VISX and similarly negative for Nidek, LaserSight and Bausch & Lomb.
- Further, if the patent is enforced in litigation, Bausch & Lomb and LaserSight may be forced to pay a per procedure royalty to VISX, not currently projected. This event should drive continued multiple expansion as the core of the company's value is reaffirmed.
- Industry procedures this quarter are trending well, and are likely to drive VISX to beat our estimate of 6.5% sequential growth.
- We reiterate our Buy rating for VISX shares.

6/21 **LCA-Vision** announced that Japan's **Rei Corporation** will open that nation's first LCA-Vision laser vision correction center on June 22 in Tokyo, less than five months after official approval of the procedure by the Japanese Ministry of Health and Welfare. The privately-held Rei Corporation, one of Japan's largest operators of outpatient aesthetic and dermatological laser surgery clinics, signed a licensing agreement in March, 2000 with LCA-Vision for exclusive rights to the company's LCA-Vision brand name in Japan. Rei expects to open two more state-of-the-art LCA-Vision centers in Tokyo during the next several months before launching a major national rollout.

LCA-Vision will receive a licensing fee for each center opened by Rei plus a percentage of gross annual revenues. The Japanese firm, which has already kicked off a multi-media marketing campaign to support the launch of its first Tokyo LCA-Vision facility, also plans eventually to aggressively promote laser vision correction throughout the nation of 110 million. As part of the agreement, LCA-Vision has been providing broad administrative, marketing, and medical support and counsel to Rei including training of the company's ophthalmologists and staff at LasikPlus' U.S. centers.

LCA-Vision chairman and CEO Stephen Joffe, in Japan to attend the formal opening ceremonies, commented, "Japan is, we believe, the second largest potential world market for laser vision correction after the U.S -- a market currently in its infancy, equivalent to the U.S. in late 1995, when the FDA first approved laser vision correction, and ready to take off. It is also a perfect market for laser vision correction with a very large and well-educated population and very high per capita income. The Rei Corporation, a highly-respected, notably successful Japanese provider of laser-based surgery services, is the ideal licensee. It has in-depth knowledge and understanding of the Japanese marketplace and recognizes the value of a strong brand name like LCA-Vision."

6/21 **Laser Vision Centers** announced that revenue for its fiscal fourth quarter ended April 30, 2000, increased 26% to \$23.7 million from \$18.8 million for the same quarter last year. Net income increased 42% to \$4.3 million (17 cents per share) from \$3.0 million (14

cents per share) for the same quarter a year ago. Revenues for the 2000 fiscal year were \$88.1 million, a 68% increase over fiscal 1999 revenue of \$52.4 million. Net income for the fiscal year increased 112% to \$13.9 million (55 cents per share) compared to \$6.5 million (31 cents per share) for fiscal 1999.

Commenting on the results, LaserVision chairman and CEO John Klobnak said, "We are proud to report our ninth consecutive profitable quarter. While in the midst of expanding to a more diversified business model, LaserVision has continued to maintain profitability. We continue to experience growth in terms of procedures, new sites and new surgeons, which are all indicators of the strength of our model. We believe the company is well positioned to capitalize on the ever-changing landscape of this industry. We will continue to focus on producing profitable results, investing our cash prudently as well as continuing to provide quality service to our surgeons. We will maintain our leadership position."

- 6/21 **RedChip Review**, the research division of **RedChip.com**, initiated coverage on six stocks, including **Iridex Corporation**.
- 6/21 **Investrend** will initiate research coverage of **Paradigm Medical Industries, Inc.** Analyst coverage will be initiated immediately by Sherry Grisewood, CFA, for Investrend's **Public Analysis & Review (PAR)**, the professional independent analyst continuing research program. When completed shortly, the report will be available at Investrend's site, **www.investrend.com**, as well as from other leading investment portals.
- 6/22 **STAAR Surgical Company** provided forward-looking guidance for the second half of 2000 and full-year 2001. Calling current third and fourth quarter 2000 EPS estimates of \$0.04 and \$0.06 per share, respectively, "accurate," Bill Huddleston, CEO, stated, "Although we expect revenue in the second half of 2000 to be down slightly year-over-year, we believe that the early benefits of our cost-cutting measures will allow us to meet and possibly exceed these current estimates in each quarter."

The company also announced that the PMA for its Aqua-Flow glaucoma device would be filed with the FDA no later than July 5, 2000. Stated Mr. Huddleston, "We are going to do whatever is necessary to try and be scheduled on the November 8-9, 2000 Ophthalmic Device Panel meeting. Assuming panel approval at that time, we project final FDA approval by March 31, 2001. In anticipation of final approval by that date, we will be initiating a monthly training program for doctors beginning in August. These courses will certify between 10-20 doctors each month and will provide us with a large group of qualified doctors who will be ready to use the product upon final approval."

The company also provided guidance for 2001. "Assuming March 31, 2001 approval of Aqua-Flow, we believe revenues will approach \$70 million. With a projected net margin in excess of 10%, we are comfortable with our ability to achieve EPS of \$0.50 per share. This will require fourth-quarter 2001 Aqua-Flow sales to be in the 4,000-5,000 unit range." In addition, the company also finalized its total one-time restructuring charge at

\$24 million, broken down as \$9.5 million from discontinued operations, \$4.5 million in restructuring and reorganization charges, and \$10.0 million in impaired assets. Of this amount, roughly 85% will come from non-cash charges.

- 6/23 A huge management shakeup occurred at **Lasik Vision's** annual meeting. At the meeting, shareholders re-elected two incumbent members of the company's board of directors, Dr. Hugo Sutton and Dr. Avi Wallerstein, and elected three newly appointed directors, Dr. Nurudin Ahmed, Philip Louie and John Porter. Commenting on the changes to the board, Dr. Sutton said, "We expect Dr. Wallerstein, Dr. Ahmed and Mr. Louie to play a critical role in helping to manage Lasik Vision's continued expansion and to ensure the best quality patient care for the rapidly growing number of North Americans who are choosing Lasik Vision. We are also fortunate to have attracted to the board someone with John Porter's credentials. As Co-Founder and Director of Grandvision SA, the largest superoptical retailer in Europe, Mr. Porter's international business experience will make a significant contribution to Lasik Vision's growth strategy."

Following the annual meeting, the board of directors terminated the employment of Michael Henderson as president and CEO, and chose a new Executive Committee to manage operations and lead Lasik Vision's expansion across North America. The company appointed, Dr. Hugo Sutton, founder of Lasik Vision, to chairman of the board of directors, CEO and president.

Lasik Vision also appointed Dr. Avi Wallerstein to the newly created position of executive vice-president Medical Affairs, Jaime de Sequera to the position of executive vice-president Finance and Operations, and James Watson to executive vice-president Sales and Marketing. Dr. Wallerstein, de Sequera, and Watson will form the Executive Committee. "I am extremely pleased to recognize these individuals for their service and dedication to Lasik Vision," said Dr. Sutton. "The newly created Executive Committee will manage the day-to-day operations of Lasik Vision and ensure that Lasik Vision will be able to continue to build on its success and continue its growth."

John Schreiner, of the *Financial Post* wrote, "In a successful proxy fight, Vancouver ophthalmologist Hugo Sutton and several associates yesterday took control of the board of Lasik Vision Corp. from Douglas Mason, a colorful Vancouver promoter who had been chairman. At a meeting of the board late yesterday, Dr. Sutton, the new chairman, was expected to receive the resignation of Michael Henderson, Lasik's president and chief executive, after he failed to win election to the board. The shakeup at Lasik, one of Canada's fastest-growing laser eye surgery companies, comes after Mr. Henderson last month restated the company's first quarter, turning a \$1-million profit into a \$1-million loss and reducing the quarterly revenue to \$17.9-million from \$20.1-million. In an interview, Dr. Sutton hinted that there were other differences as well between his slate and the outgoing Lasik directors and managers. "We had felt we were requiring more dialogue with the business elements of the company and we felt we were not achieving that," he said. "We felt it was important to re-establish our core values as a medical company." The largest shareholder in the company with 21.9% of Lasik's shares, Dr. Sutton is the company's founder."

The key question posed by this event, what effect will it have on the continuation of "discount pricing" in the LVC industry. Some pundits think that it may slow down its growth. A second question posed by this event, what effect will it have on **VISX**, and it's 100 laser standing order? I guess we will have to just wait and see.

6/23 Prior to the announcement above, Craig Schneider wrote in the *Individual Investor* about **VISX's** visibility, asking if it was returning? This, following the jump in the company's stock price following the announcement about the re-issuing of the '388 patent. As he stated, "If seeing is really believing then some Visx investors may not want to blink. That's because to the naked eye, Visx appears to have nothing but good news ahead to propel its stock higher. But a more focused view reveals that's not the case. On Thursday, shares of the leading maker of vision correction lasers rose \$6.06, or 21%, to \$34.63 on news that the U.S. PTO will re-issue Visx's '388 Trokel patent following a two-year reexamination process. Visx expects to receive a reexamination certificate within a few months, strengthening its extensive patent portfolio. Shares have more than doubled over the last two months, helped largely by the expected approval of this patent, analyst upgrades, the settlement of some lawsuits, and speculation that Visx could be the next to benefit from industry consolidation. Last month, **Alcon**, a diversified ophthalmic company, bought out **Summit Autonomous**, Visx's closest competitor.

Will this rally continue? In the near-term, Visx may pop again on consolidation news and a positive quarter report, given the downwardly revised estimates. Also, bullish Analyst Wade King, of **Robertson Stephens** raised his target price to \$42 per share on Thursday. He's anticipating solid second quarter results with earnings of \$0.18 per share on \$49 million in revenue. King also expects 7% sequential procedure volume growth over first quarter levels. In regards to the patent, it improves Visx's position in litigation against competitors if Visx requires a royalty payment. But longer-term, Visx's growth outlook has not changed much. "It doesn't change the fundamentals of the company, which is losing its market share leadership in a market where the growth rate is declining," says Ted Huber, an **Advest** analyst. "Given those dynamics added to the fact that there's still a lot of long-term pricing uncertainty, Visx shares are pretty darn expensive at these levels." Huber expects last year's laser vision correction procedure growth of 100% to decline to 50% growth this year. He sees Visx's 78% share of procedures in 1999 falling to 71% this year, and its 62% share in laser placements cut by almost half to 32%. Why? Doctors and vision care centers are buying the advanced narrow beam technologies from new competitors, including **Bausch & Lomb** and **LaserSight Inc.** as well as Summit's. Visx decided earlier this year to slash its high-margin per procedure fee by 60% to help it compete.

What's more, Visx's business model has been devastated since last December when an ITC judge issued an unfavorable ruling in Visx's patent suit against closely held competitor **Nidek**. The judge ruled that Nidek did not infringe on one of Visx's patents and found that another Visx patent was invalid and unenforceable. Since then, every new competitor in the market, including Bausch & Lomb and LaserSight Inc., have scoffed at paying Visx's royalties, claiming that their lasers did not infringe either. Summit is

unaffected since it already has a royalty-free cross license to Visx's intellectual property. Visx could, however, decide to go on the offensive again, suing its competitors with the strength of the '388 Trokel patent. Since Bausch & Lomb and LaserSight are not about to roll over and pay royalties now that Visx has its patent back, it will likely take a patent court ruling in Visx's favor to force the issue. That takes time and money.

"The trading activity today doesn't reflect the uncertainty that lies ahead with the enforceability of this patent and the tough comparables over the next few quarters," explains Kate Sharadin, a **Preferred Capital Markets** analyst. "We would take advantage of this spike to lighten up the position." However, Sharadin also warns that the litigation uncertainty may cause some near-term sales difficulties for Visx competitors. Potentially, doctors could wait until the dust settles to see what the ramifications are for purchasing a competing laser, she says. Remember, in Visx's case against Nidek, it also sued the doctors. "This delay could push sales into the next quarter, and a lot of business in the laser vision correction market is done at the end of the quarter."

Bottom Line: In spite of the positive patent news, we're in the camp that Visx's long-term growth outlook remains too much in jeopardy to warrant purchasing shares. In prior updates, we've noted the company's very real prospects as a takeover target. But until that happens, the real momentum and growth in the industry ultimately rests with the more technologically advanced and diversified competitors such as Summit, Alcon and Bausch & Lomb."

## **OPHTHALMIC LASER UPDATE -- July 2000**

- 6/12 Ted Huber of **Advest**, in a **VISX** update report, commented on **Alcon's** acquisition of **Summit/Autonomous**, which could lead to "a `new era' for the excimer laser industry, one dominated by large, diversified ophthalmic product companies. With **Bausch & Lomb** in the U.S. excimer laser business, and **VISX** teamed with **Allergan** in a distribution partnership, the day of the independent excimer laser technology company is gone." He went on to say that this spells stiffer competition for **VISX** and also "raises the likelihood that another ophthalmic player, lacking a strong refractive surgery presence, will acquire **VISX** itself." Although Huber doesn't speculate on who an acquirer might be, intuition suggests the short list would include **Ciba Vision** and **Johnson & Johnson** (to add to its **Vistakon** contact lens business).
  
- 6/15 Kate Sharadin and Jason Mills of **Preferred Capital Markets** initiated coverage of **Iridex** with a "buy" rating, and a 12 month target price of \$20 per share. The analysts look to Iridex's competitive advantage in the flexibility of its technology platform, which can be adapted into several applications in both ophthalmology and dermatology, including the Iriderm 800 laser hair removal system, which is expected to begin shipping in Q3. They also anticipate positive 6-month data to be released in conjunction with the PhotoPoint study for classic wet AMD, which, with fast-track status by the FDA, could lead to an early launch of its Iris Medical OcuLight 664 nm laser.



6/20 Ted Huber of **Advest** issued an update on **Keravision**, discussing the new marketing focus to target low myopes and its Fast Track surgeons. Although good clinical results were reported at the ASCRS meeting, adoption of this technology has been slow to develop. In the company's first quarter, it reported the implantation of just 1100 Intacs, of which 550 were performed by Fast Track practices, or roughly about 7 per month. Huber reported that he knew of only a handful of surgeons that were performing more than 30 procedures per month. His concern was that Intacs might be less attractive to both surgeons and patients because of the higher post-op time to achieve the desired correction, higher removal rates, and higher costs relative to LASIK. He estimates that Intac procedures carry a \$500 premium to the patient. However, the marketing initiative announced by the company is a step in the right direction. Direct mailings and a revamped website all stress the reversibility of the procedure, and target the low myope population best suited for the device, along with the 37 Fast Track practices.

Since FDA approval, only about 3500 Intac procedures have been performed. Unless there is a marked increase in adoption, the company could be in trouble.

6/21 *The Tampa Tribune* reported that a failed transaction has prompted a dramatic action by **Vision Twenty-One**. The company reported that it would eliminate three dozen jobs and close its Largo, FL headquarters by August, after its proposed acquisition by **OptiCare Health Systems** fell through. Vision Twenty-One said it would now focus on growing as an independent company, but warned it could be forced into bankruptcy if its bankers refused to continue to extend financial waivers on its \$60 million in term debt.

In February, OptiCare Health Systems Inc., a company that provides laser-vision correction services, stated that it would purchase Vision Twenty-One. The deal, based in part on companies' stock prices, was worth about \$69 million, including OptiCare's assumption of \$60 million in Vision Twenty-One debt. But OptiCare called off the deal due to the "inability of Vision Twenty-One and its banks to reach agreement on continued financing," said OptiCare CEO Dean Yimoyines.

The scuttled deal is the latest blow for Vision Twenty-One, which was delisted from Nasdaq last week. It has been hurt by mounting losses and a recent auditor's report that raised "substantial doubt" Vision Twenty-One could continue as "a going concern".

About a week later, **Optistock** reported that Vision Twenty-One had moved from NASDAQ to the OTC Bulletin Board, under the symbol EYSE. Vision Twenty-One said that OptiCare Health Systems failed to obtain a satisfactory \$30 million financing commitment required as a condition to the merger and gave OptiCare until June 29 to do so. OptiCare said it was seeking to terminate the merger because Vision Twenty-One had failed to perform certain of its obligations; Vision Twenty-One denies this, believes it is in compliance with its obligations, and will defend that position. The company added that it expects to complete its exit from eyecare practice management soon and that its debt can be restructured if necessary to facilitate its continued business as a stand-alone company.

(For more on this story, see the June 20th brief in last month's issue.)

6/22 I received an update report on **WaveLight Laser Technologie AG**, written by Volker Sack of **Nord/LB**, in which the analyst states that he recommends the company's shares as a "buy". In the report, he notes the recent historical events that have occurred for the company, including its going public, acquiring **NWL Laser Technologie GmbH**, and starting FDA clinicals in the U.S., along with the collaboration with **Coherent, Inc.** In his recommendation, he compares the current price level with that of its competitor, **Asclepion**, and states that "on the basis of the Group's cutting edge technology and rigorous and consistent growth strategy, we recommend the purchase of WaveLight's shares."

6/26 **Emerging Vision, Inc.**, formerly **Sterling Vision**, announced that it had engaged investment banking firm **Legg Mason Wood Walker, Incorporated** to assist in the execution of its plans to transition away from its traditional brick-and-mortar retail operation to its strategy of developing a business-to-business, Internet-based portal for the optical industry. Legg Mason will focus on the sale of the company's **Sterling Optical** division, a 250-store retail chain, its majority-owned subsidiary, **Insight Laser Centers, Inc.**, an operator of laser vision correction centers, and its ambulatory surgery center.

6/26 **Surgilight** announced that it had submitted a new patent application for presbyopia correction using infrared lasers and had opened the first **Laser Eye Center (LEC)** in Vietnam. The company submitted a new patent application which covers a broad range of near-infrared lasers for the use of presbyopia correction. The company believes that this additional new patent submission will further strengthen its technology advantage over its competitors, having a total of four pending US patents covering over 65 claims and a broad range of laser spectra, from ultra-violet to the mid-infrared, for vision correction including LASIK and presbyopia corrections.

The company has recently established one Laser Eye Center in Vietnam which is believed to be the first LEC in that country. The company currently has over 19 LECs in Asian countries and continues to be the major LEC player in these areas. In addition, the company has expanded its cosmetic mobile laser centers from three in Florida (with 45% control) to a fourth in Venezuela (with 100% control). The company plans to operate more than 50 CMLC in the next 5 years.

6/28 **Laser Vision Centers** announced that it had acquired **Southeast Medical, Inc.**, a privately held company, and a provider of mobile cataract services in Louisiana and Mississippi. LaserVision, through its **Midwest Surgical Services (MSS) Division** is the world's largest provider of mobile cataract services. The acquisition expands LaserVision's cataract presence into 34 states and adds eighteen locations. LaserVision stated that it expected the acquisition to be accretive in its first fiscal quarter that ends July 31, 2000.

Laser Vision chairman and CEO, John Klobnak said, "This acquisition of Southeast Medical, the premier provider of cataract services in the Southeastern United States,

signals our plans to expand the scope of our cataract business. We have maintained that as larger providers of ophthalmic products enter our core business of refractive surgery that a strong cataract presence will provide Laser Vision significant leverage in negotiations for both cataracts and our laser refractive surgery. As LASIK pricing seems to be stabilizing we believe our company is well positioned through our very strong cataract business and our position as the low cost provider with no bricks and mortar in the LASIK business."

6/28 Brenda Moore of the *Wall Street Journal*, writing in her *Heard in California* column, said that, "Staar May Yet Shine, but for Now, The Street Is Reserving Judgment", referring to the latest information about **Staar Surgical's** application for its Aqua-Flow glaucoma device. "With Staar Surgical, Wall Street is taking a wait-and-see approach. The Monrovia company is best known for its implanted lenses to treat cataracts. Now it's shifting its focus to winning regulatory approval for a new device, called the Aqua-Flow, designed to treat glaucoma. Staar says it will submit an application for the device to the FDA within a week with the hope of consideration by the agency's ophthalmology panel in November. A positive vote there could lead to a thumbs-up by the FDA in March. Aqua-Flow is surgically implanted to drain fluid that builds in the eyes of glaucoma sufferers, who can go blind without treatment. Staar officials say approval of the device could mean an additional \$7.5 million or more in annual revenue beginning in the fourth quarter of 2001. While they're waiting for the application to work through the process, they want to recruit doctors for training in the use of the device so there will be a ready market if Staar gets the go-ahead. The goal is to train 10 to 20 doctors a month beginning in August."

"But analysts and investors say that while the timetable is possible, it is not certain. The FDA can be unpredictable, they say, and doctors can be slow to adopt new technology. What's more, the company is in the middle of a search for a new chief executive to replace John Wolf, who was removed by the board of directors as part of restructuring aimed at cost-cutting and concentrating on products with the best profit potential. The restructuring also includes \$24 million in charges for 2000 from discontinued operations, reorganization and other factors -- a figure higher than the \$15 million to \$17 million originally estimated in May. All this makes some wary about diving into Staar shares. "While the long-term potential of the company is significant, we suggest the possibility that the company could encounter some bumps in the road," says Kate Sharadin, an analyst with **Preferred Capital Markets** in San Francisco. Ms. Sharadin is maintaining her "accumulate" rating on the stock, but she expects some weakness in share price in the short term. Shares are trading near \$11, off a 52-week high of \$17.125 a year ago, but still at a rich 76 times trailing earnings."

"Ms. Sharadin is cautious on the ramp-up for the Aqua-Flow, even while she is bullish on the technology. She says "ophthalmologists tend to be pretty early adopters of technology," but notes that this product has yet to be approved and training hasn't started. New technologies in the field "tend to have slower penetration rates" than their backers

expect, she says, and "then they kind of crack the code and go very quickly. We're not sure when that's going to happen."

"Some analysts aren't sure it will happen. Larry Haimovitch, a medical-technology analyst in San Francisco who advises institutional investors, says glaucoma has primarily been managed with drugs, and it's going to take a significant amount of convincing to get doctors to change the way they practice. He also notes that in Europe, where the device was approved in 1997, sales have been minimal."

6/29 A news release from **VISX** reported that according to the *Navy and Marine Corps Medical News*, laser surgery is keeping some pilots flying. The release relates the story of a Navy commander pilot who underwent LASIK surgery, and is the first pilot with laser surgery to land his plane aboard a Navy carrier.

6/29 Kate Sharadin and Jason Mills of **Preferred Capital Markets** initiated coverage of **Bausch & Lomb**, with a "strong buy" and a target price of \$100 per share. As they put it, after rounds of restructuring following the acquisitions of **Chiron** and **Storz**, they believe the company is now in an excellent position to exploit specific areas of ophthalmology, in particular, its strong positions in surgical and pharmaceuticals, to accompany its already strong positions in contact lenses and care products. One of the "hot buttons" will be the new products from the pharmaceuticals division aimed at very large markets that focus on what is termed the "back of the eye", namely retinal diseases. Bausch intends to couple its Vitrasert device, obtained via its acquisition of Chiron, with the delivery device licensed from **Control Delivery Systems (CDS)**, of which Bausch holds an equity interest of just over 30%. (For more on this, see the brief about Envision TD.) All of this is in addition to the potential growth in refractive surgery, just starting to develop, with sales of both its Technolas 217 laser system and the sale of Hansatome keratomes and blades. Bausch has claimed its Technolas system will capture a 10% share of refractive procedures by 2001.

6/29 Speaking to investment analysts gathered for the **William Blair & Company** 20th Annual Growth Stock Conference, Stephen Winjum, chairman, president, and CEO of **NovaMed Eyecare, Inc.** said that the company is poised to take its strong record of profitable growth in the \$50 billion U.S. eye care industry to new levels in 2000 and beyond. "Our operating model has proven its power not just since we went public last August, but since our founding in 1995," Winjum said. "Our 1999 gains in revenues, operating earnings and net income were impressive, and our first- quarter performance was even better: revenue rose 50%, operating earnings grew by 165% and net income more than doubled. Today, we are squarely on track to hit our high growth, profitability and return targets in the second quarter and for all of 2000."

There are two keys to NovaMed's growth strategy, Winjum said. The first is the company's focus on integrating laser vision correction (LVC) into eye care professionals' total eye care practices, rather than establishing stand-alone LVC businesses. The second is NovaMed's emphasis on establishing regional density in its core U.S. markets, rather

than scattering sites and investments across the country. NovaMed operates today in six core regional markets, representing more than 25 million potential patient-consumers.

- 6/29 **Wave-Light Laser Technology AG** was distinguished by the state of Bavaria with the Bavarian Innovation Prize 2000 for the development of its high-precision ALLEGRETTO laser system, a system used for the correction of visual disorders and the improvement of visual acuity.

The selection of WaveLight Laser as the winner of the Bavarian Innovation Prize 2000 was made primarily in recognition of the innovative technology that went into the development the ALLEGRETTO system, which opens up entirely novel applications in ophthalmology. In addition to the treatment of visual disorders (nearsightedness, farsightedness and astigmatism), visual acuity itself is made amenable to improvement through the unprecedented correction of individual image defects in the “eye” system, defects known as optical aberrations. The newly developed ALLEGRETTO system belongs among the key products in WaveLight’s line of products that will ensure disproportionate growth for the company world-wide.

Qualifying as a technological innovation is the ALLEGRETTO laser system’s *Active Eye Tracker*. This component is responsible for directing the laser beam (on-line) during treatment, so that it conforms to the patient’s eye movements, thus ensuring optimal safety. The *Scanning Spot System* also enables short operation times through the use of a high pulse frequency of 200 Hz – a bonus for both patient and physician.

Also qualifying as medically innovative is the ALLEGRETTO laser system’s soft-ware-guided Scanning Spot System, a system that requires no mechanical masks during surgical procedures for correcting eye disorders. Through the correction of individual optical defects in the “eye” system, it has become possible for the first time to improve visual acuity. In confirmation of this capacity, patients treated by Professor Theo Seiler of the Zurich University Eye Clinic at the beginning of 1999 were able to see two to three times more sharply than normal sighted individuals after the operation. Taken together, WaveLight’s multi-functional laser system allows for the correction of myopia (nearsightedness), hyperopia (farsightedness), irregular astigmatism (corneal irregularity) and optical aberrations.

- 6/29 Ted Huber of **Advest** released an update report on **Laser Vision Centers**, noting that procedure growth was in line with the market, but that margins had declined with the transition to a new business model, in trying to compete with lower-priced competitors. While its 4th quarter procedures grew sequentially 10%, in line with the industry, and installed lasers grew to 81, margins declined due to price discounting and laser fee cuts and a shift in its business model from "mobile access" to higher valued added surgeon partnerships. Twenty seven market development partnerships have been signed, with another six in the pipeline. Most of these are with the existing 781 contracted surgeons.

Huber has revised somewhat his price tiering model for the U.S. LASIK industry. He now envisions that "deep discounters" will be charging \$1000 to \$1200 per eye (such as **Lasik Vision**; the "value players" will charge \$1200 to \$1400 per eye, such as **LCA Vision**;; while the "high-end players" will lower their prices to \$1400 to \$1800 per eye, down from the \$2000 to \$2200 in his previous model. He expects these price levels will be achieved in 2000 and to be pervasive in 2001. (The real question, which he doesn't answer, is what the distribution of these three levels will be? I'm sure we will learn fast enough, as reported through Dave Harmon's *Market Scope* surveys.)

6/29 **Lasik Vision** issued a statement to clarify issues regarding its recent corporate changes. "The election of the new board of Lasik Vision has been incorrectly characterized as a proxy fight between individual board members. In fact, the dispute was between certain founding shareholders of Lasik Vision. The company also wants to clarify that the three outside, independent directors -- Douglas Mason, Stuart Ross and John Withers -- resigned on June 20, 2000 prior to Lasik Vision's Annual General Meeting on June 22, 2000. The independent directors made their decision to resign after they were unable to resolve the dispute between the founding shareholders of Lasik Vision. Our independent directors assisted Lasik at a critical stage in our corporate history. In addition to helping take us public, these directors assisted in raising more than \$30 million in financing. We intend to continue to work with them on a consulting basis with respect to Lasik Vision's ongoing negotiations for financing and investor relations. At the same time, Lasik Vision is conducting an on-going search for more outside directors with relevant industry or financial experience that can contribute positively to the company's future," said Dr. Hugo Sutton, President and CEO, Lasik Vision Corporation.

Analysts Greg Simpson and Tim Dwyer of **AG EDWARDS**, commenting on the recent events at Lasik Vision, raised the question, "Is the price-war over? Lasik Vision Canada revolt has significant implications". They commented: Friday's news that existing Lasik Vision Canada management has been effectively forced out in a proxy fight with the company's largest shareholder has potentially very positive implications for the laser correction industry. Lasik Vision, which has clearly been the driving force in the deep discounting segment of the laser vision correction market, has now indicated that they will halt their expansion plans, as well as "review our entire financial and human infrastructure..."

While the company's plans and future direction are unspecified at this time, we believe the implication is that the company may recast its business strategy and abandon its deep discounting, predatory pricing concept. While the company has been able to increase quarterly procedure volumes rapidly in recent quarters, Lasik Vision's financial structure leaves much to be desired. The company, which has depended extensively upon advance deposits from patients and financing from **Arbor International**, an investment company commonly thought within the industry to be bankrolled by **VISX**, recently restated its recent financial results, turning an apparent profit into a loss. Given the company's method of financing its operations, restated financial results, and dwindling stock price,

we believe that Dr. Sutton, a 21.9% holder of Lasik Vision shares, is clearly concerned about the company's prospects for survival.

Several other industry participants, including **Laser Vision Centers**, have been proving that lower pricing -- though not of the deep discount variety -- can generate higher surgery volumes and attractive financial returns. As a result, we expect Dr. Sutton and his group to pursue a much more logical business strategy, likely featuring a competitive -- not illogical -- pricing strategy in their attempt to remain financially viable. Therefore, we believe the Lasik Vision "coupe" has the potential to be as significant a development for the overall industry as the **LCA Vision** announcement last August of a discount pricing model, an announcement that effectively started the so-called price war in the industry, and initiated major declines in the share prices of all industry players. Is this the end of discount procedure pricing in the industry? Clearly not, in our opinion, as surgery price points in the \$1,000 - \$1,500 per eye range have already demonstrated, a significant degree of demand elasticity exists. We do believe, however, that the Lasik Vision upheaval likely marks the end up of deep discounting, or loss leader-type pricing, or the "sure we're losing money but we hope to make it up on volume" kind of mentality that characterized the Lasik Vision business model. With other deep discounters such as **ICON** clearly struggling to remain viable, we believe the pricing dynamics within the industry have been altered significantly by the Lasik Vision events, something that we believe will significantly benefit many of the existing industry players, including **LVCi** and **TLCV**.

In addition, the potential return of predictability and common sense to industry procedure pricing should result in further improvement in investor psychology surrounding this industry. We have noticed a marked improvement in investor sentiment over the past several weeks, beginning in earnest with the **Alcon** purchase of **Summit**. The potential return of normalcy on the pricing front, and associated improvement in predictability in company business models, should enhance the outlook for equity performance in this sector going forward. In summary:

- Ousting of the Lasik Vision Canada management team likely puts an end to deep discounting procedure pricing within the laser vision correction industry.
- Discount pricing will remain, as recent results have clearly indicated elasticity of demand.
- We expect a two-tiered pricing environment, with discount models in the \$1,000 - \$1,500/eye range, the apparent "sweet spot" for price sensitive consumers, while "premium priced" providers remain (in general) at \$2,000/eye and above.
- We believe the Lasik Vision developments are likely to bring the return of normalcy and predictability back to this industry.

6/30 **Sunrise Technologies International** announced that the FDA had approved the company's HYPERION LTK (Laser Thermal Keratoplasty) System. The HYPERION LTK System gently heats eye tissue outside the center of the cornea, thereby causing it to steepen and reduce hyperopia. The laser time for the SUNRISE LTK Procedure is three seconds per eye and involves no cutting or removal of corneal eye tissue.

"The HYPERION LTK System, the first refractive laser procedure designed specifically for farsightedness, is a breakthrough technology that represents the latest available alternative for the estimated 60 million farsighted individuals over the age of 40 within the United States," said Russell Trenary, president and CEO of Sunrise. Farsightedness is the most common refractive error of the American population, with about 77 million total farsighted individuals. An independent research study known as *The Baltimore Eye Study* (conducted by investigators from Johns Hopkins University and supported by grants from the National Institutes of Health), revealed that the number of Americans over age 40 with hyperopia is nearly twice as large as those with myopia. In fact, the Study projected that by the Year 2000, there would be 118 million Americans over the age of 40 -- and about 60 million of them (or 52%) would be hyperopic. About 62%, or approximately 40 million, of these hyperopes were expected to be low to moderately farsighted in the range of +0.75 to +2.50 diopters, the initial approved indication for use of the SUNRISE LTK Procedure.

Approval of the premarket approval application for the HYPERION LTK Laser System is for the temporary reduction of hyperopia in patients with +0.75 to +2.50 diopters of manifest refractive spherical equivalent (MRSE), with less than or equal to 0.75 diopters of astigmatism, who are 40 years of age or older with documented stability of refraction for the prior 6 months, as demonstrated by a change of less than or equal to 0.50D in spherical and cylindrical components of the manifest refraction. The magnitude of correction with this treatment diminishes over time, with some patients retaining some or all of their refractive correction.

Kenneth Goldman of **Lehman Brothers** issued a report following the approval, in which he commented: "Having anticipated this approval, SNRS has in place their entire sales and marketing team, which will now convert "leads" into sales. We expect a rapid ramp during the second half of 2000, break even in the 4Q, with over 300% top line and 20% revenue growth in 2001E to \$80.7 million and EPS of \$0.18. Investor sentiment will turn positive as doctor interest in Sunrise technology grows and the potential for explosive growth seems achievable. SNRS is still a "show me" stock which will appreciate after orders are received, units are shipped and procedures are done. We reiterate our 1-buy rating and target price of \$19 based on the rebound in the laser vision correction market, FDA approval and upside potential."

6/30 **Mid Atlantic Medical Services, Inc. (MAMSI)** announced it had entered into an exclusive strategic alliance with **TLC Laser Eye Centers**. Effective immediately, all MAMSI Health Plan members can receive significant savings for laser vision correction services at TLC Laser Eye Centers (TLC). MAMSI Health Plans are the first health plans



to enter into a strategic alliance with TLC in the Mid Atlantic region. "This is a forward looking, new strategic alliance for us," said Mark Groban, MD, chairman of MAMSI's Board. "Many of our members will be able to take advantage of the terrific savings they will receive from TLC and enjoy the benefits of improved vision."

6/30 **Akorn, Inc.** announced that it had submitted an IND to the FDA for AK-1003, its product for the treatment of age-related macular degeneration (AMD). Akorn's investigational treatment involves a new approach to the disease. The treatment regimen will target large feeder vessels supplying the leaking capillaries in the back of the eye, rather than focus on the capillary beds. The treatment approach will identify feeder vessels and then use AK-1003, a photosensitive substance activated by a software-targeted low-energy diode laser, to restrict the flow of blood in the vessels. Floyd Benjamin, president and CEO of Akorn said, "We are very excited about the opportunity to develop the next generation treatment for wet AMD. Current treatments focus on the capillary beds and are effective primarily with the classic form of the disease. We hope to demonstrate that the feeder vessel approach can treat both the classic and occult forms resulting in longer lasting reduction in bleeding and fluid buildup, thereby improving visual acuity. This IND represents the first effort by the company to expand our proprietary product offerings by developing new indications for existing NDAs."

6/30 **QLT Inc.** reported that it had filed an answer and counterclaims against **Massachusetts Eye and Ear Infirmary (MEEI)** in the United States District Court for the District of Massachusetts with respect to an ongoing dispute involving an issued U.S. method patent to which QLT, **Massachusetts General Hospital (MGH)** and MEEI have co-ownership rights. The patent under dispute is U.S. Patent No. 5,798,349 and was issued on August 25, 1998. There are no non-U.S. counterparts to this patent. In December 1998 QLT successfully concluded negotiations with MGH to pay a reasonable royalty on U.S. Visudyne sales, consistent with industry standards, for an exclusive license of MGH's co-ownership rights under the patent, but MEEI has refused an offer from QLT on terms comparable to the MGH license. "While we don't believe that litigation is an effective way to resolve these types of disputes, we have no other current alternative but to vigorously defend our intellectual property for the benefit of our patients, our shareholders and our employees," said Kenneth Galbraith, executive vice president and CFO. "The counterclaim against MEEI and the individual co-inventors at MEEI is a necessary step in this defense. We believe that it is clear from the facts outlined in our response that the original claim by MEEI is without merit," said Mr. Galbraith.

7/3 **Alcon Holdings Inc.** announced that its tender offer to acquire all the outstanding shares of **Summit Autonomous Inc.** common stock, at a purchase price of \$19.00 per share in cash, expired at midnight Friday, June 30, 2000. Approximately 40.6 million shares (or 86% of the outstanding shares), including approximately 2.5 million shares tendered pursuant to guaranteed delivery procedures, were validly tendered and accepted for payment. Payment for these shares will be made promptly. Alcon now plans to acquire the remaining outstanding shares of common stock of Summit Autonomous Inc. through a second-step merger. Summit Autonomous will call a special meeting of its stockholders

as soon as practicable for the purpose of approving the merger agreement. Because Alcon acquired more than two-thirds of the outstanding common stock in the tender offer, Alcon will be able to approve the merger agreement without the affirmative vote of any other Summit Autonomous stockholder.

7/3 **Laser Corp.** announced that it had received FDA 510(k) clearance to market the Dodick Laser PhotoLysis System in the United States. This clearance brings to the market and the medical profession the first laser device to be approved in the U.S. for the removal of cataracts. The Dodick System is a new, revolutionary technology using an Nd:YAG laser with a specially designed small, patented, disposable surgical handpiece that does not expose the eye to the laser light. Because of this proprietary design, the laser energy is delivered in a safe, efficient manner that produces no clinically significant heat, eliminating the risk of thermal damage. The Dodick System offers an alternative to the current method of ultrasound phacoemulsification and also provides several additional advantages such as the removal of cataracts through an extremely small incision, nearly half the size used with ultrasound, a reduced cost per surgical procedure, and the ability to remove the lens in as little as one to two minutes.

7/3 *OptiStock* reported that **Summit Autonomous** sold **Lens Express** to **Strategic Optical Holdings**, which also owns contact lens distributor **Wise/Contact Us** and an Internet contact lens retailer called **The Ultimate Contact**. Summit, which is being acquired by **Alcon**, received cash and nearly 10% of Strategic Optical Holdings in the sale. An interesting twist is that Wise/Contact Us also offers free websites to eye doctors to help them compete with Internet contact lens retailers.

7/5 Michael Baron of **CBS.MarketWatch.com**, commented on the disappointing response of the marketplace to the recent FDA approval of **Sunrise Technologies'** LTK laser system. "Shares of Sunrise Technologies International remained weak Wednesday despite recent news that the company can begin selling its farsightedness treatment. The company has sold off since Friday when it announced the FDA had approved use of its Hyperion laser thermal keratoplasty system for the treatment of hyperopia in patients forty years and older.

Kenneth Goldman, an analyst with Lehman Bros., attributed the decline to heavy short interest in the stock and the FDA's use of the word "temporary" in approval of the labeling for the Hyperion LTK system. Sunrise traded heavily on Friday, initially moving substantially higher on news of the FDA approval. After climbing to 12 1/4, the shares dropped to close at 10, down roughly 10%. The shares, which then fell another 15% Monday, recently changed hands at 7 3/16, down 15.4%.

Goldman said there's continued negative sentiment about the company and its technology in the investment community, as evidenced by the hefty short interest in the stock. "The short stake is up to around 22%," said Goldman, who has a "buy" rating and a 12-month price target of \$19 on Sunrise. According to Goldman, this short contingent has contributed to the negative reaction to the use of the word "temporary" by the FDA. He

feels this point has been exaggerated by Sunrise's naysayers, who are ignoring the fact that the administration is historically cautious about claims of product performance on labels.

"The product has shown that it maintains its effects for a minimum of three to five years with many people expected to have permanent correction," Goldman said. "Our feeling is that physicians will latch onto the opportunity to offer this to their patients."

A company spokesperson said, "When the orders come in, the stock price will take care of itself."

7/6 **LCA-Vision** reported a 66% increase in consolidated procedure volume for the second quarter of 2000. Second quarter procedures rose to a record 13,888, up from 8,365 procedures for the same period a year ago. Sequentially, procedures were up 11% versus last quarter's 12,504. During the second quarter, company opened four new LasikPlus centers in the fast-growing Chicago and Atlanta markets. The company plans to open seven additional centers this year, some in fast-growing existing markets, which will enable LCA-Vision to leverage advertising and promotion spending across multiple centers in the same geographic market. LCA-Vision chairman and CEO Stephen Joffe commented, "We see establishing leadership in our chosen markets as one of the keys to long-term profitability, and we intend to be aggressive in achieving that end. June was the strongest month in our history, but, as expected, competitive pricing, new center openings and related up-front staffing, marketing and advertising costs continued to impact earnings performance."

Dave Therkelsen of **Dain Rauscher** commented that he remained encouraged by the improving procedure volume growth and continues to believe that LCA is well positioned within its peer group.

7/6 **SurgiLight** announced that its Board of Directors had authorized the repurchase of up to 100,000 shares of the company's common stock on the open market. The timing and amounts of any stock repurchase will depend on many factors, including the market price of the common stock and overall market conditions. The repurchase program is expected to continue through the end of 2000, unless extended by the Board of Directors.

JT Lin, president and CEO of the company, commented, "At current price levels, we believe our stock is undervalued. The repurchase of SurgiLight common stock is in the best interests of our stockholders, and will provide significant value over the long term. We remain confident in the underlying strengths of our IR-laser technology for presbyopia and its huge market potential, over \$150 billion in US. We also expect to receive FDA clearance for our EX-308 laser for the treatment of psoriasis and the related skin disorders in a month or so."

7/6 **ICON Laser Eye Centers, Inc.** announced that 9,165 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during the month of June

2000. This represents an approximate 340% growth rate, compared with 2,081 procedures performed in June 1999 and up approximately 20% from 7,664 LVC procedures in May 2000. On an annualized basis using June numbers, ICON is operating at a quarterly rate of 27,495 procedures and a yearly procedure rate of 109,980. In ICON's monthly total, 2,889 LVC procedures can be attributed to ICON's joint venture partnership with **VisionAmerica Incorporated**. Of the 14 centers where ICON and VSNA have currently rolled out the ICON "Value LASIK" marketing programs, 9 of these centers reported attributable procedures in June 2000 since ICON only reports surgeries not consultations. Consultations are being booked in all 14 joint venture centers.

The company also reported that 23,491 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during Q2 2000. That represented a sequential quarter to quarter growth rate of approximately 57.2% up from the 14,944 procedures performed during Q1 2000 and it also represents a year to year growth rate of approximately 270% up from the 6,341 LVC procedures performed during Q2 2000. Ghassan Barazi, COO of ICON stated, "ICON is very pleased with its second quarter results for 2000. The company's 'Value LASIK' model has been getting positive consumer response in all our new markets and has resulted in accelerated patient throughput in maturing centers. ICON's LVC arrangement with VisionAmerica has been quite successful for both companies and has allowed ICON to spread its brand name and pricing concepts into a wide variety of U.S. cities. ICON continues to look for new corporate opportunities throughout the world and expects positive sequential quarter to quarter growth to continue."

- 7/6 **NovaMed Eyecare, Inc.** announced that its LVC volume for the second quarter totaled 6,644 procedures, up 144% over the 2,718 LVC procedures performed in the second quarter of 1999 and 25% from the first quarter of 2000, when 5,323 LVC procedures were performed. The second-quarter procedure volume represents an annual run rate of approximately 26,600 LVC procedures.

For the six months period, NovaMed's LVC procedure volume of 11,967 rose 132% from 5,150 LVC procedures in the first half of 1999. "We are pleased to report continued strong growth in LVC procedures," said Stephen Winjum, NovaMed's chairman, president and CEO. "We are profitably growing LVC procedures at more than double the estimated growth rate for the U.S. market overall, even while being a premium-price provider in each of our core markets. We expect strong LVC procedure growth to continue in the second half of 2000, and to achieve our target of 30,000 LVC procedures for the full year 2000."

- 7/6 **STAAR Surgical** announced that it had submitted a PMA application with the FDA seeking approval to market its Aqua-Flow glaucoma device. Made of pure, natural collagen, the Aqua-Flow device is used as part of a lower-risk, non-penetrating surgical procedure that has gained increased attention over the last several years. "The Aqua-Flow glaucoma device represents a safer, less-invasive alternative to existing laser and conventional surgeries," said Andrew Pollet, chairman. "By providing long-term

maintenance of intraocular pressure, we believe the Aqua-Flow device has the ability to change the paradigm of glaucoma treatment by offering long-lasting reduction of intraocular pressure."

7/7 **Presby Corp** announced that the *Medical Devices Bureau of Health Canada* had approved clinical trials for the Surgical Treatment of Presbyopia using the Scleral Expansion Band (SEB) in Canada. The lead investigator conducting the trial is Calvin Breslin, MD, of **LCA Vision**, Toronto.

7/7 **Paradigm Medical Industries'** Tracey Best, Director of Regulatory Affairs, in response to a *Dow Jones* press release from an unknown source (which we missed), pointed out that it contained multiple inaccuracies and quotes from unsubstantiated sources. "The FDA audit at the clinical site in question took place back in March of 2000. The deficiencies pointed out were addressed in a response to the FDA over a month ago. In addition, the physician mentioned has also already responded to the letter mentioned in the article. FDA routinely conducts audits of clinical sites once the sponsor (in this case Paradigm) submits for final approval. To find no deficiencies among the hundreds or, in this case, thousands of documents involved would be unusual. In my eighteen years of experience in the regulatory field, to leave an audit with no deficiencies would be atypical. The device application referenced in the release is for soft cataract removal which accounts for approximately 80% of the 3 million cataract surgical procedures performed in the U.S. annually. The release negatively implied a lack of efficacy as the physician chose to switch energy modalities 'mid-procedure' on two occasions because the laser modality was not producing 'satisfactory results'. This statement is extremely misleading. The hardness of the cataract was simply misjudged by the physician in these instances. Since the laser portion of the device is intended for **soft cataract removal**, the physician chose to use the previously approved (and more appropriate) ultra-sound energy source within the same device on these harder cataracts, to complete the procedure, i.e., switching over without starting over."

"The device is already approved for sale in Europe and is proving to be quite popular because of its more gentle nature within the eye. To date, over 6,000 successful cases have already been completed worldwide. I intend personally, in cooperation with the FDA, to perform an audit with an independent third party over the next few weeks. Paradigm's current submission for Laser Phacolysis remains in effect and we are quite optimistic that we will receive a positive response, once we have finished this review," Best concluded.

7/7 **ICON Laser Eye Centers, Inc.** announced it had received preliminary receipts of the regulators in each of British Columbia, Alberta, Saskatchewan, Ontario, Quebec, New Brunswick, and Prince Edward Island for a preliminary prospectus relating to an offering to the public of common shares of ICON for gross proceeds of a minimum of \$6 million and a maximum of \$10 million. The agent for the offering is **Thomson Kernaghan & Co. Limited**.

ICON further announced that it had applied to list its common shares on **The Toronto Stock Exchange Inc.**

- 7/11 **Sunrise Technologies** announced it had begun taking orders and shipping the company's HYPERION LTK System for the treatment of hyperopia. The first commercial procedures have already been performed. The company reports it already has approximately 100 equivalent units in inventory in the form of finished goods, work in process or components as it continues to build up the company's manufacturing capabilities.

The company also reported that several leading refractive surgeons had embraced the company's LTK system. "Refractive surgeons are embracing the SUNRISE LTK Procedure because it is safe, fast, easy to perform, easy on the patient, and affordable for both the doctor and the patient," said Roger Steinert, MD, Assistant Clinical Professor of Ophthalmology at the Harvard Medical School and who is in practice at **Ophthalmic Consultants of Boston**. Russell Trenary, president and CEO stated, "We believe that the SUNRISE LTK Procedure will be an attractive option for physicians and patients because it is safe, meaning that no corneal tissue is cut or removed; and fast, with the procedure taking only three seconds per eye. This procedure has been specifically designed for hyperopia, in contrast to other procedures that were first designed to treat myopia and then adapted for use on hyperopic patients. In fact, the HYPERION LTK System has been designed with input from ophthalmologists around the world. It utilizes familiar techniques and can be performed in the doctor's office, so it is very convenient for the patient, and easy for the physician to incorporate into his or her practice."

- 7/10 **Prime Medical Services Inc.** announced the opening of its tenth refractive vision center in Concord, Calif., in the heart of Contra Costa County and is the first facility to open under Prime's refractive center development program. The Concord facility will be operated by Prime affiliate, **Horizon Vision Centers**. Horizon surgeons Drs. Mark Mandel, Stephen Turner, Sanford Severin, David Davis, and Bradley Sandler, will utilize the center. Ken Shifrin, chairman, stated, "Since 1996, Horizon Vision Centers has operated four refractive vision centers in Northern California. These centers have consistently shown significant growth and today collectively perform over 14,000 procedures annually. In order to meet rapidly growing demand, the new Concord center is the first of several facilities we are developing in the San Francisco and Sacramento markets."

- 7/10 This month's issue of **Market Scope's Refractive Market Perspectives** noted that **Telco**, the Australian excimer laser company, had been renamed and restructured as **Q-Vis Ltd.**, with the objective of commercializing the Eye-Q solid-state 213 nm refractive laser. Apparently, the company, which was a no-show at ASCRS, has raised \$14.1 million in the past 12 months, which will be used to complete development of the laser and to secure regulatory approvals in key markets including the U.S. and Europe. According to Market Scope, the company has sold 10 excimer lasers since 1993, including one to John Dishler, MD of Denver (which sparked the re-examination of the Trokel patent, when

**VISX** sued Dishler -- see last months issue). Dishler received a physician's approval of that laser system late last year -- see the January 3rd brief in the January 2000 issue. In late May, Q-Vis received FDA approval to begin clinical studies in the U.S., to include 500 patients at not less than 4 sites. The company expects to achieve FDA marketing approval in 2002.

The newsletter also reports sales of new excimer lasers and expansion of corporate centers continues at a breakneck pace. Dave Harmon estimates that 247 new excimer lasers were sold in the U.S. in the first half of the year, and 175 new laser centers were added, with at least 82 new lasers sold as a second or third laser in some busy centers. According to Harmon's calculations, at June 30th, there were 1136 installed lasers, of which 231 were secondaries, and 900 laser centers in operation. Of the new centers opened, approximately 50% were corporate centers, with six moving from surgeon-owned to corporate, and a smaller number moving from corporate to the surgeon-owned category. Of the 900 laser centers, Harmon estimates that 338 are corporate-owned, either publicly-held or privately-held, and 160 are institutions, while 402 are physician-owned.

- 7/11 **Laser Vision Centers** announced that its U.S. case volume for the month of June increased 47% compared to the same month a year ago. The company said that June was its best month to date for U.S. case volume. The company also noted that it should achieve a milestone of 250,000 procedures performed worldwide within the next 30 days.
- 7/11 **Lasik Vision** announced that 35,599 paid laser procedures were performed at the company's refractive centres in the second quarter. This was a 300% increase from 8,906 the same period a year ago and represents a new record volume quarter for Lasik Vision. The second quarter procedures represent a 33% sequential increase from the 26,673 procedures performed in the first quarter of 2000. "Lasik Vision continues to lead the laser vision correction industry in procedural growth. In the second quarter of 2000, the company delivered on its promise of opening 16 laser vision correction centres; no other laser vision correction company is growing at that rate. Moving forward, we have a new management team that is committed to carefully managed growth and controlling our resources and expenses as we focus on opening new centres in the second half of 2000," said Hugo Sutton, president and CEO, Lasik Vision Corporation.
- 7/11 **The Hillside Group, LLC** officially announced the formation of the **PlusCare Network**, a national network of select, independent ophthalmologists dedicated to improving the standards and public perception of the LASIK procedure. Introduced in May at the *ASCRS* annual meeting in Boston, the PlusCare Network is designed to help independent LASIK surgeons attract and retain patients who value the importance of quality surgical care -- a message which lately has been forgotten by the LASIK chains and discounters. In a branded, celebrity- endorsed national patient marketing program, Hillside will encourage consumers to base their LASIK decision on finding an experienced independent surgeon who delivers affordable quality, versus getting the procedure from the lowest bidder whose expertise and corporate profit motives are suspect. The efforts

of the PlusCare Network and the **Hillside National Patient Marketing Program** are similar to those of the national laser center corporations and LASIK discounters, in that Hillside intends to spend millions of dollars in 2000/2001 to generate widespread consumer interest through its national campaign, national contracts with large employers, membership associations, and the like. However, in sharp contrast to the national laser center companies and LASIK discounters, Hillside will turn each prospect generated by its marketing efforts over to the nearest PlusCare Network member practice. From that point forward, the practice will be in control of the patient and his/her care, while Hillside maintains its supportive role. "The growth trend in the LASIK industry clearly favors the independent practice that delivers affordable quality," said William Curtis, chairman of the Board and CEO of The Hillside Group. "The PlusCare Network is positioned to help qualified independent LASIK practices compete more effectively with the national laser center corporations and LASIK discounters to win the battle for control of the patient market."

7/11 **canada-stockwatch.com** reported **Lasik Vision Corporation** faces a wrongful dismissal suit from a senior executive abruptly terminated on June 22, the day of the company's annual meeting, and escorted out of her office. In a statement of claim filed Friday in the Supreme Court of British Columbia, Sandra Gail Matthews, paid a base salary of \$150,000, seeks assorted damages. Although not noted in the suit, Ms. Matthews was terminated the same day that the company's board terminated president and CEO Michael Henderson.

In an unrelated action filed the same day as the Matthews litigation, Lasik Vision and its founder and star eye doctor, Dr. Hugo Sutton, who replaced Henderson as president and CEO, face another suit from an unhappy patient. In an endorsed writ of summons, Debbie Lawrence of Red Deer, Alta., claims Dr. Sutton performed surgery on both her eyes on July 8, 1998, at the company's West Georgia St. location in downtown Vancouver. In the suit, Vancouver lawyer Daniel Shugarman of **Whitelaw Twining** claims Ms. Lawrence went in for the repair of near-sighted vision difficulties, but due to alleged negligence, her vision has been damaged to the point of being rendered far-sighted. The suit seeks assorted damages, including loss of future income and diminished earning capacity. Neither a full statement of claim nor statements of defence have yet been filed. The suit was filed a day before the end of a legal two-year limitation period. This is the latest in a series of malpractice suits filed by disgruntled patients of Dr. Sutton, none of which have yet gone to trial. Dr. Sutton and Lasik Vision have hotly contested and vigorously defended the suits. The vast majority of eye surgeries performed by Lasik and Dr. Sutton have been successful.

In the wrongful dismissal suit, Ms. Matthews claims she was lured away by Lasik Vision from its major rival **TLC Corp.** in March or April of 1998 and induced to leave, with an offer including a raise in salary and benefits, and full indemnification, including any legal costs if TLC sued for desertion. Ms. Matthews began working for Lasik Vision as a marketing assistant on April 27, 1998, and was promoted in March of 1999 to the position of vice-president, corporate development, and on June 1, 1999, to the position



of executive vice-president, corporate development. The executive's duties were expanded on Jan. 31, 2000, to include training. The suit notes Ms. Matthews had a base salary of \$150,000, plus bonuses of 25% of her base, based on budget achievement. Lawyer Joanne McKee of **Harbottle & Co.** claims her client was instrumental in developing Lasik Vision. "One of her primary responsibilities was locating, building and staffing (including training) new clinics," states the lawyer in the suit. Lasik grew from one clinic to 31, with immediate plans for 10 new clinics, during the tenure of Ms. Matthews. The executive claims she was wrongfully terminated on June 22 when she was escorted from her office. Ms. Matthews claims that prior to her termination, Lasik permitted "human right violations to be perpetrated" against her, and took no action to discipline or terminate an employee who sexually assaulted her. The suit claims Lasik searched the office of Ms. Matthews, denied her access to the company network and her e-mail while she was still executive vice-president, and informed employees, including those she supervised, and outside associates that she had been terminated, before she knew of the news. Ms. Matthews also claims she was watched by a security guard, her personal belongings, including her purse, were searched, and she was escorted from the offices by the hired guard on June 22, all in open view of all staff, her peers, her subordinates and members of the board. As a result of the "unfair, harsh and humiliating" treatment, Ms. Matthews has sought medical attention and treatment, and now seeks aggravated, punitive and exemplary damages.

According to a TLC spokesperson, Sandra Matthews had worked at TLC's local Vancouver center in a junior patient consultant position for approximately 3 weeks before joining Lasik Vision Corp.

Several days later, Lasik Vision announced that it would diligently and aggressively defend the allegations set forth by Ms. Matthews in her wrongful dismissal lawsuit filed on July 7, 2000 in the Supreme Court of British Columbia. The company said it saw no foundation or merit in the complaint.

- 7/12 **SurgiLight** announced that it had signed an agreement with **Wuxi KangNing Medical Co.** for an exclusive marketing right for KangNing's microkeratome device for ophthalmic application in certain Latin American countries. According to the agreement, **Wuxi KangNing Medical Electronic Equipment Development Co. (KangNing)** will provide the company, under OEM terms, its patented Microkeratome device at a favorable price, which is about 40% of the competitor's retail prices. The exclusive marketing right for KangNing's Microkeratome device for ophthalmic application should cover all Latin America countries. In addition, KangNing will apply for patent protection in three major Latin American countries for the Microkeratome device and the patent rights will be assigned to the company during the Contract period. JT Lin, president and CEO of the company, stated, "We are excited about the marketing right of KangNing's device. It will strength our selling power in Latin America by offering this important accessory together with our Scanning laser system."

7/12 **Paradigm Medical Industries**, said in a press release, that the Dodick Laser PhotoLysis System from **Laser Corp.**, said to be the first laser device to be approved in the US for the removal of cataracts, is really only an "ultrasound transducer". "The Dodick System's approval with no U.S. clinicals required, had caused an understandable amount of confusion on the part of some doctors and industry outsiders who follow our company", stated Tracy Best, Paradigm's Director of Regulatory Affairs. "We have now acquired a copy of the Laser Corp. FDA Summary and see that the Dodick Laser is a recently patented transducer, which converts laser energy away from the eye into acoustic shock waves (ultrasound) which are then delivered to the 'target tissue' the cataract. This is the same mechanism of action that has been in use for the last 30 years. The acoustic shock waves go out into the eye just as they always have. "Laser PhotoLysis" as Laser Corp. has defined the term in their submission is ultrasonic phacofragmentation of the cataract not LCR (Laser Cataract Removal) that is what our patented device does."

Their release stated, "The Dodick Laser PhotoLysis System is a new revolutionary technology using an Nd:YAG laser with a specially designed small, patented, disposable surgical hand piece that does not expose the eye to the laser light," said Best. "What they left out and what is specifically emphasized in their submission is that not only the eye but also the cataract is not exposed to laser light but, as they put it, only 'shock waves'. They go on to state 'The shock wave energy is used to fragment the lens,' i.e. the cataract, said Best. The only difference is that the device which converts the electrical energy to ultrasound is a laser based transducer instead of a piezo electric or magneto restrictive based transducer. For them to infer in their release that they are taking out cataracts with a laser is not accurate and, in my opinion does a disservice to the Ophthalmic Community and the public at large. They certainly are not infringing on our patent, although they may be flirting with some truth in advertising issues," Best concluded. (In all fairness, although what Best says is true, the Dodick system does employ a laser, whose energy, in effect, than is delivered to the cataract from the titanium shield at which it is aimed.)

A week later (on July 21st), Laser Corp. responded. "The Dodick Laser PhotoLysis system is a revolutionary new laser system that is a giant step forward in the removal of cataracts," said Joyce Wickham, president and CEO of Laser Corp. "This advancement brings to the market the ability to remove cataracts with significant advantages over the traditional ultrasonic method which has been in use for the past 30 years. Unlike ultrasound phacoemulsification, this technology creates no clinically significant heat and eliminates the possibility of burns to the cornea or sclera of the eye. Additionally, cataracts are removed with far less energy imputed into the eye. Because this system creates no heat, cataracts are removed with incisions of nearly one half the size of the ultrasonic technique. The procedure is performed with lightweight disposable handpieces that are patented. We believe that this system will reduce the cost per case to remove cataractous lenses. Moreover, there is the distinct advantage over other proposed laser systems in that the eye is not exposed to the effects of direct laser light. In the final analysis, physicians will choose the best unit to render care to their patients. We are confident that ours stand alone. The Dodick Laser PhotoLysis system has generated

intense interest by physicians in the United States and shipments of these units to doctors has commenced, which we believe will add significant revenue to Laser Corp."

7/13 **VISX, Inc.** announced financial results for the second quarter and six-month period ended June 30, 2000. Revenues for the quarter were \$48.0 million compared to \$62.5 million for the comparable period of the prior year. Pro forma net income was \$0.18 per share for the second quarter, excluding the effect of \$11.9 million in litigation settlements described below. Net income, including the one-time charge for litigation settlements, was \$4.2 million (7 cents per share), compared to net income of \$21.5 million (32 cents per share) in the comparable period of the prior year.

Mark Logan, chairman and CEO said, "We are extremely pleased with these results and the 18% sequential growth in VisionKey card sales. (This included about 3% for retreats, so the actual sequential growth was closer to 15%.) The goal of our Strategic Growth Initiative introduced last quarter was to help our customers accelerate procedure growth by penetrating a larger demographic group. So far, the Initiative appears to be working and is certainly meeting our expectations."

Revenues for the six-month period were \$112.0 million compared to \$116.5 million for the comparable period of the prior year. Pro forma net income was \$0.48 per share for the six-month period excluding the effect of \$11.9 million in litigation settlements described below. Net income, including the one-time charge for litigation settlements, was \$23.7 million (37 cents per share) compared to net income of \$41.3 million (61 cents per share) for the comparable period of the prior year.

On May 4, 2000 VISX announced the settlement of a number of litigation matters. In connection with these settlements, VISX paid a total of \$11.9 million (11 cents per share) in one-time payments and related costs and fees in the quarter ended June 30, 2000.

In the accompanying teleconference, Logan noted that VISX had sold 81 lasers during the quarter, 50 in the U.S., and 31 internationally. For the half year, VISX has shipped 92 lasers in the U.S. to date. However, the average selling price was down, primarily because VISX doesn't recognize the full revenue of upgrades until they are performed. Service revenue was up significantly, plus 25% sequentially, as more lasers come off of warranty, plus additional systems are upgraded.

Following VISX's report of second quarter results, Rob Faulkner and Tatyana Daniels of **Chase H&Q** released their take on the results. As they put it, "An outstanding quarter -- better than the numbers". With the sequential 18% growth (really only 15%, discounting the retreat cards) and the placement of 51 U.S. lasers (81 total), VISX exceeded the analysts' expectations. "This outperformance points to VISX growing faster than the already robust industry-wide procedure growth (estimated at 16% quarter over quarter)."

Faulkner noted the re-emergence of the '388 patent from the PTO, faster growth in procedures than competition, and the technology upgrade platform (the S3 laser), which puts it in a strong position relative to its competition. He also noted that although VISX had placed a substantial number of lasers, its competitor, **Summit/Autonomous** is fast closing the gap. He also commented on the problems faced by VISX customer **Lasik Vision**, noting that only about 10% of procedural volume in 2000 was expected to be accounted for by this customer, and with strong laser shipments, its other customers could easily pick up the slack.

- 7/17 As reported by *EyeWorld*, **CIBA Vision** announced that to further strengthen its position in the refractive lens market, it had acquired patents for three anterior chamber refractive lenses from Georges Baikoff, MD, of Marseilles, France. The lenses are designed to be implanted into the eye to correct high degrees of myopia, hyperopia and presbyopia, and are foldable for implantation through a small incision. CIBA said that it is in the process of obtaining European regulatory approval for them, with plans to begin marketing them in Europe and Latin America next year. "In the future, we plan to combine this technology with our MemoryLens material in order to offer the first prefolded phakic implant," said David Bailey, president of the company's Surgical Business Unit.
- 7/17 **Bausch & Lomb** announced the settlement of a lawsuit against two microkeratome blade suppliers, **Visionar** and **Med Logics**. The lawsuit alleged infringement of a recently issued patent that offers significant protection for Bausch & Lomb's blades, blade designs and blade holders that are intended for use with pivoting microkeratomes such as the company's Hansatome microkeratome, the world's best-selling microkeratome for laser eye surgery. The patent, U.S. 6,051,009, is in addition to other issued patents and pending applications on the Hansatome. In the lawsuit, Bausch & Lomb sought an injunction against further manufacturing of the blades, as well as unspecified damages. In return for dropping the lawsuit, both companies have agreed not to manufacture or sell microkeratome blades that infringe the patent.
- 7/18 **WaveLight Laser Technologie AG** announced that it had acquired a 5% stake in **VisuMed AG** of Munich, Germany, a step that will allow it to expand its successful market strategy in the area of refractive surgery.

VisuMed currently operates four laser centers in the cities of Cologne, Munich, Stuttgart and Berlin. In addition, VisuMed offers a flexible rent-a-laser service known as the "VisuMobil" since 1998. The VisuMobil gives ophthalmologists the opportunity to carry out surgical procedures with an excimer laser at their own offices on a temporary basis. Since 1992, the company has offered privately practicing ophthalmologists access to operation rooms, surgical equipment and qualified personnel, thus allowing these physicians to offer their patients a broader range of treatments. For each surgical procedure carried out, VisuMed receives a percentage of the doctor's fee. The procedures carried out at the centers include refractive eye surgery, cataract surgery and secondary cataract (capsulotomy) laser surgery. There are currently more than 100 ophthalmologists

with cooperative partnerships with VisuMed and who avail themselves of VisuMed's experience in the refractive surgery market.

According to the arrangement, WaveLight will immediately acquire a 5% share of VisuMed's E400,000 share capital. Through its participation in VisuMed, WaveLight anticipates an additional sales boost for its high-tech eye laser devices.

With a market share of more than 10% of all treatments carried out in Germany, VisuMed is the market leader in the area of refractive surgery, and expects the number of patient treatments it carries out to double in the year 2000. Aided by its many years of experience, VisuMed will not only be able to maintain its market position in the future, it will be able to expand upon it. VisuMed's growth will lead to increased revenues for WaveLight through the sales of laser systems to VisuMed's laser centers.

The participation in VisuMed enables WaveLight to complete its company strategy in the area of refractive surgery. Furthermore, the company's two strategic joint ventures – with the laser clinic operator, **Realeyes AG**, and now with the leading German laser center, VisuMed – will allow it to significantly increase its market presence in the area of ophthalmology throughout the German-speaking countries of Europe.

- 7/18 Of the six million Americans who are losing their sight to age-related macular degeneration (AMD), one million reside in the state of Florida. *The Foundation Fighting Blindness* is the largest non-governmental source of funding of research to combat retinal degenerative diseases, including AMD. Important milestones in genetics, gene therapy, retinal cell implantation, the retinal chip, and nutritional and pharmaceutical therapies are being reached. (No mention was made of Visudyne therapy, or of the other laser approaches!) At its annual conference -- *VISIONS 2000, Breakthroughs and Beyond*, August 10-12 in Orlando, Fla. -- Foundation Fighting Blindness researchers will come together with patients, families and friends. There will be crucial exchanges of new research results and indispensable introductions to assistive technologies and living aids.

With the aging of the Baby Boomers, AMD is set to explode on the population with epidemic force. By 2030, it is anticipated that more than 42 million Americans may have AMD. Florida, with its disproportionate elder population, may become home to an overwhelming number of people affected by AMD. The consequences? A devastating loss of independence may begin to strike the Baby Boom generation. This progressive loss of their sight may rob individuals of their ability to read, to drive cars, to perform everyday chores with confidence -- even to see the faces of their loved ones. Yet, research into the causes, treatments, preventive measures, and cures for AMD is progressing at a compelling and promising pace.

- 7/18 **SurgiLight** announced that it had concluded a Joint Venture Agreement with **MicraUSA, Inc.** to assemble the MicraLight Escan 2020 scanning laser, designed for vision correction, in the United Kingdom and to market the system throughout the world. **MicraUK, Ltd.**, is a wholly owned subsidiary of MicraUSA. JT Lin, president and CEO

of SurgiLight commented, "We are extremely anxious to begin the assembly of the MicraLight Escan 2020 scanning laser system in the United Kingdom. This Joint Venture should enhance our sales in countries that require the CE mark outside the United States and create opportunities that were not available to us before this Agreement. The MicraLight Escan 2020 is an economical, state-of-the-art scanning laser designed to perform LASIK procedures and will be marketed throughout the world, outside the United States."

The company also announced that it was currently negotiating an Agreement to begin clinical trials with the IR-3000 laser for presbyopia procedures in Japan and expects to begin these trials within the next few weeks. The company is also shipping the EX-308 laser to **Duke University Medical Center** within the next few weeks to continue the treatment psoriasis and to explore new and exciting applications with this product. The company expects to receive FDA clearance for the treatment of psoriasis with the EX-308 shortly. The company is also negotiating a number of new international Laser Eye Center (LEC) contracts in Asia, Latin America and expects to conclude another LEC contract in Vietnam shortly. The company has also received a deposit from **Diagnostic Instrument Group (DIG)**, its Latin American distributor for the UV-195 for LASIK procedures and intends to become very aggressive in Latin America.

7/18 **TLC Laser Eye Centers Inc.** announced its fiscal fourth quarter and annual results for the period ending May 31, 2000. For the fourth quarter, net revenues totaled \$51.8 million compared to \$46.6 million in the same period last year. Net revenues for the fiscal year were \$201.2 million, up 37% from last year's \$146.9 million total. Refractive net revenues totaled \$48.1 million in the quarter, up from \$41.6 million in the same period last year. For the year, refractive net revenues were \$190.2 million, an increase of 44% from last year's \$132.4 million. Refractive net revenue growth reflected the year's growth in laser procedure volumes. More than 134,000 paid procedures were performed at TLC centers in fiscal 2000, an increase of 48% over the fiscal 1999 total. TLC now has the highest annual net revenue run rate of all "pure play" participants in the laser vision correction industry - including access providers, service providers, and laser manufacturers. The fourth quarter net loss was \$10.1 million (27 cents per share) and compares to a 1999 fourth quarter net loss of \$8.3 million (24 cents per share). The net loss for the year was \$4.7 million (13 cents per share). This compares to a net loss of \$3.7 million (11 cents per share), in 1999.

Despite making significant investments in people, information systems, eyeVantage.com, "Custom LASIK", the TLC Advantage Program and branding to expand its leadership position, the company continued to generate strong positive cash flow, demonstrated by the \$23 million in cash provided by operating activities in fiscal 2000.

Rob Faulkner and Tatyana Daniels of **Chase H&Q** commented on the quarterly and year end results. The TLC results were in line with their reduced expectations. "TLC reported \$47.2 million in net revenues after doctor compensation, slightly exceeding our estimate of \$46.6 million. EPS came in at (\$0.25), in line with of our recently reduced estimate

following the company's pre-announcement last month. TLC announced the framework of a new strategy, a partner program with reputable doctors where TLC establishes satellite "mini TLCs" in their offices. Economics of the plan have not yet been disclosed, nor are any revenues from this initiative in our projections. Generally, strategy changes among LVC service companies have not been well received by investors. We will wait and see if this changes TLC's growth trajectory. We still believe in the high-end model of TLC, but continue to feel that investors can wait until the company has better control of its cost structure to invest. We are leaving our below-consensus 2001 estimates unchanged."

"The company's procedure growth was up 8% sequentially, with the corporate advantage program accounting for about 20% of procedures. The program should continue to drive procedure volume in the quarters ahead, although H&Q expects TLC's procedure growth to continue to grow at below-market rates as it occupies the premium price niche. One clinic was opened during the quarter, bringing the total to 59, showing that expansion to the planned 63 centers by fiscal year-end has slowed."

Al Kildani of **Pacific Growth Equities** also reported on TLC's results. He commented: "On the bright side per procedure net revenue after doctor compensation (ASP) demonstrated remarkable stability given the aggressive price-cutting that has characterized much of the last year. ASP of \$1,214 was ahead of the \$1,200 we had projected. The newly announced partnership program may expand TLC's reach in FY:01 as well as contribute incremental refractive revenues. Custom LASIK efforts in Canada yield encouraging results offering a glimpse of the future U.S. opportunity."

The *Globe & Mail* reported that the company planned to cut its marketing budget. "We have been closely monitoring our media tests and measuring our return on investment and have concluded that the return is not sufficient to warrant spending at the levels we have previously described," said Elias Vamvakas, president and CEO. The company said it plans to reduce its marketing budget to the \$30-million range this year, of which less than \$20-million would be spent on media, from the previously planned \$50-million. The budget is being trimmed even though media ads featuring golfing phenomenon Tiger Woods have been successfully received, with high response and recognition rates, Vamvakas said.

In a bid to gain market share without major capital outlays, he said the company soon plans to introduce a program to partner with established eye doctors in order to establish satellite and/or complete TLC services within their existing clinics. Vamvakas said that after an initial study period of the "partner program," the company would like to open 30 to 50 of these ventures a year. He also said a management team within TLC is studying expansion into Europe and Japan. "The international business [for laser vision correction] is where North America was five years ago," he said. "It's just catching on." Moreover, he said there is "tremendous interest" from outside North America in TLC's e-commerce business, **eyeVantage.com**. TLC is currently spending \$1.5-million a month to support

eyeVantage.com and is considering a strategic partnership for the business or taking it public. "We're closer to the end of the process than the beginning," Vamvakas said.

The following day, the company announced that the 300,000th paid procedure would be performed at a TLC center on July 21st. TLC will be the first company worldwide to reach this level. "This is a very proud moment for us," said Elias Vamvakas, TLC's Chairman and CEO. "It was only about 18 months ago that we announced being the first company to surpass the 100,000 milestone. TLC doctors were the first to perform the popular LASIK procedure in both Canada and the United States," Vamvakas continued. "Since that time, consumer interest in laser vision correction has been incredible. In fact, *'The Laser Vision Correction Breakthrough'*, a book written in association with TLC and launched about 6 weeks ago through national retailers like **Barnes & Noble** and **Amazon.com**, has already sold more than 10,000 copies. Through a continuing commitment to providing patients with the best possible results, and by clearly differentiating ourselves in terms of technology and quality of service and care, TLC is very well positioned to build on its leading position into the future."

7/19 **Bausch & Lomb** announced the results of its operations for the second quarter, ended June 24, 2000. Revenues from the company's continuing operations were \$452.9 million, essentially even with the \$453.3 million reported in the second quarter of 1999. Changes in foreign currency exchange rates had a slightly negative impact on reported revenues. Reported net earnings were \$34.6 million (64 cents per share), compared to \$173.4 million (\$2.94 per share) in the same period last year. Prior year earnings included \$18.2 million (31 cents per share) after taxes, related to discontinued operations, and a gain of \$126.3 million (\$2.14 per share) after taxes, on the divestiture of the sunglass business. Additionally, reported net earnings in the current quarter reflected charges totaling \$8.4 million before taxes, or \$.10 per share after taxes, \$3.7 million of which represented expenses incurred as part of the company's attempted acquisition of **Wesley Jessen VisionCare, Inc.**, and \$4.7 million of which related to a settlement of litigation. The settlement related to a consumer class action lawsuit dating back to 1995 concerning the marketing and labeling of lens care and eye care solutions. While the company continues to believe its previous marketing of these products was appropriate, it chose to settle the matter rather than continue to tie up valuable time and resources in multi-year litigation. The settlement is subject to a fairness hearing in September 2000. The charge represents the cost of attorneys' fees and expenses and the estimated liability for the redemption of coupons to be placed in product packages under the settlement. Excluding the impact of the foregoing items, net earnings from continuing operations were \$40.0 million (74 cents per share) compared to \$28.9 million (49 cents per share), in 1999, an increase of 51%.

For the first half of 2000, revenues from continuing businesses were \$859.7 million, an increase of 2% from the \$843.2 million reported in 1999. Excluding the \$8.4 million pre-tax charge in the current quarter and litigation settlement income of \$23.6 million before taxes recorded in the first quarter of 2000, as well as the amounts related to discontinued businesses in 1999, net earnings were \$64.0 million (\$1.15 per share), compared to \$43.9 million (75 cents per share) in 1999. Including these items, reported



2000 net earnings through the second quarter were \$73.8 million (\$1.32 per share), compared to \$195.8 million (\$3.34 per share) for the same period in 1999.

Revenues in the company's surgical segment were up 13% from the prior year, and were up 17% excluding the impact of foreign currency exchange rate changes. These gains were driven by continued strong double-digit growth in sales of products used in refractive surgery, including the continuing U.S. rollout of the Technolas 217 excimer laser.

Commenting on the results, William Carpenter, Bausch & Lomb's chairman and CEO, said, "On balance, we are satisfied with the results for the second quarter. Products associated with the key initiatives we have identified for long-term growth - new contact lenses, refractive surgery and proprietary pharmaceuticals - continued to perform well. Our revenues, however, were negatively affected by short-term market issues in our U.S. lens care and pharmaceuticals businesses. Despite these challenges, we achieved our overall financial goals this quarter as a result of significant improvements in the profitability of our vision care and surgical businesses. While we expect the U.S. market issues to impact our revenues for the balance of this year, we are equally confident that our earnings will continue to benefit from the higher margins associated with our new products, as well as from the savings generated by the cost reduction initiatives we announced last year. As a result, we remain comfortable with our previous earnings guidance for our current businesses for the second half of this year."

During the accompanying teleconference with analysts, Carpenter noted that in addition to the good U.S. procedural refractive surgery growth, Europe and Asia were both strong growth areas, with Europe experiencing 70% year over year growth, with 500,000 procedures expected this year. He expects to launch Zyoptix into Europe later this year (3rd quarter), and anticipates being able to collect a per procedure fee for this customized service. Since the February launch of the Technolas system, the company has sold 22 lasers into the U.S., with 17 sold this quarter, split evenly between corporate and individual practices. The company is also seeing double digit growth for its microkeratomes. (Although not mentioned during the teleconference, I have learned that B&L also sold 41 Technolas lasers internationally, for a total of 58 laser systems in the quarter -- this was on top of 15 systems sold during the first quarter, 5 in the U.S. and 10 internationally. I have started coverage of B&L's laser revenues for my company revenue table, and have estimated that Bausch's revenues for the first quarter were \$5.8 million [excluding microkeratome and blade sales], and \$21.3 million in the second quarter -- including some per procedure fees (estimated to be 7,500) during the second quarter. Although I attempted to verify these numbers with B&L, they responded by noting that it was against their corporate policy to comment on revenues of individual product lines. So, I guess I'm on my own!)

Bausch expects to sell at least 40 lasers this year in the U.S., accounting for about 4% of U.S. procedures, with a run rate of 7%-8% by the end of the year. Next year, they intend to have a 10% share of procedure revenues (which may be conservative). Carpenter

acknowledged that establishing an ASP for his lasers was difficult, because of the bundling with other products that has been going on. This could lower the ASP by as much as 5% to 10%. The company is currently able to produce about 5 laser systems per month, and is building up to 7 units. (For U.S. delivery?)

On the topic of Envision TD, its drug delivery system for the back of the eye, he expects to begin Phase III trials by the end of the year for uveitis, with initial results of a trial to treat diabetic retinopathy planned for presentation at this fall's AAO meeting in Dallas. He believes that this technology, along with the planned acquisition of a European pharmaceutical company (announced later in the week to be **Groupe Chauvin** of France) "could transform B&L in the future".

According to *Dow Jones Newswires*, Wall Street was disappointed by Bausch & Lomb's flat sales. Despite meeting second-quarter earnings expectations, Wall Street was unwilling to reward BOL after the company reported flat revenue compared with a year ago. The bright spot in Bausch & Lomb's earnings report was its surgical segment, which generated revenue of \$125.7 million compared with \$111.1 million for the quarter last year. The gains stemmed largely from sales of surgical lasers used in refractive eye surgery, including the Technolas 217 launched earlier this year. The lasers compete against more established names in the sector such as VISX, the nation's largest maker of vision-correcting surgical lasers. Still, in the last quarter, Bausch & Lomb placed 17 lasers compared with five in the first quarter. "We believe BOL will be a real player in the refractive surgery industry in two or three years," said **Lehman Brothers Inc.** analyst David Gruber, who lowered his investment rating for Bausch & Lomb to attractive from buy.

7/19 **IRIDEX** announced results for the second quarter, stating that sales increased by 36% to \$8.8 million compared to sales of \$6.5 million in the corresponding 1999 quarter. Net income for the quarter increased by 120% to \$716,000 (10 cents per share), compared to net income of \$325,000 (5 cents per share) in the corresponding 1999 quarter.

Second quarter sales increased primarily due to strong sales of the company's ophthalmology products principally due to increased sales of products used to treat Age-related Macular Degeneration (AMD). Similar to the last three quarters, physician interest in Transpupillary Thermotherapy (TTT) for treatment of wet "occult" AMD continued to increase. Also during the quarter, the company supplied additional laser devices to **Miravant Medical Technologies** and **Pharmacia Corporation** in support of the clinical development effort to treat the wet form of AMD using a photodynamic therapy (PDT) agent (SnET2). Prior to FDA approval and commercialization of SnET2, the company expects to supply additional study laser devices as needed.

In contrast, sales of the company's dermatology products were lower in the second quarter compared to sales for the corresponding 1999 quarter. This occurred primarily due to concentration of sales and marketing efforts on the new dermatology hair removal product, the IRIDERM Apex 800, which impacted sales efforts for the DioLite 532, a

vascular and pigmented lesions laser system. The company expected to begin customer shipments of the Apex 800 during the summer of 2000; however, due to a key component delay, the Apex 800 is now scheduled for first customer shipment in the fall of 2000. During the quarter the company refocused on the DioLite 532 and expects sales levels of the DioLite 532 to improve.

At the end of the quarter the Health Care Financing Administration (HCFA) of the Department of Health and Human Services issued a Program Memorandum to Intermediaries/Carriers. The Program Memorandum advised that, effective July 1, 2000, claims for reimbursement for certain AMD procedures, including Transpupillary Thermotherapy (TTT), should not be submitted for payment by Medicare, categorizing TTT as "experimental". Experimental procedures are defined by HCFA as those procedures that are not yet considered the standard of care. As a result of HCFA's determination, the TTT procedure for the time being must be reimbursed on a private pay basis in the U.S. The HCFA Program Memorandum, regarding reimbursement of a number of AMD procedures, has caused confusion in the U.S. ophthalmic community. As such, the company believes that some U.S. doctors may choose to delay adding the TTT procedure to their practice. However, the company believes this may be mitigated by physicians who are interested in performing the TTT procedure on a private pay basis. Until the reimbursement issues are clarified, there may be some softening in demand for products used to perform this procedure. The HCFA Memorandum will not affect international sales.

Ted Boutacoff, president and CEO, commented, "Our record sales performance and strong earnings for the second quarter comes with a new challenge. While we will continue to execute the strategies that have generated our top and bottom line growth this year, we will attend aggressively to the reimbursement matter and the delay in shipments of the Apex 800. Our long-term growth prospects in both the ophthalmology and dermatology markets continue to look very lucrative. We are pleased with our current market and product positions and will continue our promising medical pursuits going forward."

7/20 **NovaMed Eyecare** announced that its net revenue for the second quarter rose 43% from the second quarter of 1999 to \$34.1 million. In the second quarter, LVC revenue represented approximately 29% of total net revenue, up from 22% for the full year, 1999. Net income for the second quarter increased 39% to \$1.46 million, (6 cents per share), up 50% from 4 cents per share in the second quarter of 1999. Pro forma net income in 1999 reflects adjustments for previously disclosed items associated with NovaMed's initial public offering, completed August 18, 1999.

For the first half, net revenue increased approximately 47% from the first half, 1999 to \$65.7 million. Revenue from LVC represented approximately 28% of first half net revenue. Net income for the first half doubled to \$2.9 million (11 cents per share) from 6 cents per share in 1999's first half.

Profitable growth was achieved by NovaMed Eyecare in the first half despite highly-competitive conditions in the LVC consumer market place and the LVC equipment and services sectors. NovaMed expects these conditions to persist for the foreseeable future. Despite more intense competitive conditions, NovaMed continues to be a premium-priced LVC provider that has profitably grown LVC procedures at more than double the estimated U.S. growth rate for LVC procedures. As previously reported, second quarter LVC procedures increased 144% over the second quarter of 1999 to 6,644. For the six months period, NovaMed's LVC procedure volume of 11,967 increased 132% over the first half of 1999. The company incurred higher sales and marketing expenses in the second quarter in an effort to drive demand. The higher levels of sales and marketing spending are expected to continue in the second half, 2000 and into 2001, in an effort to drive above-market LVC procedure growth for NovaMed. Continued strong LVC procedure growth is an important element in NovaMed's expectation of continued strong revenue growth.

Rob Faulkner, of **Chase H&Q**, downgraded the company from a "buy" to "market perform", because of the intense competition it now faced. Some of his reasons included:

- The company indicated that LVC procedure volume will trend lower due to the entry of low priced competition into its markets and that it is planning on significantly increasing investment spending on growth initiatives.

- While we believe in the long term feasibility of NovaMed's regional density model and its ability to leverage its franchise, we believe investors can wait until the company has better control of its spending and procedure volume growth trajectories have improved to invest.

- Is this Déjà Vu? The company's target regions mirror the LVC market growth of a year ago. In July of last year, **TLC** shares hit their all time high, followed by a slowdown in procedure growth and heightened pricing competition. Last night's announcement of increasing spending on growth initiatives, too, reflects the status of **TLC** close to a year ago.

- We are reducing our estimates for NovaMed's LVC procedures in 2000 to 28,000 from 30,600 and in 2001 to 50,000 from 60,000 to account for heightened competition and the rapid entry of low priced providers.

- We are reducing EPS estimates significantly in 2000 to \$0.22 from \$0.42 and in 2001 to \$0.27 from \$0.85. Our revenue estimates also decrease in 2000 to \$137.5 million from \$144.1 million and in 2001 to \$169.6 million from \$185.2 million.

7/20 **SurgiLight** announced that it had secured a \$3 million investment from the United Kingdom-based firm, **Global Emerging Markets, Inc. (GEM)**, an investment group specializing in private equity investments. JT Lin, president and CEO of the company, said, "This investment by GEM is a significant component of our corporate plans over the coming months. We are delighted that GEM has made this commitment which

endorses our corporate strategy and provides the platform for further important developments including the expansion of additional self-sufficient international Laser Centers, R&D and marketing of new products and will assist us as we continue our FDA clinical trials. In particular, these additional funds will accelerate the worldwide market of our soon to-be-approved new products."

Since March, 2000 the company has raised a total of \$4.2 million, which includes \$1.2 million from an accredited investor and the \$3 Million from GEM. The company believes that these additional funds shall provide sufficient working capital for the next 18-24 months.

- 7/20 Late last month (June 30th), the AAO alerted members about the changes in the Medicare reimbursements for Visudyne therapy for treating AMD. This was based on a June 2000 Program Memorandum notice to its intermediaries/carriers, issued by HCFA on Ocular Photodynamic Therapy (OPT).

In essence, HCFA had changed the rules, denying payment for Visudyne as a drug -- because it lacked USP registration, and only allowing reimbursement as a supply, or at cost, denying physicians their usual markup of 95% of average wholesale price (AWP), in this case \$230. The memorandum also bundled Visudyne, its infusion, and the laser treatment with a miscellaneous CPT code, 67299, which reduced payment for the treatment significantly, as much as \$400 to \$500 less than the \$2200 to \$2300 that physicians had been receiving. If this new policy had been carried out by the local Medicare carriers, it could have meant that this blindness-saving procedure (for those with predominantly classic wet AMD) would have been unprofitable, and thus unlikely to be carried out for those needing treatment, except for those who could afford to pay for it on their own.

Fortunately, **QLT** and **CIBA Vision** got their act together, and working with USP, got the latter to "list" Visudyne, which in turn allowed HCFA to re-institute Visudyne as a drug, and recommend reimbursement at 95% of AWP. Now the only question remaining is whether the AAO, working closely with the AMA/Specialty Society RVS Update Committee (RUC), can get the laser and infusion fees worked out to allow doctors to make a reasonable profit on the procedure (and allow them to pay off the \$40,000 cost for their laser!).

For more on this subject, see the article I prepared for the August 15th issue of *Ocular Surgery News* and the August issue of *Medical Laser Report*, included with this issue of the newsletter.

- 7/20 As noted during the **Bausch & Lomb** conference call with analysts (see the 7/19 brief above), following release of its second quarter results, the company is placing a lot of emphasis on its sustained release device for treating back of the eye retinal diseases. An excellent overview of the Envision TD technology is provided in the July 15th issue of *Ocular Surgery News* (and on the OSN website for that issue). As the review article notes,

Envision TD is the first product in a planned family of products being developed by the company to treat severe posterior segment conditions, including age-related macular degeneration and diabetic macular edema.

The first test for the new delivery system was used to treat posterior uveitis by inserting a small intravitreal insert into the back of the eye. The insert was designed to deliver sustained and consistent low levels of medication directly to the infected area of the eye for up to 3 years. The Envision TD drug delivery system technology was made possible when Bausch & Lomb signed a long-term development and marketing agreement with **Controlled Delivery Systems, Inc. (CDS)** in June 1999. CDS had already patented an insert delivery system that was being used with Bausch & Lomb products. Vitrasert, which was developed by CDS and licensed to Bausch & Lomb in 1997 (actually to **Chiron**, acquired by B&L), is approved to treat cytomegalovirus retinitis in AIDS patients by releasing ganciclovir into the eye over a 6-to 8-month period.

The Envision TD insert is placed in the back of the eye during a straightforward surgical procedure and carries an anti-inflammatory agent into the back of the eye that slowly releases over a period of 3 years, although the release time can be adjusted. This is different than current treatments such as topical steroids and periocular injections, which often have serious side effects, according to officials at Bausch & Lomb. Generally, treatment of back-of-the-eye diseases often include high doses of systemic medications that can cause mental instability, kidney failure, Cushing's syndrome and osteoporosis. In addition, often these treatments often will not help to stop the continued gradual loss of sight, according to the company.

Envision TD was recently awarded fast track designation by the FDA. Phase 3 trials are scheduled to begin in the second half of this year.

- 7/24 According to *EyeWorld Week*, **CIBA Vision** has gained exclusive worldwide marketing and distribution rights to California-based **Medennium Inc.'s** Phakic Refractive Lens (PRL) in exchange for an equity investment. According to CIBA Vision, the initial investment represents 10% equity in the company, with an option to acquire a larger holding at a later date. The PRL is in U.S. Phase II clinical trials for the correction of myopia and hyperopia; Phase III trials are expected to begin early next year.
- 7/24 And *OptiStock* reports that **Pro-Laser** is establishing a sales subsidiary in Sydney, Australia. The unit, formed from the technology division of **Rodenstock Australia**, will be called **Pro-Laser Australia Pty. Ltd.** and will sell equipment and instruments to the three Os in that country.
- 7/24 **Atlantic Technology Ventures, Inc.** announced the signing of a one-year option to exclusively license a patented polymer gel technology in the field of ophthalmology from the **Massachusetts Institute of Technology**. The company intends to use the technology to develop an injectable lens substitute, which will then be used with Atlantic's patented Catarex device in both cataract and refractive surgery. The technology was developed by

the late Dr. Toyochi Tanaka, an internationally recognized physicist at MIT. Further information regarding this polymer gel technology is available on the Internet at <http://web.mit.edu/physics/tanaka>

Atlantic intends to immediately begin a development program centered around the polymer technology which it believes will form an integrated product package in the field of cataract and refractive surgery. The company, through its **Optex** subsidiary, is currently developing the Catarex device in conjunction with **Bausch and Lomb**. Bausch has an exclusive worldwide license for the Catarex device for human applications.

Current methods of cataract surgery are not compatible with the use of injectable gel lens substitutes because they functionally destroy the integrity of the lens capsule, thereby rendering it impossible to refill the capsule. The company believes that since the Catarex device leaves the entire capsule essentially intact except for a tiny peripheral hole, it is the only enabling technology that allows for the possibility of replacing the lens with an injectable, gel-like substance instead of a rigid intra-ocular, fixed focus lens implant. Atlantic believes that a soft and pliable lens would more closely mimic the eye's natural function, expanding and contracting quickly to accommodate the different focal lengths needed for near and far vision. "As an ophthalmologist by training, I am very excited about this technology and by the potential of its applications in the field of cataract and refractive surgery," said Dr. Joseph Rudick, CEO of Atlantic Technology Ventures, Inc. "While a pliable lens substitute is important to cataract patients, it has even broader applications. A flexible lens substitute could be implanted into any adult and be used to correct not only their distance refractive error, but also potentially eliminate the need for reading glasses and bifocals, which are now required by everyone as they age and their natural lenses start to lose their flexibility." Dr. Rudick added that "The development of an injectable lens substitute, combined with our Catarex lens removal device creates an entirely different market for our products. It would then become a refractive surgery procedure."

7/24 **Lasik Vision** announced the signing of an agreement with **TruVision**, which will make laser vision correction more affordable and available to more than two million new patients in Los Angeles. Lasik Vision will offer significant savings for laser vision correction to members of **Union Members Discount Network (UMDN)**, in Los Angeles. TruVision, a provider of vision improvement discounts to health plan organizations throughout the United States, will begin to market Lasik Vision's services to UMDN members starting August 1, 2000. "This is an exciting new strategic partnership for TruVision," said Lindsay Atwood, president and CEO of TruVision. "The quality of care provided by Lasik Vision's experienced and highly skilled surgeons was a major factor for TruVision in choosing to offer Lasik Vision as a provider of laser vision correction to its Health Plan members."

Commenting on the partnership, James Watson, executive vice-president Sales and Marketing, Lasik Vision said, "We are very excited that through TruVision, UMDN has chosen Lasik Vision to be a provider of laser vision correction to its the membership.

This is a resounding endorsement of the Lasik Vision philosophy of quality, experience and affordability. The interest on the part of TruVision and other corporations in our services as a 'preferred provider' will greatly assist us in our continued expansion in the U.S. market."

- 7/24 **SurgiLight** announced that its CEO, JT Lin, presented a paper and demonstrated its new IR-laser system for the treatment of presbyopia at the World Refractive Surgery Symposium held in Miami, FL (July 21-23). The company believes that it is the first company to present the clinical results for the new procedures of presbyopia reversal using an infrared (IR) laser. The co-authors of the paper were A. Perraso, MD and D. Martiniz, of SurgiLight's Microsurgery Center in Venezuela. Clinical results on 35 cases of presbyopic patients, ranging in age from 42 to 65, and follow-up between a few weeks to over 13 months was reported. These clinical results showed that 86% of the treated patient can read J3 or better after the surgery and most of the patients were treated in both eyes with a very high patient satisfaction. In addition, almost no regression was found up to 13 months post operation. The company believes that its new IR-laser has great advantages over the existing non-laser methods and maybe a more effective tool for the correction of presbyopia which is estimated to have a potential market over \$150 billion in U.S. alone.
- 7/24 **STAAR Surgical** announced that it had submitted an application for a Medical Device License with Health Canada, Canada's primary healthcare regulatory agency, for its Aqua-Flow glaucoma device. "Encouragingly, Health Canada did not request any additional data for the submission," said Steve Ziemba, VP of Regulatory Affairs. "What we have submitted to Health Canada is essentially the same thing we submitted to the FDA. As a result, we expect to receive approval in Canada at about the same time we receive FDA approval in the United States. However, since there is no panel process to go through, it is possible that approval in Canada could come first."
- 7/26 **Paradigm Medical Industries** announced that its manufacturing facility in Salt Lake City had been granted ISO 9001 Certification by **TUV Essen**, a German "Notified Body" recognized by the European Economic Community. "This certification stipulates that because of our high standard of control on quality output as a medical equipment manufacturer, we are now authorized to sell our products direct in Europe and many other countries and do our own CE Marking," explained Tracy Best, Paradigm's Quality Assurance Manager.
- 7/26 **Blue Cross and Blue Shield of North Carolina (BCBSNC)** announced it would roll out its innovative new Optic Blue discount program on August 1, saving customers nearly 40% off the average cost of laser eye surgery. Announced in June, Optic Blue is the first program of its kind in North Carolina and one of the first in the nation. Beginning August 1, nearly one million customers can choose among the most comprehensive network of ophthalmologists in the state, currently including more than 20 locations.



7/27 **Sight Resource** announced results for the second quarter with revenues of \$16.5 million compared to \$17.6 million for the second quarter of 1999. The net loss in the second quarter was \$695,000 (8 cents per share) versus net income of \$288,000 (3 cents per share) in the second quarter of 1999. The company operated 128 vision centers as of June 24, 2000 compared to 130 vision centers as of June 26, 1999. Two items continued to have an adverse impact on sales in the second quarter. Sales in the New England business were less than last year by approximately \$600,000 due to difficulties experienced by the company's largest managed care plan customer in New England. Strong sales in the other components of Cambridge Eye Doctors business offset 50% of this sales loss. Also, sales in Sight Resource's laser vision correction business were less than last year by \$450,000 due to the termination of the company-owned laser operations in New England, offset somewhat by the procedures in laser vision correction stemming from Sight Resource's partnership with **Laser Vision Centers, Inc.**

7/27 **LCA-Vision** said it would open the company's 27th U.S. LasikPlus facility on August 7 in Rockville, Maryland. The Rockville value-priced LasikPlus center is the third such facility LCA-Vision will operate in the Washington, D.C. capital region and the eighth new unit launched this year. It complements existing LasikPlus centers in Bethesda, Maryland, and Falls Church, Virginia, serving a Washington metropolitan area population that now exceeds 4.4 million.

Seeking to establish dominance of selected key markets, LCA-Vision plans to open six more LasikPlus centers by year's end. The aggressive rollout continues to capitalize on explosively growing patient acceptance of laser vision correction fueled by the company's popular value pricing model. In addition to its 27 U.S. centers, LCA-Vision owns two facilities in Canada and one in Europe. The company is also licensing its business model to Japan's **Rei Corporation**, which is opening LasikPlus centers across the island nation.

7/27 **KeraVision** reported revenues of \$707,000 for the second quarter, based mostly on procedure sales, compared to \$3.9 million for the second quarter in 1999 and based primarily on one-time sales of high-cost surgical instruments necessary for surgeons to practice the INTACS procedure following FDA approval. Revenues for the first six months were \$1.7 million vs. \$4.4 million for the same period a year ago. The company noted that while procedure volume was down for the quarter, 945 vs. 1,100 procedures in the previous quarter, volume has not yet been significantly impacted by advertising and direct mail since the campaign began mid-way into the quarter. Based on industry estimates, the normal decision cycle during which consumers consider, qualify and reach a final purchasing decision on a vision correction procedure can be several months -- in other words, longer than the second quarter permitted. The company believes that consumer leads generated by the initial campaign will affect future procedure sales.

Net loss for the quarter was \$10.3 million (57 cents per share) vs. \$5.7 million (45 cents per share) for the same period in 1999. The increase in net loss was primarily due to investments in professional and consumer market-development activities in the United States. KeraVision chairman and CEO Thomas Loarie said, "During the second quarter, KeraVision began implementing the direct-to-consumer side of the INTACS market

launch in order to create demand for INTACS and link consumers directly to our Fast Track practices. We know there is a several-month decision process for consumers who are considering vision correction surgery, so it is too early to see the effects of the marketing campaign on procedures. However, our pipeline of interested potential consumers is growing and we now have strong confirmation that we've correctly identified our consumer target and that we know how to reach and influence the target. The company now is moving to the next level by combining all of the elements of a complete marketing mix. We will be testing this mix in several markets in order to demonstrate that we have an economically viable business model."

The company also said it had entered into an agreement with **NovaMed Eyecare, Inc.** to co-market INTACS inserts in up to six cities, starting in September in Kansas City. KeraVision plans to invest nearly a half million dollars on advertising and direct mail to co-brand INTACS inserts with **Hunkeler Eye Centers**, NovaMed's flagship vision correction centers. In addition to contributing to the advertising effort, NovaMed will provide its marketing infrastructure in Kansas City as well as in its other markets including Chicago, Louisville, St. Louis, Richmond, VA, and Atlanta/Chattanooga.

KeraVision chairman and CEO Thomas Loarie said, "KeraVision's co-marketing alliance with NovaMed will focus on reaching the estimated 80% of myopes in the INTACS range who receive their primary vision care from optometrists. We believe NovaMed's unique distribution model is perfectly suited to INTACS because the model links optometrists to ophthalmic surgeons in a highly concentrated network." NovaMed chairman, president and CEO Stephen Winjum added, "We believe the INTACS technology, with its unique consumer benefits for nearsighted people in the -1.0 to -3.0 diopter range, will help us connect with consumers who today represent a relatively small portion of NovaMed's refractive surgery procedures. Mild myopes total over 50% of the myopic vision correction market. We see INTACS as a market expander that will help us reach this largely unpenetrated consumer segment."

Additional key KeraVision developments included:

- The company completed the scheduled patient enrollment in its U.S. Phase III clinical study using INTACS to correct -3.0 to -4.5 diopters of myopia, or "moderate" nearsightedness. This means KeraVision could be ready to submit a PMA to the FDA in the second half of 2001.
- A plan to conduct clinical studies using INTACS inserts to treat six additional vision problems was announced by **Clinical Research Statistics, LLP** -- the same physician research group that achieved FDA approval in 1999 for **VISX** and **Summit Technology's** LASIK technologies.
- The U.S. Navy launched its own clinical study of INTACS inserts for myopia, a step toward possible approval and coverage for Navy personnel and dependents.

7/27 Dr. Gavin Bahadur, Director of the Cataract Division of the **Sinskey Eye Institute** in Santa Monica, California will perform the first laser cataract removal surgeries in the Western United States. On July 31st, six surgical candidates, one male and five females, ranging in ages from 46 to 88 years old, will have their cataracts removed by a cool beam laser (the Dodick Laser Photolysis System). These patients will set the stage for this advanced surgical procedure as it becomes more available and accessible to the public.

Dr. Bahadur is one of the first in the world to perform the laser cataract removal procedure using this system. The Sinskey Eye Institute has one of only two systems currently available in the United States. "Finally, after a decade of development, cataracts can be removed by a low energy, cool beam laser," stated Reinhardt Thyzel, chairman of the Board of **ARC Laser Corporation**, Germany, and manufacturer of the Dodick laser removal system. "The conventional techniques for the past thirty years use ultrasound, which requires a higher amount of energy. Unlike traditional ultrasound systems, lasers produce no heat making smaller incisions possible, which allows for potentially less surgical trauma, safer surgery and faster visual recovery," stated Dr. Bahadur.

7/28 **CIBA Vision**, the eye care unit of **Novartis**, announced that the European Commission had granted Marketing Authorization for Visudyne (verteporfin) for the treatment of wet age-related macular degeneration (AMD), the leading cause of blindness among people over the age of 50. Specifically, the Commission's decision is in line with the Committee of Proprietary Medicinal Products' (CPMP's) opinion to recommend Visudyne for the treatment of AMD in patients with predominantly classic subfoveal choroidal neovascularization (CNV) throughout the European Union. Medical experts estimate that of the 500,000 new patients that develop wet AMD every year around the world, 40-60% will develop predominantly classic lesions during the progression of their disease. Patients with this condition lose their ability to read, drive and recognize faces in as little as two months to three years. Currently, only 10-15% of the estimated 500,000 patients who develop wet AMD worldwide every year are eligible for existing treatments.

"Visudyne therapy is the first approved drug treatment for this devastating condition. Now with approval throughout the European Union, Visudyne will provide new hope to many of the approximately 200,000 patients in the European Union who lose their vision from wet AMD every year," said Luzi von Bidder, president of CIBA Vision's worldwide Ophthalmics Business Unit. "This much needed therapy will be available to eye care professionals and their patients across the European Union within the next few weeks."

With this approval, Visudyne is now approved in most of the markets in the Western Hemisphere. In addition to the EU countries, Visudyne is currently approved and commercially available in Argentina, Brazil, Canada, Malta, Switzerland and the United States. Regulatory applications are pending in Australia, New Zealand, South Africa, Mexico and India, among many others. While regulatory reviews are ongoing, Visudyne is currently being made available under various expanded access programs in more than 15 countries. "We are excited about this new approval for Visudyne," said Dr. Julia Levy,

president and CEO of **QLT**. "This is another major milestone in making Visudyne therapy available to improve the lives of so many people on a worldwide basis."

- 7/28 **VISX** announced that its Board of Directors adopted a Stockholder Rights Plan in which rights will be distributed as a dividend at the rate of one Right for each share of common stock, par value \$0.01 per share, of the company held by stockholders of record as of the close of business on August 7, 2000. In addition, the company announced that it had been notified that a company controlled by **Carl Icahn** had filed under the Hart-Scott-Rodino Act with respect to his intention to acquire company stock in an amount exceeding \$15 million, but less than 15% of the outstanding shares. Under the Stockholder Rights Plan adopted by the Board of Directors, each Right initially will entitle stockholders to buy one share of common stock of the company for \$150.00. The Rights generally will be exercisable only if a person or group acquires beneficial ownership of 10% or more of the company's common stock or commences a tender or exchange offer upon consummation of which such person or group would beneficially own 10% or more of the company's common stock.
- 7/31 **VISX's** stock jumped 4½ points in early trading, on the news that a **Carl Icahn** company had filed to acquire about 11% of the company on Friday.

#### **OPHTHALMIC LASER UPDATE -- August 2000**

- 7/31 More on the announcement about Carl Icahn's interests in **VISX**, reported as this newsletter was going to press last month. *The Wall Street Journal* reported that a company controlled by Carl C. Icahn, **Icahn Associates Corporation**, had filed notice of its intention to acquire a stake of less than 15% of in **VISX**, in a July 20th letter to the company. The company responded by calling a special board meeting to deal with the letter and adopted a shareholder rights plan, or poison pill, with a 10% trigger.

Rob Faulkner of **H&Q Chase** commented in a brief report that the announcement was a positive for the company's stock. He noted that it was interesting that the cash-flow-oriented investor would be investing at the current levels. "We do not expect Icahn to buy the company." He also noted that he was "reiterating that the key to our bullish view on **VISX** is that the providers are consolidating in terms of volume (due to price), and **VISX** has the high-volume centers and is therefore growing faster than the market despite losing share in lasers. Laser share does NOT tie directly to procedure share, at least during this provider transition."

- 7/31 **SurgiLight** announced financial results for the second quarter. Revenue for the quarter increased approximately 33% to \$1.0 million from \$761,000 for the first quarter of 2000, attributed to the growth of Eye Centers and system sales. For the quarter the company reported an operating income of \$84,000, excluding the facility depreciation of \$45,000. The net income (after the facility depreciation) for the quarter of 2000 was \$39,000 (0 cents per share) compared to a net loss of \$27,000 for the prior quarter of 2000, and net income of \$108,000 (1 cent per share) for the same quarter last year. The total revenue

for the second quarter was attributed to the company's two divisions: the Laser Eye Centers and the Technology division. In addition, the company also gained income from the Cosmetic Laser Centers.

During the quarter, the company added 2 new international Eye Laser Centers and one Cosmetic Mobile Laser Center in Venezuela. The company currently has a total of 23 Laser Eye Centers and Cosmetic Centers.

Revenues for the six-month period increased 23.8% to \$1.78 million from \$1.43 million for the same period of 1999. The company reported a six-month net income of \$12,000 (0 cents per share), compared to a net income of \$112,000 (1 cent per share) for the same period of 1999. The growth of revenues was attributed to the company's growth in system sales and procedure income from the Laser Centers.

8/1 **QLT Inc.** reported financial results for both the second quarter and first half of 2000. All amounts are in Canadian dollars. For the quarter, net income was \$14.2 million (21 cents per share) compared to a net loss of \$6.1 million (10 cents per share) for the same period in 1999 and a net loss of \$12.5 million (19 cents per share) for the first quarter of 2000. "Profitability in this quarter was the direct result of a one-time gain relating to the completion of the sale of PHOTOFRIN (porfimer sodium) product rights to **Axcan Pharma Inc. (Axcan)** during the second quarter," said Kenneth Galbraith, QLT's executive vice president and CFO. Excluding the effect of the gain on the sale of PHOTOFRIN product rights, the company would have reported a net loss of \$559,000 (1 cent per share) for the second quarter of 2000.

For the six months period, the company reported net income of \$1.7 million (2 cents per share) compared to a net loss of \$12.0 million (20 cent per share) in the same period in 1999. Galbraith further explained that, "Even excluding the effect of the one-time gain, the company's net loss was greatly reduced this quarter due to the company's share of profits from sales of Visudyne (verteporfin) for age-related macular degeneration (AMD). Global sales of Visudyne of approximately US\$25.5 million during the quarter significantly exceeded expectations due mainly to the stellar launch in the U.S. which commenced April 13, 2000. Strong sales performance in the second quarter in the U.S. clearly illustrates that AMD is a significant public health concern. Our co-development and marketing partner, **CIBA Vision**, the eye care unit of **Novartis**, executed an extremely effective launch immediately following approval to ensure that Visudyne was broadly available to the thousands of patients diagnosed each month in the U.S. with this devastating condition." Commercial Visudyne sales in the U.S. represented US\$19.5 million or approximately 76% of total Visudyne sales in the second quarter. The remaining US\$6 million or approximately 24% was the result of commercial sales in Switzerland and expanded access programs that were underway in over 25 countries during the second quarter.

QLT's revenue from the Visudyne business is a combination of a manufacturing reimbursement and 50% of the net profits computed by deducting marketing and manufacturing costs from Visudyne sales revenue.

*TheStreet.com* reported that "QLT Shares Surge as Investors Eye Strong Sales". Investors liked what they saw Tuesday from the eye-disease drug company. Sales surged to \$25.5 million in the second quarter, its first quarter since U.S. approval in April, with analysts forecasting sales of only \$16 million. The only negative was the risk that the treatment's high cost might keep doctors from adopting the treatment. "This is on track to be the best launch of any ophthalmic drug," said Daniella Evans, an analyst with **CIBC World Markets** who rates the stock a "strong buy". CIBC has raised money for QLT in the last year. AMD "is a very large unmet medical need and this is the first product shown to work in a very difficult condition." The treatment, which is QLT's only marketed product, is sold by Novartis' Ciba Vision unit, which pays royalties to QLT.

Investors say that while the risk of a one-product company is typically high, demand for Visudyne also seems to be high. The company last month won approval for the drug throughout Europe, a market as large as that in the U.S. And out of 20,000 or so treatments to date, company officials said there have been no unexpected side effects that could threaten the product. "They could be a one-trick pony, but for now they are also the only game in town," says Peter Wen, fund manager with **Warburg Pincus Health Sciences Fund**, which holds QLT and "has taken the entire roller-coaster ride," said Wen. Tuesday's numbers "prove the significant pent-up demand for the treatment. The AMD population is probably larger than publicly available studies." "The reimbursement issue was a huge one until recently, and I'm not sure it's been entirely cleared up," says Tim Bepler, fund manager with **Orbitex Health & Biotechnology Fund**, which doesn't now hold QLT.

8/2 The *American Academy of Ophthalmology* reported that the proposed 2001 Medicare Fee Schedule was a mixed bag for ophthalmology, including an unrealistic physician payment of \$50 for ocular photodynamic therapy (OPT). William Rich, MD, the Academy secretary for federal affairs, responded by meeting with HCFA staff the same day. This meeting led to an agreement with HCFA enabling the Academy immediately to collect survey data to document the physician work and realistic practice expenses involved in providing OPT. This data will ensure a more accurate reimbursement for this new code, starting January 1, 2001. The Academy's recommendations will be presented at the October AMA/Specialty Society RVS Update Committee (RUC) meeting and should result in a higher value appearing in the final fee schedule for 2001 payments, to be released in November. HCFA has agreed to forgo its usual drawn-out review process and immediately act on the RUC's recommendations.

The proposed 2001 Medicare Fee Schedule indicates that the predicted 6% increase in overall annual payments to ophthalmology will decline by 1%. Ophthalmology retains a 5% total increase in Medicare payments (approximately \$200 million annually) as a result of the implementation of resource-based practice expense (RBPE) relative value

units. This increase was due in part to updated data provided by the Academy over the past two years to recalculate the RBPEs. Conspicuously missing are the increases the Academy won earlier this year. "We are disappointed that this proposed fee schedule does not include our recommendations that were approved earlier this year by the PEAC," said Rich. "We are expecting to see higher practice expense payments for corneal transplants, cataract surgery and a number of office-based lid procedures, which HCFA has indicated will be in the final 2001 fee schedule. We had also hoped to see a proposed value for the new complicated cataract CPT code that we won earlier this year, but HCFA also is holding that for the final rule. This is the first time in several years that HCFA has not proposed any sweeping changes to the practice expense methodology, which has resulted in fewer decreases in physician payments."

8/1 A story entitled, "Laser Eye Surgery's Turf War" was published in today's *New York Times'* Science/Health section. It related the various price levels available in the greater New York City area for LASIK, ranging from \$500 per eye at Lasik Vision (a grand opening special), to \$2800 per eye by Dr. Joseph Dello Russo of the New Jersey Eye Institute. The article also addressed the subject of co-management. (Anyone wishing a copy of the complete article can contact me.)

8/2 **Lasik Vision** announced the signing of an agreement with **TruVision** and a major California health plan, **Health Net**, that will make laser vision correction more affordable and available to more than 2 million potential new patients in California. Lasik Vision will offer significant savings for laser vision correction to members of Health Net. TruVision, a provider of vision improvement discounts to health plans throughout the United States, will immediately start marketing Lasik Vision's services to Health Net members. "This is an exciting new strategic partnership for us," said Lindsay Atwood, president and CEO of TruVision. "Health Net members will be able to take advantage of the outstanding savings from Lasik Vision and benefit from the experience of Lasik Vision's highly skilled surgeons."

Commenting on the addition of Health Net, Lasik Vision president and CEO, Dr. Hugo Sutton, said, "We are very proud that through their relationship with TruVision, Health Net has chosen Lasik Vision. We look forward to offering Lasik Vision's high quality and affordable laser correction services to the members of Health Net. The addition of Health Net and the partnership with TruVision, reinforces our aggressive expansion and commitment to increase same clinic volume in the U.S."

8/2 **Eyesite.com** a subsidiary of **Rhino Enterprises Group, Inc.**, announced the opening in Dallas of the first of its **Eyesite Laser Centers**. The new Eyesite Laser Center is designed to provide a broad range of quality laser vision correction services to patients in the North Texas Region and to train surgeons in the most advanced laser vision correction techniques. Mark Wesly Suggs, MD serves as the lead physician for this center. Dr. Suggs was instrumental in the development of the new laser probe for Summit Technology and has performed thousands of procedures over the last ten years. "We at Eyesite are energized by the opening of our first Center," noted Sumner Rand, president

and CEO of Eyesite. "This is the first step in Phase I of our growth plan to place Eyesite Laser Centers in selected metropolitan areas throughout the United States."

- 8/3 **LCA-Vision** reported financial results for the second quarter. Laser vision correction revenues for the quarter were \$15.0 million compared with \$14.3 million in the same period last year, and \$18.2 million for the first quarter of 2000, the seasonally strongest quarter. Total revenues for the second quarter were \$15.1 million compared with \$14.7 million for the same period last year. Average price realization per procedure declined from \$1,452 in the first quarter of 2000 to \$1,080 in the second quarter. Despite this price decrease, contribution margin on a sequential quarter basis was up from 67.8% to 78.5%. Contribution margin is calculated by deducting medical, professional and license fees from laser refractive surgery revenues. Contribution margin in the second quarter was aided by lower per-procedure royalties on VISX lasers and by lower professional fees.

For the quarter, LCA-Vision reported a net loss of \$668,000 (1 cent per share), compared with net income of \$2.3 million (5 cents per share) in the second quarter of 1999. The net loss for the six month period was \$606,000 (1 cent per share), compared with net income of \$4 million (9 cents per share) in the comparable period last year. Laser vision correction revenues for the first half of 2000 were \$33.2 million, up 20% over \$27.8 million in the same period last year. Total revenues for the first half of 2000 were \$33.3 million compared with \$28.6 million for the same period in 1999.

"The second quarter began somewhat slowly with results impacted by intense competitive pricing in most markets we serve, increased marketing expenses and the up-front costs of opening four new LasikPlus centers," said Stephen Joffe, chairman and CEO. "However, as we moved through the spring, procedure volume accelerated, with June results the best in our history. We entered the current quarter with an impressive number of procedures scheduled in July as well as in August, and anticipate accelerating growth. We plan to open seven additional LasikPlus centers this year, including the August 7th opening of our 27th U.S. center. We are confident that patients served by these centers, along with our existing ones, will continue to embrace the LasikPlus program."

- 8/3 **ICON Laser Eye Centers** announced that it had signed a corporate care agreement with **Member Service Corporation (MSC)**, a leading provider of benefits and services to credit union members. Following recent corporate care initiatives by ICON, MSC credit union clients and members will be able to take advantage of preferred LASIK pricing at any ICON center located throughout its global network of 34 laser eye centers. Ghassan Barazi, COO of ICON stated, "ICON continues to attract leading membership and affiliation organizations with our recent corporate care initiatives. ICON looks forward to promoting the benefits of laser vision correction to all interested Member Service Corporation accounts. ICON realizes the growing importance of the corporate care sector, and we are very pleased to offer preferred LASIK pricing to top organizations involved with such programs."



8/4 **NIDEK** announced that it had received a notice of allowance from the United States Patent & Trademark Office, for a patent application relating to refractive correction of monogenic myopic astigmatism and compound astigmatism known as bi-toric ablation, developed by Dr. Chayet of Mexico. In contrast with the conventional methods of refraction correction in which the amount of ablation becomes large, Dr. Chayet has developed a technology to reduce the overall amount of ablation, for which a patent application was filed and the notice of allowance was issued. With the use of this technology, it is expected that the burden on the patient may be further alleviated, and that the refractive correction using the excimer laser would be much more easily conducted.

8/4 **Lasik Vision Corporation** announced it would grant incentive stock options to its officers, employees, directors and consultants to acquire up to 2.9 million common shares at an exercise price of \$1.00 per share under the terms of the company's amended and restated stock option plan. The options are subject to an 18 month vesting period and will be exercisable as to one third 4 months after the date of grant, a further one third 12 months after the date of grant and one third 18 months after the date of grant. The pricing and terms of these stock options are subject to regulatory acceptance.

The company also announced the signing of a consulting agreement with **Waterfront Communications Inc.** to provide corporate media and public relation services for a term of one year.

8/4 **Gimbel Vision** reported that during the second quarter of 2000, total refractive procedure volume for the company was 5,294, of which North American procedure volume was 4,872 representing a 3% decrease from the comparable period in 1999. Non-North American procedure volumes totaled 422 as compared to 322 in the prior year second quarter. Refractive procedure volumes for the six month period were 10,117 versus 9,530 in the same period last year. North American procedure volumes for the period and 1999 were 9,316 and 8,912 respectively. Procedure volumes from centres based outside North America were 801 and 618 for the respective six month period ended June 30, 2000 and 1999.

Consolidated revenues for the quarter were \$5.1 million, a decrease of \$754,403 from the prior year second quarter revenues. However, included in the prior year second quarter revenues was \$430,939 from Brazilian operations which were discontinued at the end of 1999. For the six month period, consolidated revenues were \$9.9 million as compared to \$10.7 million in 1999. Prior year revenues included \$885,989 from Brazilian operations.

Earnings before interest, taxes and depreciation and amortization for the 2000 and 1999 second quarters were \$636,201 and \$1.2 million respectively. Earnings before interest, taxes and depreciation and amortization for the six months of 2000 and 1999 were \$1.1 million and \$2 million respectively.

On a geographic basis, profits from Canadian operations were \$136,939 and \$292,553 for the respective 2000 second quarter and year to date period, and the company's United States market segment incurred losses amounting to \$114,555 and \$244,191 respectively. In the prior year's corresponding periods, the United States segment was marginally profitable. Procedure volumes performed at new centres in Houston, TX and Latham, NY are expected to continue to increase and have a positive impact on revenues during the year.

- 8/4 **ICON Laser Eye Centers, Inc.** announced that 7,990 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during the month of July 2000. That represented an approximate 361% growth rate compared with 1,733 LVC procedures performed in July 1999, but was down approximately 12.8% from 9,165 LVC procedures in June 2000. In ICON's monthly total, 3,084 LVC procedures can be attributed to ICON's joint venture partnership with **VisionAmerica Incorporated**

Of the centers where ICON and VSNA have currently rolled out ICON "Value LASIK" marketing programs, 9 of these centers reported attributable procedures in July 2000 since ICON only reports surgeries not consultations. Each year ICON expects that July and August will report down comparisons on a sequential basis versus second quarter results. On a year-to-year basis however overall procedures continue to show significant increases. In Europe in the month of July 2000, ICON performed 530 procedures on 13 excimer lasers down from 1,189 procedures in June 2000. ICON is the only LVC centers company with an extensive European commitment and many European countries traditionally have businesses close for vacation in either July or August. Overall Europe has experienced substantially slower LVC growth rates mainly as a result of stricter rules as they relate to the advertising of medical procedures. ICON will continue its European expansion in order to have a strong operating base when LVC procedures become as popular as the statistics indicate in North America.

Ghassan Barazi, COO of ICON stated, "ICON once again had a very strong month despite the drop in procedures from June 2000. The company was very pleased to see continued procedure growth in the centers it operates jointly with VisionAmerica. ICON's business has historically been affected by summer seasonality and July 2000 is no exception. ICON anticipates that this trend will continue during August 2000 as much of Europe enters its vacation season."

- 8/6 In a move that could possibly affect the newly listed reimbursement schedule for Visudyne treatment, *The New York Times* published a story about the administration's intent to cut payments for chemotherapy to save money for Medicare. According to the story, the Clinton administration is planning to cut payments for anticancer drugs administered to patients in doctors' offices. This could affect hundreds of thousands of older patients.

The move has provoked an outcry from patients, doctors, nurses and members of Congress, who say the cuts will make it financially impossible for many cancer

specialists to provide chemotherapy in their offices. Donna Shalala, secretary of Health and Human Services, says the cuts are justified because Medicare, the federal health insurance program for the elderly and disabled, is paying too much for the drugs -- far more than doctors pay for many of the medicines. Shalala said the government will reduce the "excessive Medicare payments" later this year, perhaps as early as Oct. 1, because federal investigators had obtained more accurate data showing what doctors actually paid for the drugs.

Doctors said they will send many of their Medicare patients to hospitals for treatment, inconveniencing patients while increasing costs to Medicare. Rep. Nita Lowey, of N.Y., said, "I am very concerned about the impact of these cuts on cancer patients. Many oncologists will find that it's financially impossible to provide chemotherapy services in their offices."

Doctors confirm that they receive more than they pay for some drugs, but say the extra payments are essential to cover chemotherapy costs for which they are not reimbursed by Medicare. The dispute illustrates the passions aroused when the fate of cancer patients gets mixed up in debates over drug prices and doctors' income. At least 120 members of Congress -- 69 Republicans and 51 Democrats -- have signed letters to Shalala expressing alarm about the administration's plans. Many said the administration appeared to be acting unilaterally, without soliciting public comment, as agencies usually do before making major changes in federal regulations.

Dr. Joseph Bailes, former president of the American Society of Clinical Oncology, which represents 15,000 cancer specialists, urged the White House to "reconsider and rescind these cuts." He estimated that 750,000 Medicare beneficiaries receive chemotherapy in doctors' offices each year. Most have cancer of the breast, colon or lung.

Chris Jennings, the health policy coordinator at the White House, said he was not surprised at the criticism from cancer specialists, because they derive substantial amounts of income from Medicare's payments for drugs. He said the White House had asked Medicare officials to assess whether the cuts would harm access to care or the quality of care. "Patients should not be hurt in any way, but taxpayers should get a fair deal," Jennings said last week. "The current reimbursement policy is unsustainable. It's appropriate to reimburse doctors for the cost of the drugs they purchase, but they should not be allowed to mark up the price by 20%, 70% or 700%, as they do now in some cases."

A 1997 study by the Department of Health and Human Services said that Medicare payments for 22 drugs, including many cancer drugs, exceeded the actual wholesale prices by 29%, or \$447 million, in 1996. For eight of the 22 drugs, it said, Medicare paid more than twice the wholesale price. In the last decade, most cancer chemotherapy has shifted from hospitals to doctors' offices. Doctors say the cuts in Medicare payments would reverse that trend. Medicare's policy is important for two reasons. At least half of all patients receiving chemotherapy in the United States are on Medicare, cancer experts

said. Private insurers, which cover other patients, often follow the government's example and could be expected to lower their reimbursement rates as well.

8/7 **Refractec, Inc.** announced that it had received additional funding from **Delphi Ventures Inc.**, to compete in the estimated \$150 billion vision correction market. "Our alliance with Refractec brings tremendous value to our varied and expanding portfolio of leading edge medical technology partners specializing in very useful and creative applications for RF technology," said Doug Roeder, Venture Partner at Delphi Ventures. "There are enormous benefits to Refractec's application for RF technology both from the perspectives of vision restoration, and as a tremendous investment opportunity."

8/7 According to the company's executive committee, eleven months after its debut on the Neuer Markt, **WaveLight Laser Technologie AG** has established an overwhelmingly positive performance record in its core business areas. The medical technology company has made important entrepreneurial decisions affecting its position in the ophthalmology and dermatology sectors, decisions that will lastingly strengthen the company's sales and contribute to its overall growth.

The company has used the past several months to carefully lay the groundwork for global expansion, and is now well on its way to becoming a global player in the area of medical laser applications, with special strength in the growth area of refractive surgery. Beyond the exceptional quality of its products, one telling example of the company's promise in this area is its vigorous approach to gaining access to the U.S. market. A full six months ahead of schedule, WaveLight initiated FDA approval procedures in the United States for its ALLEGRETTO laser system. A total of five laser systems are currently installed in reputable U.S. hospital clinics, and the first surgical procedures on patients have already been successfully carried out. At the conclusion of the FDA approval procedures in the year 2001, WaveLight will have gained access to the enormous and still expanding U.S. sales market for refractive surgery equipment, offering tremendous sales potential for its ALLEGRETTO laser system.

Since the beginning of this year, WaveLight has taken resolute action on its company policy of acquiring interests in leading laser centers and clinics. In May, WaveLight acquired a 49% interest in **Realeyes AG**, a company that operates an eye laser clinic in Germany and will soon open others throughout Germany and in other German-speaking countries. The focus of these clinics is on refractive surgery. WaveLight followed up on this move in July by acquiring a 5% interest in **VisuMed AG**, a company that currently operates four laser centers in Germany with a focus on refractive surgery. With a market share of 10%, VisuMed is Germany's market leader in refractive surgery. VisuMed's above-average growth means increased sales of WaveLight's state-of-the-art devices (in particular, the ALLEGRETTO) as the company seeks to keep its laser centers sufficiently equipped.

In addition to increasing sales, the acquired interests in Realeyes and VisuMed also serve the separate important purpose of offering WaveLight an established and continuous

forum for the exchange of ideas with practicing ophthalmologists. This feedback will help WaveLight to reinforce its product leadership in the area of refractive surgery.

WaveLight regards the distribution contract it signed in June with the **Coherent Medical Group** of Santa Clara, California as an important step towards growth on a global scale. According to the agreement, Coherent is to assume exclusive world-wide sales rights for a period of five years for the sale of WaveLight's ALLEGRETTO eye laser system to ophthalmologists, ophthalmology clinics and laser centers for refractive surgery. The distribution agreement guarantees a sales volume of more than E20 million in the next three years. In joining forces with the Coherent Medical Group, WaveLight has gained a major player for the expansion of its sales networks. The U.S. company belongs among the world's leading laser manufacturers and has an established global sales and service network. With this distribution agreement, WaveLight has taken an enormous step towards its aim of becoming the world's leading provider of laser systems in the medical field of ophthalmology. The sales revenues specified in the agreement with Coherent do not take into consideration the sales increases WaveLight will target on the U.S.-American market upon the successful conclusion of the FDA market-approval procedures.

On the basis of having successfully implemented its business strategy, WaveLight Laser Technologie AG's executive committee is confident that WaveLight stocks have considerable potential to rise in value. "In the future, we will bring our company's concept and our growth prospects on the market for high-tech medical products into even sharper relief," said Max Reindl, WaveLight's chief executive. "Stocks in medical technology companies on the Neuer Markt are still somewhat overshadowed by the investment mystique associated with the stocks of the biotech companies. But we are not in the business of selling mystique. Rather, our laser equipment is successfully deployed on a daily basis and around the world for the benefit of patients."

- 8/8 **QLT Inc.** and **Ciba Vision** announced that the Minister of Health of Quebec, Pauline Marois, had approved a recommendation by the Conseil consultatif de pharmacologie to include Visudyne (verteporfin for injection) on the list of drugs reimbursed by the government. The listing of Visudyne in Quebec received priority review by the members of the Conseil consultatif de pharmacologie. Quebec is the first province to approve the reimbursement of Visudyne. The Ministry of Health listed the product for use both in and outside of a hospital setting. The product is now listed under the exception drug section of the formulary reflecting the specific mode of action of this innovative light-activated treatment. "This decision reflects the true breakthrough nature of this product. Until now, there was little physicians could do to save the vision of people affected by this disease," said John Snisarenko, vice-president, Sales and Marketing, **CIBA Vision Canada Inc.**
- 8/8 **Prime Medical Services** announced its financial results for the second quarter. Revenues increased by 17% to a record \$33.4 million from \$28.6 million for the comparable year ago period. Net income before nonrecurring items was \$3.5 million (22 cents per share) for the quarter compared to \$3.6 million (21 cents per share) a year earlier. Ken Shifrin,

chairman, stated, "Prime's significant revenue and cash flow growth in the second quarter is a direct result of our stated goal to grow the company through acquisitions and development in refractive vision correction (RVC). Our RVC development program was initiated during the second quarter, resulting in development costs that partially offset the profit contribution made by our new refractive centers. We remain on target to meet our stated goal of growing the refractive division to a size equal that of our urology division."

Prime currently operates a fleet of 65 lithotripters and 10 refractive surgery centers in 32 states.

- 8/8 **Nidek** of Japan announced that it had filed a suit before the Tokyo District Court against **VISX Japan** and **JFC Sales Plan, Inc.** for infringement of its Japanese Patent No. 2,809,959 (Ablation device using laser beam and method thereof), seeking prohibition of infringement and damages. The subject of the suit is a system using an excimer laser to correct refraction to the cornea, manufactured by VISX, and the three defendant companies that import and sell them, or support them in Japan. VISX of the USA was excluded from the list of defendants in the litigation, so that a quick declaratory judgment could be obtained.

VISX earlier had filed patent infringement suits against NIDEK in Canada, England, France and the United States, but NIDEK had prevailed in England and Canada, as well as at the United States International Trade Commission (ITC). NIDEK has filed a suit, now pending in the Federal District Court in Northern District of State of California, for violation of Anti-trust laws, and for declarations that the VISX patents are not infringed and are unenforceable. That suit is currently pending.

- 8/9 **Sunrise Technologies International** announced financial results for the second quarter. Revenues for the three- and six-month periods were \$424,000 and \$442,000 respectively, compared to \$3,000 and \$16,000, respectively, for the same periods in 1999. This represents an increase of \$421,000 in revenues for the three-months and \$426,000 for the six-months ended June 30, 2000 as compared with 1999. The increase in revenue was due to the sale of two HYPERION LTK System units to clinical investigators during the second quarter of 2000. Operating expenses for the three-months and six-month periods ended June 30, 2000 were \$9,926,000 and \$14,957,000, respectively, compared to \$4,106,000 and \$9,274,000, respectively for the same periods in 1999. This represents an increase of \$5,820,000 in operating expenses for the three-month and \$5,683,000 for the six-month periods ended June 30, 2000 as compared with 1999. The increase was due to the ramp-up of sales and marketing expenses and other related infrastructure expenses to support the HYPERION LTK System product launch, as well as significant increases in non-cash, general and administrative expenses resulting from the issuance of warrants and non-qualified stock options.

Net losses for the three- and six-month periods were \$11.9 million (25 cents per share), and \$27.9 million (60 cents per share), respectively as compared with \$5.8 million (14

cents per share), and \$14.3 million (34 cents per share), respectively, for the same periods in 1999. Approximately \$5.2 million (11 cents per share), or 44% and \$15.5 million (33 cents per share), or 56% of the net loss for the three- and six- months, respectively, were attributable to non-cash expenses of which \$908,000 and \$11.2 million were associated with the financing costs for the January 2000 and January 1999 financings and \$4.3 million and \$4.4 million were associated with the issuance of warrants and non-qualified stock options. For the same three- and six-month periods of 1999, \$3.9 million, or 67% and \$5.6 million, or 39% of the net loss were attributable to non-cash expenses.

"We are most pleased with having reached a significant turning point for the company and our shareholders with the FDA approval on June 30, 2000, permitting the U.S. market launch of our HYPERION LTK System," said Russell Trenary, president and CEO. "We now look forward to offering to the marketplace a safe and effective alternative for the temporary treatment of hyperopia and we will be working hard over the coming months to install the LTK equipment in the many ophthalmologists' practices that have expressed an interest to be the first among their colleagues to have access to this breakthrough technology."

The company also provided a status report on orders for its HYPERION LTK System since the FDA approved the technology on June 30, 2000. "As of today, there are already 31 orders, at approximately \$200,000 each, which is on pace to be one of the largest launches in the history of ophthalmology. Even though we are only one month into our launch, we are already closing orders at a rate of more than one HYPERION LTK System per business day," said Trenary. "Practically all of our first customers are established Lasik surgeons who see this as a complementary technology to their excimer laser; the excimer used to treat their nearsighted patients and the Sunrise LTK Procedure to treat the large and relatively untapped farsighted market."

David Gruber of **Lehman Brothers** issued an update report following the release of second quarter financials. In it he concluded: "The launch of the Hyperion has exceeded estimates. We expect a rapid ramp 2H00E, break even 4Q00, with over 300% top line growth in 2001E to \$80.7 million and EPS of \$0.18. Value will be realized as units are shipped and public demand for "no touch" laser correction is demonstrated over the next 2 quarters." Gruber also raised his estimates for total units to be sold by the company this year from 105 to 115, with the placements acting as forward indicators of greater procedure royalty growth for 2001. He noted: "Today the company announced the completed contracts for the sale of 31 units, installed at a rate of 1 unit per day, slightly exceeding our early ramp estimate. Lehman had predicted the manufacture and sale of 105 Hyperion units at approximately \$200k per unit for CY 00 based on a June launch (delayed to mid-July due to a late June FDA approval) which management believes is conservative. We agree that unit sales will be slightly greater than anticipated (115 units) in 2H00E. Although increased costs will not yield incremental earnings for 3Q and 4Q this year, the greater placement of units will act as a forward indicator of greater procedure royalty growth for 2001E. To contrast this to early LASIK days, in 1997 the demand for excimer lasers was such that only 87 excimer units (**VISX & Summit**

combined) were placed in the U.S. The following year, laser vision correction grew by nearly 50% to 400k procedures.

8/9 **Paradigm Medical Industries** announced it had retained **Auditrial Clinical Research Consulting** to perform an independent audit of the thirteen sites involved in the clinical investigation of Paradigm's Photon Laser. Their focus will be to substantiate the clinical data by comparing it to the source data. Once the audit is complete, Auditrial will prepare and submit a summary report including a statistical analysis of the data collected over the past two and a half years to the FDA. "We are confident that the addition of Auditrial to the Paradigm Medical team will facilitate the approval of the Photon Laser," concluded Tracy Best, Director of Regulatory Affairs.

8/10 **LASER VISION CENTERS** announced that its U.S. case volume for its fiscal first quarter ended July 31, 2000 was 31,361 compared to 22,349 for the same period a year ago, a 40% year-to-year increase and a 7% sequential increase. Worldwide case volume was 32,267 for the quarter compared to 23,300 a year ago. As of July 31st, LaserVision had 87 lasers in operation in the U.S. and a total of 91 worldwide. More than 695 surgeons accessed LaserVision's services at 308 sites in 46 states during the quarter.

8/10 In response to concerns by the Federal Trade Commission about unrealistic expectations among consumers, the *American Academy of Ophthalmology*, has joined with the FTC to produce *Basic Lasik: Tips on Lasik Eye Surgery*. Designed to give consumers balanced, accurate information on Lasik, the brochure covers: facts about Lasik; refractive errors; the factors doctors look for to determine if someone is a good candidate for the procedure; how to find a surgeon; risks and possible complications; what to expect before, during, and after surgery; and alternatives to Lasik.

For copies of the brochure, visit the Academy's Web site at **www.eyenet.org** or the FTC's Web site at **www.ftc.gov**, or write to the FTC's Consumer Response Center, Room 130, 600 Pennsylvania Avenue, NW, Washington D.C. 20580, or call FTC HELP at their toll-free number, 1-877-382-4357.

8/10 This month's *Refractive Market Perspectives* contains two interesting articles: the first notes that second quarter refractive procedures increased by about 15% over the preceding quarter; while the second tracks the number of excimer lasers, by manufacturer, around the world. According to **Market Scopes'** David Harmon, there were 361,300 U.S. refractive procedures performed during the second quarter (including about 15,000 done on Americans in Canada), up from about 314,000 done in the first quarter. According to David, historically, growth rates have been lower during the third and fourth quarters of the year, and he expects this trend to continue this year, with growth rates of 10% and 13% respectively. Thus, his estimate for the year is 1.525 million procedures, for an overall growth rate of just over 61% compared to last year. (Ever being the optimist that I am, I'll stick with my forecast of 1.65 million procedures, at least until I see whether Dave's predictions hold for the third quarter.)



As for the number of installed worldwide lasers, David now believes that as of June 30th, there was an installed base of 3533 laser systems; of which 1117 were operating in the United States. The U.S. leader continues to be **VISX** with a 54% share, while **Alcon's** combined share (**Summit** and **Autonomous**) now stands at 34%. Internationally, Harmon gives the edge to **Bausch & Lomb** with a 20% share, just edging out VISX at 18%. Others with significant international shares include: **Nidek** at 16%; **Asclepion-Meditec** at 15%; **LaserSight** at 14%; and Alcon at 9%. Worldwide, VISX retains the lead with a 29% share, followed by Alcon at 16%; Bausch & Lomb and Nidek at 14%; and LaserSight at 10%. (For more details, contact Market Scope at 314-835-0600, or by email at: [info@mktsc.com](mailto:info@mktsc.com).)

- 8/10 **STAAR Surgical** announced second quarter results, reporting net sales of \$12.8 million and a net loss \$0.02 per share, excluding the pre-announced, one-time restructuring charge. These results compare to net sales of \$14.8 million and \$0.05 per share in the same period last year. "These results are in-line with the range of guidance we provided earlier," said Andrew Pollet, chairman. "What was better than many expected was our gross margin, which increased sequentially -- when you exclude the one-time charges from our reported cost of sales -- for the second quarter in a row."

Consistent with the pre-announcement, the one-time pre-tax restructuring charge was \$24.0 million (\$1.62 per share), comprised of \$9.0 million in impaired assets, \$10.0 million in discontinued operations, and \$5.0 million in other reorganization expenses. "When you take into account the effect of future tax benefits," stated John Santos, CFO, "the net, after-tax charge was only \$18.2 million, or \$1.23 per share." "As we indicated would be the case when we announced the reorganization," continued Pollet, "second quarter results represent the inflection point of the company's performance. Sales of our new, higher-margin products continue to ramp-up as the third quarter progresses. During the last full week of July, Collamer IOL sales were over \$85,000, while Toric IOL sales reached nearly \$55,000. As we pull out of the summer vacation period, we are seeing sales continue to strengthen even further and are comfortable with the consensus EPS estimate of \$0.04 for the third quarter. There is no doubt that the company has already turned the corner. Our activities and accomplishments over the past four months alone make this the most productive and important period in the company's history."

- 8/11 **VISX** announced that it had filed an application to list its shares of on the New York Stock Exchange (NYSE). Beginning September 7, 2000, VISX expects to begin trading on the NYSE under the symbol "EYE." The company's shares will continue to trade on the Nasdaq Stock Market until that time. "The NYSE is the largest and most prestigious equities market in the world and we are delighted to be part of it," said Mark Logan, chairman and CEO. "We believe our association with the NYSE is in the best interests of our stockholders and will help increase liquidity and reduce the trading volatility of VISX stock. The NYSE's global focus should also widen our potential investor base by improving our visibility both in international markets and on Wall Street."

8/14 **CIBA Vision** and **QLT Inc.** announced the filing of a supplemental new drug application (sNDA) for Visudyne (verteporfin for injection) therapy with the FDA for the treatment of eye diseases beyond age-related macular degeneration (AMD). Visudyne has already been approved for commercial use in AMD patients with predominantly classic choroidal neovascularization (CNV) in 22 countries, including the U.S., Canada, European Union, and Australia. CNV is a growth of abnormal blood vessels under the central part of the retina, or macula. These vessels leak fluid and cause scar tissue that destroys central vision, resulting in a deterioration of sight.

QLT and CIBA Vision seek to expand the initial indication to include patients with other ocular conditions characterized by CNV. These other diseases include pathologic myopia (PM), ocular histoplasmosis syndrome (OHS), angioid streaks, CNV due to certain retinal abnormalities, and idiopathic causes, among others.

The specific expanded label requested is for the treatment of patients with predominantly classic subfoveal choroidal neovascularization (CNV) caused by AMD, or with subfoveal CNV secondary to other macular diseases. This supplemental filing is based primarily on new safety and efficacy findings that were presented at the *Association for Research in Vision and Ophthalmology* meeting in May 2000 and recently submitted for publication in a leading peer-reviewed ophthalmology journal. The companies have requested a priority review from the FDA within a six-month period as there is no current satisfactory treatment for the majority of patients with these conditions. A similar request for expanded labeling will be made in the European Union by the end of 2000. "As global acceptance of Visudyne continues to grow with new countries granting marketing clearance, it is exciting to expand the use of this therapy to provide hope for patients faced with the threat of losing their sight due to other ocular diseases," said Luzi von Bidder, president of CIBA Vision's worldwide Ophthalmics Business Unit. "In our fight against blindness," said Dr. Julia Levy, president and CEO of QLT, "the prospect of saving the vision of patients developing these other conditions, often in the prime of their careers and the midst of raising their families, is significant particularly when existing treatment options are limited or non-existent."

CNV due to pathologic myopia is caused by abnormal blood vessels that grow under the center of the retina as a result of an abnormal elongation of the back of the eye associated with severe near-sightedness. It generally occurs among people over 30 years of age and can result in a progressive loss of vision for which there is no approved treatment for the majority of patients. The worldwide incidence of CNV due to pathologic myopia is estimated to be 50,000 new cases per year, excluding Asia where the incidence may be even greater due to a higher prevalence of pathologic myopia.

OHS is a condition caused by a fungal infection of the retinal area endemic to certain areas in the central and eastern United States. It can lead to severe, irreversible vision loss and is a leading cause of blindness in adults who have lived in the geographic areas where the soil mold *Histoplasma capsulatum* is found. The condition is caused by inhaling the fungus from soil or other areas that have been contaminated by the droppings

of birds or bats. Annually, there are an estimated 100,000 people who are at risk for vision loss within this endemic area.

Visudyne therapy has been shown to be safe and efficacious in predominantly classic subfoveal CNV secondary to AMD and subfoveal CNV in PM. Additionally, the initial effect on visual function in ocular histoplasmosis appears consistent with findings in pathologic myopia. Based on these findings, the supplemental NDA seeks approval of Visudyne therapy for PM, OHS and a variety of other diseases characterized by CNV, in particular those in which the lesions are typically predominantly classic, even though the etiology of the formation of CNV is different for each disease, such as multifocal choroiditis, angioid streaks, certain retinal abnormalities, idiopathic or unknown causes, and many other rare conditions. Together these conditions, along with AMD, PM and OHS, comprise virtually 100% of all subfoveal CNV cases.

8/14 **Presby Corp** announced that its parent company, **RAS Holding Corp**, had completed three separate stock offerings totaling \$8 million. In April, the company sold \$2 million of Series B Preferred Stock as a result of the exercise of warrants held by its early stage venture investors. In May, the company completed a \$4 million private placement of common stock to accredited investors at a price of \$12 per share. The company subsequently declared a 2.1 for 1 stock split. In June, the company sold \$2 million of Series C Preferred Stock to a major private accredited investor. The investor holds warrants to purchase additional Series C shares.

8/14 **ProLaser Medical Systems Inc.**, a subsidiary of **Pro-Laser Ltd.**, announced that it had entered into a Strategic Alliance with the French laser vision correction provider **HAUTE TECHNOLOGY MULTISITES - HTM**, a division of **Medicare**, to grant access for the **RODENSTOCK** DTK refractive laser to over 300 Refractive Surgery ophthalmologists in 35 cities throughout France. ProLaser and HTM intend to build initially two DTK sites, under an agreement that potentially widens the number of installations in France to over 10.

Jean-Paul Caumon, director of HTM, said, "We are very impressed with the DTK's ability to treat Hyperopia, Astigmatism and in the future possibly Presbyopia, and are excited to be able to offer this additional treatment to our customers." Patrick James Green, vice president Sales & Marketing for ProLaser, said, "This is a fantastic opportunity for us to work with the premier LASIK/PRK provider in France, to present DTK in harmony with Excimer lasers and not in competition with them. The two French installations will add to a number of installations of the DTK laser in Brasil, Australia, New Zealand, England and Israel which were finalized recently."

The HTM/Medicare group was created in 1994 and have treated thousands of patients using 5 mobile Summit Excimer lasers. The group has a specialist subsidiary, **HTMC**, that owns and runs a network of websites designed by ophthalmologists for ophthalmologists, and publishes a monthly Refractive Surgery journal to their member ophthalmologists.

8/14 **LaserSight** announced results for the three months and six months ended June 30, 2000. Revenues for the second quarter increased approximately 118% to a record \$11.5 million from \$5.3 million in the second quarter of 1999. Compared to the first quarter of 2000, revenues increased approximately 32% from \$8.7 million. Revenues for the six months increased approximately 99% to \$20.2 million from \$10.2 million in the comparable period of 1999.

For the quarter, the company reported a net loss of \$2.1 million (10 cents per share), compared to a net loss of \$3.5 million (21 cents per share), reported for the second quarter of 1999. The net loss for the second quarter of 2000 also compares favorably to the net loss of \$2.8 million (14 cents per share), reported in the first quarter of 2000. The net loss for the six month period was \$4.9 million (25 cents per share), compared to a net loss of \$6.8 million (46 cents per share) reported for the six months period in 1999. This continued improvement in revenue resulted from increased sales of the company's LaserScan LSX excimer laser system. During the second quarter, the company sold a total of 30 LSX systems including 17 systems into the U.S. market, an increase of 58% over the previous quarter and 88% over sales in the comparable period in 1999. During the previous quarter, the company sold a total of 19 LSX systems, with 6 of those systems sold in the U.S. The company's sales of laser systems for the six month period were 49, an increase of approximately 48% from the 33 systems sold in the comparable period of 1999.

"Interest in the LaserScan LSX state-of-the-art precision beam scanning laser system remained high through the second quarter as represented by the dramatic increase in U.S. sales. The second quarter was the first full quarter we were able to offer the LSX for sale in the U.S. and we are pleased with the high level of interest and acceptance of the LSX by individual physicians, academic medical centers and corporate providers. We were pleased to add **Laser Vision Centers, Inc.**, one of the leading providers of excimer lasers and related equipment for refractive surgery, to our family of customers," commented Michael Farris, president and CEO.

During the second quarter LaserSight commenced the establishment of Regional Reference Centers with leading ophthalmologists in community-based practices, corporate centers and academic medical centers in the U.S. The company has delivered laser systems to six sites that are interested in participating in the Reference Center program. These Reference Centers will be providing regional leadership, participating in various clinical studies and presenting clinical results at industry meetings. The company's goal is to establish 30 Reference Centers across the U.S. by the end of this year.

Farris continued, "In order to continue expanding our market share we must provide timely, top quality service and support for the LSX. Currently the company has targeted ten locations within the U.S. for placing regional-based support personnel and has already staffed seven of those areas with full time Field Service Engineers. In Europe, the company has established the headquarters for its European Operation in Munich,

Germany and has staffed the organization with sales and service personnel. As the company continues to expand its installed base of laser systems, these critical areas for customer support will likewise be expanded. While we are pleased with the revenue levels that have been achieved from sales of the LSX, we continue to experience delays in the commercial launch of the company's UltraShaper durable keratome."

Sales of the company's MicroShape keratome products fell short of the company's expectations for the second quarter of 2000. The company's MicroShape product strategy has been to provide the refractive surgeon with a full complement of keratome products centering around the UltraShaper durable keratome, supported by the UniShaper single-use keratome and UltraEdge keratome blades. Delays experienced in the commercial launch of the durable keratome impacted second quarter sales of the MicroShape product line. The company has implemented design modifications to the UltraShaper, and it is currently undergoing further series of clinical testing to validate these modifications. Mr. Farris reported that, "LaserSight remains committed to not only matching, but to advancing keratome technology and will not commercially ship its durable keratome until it can satisfy this commitment."

"The company's near term results may have been affected by the fact that the LSX has not yet been approved by the FDA to treat astigmatism. Some potential purchasers of the LSX have indicated they will delay their purchase decision until the astigmatism approval is received. This could have the result of delaying sales into a future quarter. LaserSight originally anticipated that the LSX would be approved by the FDA to treat astigmatism by the end of June 2000. In connection with the FDA's review of this PMA supplement the FDA posed questions that have been answered and requested information that has been submitted. Since the company has supplied the FDA with all information the agency requested we are in the position to merely await the astigmatism approval. It is not possible to know precisely when the FDA's approval will be received, however, we believe the approval could come yet this quarter. We are taking the necessary steps to ensure a timely commercial launch of this software upgrade upon receipt of the approval."

The company has spoken with the FDA regarding its submission requesting that the LSX be approved to operate at a 200 Hz laser pulse repetition rate. Final FDA approval is anticipated by the end of this month. Currently the LSX is approved to operate at a 100 Hz repetition rate, which is faster than any other excimer laser approved for use in the U.S. The company plans to submit the PMA supplement for its state of the art Eye Tracker technology after receiving approval for the 200 Hz upgrade. In that regard, the company expects to submit the Eye Tracker PMA supplement by the end of this month and anticipates approval will come late this quarter or early in the fourth quarter. LaserSight has completed treatment on all patients in its clinical trials for the expanded indications utilizing LASIK to treat myopic astigmatism, hyperopic astigmatism and mixed astigmatism. We are currently validating the data and the submission for these LASIK indications will be sent to the FDA this quarter. FDA approval is anticipated during the first quarter of 2001.

Progress on LaserSight's CustomEyes custom ablation products continues with clinical research for its AstraPro custom ablation planning software to be expanded in the international market during the third quarter. Jack Holladay, MD, of **International Eye Care**, Houston, Texas and medical director of LaserSight commented, "The LSX should be the surgeons choice since it is uniquely qualified to perform custom ablations with the highest laser repetition rate, one of the smallest laser spots and a scanning laser system that incorporates active eye tracking. I have been preaching prolate corneas for almost 5 years and in late March we actually began performing custom ablation procedures on patients with the LaserSight LSX in Monterrey, Mexico with Jesus Vidaurri, MD. We have treated three groups of patients, the second group in May and the third in July. We have now treated 20 eyes. The first group was made more prolate than the standard treatment and the second group was made prolate to match their preoperative value. In the third group, we matched their preoperative prolate cornea and used their height data from a corneal topographer to eliminate the asymmetric bowties in the corneas. We were extremely delighted with the results of those patients in the final group with irregular astigmatism because all patients had a significant improvement in their uncorrected and best spectacle corrected visual acuity. We also achieved much larger effective optical zones than with the standard treatment. In the fourth quarter of this year we hope to open four international sites to further evaluate the custom prolate ablation technique and begin an IDE in Houston to use as a LaserSight training center and site for custom ablation."

The company intends to debut its Astra diagnostic products at the *American Academy of Ophthalmology* Meeting in Dallas during October of this year. Farris continued, "LaserSight intends to make a timely entry into the market with the proper combination of laser system, custom ablation planning software, and the diagnostic tools needed to meet the projected demand for this next phase of refractive technology. Our goal is simple and straightforward. We intend to reach profitability by ramping up production to meet demand, providing world class service and support and continuing the tradition of innovation and leadership in product advancements."

During the Q&A session following the company's presentation in the accompanying teleconference with analysts, Farris noted that the ASPs for the laser system were holding quite well at between \$400,000 to \$425,000 in the U.S., and in the \$275,000 to \$300,000 range internationally. Also, since most of the U.S. systems sales were to high volume surgeons, the per procedure royalty rate was in the mid-range of the sliding scale of \$130 down to \$100, based on volumes. When questioned about the **WaveLight/Coherent** marketing deal, he commented on the fact that WaveLight had not yet been licensed to the IBM/Blum patent, which is basic to UV treatment of human tissue, and that they would be taking a close look at WaveLight as they progressed through U.S. clinical trials. He further noted that their basic scanning patent ("the JT Lin patent") was in the process of being re-issued shortly, and when it is re-issued, their attorneys will decide on a course of action on any companies that might be infringing its claims. As for the **VISX** litigation, it remains in discovery, and working its way through the legal system.

Al Kildani of **Pacific Growth Equities** issued a brief report following the release of LaserSight's financial data. In it he noted that:

- LaserSight's Q2:00 results exceeded our estimates on stronger than expected U.S. laser shipments. Total revenues of \$11.5 million were effectively in line with our estimate, however reported EPS of (\$0.10) exceeded our estimate of (\$0.14) due to better gross margins (63% vs. 58%).
- 17 lasers were shipped to U.S. customers despite the lack of an astigmatism label. Notably, this effort matched that of a larger competitor with significantly greater financial and marketing resources, Bausch & Lomb (BOL:NYSE). Strong demand for the LSX appears to have continued into the current quarter.
- LaserSight has not yet received approval for astigmatism from the FDA. Although U.S. interest in the LSX remains strong, some portion of Q3:00 demand is contingent on astigmatism approval and therefore some laser sales may be pushed out past Q3:00. We believe FDA approval for astigmatism will be granted by early Q4:00.
- Commercial launch of the UltraShaper durable keratome continues to experience delays as LaserSight works to minimize risk of complications. We believe the durable keratome could be launched in Q4:00.
- We have adjusted our estimates to reflect the delays in astigmatism approval and UltraShaper launch as well as higher expenses associated with infrastructure build-out to support a growing U.S. installed base.
- We believe LaserSight remains a very attractive investment at current levels and reiterate our *Strong Buy* with a revised YE:00 price target of \$14 based on 35x estimated FY:01 EPS of \$0.41.

8/15 Carol Werther and Felicia Reed of **Adams, Harkness & Hill** issued a report following **QLT's** analyst meeting held on August 14th in Seattle. They noted:

QLT filed for the approval of Visudyne for pathologic myopia (about 50,000 patients in the U.S.) and ocular histoplasmosis (about 100,000 patients in the U.S.) yesterday; a filing for these indications in Europe is expected in Q4:00. The Company has requested a priority review and is seeking a broad label that states "treatment of patients with predominantly classic subfoveal CNV caused by AMD, or with subfoveal CNV secondary to other macular diseases." These indications are included in our model.

To further expand the Visudyne label, QLT will begin a Phase II/III trial in occult only lesions that will include modified inclusion criteria and a modified treatment regimen in Q4:00 (recall that 12-month data from the VIP trial showed no statistically significant benefit for Visudyne in the occult only population, however the 24-month data may reach statistical significance). In addition, QLT will begin Phase II/III trials in Q1:01 to test whether earlier retreatment can improve outcomes in classic lesions. Visudyne also has potential in the 500,000 cases of diabetic macular edema; a preclinical proof-of-concept trial is expected to begin in Q4:00. Finally, trials testing Visudyne with an anti-angiogenic agent could begin in 2001.

After reporting strong sales of \$25.5 million for Q2:00 (\$19.5 million in the U.S. and \$6.0 million in the rest of the world) on August 1, QLT did not raise guidance for 2000 because it believes that growth may be slower in Q3 due to seasonality (the company does expect a strong Q4). However, we got the sense at the analyst meeting that patient demand has not slowed in the summer months and that an influx of patients coming back for retreatment could offset any impact of seasonality. QLT remains comfortable with worldwide sales of \$95-100 million for 2000. We note that Novartis reports its Q3:00 results the week of October 17, we are looking for \$29 million (\$22 million US and \$7 million ROW) in Visudyne sales. Our Q4 estimate is \$35.5 million (\$26.5 million US and \$9 million ROW), and F00 is \$94 million.

As was stated on the August 1 conference call, approximately 500 lasers have been placed in the U.S., a number that almost saturates the 1,300 retinal specialists in the country. At the analyst meeting, the company stated that about 1,100 physicians have completed training and that 110 in-service visits have been executed. The daily range of treatments at a practice in New York is 5-14 and the average number of treatments per week is 35-40. In addition, the "Visudyne Hotline" is averaging about 350 calls per week, supported by an aggressive direct-to-consumer (DTC) advertising campaign which will be further expanded this quarter.

Regarding reimbursement, physician payment for procedures is ranging from \$350 to \$700 and Visudyne is being reimbursed based on 95% of the average wholesale drug price (AWP). There are six states in which there is known coverage or payment problems. For three, the issue is how much should be paid for the therapy. For the other three, claims are being held in anticipation of interim coverage guidelines. HCFA continues to review published and unpublished clinical data and is meeting with investigators to determine appropriate patient selection criteria and set the parameters for retreatment. At present, the company projects that a national policy could be released in late October (although it concedes that delays are possible). Once the national policy is issued, it will override the formal coverage policies already issued by some states. We continue to expect a new code for the procedure to be issued and become effective on January 1, 2001.

Regulatory approval was received in Europe on July 27, 2000 and launch in a number of countries will take place soon. Launch in countries requiring the submission of pricing and reimbursement applications may lag, but the expanded access program in these territories will continue. Over 500 lasers have been placed outside the U.S. An approval in Japan is expected in 2003.

Regarding the lawsuit with the Massachusetts Eye and Ear Infirmary (MEEI), a response and counterclaim was filed by QLT on June 30, 2000. A document production and scheduling conference is expected to be held in October 2000. If a trial occurs, the earliest would be the fall of 2001 and an appeal would stretch out a resolution until 2003. The estimated cost through the trial is approximately \$2 million, which will be shared equally by **CIBA Vision** and QLT.



8/15 Marc Borbely and Craig Stoltz of the *Washington Post* wrote an article, "Eyes Wide Open", detailing the availability of refractive surgery in the Washington, DC area. They found 70 doctors and 13 business offering services, at a variety of price points. As they related, based on research done by Dave Harmon of **Market Scope**, about 46,000 residents of the area are expected to have LASIK surgery this year, compared to 29,000 last year. For a copy of the article, see the Washington Post web site, or contact me.

8/16 **ICON Laser Eye Centers, Inc.** announced that they had joined **HealthAllies.com's** online marketplace for health services to offer laser vision correction services at preferred rates. HealthAllies.com's online marketplace allows consumers to save money on healthcare by accessing pre-negotiated rates with more than 300,000 healthcare providers nationwide, for savings of 10% to 50%. ICON delivers considerable value to consumers using HealthAllies.com with preferred pricing at 25-75% below the industry standard for laser vision correction.

"We are pleased to join HealthAllies.com's online marketplace to offer consumers our services at preferred rates," said Ghassan Barazi, COO. "By participating in its online marketplace, we are able to leverage the name recognition of HealthAllies.com to attract additional patients interested in receiving laser vision correction services. With our high quality of medical care and service standards, consumers are assured that they are receiving quality laser vision correction services at any of our 34 centers worldwide."

8/21 **Summit Autonomous** released its 10Q report, in which the company stated that revenues for the three months ended June 30, 2000 increased 27.4% to \$20.0 million compared with \$15.7 million for the same three months in 1999. Revenues from system sales increased 145.8% in the second quarter of 2000 compared to the same period a year ago. Summit placed 41 laser systems in the second quarter compared to 25 laser systems in the second quarter of 1999. (According to a company official, about 38 of this quarter's lasers were LadarVisions delivered into the U.S.) Revenues from license fees, service and other decreased 18.9% compared to the second quarter of 1999. On February 23, 2000, Summit reduced its per procedure licensing fee to \$100 on the Apex Plus/Infinity system and \$150 on the LADARVision system. In connection with the price reduction, the company introduced a new program for retreatments. This program provides that the new pricing will apply to retreatments if the original procedure was after February 23, 2000, and that free retreatments will continue to be provided for cases originally performed before that date. The second quarter procedure volume, exclusive of OmniCard shipments after February 23, 2000 for retreatments under the new retreatment program, increased 9% over the first quarter of 2000 and 49% over the second quarter of 1999.

Cost of revenues as a percentage of revenues increased to 93.9% in the second quarter from 66.7% in the second quarter of 1999. This increase was primarily attributable to the increase in the infrastructure of the customer service organization partially offset by the favorable impact from lower cost of revenues associated with license fee revenues. Cost of revenues include a \$1.5 million reserve for the upgrade of installed LADARVision

system to the new LADARVision 4000 system and a \$3.4 million write-down against the company's Apex Plus and Infinity system inventory to its net realizable value due to a reduction in future requirements. Research, development and regulatory expenses in the second quarter of 2000 increased to \$4.7 million from \$3.8 million in the second quarter of 1999. The increased spending is primarily related to the development of our CustomCornea wavefront measurement device and engineering improvements on our LADARVision and Infinity laser systems and SKBM microkeratome.

The loss from continuing operations for the second quarter was \$14.8 million (31 cents per share) compared to a loss from continuing operations of \$25.4 million (65 cents per share) for second quarter of 1999. Income from discontinued operations (**Lens Express**) was \$1.1 million (2 cents per share) compared to \$1.5 million (4 cents per share) in the second quarter of 1999. The net income for the quarter was \$15.1 million (32 cents per share) compared to a net loss of \$23.9 million (61 cents per share) for the second quarter of 1999.

Revenues for the six month period increased 39.2% to \$40.7 million from \$ 29.2 million for the same period in 1999. Revenues from system sales increased 156.7% compared to the same period a year ago. Revenues from license fees, service and other decreased 3.0% compared to the second quarter of 1999. Research, development and regulatory expenses in the first half of 2000 increased to \$8.9 million from \$5.9 million in the first half of 1999. The increased spending was primarily related to the development of the CustomCornea wavefront measurement device and engineering improvements on the LADARVision and Infinity laser systems and SKBM microkeratome.

On March 28, 2000, the Board of Directors voted to approve a restructuring to fully integrate the laser vision correction businesses. In the first quarter of 2000, the company recorded a pretax restructuring charge of \$3.0 million for involuntary employee severance payments for approximately 20 personnel. Of this \$3.0 million, \$2.7 million was related to severance payments and related benefits in selling, general and administrative departments. The annualized benefit of the restructuring is expected to be \$3.0 million. In a separate matter, the company also recorded a one-time charge of \$8.1 million to terminate a strategic alliance agreement with **Ciba Vision Group Management, Inc.** which was assumed as part of last year's acquisition of Autonomous. The payment was made late in the second quarter of 2000.

Excluding one-time charges related to the restructuring, the termination of the strategic alliance with Ciba, the inventory write-down and the acquired in-process research & development, the loss from continuing operations for the first half of 2000 was \$13.8 million (29 cents per share) compared to loss from continuing operations of \$1.4 million (4 cents per share) for the first half of 1999. Including these one-time charges, the loss from continuing operations for the first half of 2000 was \$28.6 million (61 cents per share) compared to \$24.0 million (68 cents per share) in the first half of 1999. Income from discontinued operations was \$2.5 million (5 cents per share) compared to \$2.4 million (7 cents per share). The net income for the first half of 2000 was \$2.8 million, (6

cents per share) compared to net loss of \$21.5 million (61 cents per share), for the first half of 1999.

- 8/21 **ICON Laser Eye Centers, Inc. and Henry Ford OptimEyes** entered into a letter of intent to form a joint venture to provide laser eye treatment in various OptimEyes optical facilities within Michigan. ICON will build and operate a laser vision site in the heart of the **OptimEyes Super Vision Center**. The center will be called **ICON@Henry Ford OptimEyes**. ICON and Henry Ford OptimEyes aim to provide consumers with a "one-stop" eyecare experience. Both companies believe that the Westland Super Vision Center featuring full service ophthalmologic and optometric departments is an ideal place to offer laser treatment to consumers. The location is unique in the optical retailing industry and includes an audiology department, a selection of thousands of eyeglass frames, same-day contact lens fittings, along with a cappuccino cafe for the convenience and comfort of patients.

ICON@Henry Ford OptimEyes will be the flagship site of ICON's Total Vision Solution (TVS) program. The TVS program introduces laser vision correction into prime optical retail environments, greatly expanding the company's potential customer base and consumer market penetration. Laser vision correction procedures are sold and marketed alongside traditional eyewear to foster crossover retailing, increase patient retention and lower general overhead costs.

- 8/22 **UCI Medical Affiliates, Inc.** announced a partnership with **Clear Choice Laser Vision** which is now providing Lasik Eye Corrective Surgery in **Doctor's Care Centers** in South Carolina. Initial plans will make the procedures available in four Doctor's Care locations, one each in Columbia, Greenville, and two other areas of the State. Jerry Wells, executive vice president of finance and CFO, stated, "The company is going to aggressively seek out more healthcare related services, such as the lasik eye relationship, that are not price fixed by managed care payors in an effort to improve UCI's profitability." In May 2000, the company announced its intention to close its Georgia physician practice centers effective June 30, 2000. The performance of these centers, which were originally acquired in May 1998, has not met the expectations of the company and the company is no longer committed to the Georgia market.

- 8/23 The following article, written by David Baines, appeared in today's *Vancouver Sun*, under the title, "Lasik founder sues MD, alleges botched surgery". In the article, Michael Henderson, the recently-fired chief executive of Vancouver-based **Lasik Vision Corp.**, accused the company's founding surgeon of botching laser surgery on his eyes.

Henderson alleges in a lawsuit filed in B.C. Supreme Court that Dr. Hugo Sutton "negligently performed" laser eye surgery on him in March 1998. He says the operation left him "with a poor result" in his left eye and a "very significant deterioration" of vision in his right eye. Henderson also claims that Sutton and two other Lasik surgeons, Drs. Avi Wallerstein and Dan Reinstein, tried to conceal the extent of negligence complaints against Sutton. He alleges that, in addition to 20 to 30 existing claims, there are more

than 100 potential claims from patients who require remedial surgery as a result of unsuccessful operations. He also claims that Lasik surgeons conducted a "medical experiment" on an unnamed patient without that patient's consent. Henderson alleges he was fired as president and chief executive officer in June "to prevent him from further dealing with the professional incompetence of the defendant Sutton."

He seeks damages for wrongful dismissal, including the \$720,000 US that he says he would have made in salary and bonuses this year, and damages for Sutton's allegedly negligent surgery. Named as defendants are Lasik Vision Corp., its Canadian subsidiary, **Lasik Vision Canada Inc.**, and Sutton and his two colleagues, Wallerstein and Reinstein. The lawsuit was filed on Henderson's behalf by Vancouver lawyer Dwight Harbottle.

"We are shocked and dismayed by these allegations," James Watson, Lasik's executive vice-president, said in an interview Tuesday. "We feel they are completely unfounded and intend to defend ourselves vigorously." He added, "It does seem odd that he would make these allegations considering he was the person in charge of the company for the whole time during which these things supposedly took place." (In May, the month before he was fired, The Sun asked Henderson about the large number of negligence claims that had been filed against Sutton. He said he was confident there had been no malpractice and made no mention of his own alleged problem.) Asked whether the allegations would hurt Lasik's business, Watson replied that thousands of patients "have experienced the company first-hand at the clinical level with great results and very positive experiences. It's our patients who need to endorse us and we feel we have their endorsement." Lasik Vision offers a variety of laser procedures including PRK and LASIK to correct near- and far-sightedness and astigmatism. The firm was founded by Sutton, who recruited Henderson in 1997 to help him manage the business. In April 1999, they took the company public on the Canadian Venture Exchange by merging with a CDNX-listed shell company. That month, the stock peaked at \$6.30. The company's strategy was to win market share by aggressive expansion and price-cutting. It expanded rapidly and now operates 31 clinics in Canada and the United States.

However, the strategy has drained the company's coffers and the stock price has plunged to 76 cents, making it difficult to raise money on the market. The company has also been buffeted by negligence claims, adverse media publicity and stiff competition. In his lawsuit, Henderson claims that, after Sutton conducted laser surgery on his eyes, he consulted Reinstein who told him that the surgery had been "negligently performed" by Sutton. He said Reinstein told him he was developing a procedure, known as Ultralink, that might correct the problem, and advised him to wait until he had completed development of the procedure before attempting to correct the problem. Henderson said he became increasingly concerned about Sutton's competence and asked Reinstein to investigate the number of complaints and legal actions against Lasik. He said Reinstein reported there were 20 to 30 cases where negligence was claimed or could be claimed against Lasik doctors, mainly Sutton. He said that, with the board's approval, he "attempted to shield the public and others dealing with the defendant companies from Sutton's image and from any further negligence of Sutton." He said the company filed

defamation suits against the **CBC** and **TLC The Laser Centre**, which raised questions about Sutton's competence because it was "publicly necessary to counter the negative image created."

Henderson noted that, until July 1999, Sutton referred to himself as medical director, then Wallerstein was appointed national medical director. Sutton was relegated to medical director of the Vancouver clinic, then to the Burnaby clinic. "It was the intention that Wallerstein take control of the negligence issue plaguing the defendant companies, deal with the negligence claims and put in place corrective controls to eliminate the negligence of all surgeons and in particular Sutton."

Henderson said that, in October 1999, Reinstein was also appointed national medical director, with the intention that he share the position with Wallerstein. Their functions included developing a response to the complaints and legal actions, and identifying procedures to eliminate further instances of negligence. By June this year, Reinstein and Wallerstein reported they had identified negligent procedures performed by Sutton and had established standardized operating procedures to be followed by all Lasik surgeons. However, Henderson alleges, they "did nothing to enforce the procedures guidelines and cause the defendant Sutton to comply with these procedures. As a result, Sutton continued to operate as he had always done and new negligence cases continued to materialize." Henderson says he "inadvertently learned that, in addition to the 20 or 30 negligence claims previously understood to exist, there were in excess of 128 further cases where patients were on the 'Ultralink list' waiting for corrective surgery. A review of this list reveals 103 potential claims against Sutton for negligence." He further alleges that Sutton, Reinstein and Wallerstein, tried to "cover up" further adverse information from Lasik's directors "including dealings with insurers and the cover-up of a medical experiment conducted on a customer of one or more of the corporate defendants without that customer's consent."

(In addition to the implications against Lasik Vision -- possibly affecting the company's ability to continue operating, this suit could have a negative effect on "discount" laser operations, including **ICON Laser Eye Centers**. Also, if Lasik Vision does go under, it will have an economic impact on **VISX**, putting in jeopardy the up to 100 laser order placed by Lasik Vision with VISX last year.)

- 8/24 In a surprise announcement, **Bausch & Lomb** said that it was revising its sales and earnings estimates for the remainder of 2000 and for 2001. Following an intensive midyear global review of its businesses, and quarter-to-date operating performance, the company identified market trends and business issues that will impact financial results over the next 12 to 18 months. Excluding the impact of the recent acquisition of **Groupe Chauvin**, total company revenues for the remainder of 2000 are now expected to be essentially flat to down slightly from 1999. Including the acquisition of Groupe Chauvin, revenues for the remainder of 2000 are expected to grow in the range of two to four percent. Earnings per share, including the impact of the acquisition, should be

approximately \$0.70 to \$0.72 in the third quarter, and approximately \$0.83 to \$0.85 in the fourth quarter, to end the year in the range of \$2.69 to \$2.72 before one-time items.

The revised estimates are based on several factors: 1) a slowing in market demand for its contact lens care products; 2) its continuous wear lenses are drawing customers away from existing products, rather than growing the market as expected; 3) price competition in its pharmaceutical business which has grown faster than expected; 4) the company's inability to adequately supply silicone IOL lenses, rather than traditional PMMA lenses; and 5) the impact of the weakening Euro to the dollar.

The only business segment that is strong, but not as strong as expected, was refractive surgery. The company had the following to say about RS: "Bausch & Lomb's refractive surgery business - a key growth driver for the future - continues to grow robustly, with laser placements around the world and the U.S. exceeding expectations. However, in the U.S. the ramp-up in procedures performed on each new machine is not occurring as fast as originally estimated, since more of the placements have been in newly opened centers than first expected. The company still expects about \$10 million in incremental revenue benefit from the U.S. launch of the Technolas 217, but the makeup of those revenues will be more heavily skewed to laser sales than to the per-procedure fees, with an associated negative impact on operating margins."

The following day, the company's stock dropped 35% in response to the above announcement, and two investment firms downgraded their ratings of the company. **Goldman Sachs** said it cut Bausch & Lomb to market performer and removed them from the "U.S. Recommended for Purchase List," and **Deutsche Banc** said it cut the eye care company to market perform from buy.

8/24 **Prime Medical Services Inc.** announced the opening of its eleventh refractive vision center, the **Morey Mulqueeny Eye Center**. The new center is located in St. Louis, and is the second center Prime has opened under its recently announced refractive development program. Kirk Morey, MD, and Sean Mulqueeny, OD, will partner with Prime and operate the new facility.

8/25 **ICON Laser Eye Centers, Inc.** announced that revenue for the second fiscal quarter ended June 30, 2000 was \$12.2 million. That represented sequential quarter to quarter revenue growth of approximately 43.4% up from Q1 2000 revenues of \$8.5 million and it also represents year to year growth of approximately 598% over Q2 1999 revenue of \$1.7 million. Revenues for the six months were \$20.7 million up 542% over the same period in 1999. Managed procedures in the second quarter of 2000 for laser vision correction were 23,491, up 375% over the 4,950 procedures reported for the second quarter of 1999. Year to date procedures were 38,435, up 365% over the prior year.

The net loss for the second quarter of 2000 was \$448,976 (2 cents per share) compared to net income of \$250,239 (3 cents per share) for the second quarter of 1999. In May 1999, the company acquired two Italian LVC companies and accounted for this

transaction as a reverse takeover. As a consequence, 1999 net income results reflected mainly those of the Italian clinics, which were profitable. The net loss in the second quarter of 2000 as compared to 1999 arose primarily from; losses from newly-opened clinics and amortization of goodwill associated therewith, and legal expenses associated with the newly-opened clinics and amortization of debt issuance costs associated with financing ICON's acquisition of shares in **Vision America**. During the first quarter of 2000, the company entered into an agreement with **VisionAmerica Incorporated** to jointly operate LVC centers in VisionAmerica clinics. ICON currently operates 7 LVC centers included under this agreement and operated 5, included in the above, as at June 30, 2000. In addition, ICON acquired a 100% interest in 4 VisionAmerica LVC centers effective June 1, 2000.

At the end of the second quarter, ICON managed 34 laser vision correction centers, including 6 in Canada; 20 in the USA; 1 in the United Kingdom; 2 in Sweden; and 2 fixed centers, 1 mobile surgery suite and 2 roll-on/roll-off units, in Italy.

- 8/28 **Coherent, Inc.** announced its intentions for an initial public offering for its 80% owned subsidiary, **Lambda Physik, AG**. The expected timing is for the September to October timeframe. The proceeds of the offering will be used for investment in the development of new technologies, the expansion of plant and equipment, and the addition of personnel for the rapidly expanding deep ultraviolet (DUV) lithography portion of Lambda Physik's business. Additionally, the offering will provide greater visibility to both customers and the investment community as to Lambda Physik's progress during this anticipated rapid growth period. The new issue is expected to be traded under the symbol LPX on the Neuer Markt, the growth market for German equities based in Frankfurt, Germany. Coherent will retain its position as the majority shareholder in Lambda Physik after the offering with an anticipated holding of approximately 60%.

Lambda is supplier of excimer lasers to some medical laser companies, including **Schwind eye-tech-solutions**.

## **OPHTHALMIC LASER UPDATE -- September 2000**

- 8/22 **ISTA Pharmaceuticals**, formerly known as **Advanced Corneal Systems**, announced the pricing of its IPO of 3 million shares at \$10.50 per share. The \$31.5 million proceeds will be used in its efforts to develop new remedies for eye diseases such as vitreous hemorrhage, diabetic retinopathy, corneal opacifications, and the treatment of keratoconus. The company is conducting Phase III clinical trials for Vitrase, which is on a fast track for the treatment of vitreous hemorrhage, and a Phase II clinical trial for Keratase for corneal opacification. The company also plans to conduct a Phase II trial for Keraform for the treatment of keratoconus.

(It is interesting that I first learned about this company in 1995, when its keratoconus drug, hyaluronidase, was being evaluated for refractive correction. At that time, it was conducting Phase II trials on a technique to inject its drug into the corneal stroma, to

soften the tissue, and then reshape the cornea using a gas permeable contact lens until the cornea re-hardened using stabilizing drops containing glycerose to reform collagen crosslinks, hopefully, retaining the new shape. At that time, the procedure was called "Corneaplasty". The company was also developing its drug for the treatment of vitreous hemorrhage at that time. Now, while the latter trials continue, the original trials for treating the corneal shape are now only for treating keratoconus. Interesting.)

8/25 An interesting article appeared in the *St. Petersburg Times*, describing how the Greater Tampa Chamber of Commerce toured Tampa's General Hospital, where the highlight was watching LASIK surgery done on the chamber's president, done at a nearby **TLC Laser Eye Center**, by eye surgeon Jeff Robin. About 150 watched on a big screen -- sports-bar style -- in the waiting room. Apparently word has spread, and now other Chambers of Commerce are interested in holding similar mixers.

8/29 **Asclepion-Meditec AG** released its figures for the first nine months of the current financial year. Sales rose by 25% from EUR 22.4 million in the equivalent period of the previous year to EUR 27.9 million this year. Asclepion's CEO Bernhard Seitz said that the figures confirm the company's growth and innovation strategy. In order to consolidate and improve its position, Asclepion is investing 15% of its net sales in research and development, more than other companies in the industry, Seitz continued. Sales are up by 76% in the core Vision business, led by sales of the MEL 70 G-Scan laser for correcting vision, and continuing its highly successful upward trend. The laser's performance was further enhanced in the last quarter by the introduction of the Vision Improvement Package (VIP). In conjunction with a new and, in comparison to rival products, high precision diagnostic procedure known as WASCA it will now be possible to increase visual acuity to over 20/20, for most people with vision defects ("Eagle Eyes"). WASCA, which is based on the measurement of so-called wavefront aberrations, can be used to determine all the irregularities in the eye in one step.

In the Aesthetic business unit, sales growth also accelerated. In the third quarter of the current financial year, the unit managed to increase its sales by roughly 60% in comparison to the entire first half of this year. This success is due in part to the successful launch of the new leading product in this unit, the high-power diode laser MeDioStar, and its approval by the FDA. **U.S. Medical. Inc.**, Asclepion's new strategic distributor for the USA, contributed to Aesthetic's sales for the first time in the third quarter. Asclepion sees continuing good prospects for growth in the USA, the largest single market in the world.

Asclepion has been successful in optimizing the geographical distribution of its sales. In the Americas and the Asia/Pacific region in particular, sales were up by 195% and 91% respectively over the equivalent quarter in 1999.

In the financial year 1998/99 (ended: September 30) Asclepion posted sales of EUR 34.4 million and a net income of EUR 3.7 million. Since March 22 of this year Asclepion-Meditec AG's shares have been traded on the Frankfurt Stock Exchange.



8/29 **Laser Corp.** announced that it has begun the delivery and installation of the Dodick Laser PhotoLysis Systems, following recent FDA clearance, and the first commercial cataract removal procedures using this laser device have been performed. Additional PhotoLysis Systems are scheduled for delivery in the upcoming weeks and the company is currently expanding its sales force to market and sell the system on a larger scale nationwide.

Joyce Wickham, president and CEO, commented that, "We believe the Dodick Laser PhotoLysis System brings to the medical profession the use of technological advancements that not only improve cataract removal but provide physicians with a safer option to the traditional ultrasonic phaco methods. Revenues from these first installations have already been received and the company anticipates that further sales will produce increased revenues in the third and fourth quarters." The company is currently marketing and selling the Laser PhotoLysis through its wholly owned subsidiary, **A.R.C. Laser Corp.**, Salt Lake City.

8/29 **CIBA Vision Corporation**, and **QLT Inc.** announced that the FDA had assigned priority review status to the supplemental new drug application (sNDA) for Visudyne (verteporfin for injection) therapy filed August 14, 2000. That submission seeks to expand the initial indication to include patients with other ocular conditions characterized by choroidal neovascularization (CNV). These other diseases include pathologic myopia (PM), ocular histoplasmosis syndrome (OHS), angioid streaks, CNV due to certain retinal abnormalities, and idiopathic causes, among others. The priority review status means that the FDA intends to act on the application within six months. "Existing treatment options for patients with pathologic myopia or ocular histoplasmosis are extremely limited," said Luzi von Bidder, president of CIBA Vision's worldwide Ophthalmic Business Unit. "Many of these patients are still in the prime of their career and in the midst of raising their families. The FDA priority status is positive news for these patients who risk progressive loss of vision."

8/30 **Lasik Vision Corporation** announced results for the three months ended June 30, 2000. Results reflect record revenues based primarily on strong growth in the number of laser vision correction procedures performed in Lasik Vision's North American refractive centres. Fiscal 2000 second quarter revenue from laser vision correction and management and service fees grew to \$24.8 million, up 297% from \$6.2 million for the same period a year ago. Lasik Vision performed 35,599 paid laser procedures at the company's refractive centers in the second quarter. This was a 300% increase from 8,906 the same period a year ago and represents a new record volume quarter for Lasik Vision. The second quarter procedures represent a 33% sequential increase from the 26,673 procedures performed in the first quarter of 2000.

Laser vision correction and management and service fee revenues for the first half of 2000 were \$42.7 million, up 339% over \$9.7 million in the six months ended June 30, 1999. "During the second quarter, Lasik Vision continued its aggressive expansion into the U.S. market with the opening of ten new clinics. We have gained significant market share in every new location we have opened in the U.S. and remain the largest operating

laser vision correction company in Canada," said Hugo Sutton, president and CEO. Sutton added: "Our increased market penetration is carrying over to the third quarter where Lasik Vision has already had a record month for procedures in July."

The net loss for the second quarter was \$7.0 million (18 cents per share) compared to a net loss of \$1.4 million (18 cents per share) for the second quarter of 1999. The net loss reflected the costs associated with the company's rapid expansion in the North American market where it has become the leading provider of affordable laser vision correction. The net loss is primarily attributable to an intensified marketing campaign, business development costs, which are expensed when a lease is signed for a new clinic, as well as non-deferred start-up costs, which are incurred from the period between the signing of a lease and the commencement of operations. The new management of the company also conducted a full operational review of the second quarter and concluded that costs relating to the construction of 14 new U.S. clinics were approximately 50% over original budget. As a result, management has taken steps to improve operational efficiencies, including changes to the physical layout of equipment, relocation of personnel and the implementation of extended operating hours for selected clinics.

Net loss for the six month period was \$8.0 million (20 cents per share) compared with a net loss of \$3.4 million (19 cents per share) in the comparable period last year. "Our new board and management team intend to carefully manage our growth, resources and expenses to enhance the company's long term profitability. We are committed to our expansion strategy, which we intend to continue to implement in the second half of 2000 with the opening of new Lasik Vision centres in the U.S.," said Sutton.

(It is interesting to note, looking at the balance sheet, that the company now has \$12.5 million in assets versus \$42.5 million in current liabilities, which includes \$22.2 million in patient deposits for future surgeries. This is up from \$385,000 in assets and \$12.3 million in liabilities in the prior year.)

8/30 **KeraVision** announced that it will introduce a "complete" business model that the company plans to adapt to different market conditions across the country in order to expand the estimated \$2 billion vision correction surgery market. The complete INTACS business model will be rolled out simultaneously in September starting in three markets -- Kansas City, San Diego and Green Bay, WI. The three cities, which were selected because they represent a range of market types, will also be the focus of intensive consumer campaigns that will include the first-ever INTACS TV commercials.

KeraVision president and COO John Galantic said, "For the first time, a complete INTACS business model will include three important new elements - TV commercials, multiple 'FastTrack' practices that are prepared to receive INTACS consumers, and an extensive network of referring optometrists." Galantic noted that optometrists are an especially important part of the business model since they are the primary vision care providers for an estimated 80% of consumers who are in the INTACS treatment range.

Spearheaded by 30-second and 60-second TV spots, the consumer campaign that will accompany the business model roll-out is aimed at prodding contact lens and eyeglass wearers who are "on the fence" about vision correction procedures into considering a flexible new procedure, INTACS prescription inserts. The campaign -- to include radio, print and direct mail as well as TV commercials -- will introduce INTACS prescription inserts as a flexible new option designed to meet consumers' changing vision needs as they go through life. Galantic noted that KeraVision's consumer research shows a large segment of these consumers are dissatisfied with glasses and contacts but apprehensive about laser procedures.

- 9/1 **Lasik Vision** announced that the trial in the litigation brought by Lasik Vision against **TLC Laser Eye Centres Inc.** and others will not proceed as the litigation between Lasik Vision and TLC had been resolved. The terms and conditions of the settlement arrangements between the parties were not disclosed.

According to a writeup in the *Globe and Mail*, TLC declined to discuss the proposed settlement's terms, but said it was "non-material." The action against TLC was scheduled to be heard next Wednesday by the Supreme Court of British Columbia. The status of the case against the CBC wasn't immediately known. "I'd guess that the cost of the settlement will be less than the cost of the litigation . . . probably in the six figures," said Charles Olsziewski, an analyst with **PaineWebber Inc.** "No way they [Lasik Vision] got anything close to what they were after."

TLC did issue a statement following the media and investor speculation revolving around the company's litigation settlement agreement with Lasik Vision Corporation, in which it offered the following clarification: "The litigation between TLC and Lasik Vision was settled on a nuisance value basis for an amount substantially less than the cost of TLC's anticipated legal fees had the matter proceeded to trial."

- 9/1 **Alcon Holdings Inc.** announced that its wholly-owned subsidiary, **Alcon Acquisition Corp.**, had been merged with and into **Summit Autonomous Inc.** As a result of the merger, Summit Autonomous has become a direct, wholly-owned subsidiary of Alcon Holdings and each outstanding share of Summit Autonomous has been converted, subject to appraisal rights, into the right to receive \$19.00 per share in cash, without interest.

- 9/4 Based on dubious research conducted by a Dr. William Jory of the **London (England) Centre for Refractive Surgery** on night vision following LASIK surgery, **The MontrealGazette.com** published a story entitled, "Some eye surgery patients hesitate after reports of reduced night vision". As noted in the article by Louise Elliott, "Patients are becoming more nervous, and more concerned, now that the Canadian Medical Association has added the popular surgery to a list of risk factors for unsafe driving, said optometrist Scott Mundle, secretary of the Canadian Association of Optometrists. "People are more aware of this as a side effect and a risk factor," said Mundle from his office in Winnipeg. "They have come in saying, 'what about this?'"

Not so, according to Dr. Dan Reinstein of the Vancouver-based eye clinic **Lasik Vision**, who said the reports of night vision problems have given the industry - which took in one million patients worldwide last year alone - an undeserved black eye. "We're very strict about doing the surgery on patients who are fully informed," he said, adding, "Three variables determine whether a patient is accepted for surgery. Large pupils, high prescription numbers and the particular curve of the cornea all could lead to a patient being rejected for surgery".

- 9/5 According to *OptiStock*, **Pro-Laser** reported Q2 sales of \$14.8 million vs. \$950,000 for the same period last year. The period's loss was \$513,000 (9 cents per share) vs. profit of \$41,000 (1 cent per share) for 1999; the loss was due to financing expenses related to the acquisition of **WECO** and **G. Rodenstock Instrumente**. The company reported an order backlog of EUR 15.8 million as of June 30.

OptiStock also reported that the QuantumLight Wavefront Refractor, which was co-developed by **Summit Autonomous** and **Zeiss Humphrey Systems**, will be available to eyecare practitioners early next year. The device measures, records, analyzes, and displays visual aberrations of the eye; the data can be used for more precise refractive surgery planning as well as visual problems diagnosis and eyewear prescribing.

- 9/5 **Prime Medical Services Inc.** announced the opening of its twelfth refractive vision center, located in Roseville, Calif. Prime affiliate **Horizon Vision Centers**, a major provider of refractive vision correction in the Bay area, will be operating the facility under the direction of Dr. Stephen Wilmarth. Ken Shifrin, chairman, stated, "This has been an exceptionally active period for Prime as we forge ahead with our refractive center development program. The Roseville center marks our sixth Horizon Vision Center facility, strengthening our position in this large northern California market."

Prime currently operates a fleet of 65 lithotripters and 12 refractive surgery centers in 32 states. These centers perform approximately 37,000 lithotripsy and 30,000 LASIK procedures on an annualized basis.

- 9/5 **Blue Cross and Blue Shield of South Carolina** announced the launch of one of the first discount programs in South Carolina allowing members to receive significant discounts on LASIK vision correction services and on contact lenses beginning September 1, 2000. Under the new program, members of Blue Cross and its subsidiary companies -- **Companion HealthCare**, **HMO Blue** and **Planned Administrators, Inc. (PAI)** -- receive discounts on LASIK services, including a vision exam, pre-operative care, the surgery itself and post-operative care for one year. The cost for members will be \$799 per eye. The services are provided by **TruVision**, an organization that works with experienced ophthalmologists and provides discounts and other vision services to millions of people nationwide.

- 9/5 **LaserSight** announced that it had received FDA approval to advance the laser pulse repetition rate of its LaserScan LSX excimer laser vision correction system to 200 Hz,

the fastest pulse rate available in the U.S. market. (Only **WaveLight** and **Schwind**, both of Germany, have lasers with comparable repetition rates, with WaveLight currently conducting U.S. clinical trials for possible marketing in the U.S.)

According to the company, speed and precision are two significant technical advantages of the LaserScan LSX system. The combination of its smaller spot size, high pulse repetition rate and low laser fluence makes the LSX unique when compared to all other refractive laser systems currently approved in the U.S. market. Smoothness of the corneal surface after laser treatment is a very important clinical consideration. With its gentle low energy fluence and <1mm laser spot, the LaserScan LSX produces one of the smoothest ablation profiles possible. The combination of low energy and small spot size results in removal of the smallest amount of corneal tissue per laser pulse of any approved laser. With its unprecedented speed and precision, the LaserScan LSX has been designed with personalized treatments as its ultimate goal. Utilizing LaserSight's CustomEyes system, with its ASTRA family of custom ablation products not currently available in the U.S., treatments have been performed and continue in clinical studies in the international market. The results of these treatments will be reported at the upcoming AAO Annual Meeting in Dallas later this year.

The company anticipates commencing 200 Hz upgrades to its U.S. installed base during the next 30 days. In the international market the company has been delivering new laser systems performing at the 200 Hz repetition rate for the past year and has upgraded its installed base of lasers to operate at 200 Hz. Currently the company has over 130 laser systems that operate at this higher pulse frequency.

- 9/5 **BioShape** reports that their realtime measuring technology to measure the corneal surface during refractive surgery is off and running. The company has successfully completed the implementation of its technology into a flying spot laser. In addition they have designed a system that can be used as a measuring device in combination with any commercial medical laser. In August, clinical trials were performed using the system in association with G. Fiedler, MD at **VisuMed** in Munich Germany. This was the first time the whole corneal surface of patients was measured during refractive surgery. Additional studies are underway with different laser centers, lasers of different manufacturers and different surgeons. Presentations on the BioShape System, and the results of the clinical trials will be made in October at the *ISRS* conference and the AAO meeting in Dallas.
- 9/6 **Norden Laser Vision Associates** of Ridgewood, NJ, announced that it was the State's first and among only a handful of ophthalmology practices in the Northeast to offer the recently approved HYPERION LTK procedure to treat the estimated 40 million Americans with hyperopia. The HYPERION LTK procedure, approved by the FDA in late June, is currently in use in Europe, South Africa, Canada, Central America and South America. According to Dr. Richard Norden, "For the 40 million American 40-year-olds and over with hyperopia, LTK will supplant all other options as the procedure of choice. Unlike other refractive procedures including LASIK, PRK and RK, with the in-office

LTK procedure, patients remain upright in a sitting position." The LTK procedure is priced comparably to other laser refractive procedures.

- 9/6 **LCA-Vision** said that the company would add a fourth LasikPlus center in both the Atlanta and Washington, D.C. areas within the next three weeks. A new LasikPlus facility will open in the Buckhead section of Atlanta on September 11, complementing the three centers launched in that city and its suburbs during the second quarter, 2000. Two weeks later, LCA-Vision will open a site in Alexandria, Virginia, joining existing facilities in Bethesda and Rockville, Md. and Falls Church, Virginia. Year-to-date, the company will have added nine new value-priced LasikPlus facilities.

Commenting on the launches, LCA-Vision chairman and CEO Stephen Joffe said: "The LasikPlus roll-out continues on schedule, reflecting unprecedented patient acceptance of laser vision correction across the country. Driven by our new affordable pricing, we've seen procedure numbers grow explosively at all of our D.C. and Atlanta facilities. We need to maintain this momentum and solidify our No. 1 position in both these large markets, which now serve a total metropolitan population of some nine million." Joffe noted that previously-allocated print and broadcast budgets for the existing centers had also been promoting the new facilities, enabling them to begin operations with minimal additional advertising expenses. Both new centers will be equipped with state-of-the-art lasers and staffed by highly-experienced ophthalmic professionals.

- 9/6 **Asclepion-Meditec AG** presented a new type of laser workstation for the diagnosis and treatment of vision defects at the *ESCRS* fair, held in Brussels on 2-6 September 2000. For the first time a single workstation can be used to measure both the cornea (TOSCA system extension) and the entire optical system of the eye (WASCA system extension) and also to make the appropriate corrections. A further element in the system is the AWACS (Asclepion Wavefront Aberration Correction Simulator) demonstration technique. With this the ophthalmologist and patient can judge the desired improvement of visual acuity in the so-called "Eagle Eye" treatment before the operation is carried out.

As Asclepion's CEO Bernhard Seitz said at the *ESCRS* in Brussels, the new workstation represents a technological leap forwards. The first international study, which the company also presented in Brussels, confirmed excellent results for treatments with the new workstation. According to Seitz, "excellent results" were achieved in Eagle Eye operations in which patients' visual acuity was increased to over 20/20. The WASCA system extension creates ablation profiles for the MEL 70 G-Scan Excimer laser using data provided by a wavefront aberrometer. According to the company, the aberrometer used by Asclepion offers a greater precision than any other available on the market. Furthermore, the aberrometer has a very high resolution and is capable of taking measurements across a extremely wide range of diopters.

The quality of WASCA and the aberrometer was tested in an international study conducted this summer. Up to 130 individual eyes were examined in various European locations. On average, the rms values (measurement of wavefront distortion) in the

patients' eyes could be reduced dramatically, allowing, for instance, the night vision of these patients to be considerably improved. In standard LASIK and PRK treatments these values actually increase immediately after the treatment. Even more significantly, 20% of the patients showed a remarkable improvement in their "best corrected visual acuity". This means that Eagle Eye treatment is now a proven reality.

The Asclepion Wavefront Correction Simulator (AWACS) allows doctors to demonstrate the result of the Eagle Eye treatment before the actual operation. First the aberrations of the eye are measured using WASCA and an ablation profile is generated. In the second stage, the MEL 70G Scan Excimer laser ablates this profile onto a special plastic plate. This plate is then inserted into a phoropter like a normal spectacle lens. The patient can then judge whether the Eagle Eye operation should be carried out or not. In addition to the new measurement technique for wavefront aberration, AWACS requires a laser which offers very high optical precision, such as the MEL 70 G-Scan, which is ideally suited for such treatment. Worldwide, about 80 of Asclepion's spot-scanning lasers MEL 70 G-Scan are equipped with TOSCA. Thus, an individual treatment of vision defects is possible without any difficulties at those ophthalmologists who use Asclepion-lasers.

9/6 **LASER VISION CENTERS** announced that revenue for the first fiscal quarter ended July 31, 2000, increased 6% to \$22.2 million from \$21.0 million a year ago. Net income for the quarter was \$1.2 million (5 cents per share) compared to \$4.1 million (17 cents per share) for the same quarter last year, which included an income tax benefit. The company noted that the laser manufacturer royalties it collects are recorded as revenue. Due to a royalty reduction announced in February, royalties collected during the quarter were \$100 per case compared with \$250 per case for the same period in 1999. Had the royalty remained constant, revenue for the period would have been \$4.7 million higher, an increase of 28% compared to the same period a year ago.

As previously announced, LaserVision performed 31,361 U.S. refractive cases during the quarter compared to 22,349 U.S. case for the same year ago period, a 40% increase. As of July 31, 2000, LaserVision had 87 lasers in operation in the U.S. and a total of 91 worldwide. The company said that it continues to sign surgeons to Market Development agreements and that it now had 31 signed agreements.

Commenting on the results, LaserVision chairman and CEO, John Klobnak said, "These results clearly demonstrate that our transition programs are well underway and are working. While there is still considerable clutter on our industry's radar screen due to irresponsible pricing, we are encouraged by recent events that we believe clearly show that our business model is viable both in the short-term shakeout period we are currently seeing as well as the long term. We believe there are many M&A opportunities now and we think there will be more in the next few quarters. We look forward to seeing the smoke clear and the winners emerge. We intend to be one of them."

9/6 **ICON Laser Eye Centers** announced that 7,581 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during the month of August

2000. This represents an approximate 422% increase over 1,452 LVC procedures performed in August 1999. August 2000 procedures fell approximately 5.1% from 7,990 LVC procedures in July 2000 due to traditional European summer slowdowns.

In ICON's monthly total, 2,747 LVC procedures can be attributed to ICON's joint venture partnership with **VisionAmerica Incorporated**. Of the centers where ICON and VSNA have currently rolled out ICON "Value LASIK" marketing programs, 12 of these centers reported attributable procedures in August 2000 since ICON only reports surgeries not consultations. "Once again, ICON had a very solid month despite the European seasonality factor that has historically affected the company in July and August," said Ghassan Barazi, COO of ICON. "ICON's Value LASIK model continues to produce positive procedure growth in both new and maturing markets. During the month of August, ICON's corporate care program was very successful in signing preferred-pricing LASIK contracts with a number of nationally recognized health care plan providers and affinity groups. The company anticipates returning to positive sequential monthly procedure growth during September 2000."

ICON expects that every year July and August will report downward comparisons on a sequential basis versus second quarter results. On a year-to-year basis, however, overall procedures continue to show significant increases. ICON is the only LVC centers company with an extensive European commitment. Many European countries traditionally have businesses close for vacation in either July or August. Overall, Europe has experienced substantially slower LVC growth rates, mainly as a result of stricter rules relating to the advertising of medical procedures. ICON will continue its European expansion in order to maintain a strong operating base when LVC procedures become as popular as the statistics indicate in North America.

ICON operates fixed laser centers in Canada, the USA, England, Sweden and Italy, with ICON mobile units currently operating in Europe only.

9/7 **TLC Laser Eye Centers Inc.** announced that over 33,400 paid laser procedures were performed at TLC refractive centers in the first quarter of fiscal 2001. This was up marginally from 33,265 paid procedures reported for the same period a year ago. TLC's pricing continues to successfully reflect its premium brand. Strong per procedure revenue, combined with new cost control initiatives, provides the company with confidence that its Q1-01 net loss will be substantially narrower than the loss reported for Q4-00, and that its Q1-01 loss will be in-line with the current range of analyst expectations.

9/7 **SurgiLight** announced that its shares had been recommended in an analyst report released by **WallStreet Research**, a prominent research boutique led by Alan Stone, Managing Director of **Alan Stone & Company, LLC**. In what was basically a "paid commercial" (because of the stock and stock options given to the analyst for preparing the report), Stone reiterated what had already been published in press releases by the company and recommended the company's stock.



9/8 **IRIDEX** announced that the **HCFA** had issued an updated Program Memorandum, Change Request 1278, that changes the coverage policy for Medicare reimbursement of many age-related macular degeneration (AMD) procedures. AMD procedures that use the IRIDEX IRIS Medical OcuLight infrared laser, such as transpupillary thermotherapy (TTT), destruction of macular drusen, and feeder vessel technique, can now be submitted to Medicare for reimbursement. Change Request 1278, implemented Sept. 4, 2000 and effective July 18, 2000, instructs local medical carriers that "Both coverage and payment for these procedures are carrier determined." Previous policy, outlined in Change Request 1214 and implemented July 1, 2000, instructed local medical carriers to "Deny such claims as experimental."

Theodore Boutacoff, president and CEO of IRIDEX, commented, "This change by HCFA is great news for AMD patients and for the doctors who treat this devastating eye disease. HCFA's policy change will help Americans who have AMD get access to treatment at various stages of this progressive disease." Boutacoff further stated, "The earlier HCFA Program Memorandum created confusion in the U.S. ophthalmic community. I am pleased that HCFA acted and clarified this situation. IRIDEX will continue efforts to help ensure reimbursement for these AMD procedures."

9/8 **Sight Resource Corporation** announced that it had received notice from the NASDAQ stock market that its common stock would be delisted effective with the open of business Monday, September 11, 2000. The company had appealed NASDAQ's initial delisting determination at a hearing before a NASDAQ panel on August 31, 2000. Commencing September 11, 2000, the company's common stock will trade in the over-the-counter market. The company's common stock is not eligible for listing on the NASD SmallCap market or on the American Stock Exchange.

9/8 **VisionAmerica** reported a net loss of \$5.2 million (52 cents per share) for the three months ended June 30, 2000, compared to net earnings of \$692,000 (8 cents per share) for the second quarter of 1999. The net loss from continuing operations for the second quarter was \$3.1 million (31 cents per share), on revenues of \$14.0 million, compared to net earnings from continuing operations of \$597,000 (7 cents per share), on revenues of \$14.5 million for the second quarter of 1999. The results for the quarter included a loss from discontinued operations of \$2.1 million (21 cents per share), which consisted principally of an estimated loss on disposal of the company's discontinued ophthalmic buying group, **Primary Eyecare Network**, which assets were sold effective August 31, 2000. The results of the company's continuing operations for the quarter continue to be negatively impacted by the operations the company had previously identified and disclosed as "impaired", and for which it recorded a \$19.2 million impairment charge in the fourth quarter of 1999. The company incurred an additional impairment charge of \$1.6 million in the second quarter related to management's continued pursuit and assessment of the disposition possibilities for the impaired practice assets, and a decline in volume and operating margins at the impaired centers was a principal cause for the remaining deterioration in the second quarter's results in comparison to the prior year.

For the six month period, the company incurred a net loss of \$7.5 million (78 cents per share), compared to achieving net earnings of \$1.3 million (14 cents per share), for the first six months of 1999. The net loss from continuing operations for the first six months of 2000 was \$5.6 million (58 cents per share), on revenues of \$30.2 million, compared to net earnings from continuing operations of \$1.1 million (12 cents per share), on revenues of \$29.3 million for the same period in 1999.

The company also reported that Ghassan Barazi resigned his position as COO of the company on August 23, 2000. Barazi is also a board member and COO of **ICON Laser Eye Centers (ICON)** and his resignation allows him to better focus his efforts in those roles. The company and ICON operate joint laser vision correction centers in a number of the company's markets. Barazi remains a member of the board of directors of the company.

- 9/11 **LaserSight** announced that it had received notice of allowance from the U.S. Patent and Trademark Office for a patent application in the field of ophthalmology and refractive surgery. The notice of allowance is the last step towards receiving a patent. The application relates to a method of corneal analysis using a checkered placido apparatus. The use of a checkered placido provides more precise and accurate corneal topography information than can be provided by a conventional placido ring topographer. The checkered placido method can more accurately determine the shape of the cornea, especially corneas that exhibit irregular surface topographies. The capability to accurately determine corneal irregularities is an important requirement for custom corneal ablations, and the checkered placido method will become an integral part of the company's CustomEyes line of diagnostic equipment for use with its ASTRAPro software for custom ablations which is not currently available in the U.S.

Michael Farris, president and CEO commented, "The allowance of this patent application demonstrates both LaserSight's ability to maintain a leadership role in state-of-the-art technology for laser vision correction and the company's commitment to its shareholders to maximize the value of our technology through strong intellectual properties."

- 9/11 In conjunction with **KeraVision**, the **Hunkeler Eye Centers** of Kansas City, announced what could be a groundbreaking move that could reduce some consumers' apprehension about vision correction surgery. Hunkeler, with over 30,000 refractive procedures performed so far, is introducing a new twist to the estimated \$2 billion vision correction industry, by offering a 30-day money-back satisfaction Intacs trial with your money and/or your old vision back. In new ads that started last week, Hunkeler Eye Centers is introducing the first-of-its-kind offer to consumers who choose INTACS micro-thin prescription inserts -- the first FDA-approved vision correction product that can be entirely removed if patients are not fully satisfied. If not completely happy with their visual results after 30 days, Hunkeler's patients can have their prescription inserts removed and receive a full refund, or they can elect to receive another type of refractive procedure at no additional cost.

According to Hunkeler's director of refractive surgery, Dan Durrie, MD, "What's most unique about INTACS is that they can be removed or replaced if a patient isn't pleased with the results. The removal option eliminates a barrier for some people who are considering a vision correction procedure. By allowing people to 'try' a vision correction procedure, we are giving apprehensive consumers a reason to take another look at surgical options to their glasses and contacts."

Durrie, who helped pioneer the INTACS prescription insert technology, decided to introduce the 30-day, money-back trial because of his confidence in the surgical technique developed at Hunkeler. In many cases, the INTACS prescription insert procedure is performed in about four minutes per eye, with minimal to no discomfort for patients and rapid visual recovery. Fewer than 4% of Hunkeler's patients have chosen to have their prescription inserts removed; in each of those cases, patients' eyes returned to their preoperative vision, Durrie said. (As noted in a footnote, in clinical studies with Intacs, patients who have chosen to have them removed required up to 3 months to return to their original level of vision, raising the question, what do they do to see for 90 days while their vision changes?)

- 9/11 In this month's issue of **Refractive Market Perspectives**, Dave Harmon relates the turmoil at **Lasik Vision**, covering most of the same ground we covered last month. The other main story is how corporately-owned chains gained market share last quarter, growing by nearly 21%, while the surgeon-owned center segment grew by 12%, and institutions only by 1%. Harmon attributes the corporate center growth to extensive marketing, and acquisition of surgeon-owned centers. As reported last month, U.S. procedure growth for the second quarter was up nearly 15%, reaching 361,000 procedures. Corporately-owned centers now account for 48.3% of procedures; surgeon-owned centers for 41.3%; and institutions for 10.4%. Within the corporate centers, Lasik Vision and **Icon** expanded aggressively into the U.S. market, adding 9 and 10 centers respectively. Icon now performs 8.3% of the corporate procedures and Lasik Vision 5.8%. The leader remains **TLC** with a 21.9% share, followed by **Laser Vision** at 19.1%; **Clear Vision** at 9.1 %; and **LCA Vision** at 8.3%. **NovaMed** has a 4% share; **Prime Vision** with 3.8%; and **Aris** has 3.2%. All others not mentioned, combined, hold a 16.5% share.

The newsletter also contains the results of survey of refractive patients taken at nine practices across the United States. Dave Harmon basically found the refractive patients are typically 30 to 50, well educated, with females outnumbering males by 60% to 40%. For more details, see the September issue of the newsletter, or contact **MarketScope** to receive a subscription.

- 9/12 **LASER VISION CENTERS** announced that its U.S. case volume for the month of August increased 39% compared to the same month a year ago. The company said that August was its second best month to date for U.S. case volume. The company also noted that it achieved the milestone of 250,000 procedures performed worldwide on August 4, 2000.

9/13 **Paradigm** announced that it had introduced its revolutionary Laser Cataract Removal System known as the "Photon" in Europe at the **European Society of Cataract and Refractive Surgeons (ESCRS)** meeting held last week in Brussels. Corinne Powell, general manager for Paradigm's International Division, reported that 25 distributors representing 30 different countries in Europe and North Africa have either contracted, or are in the process of finalizing agreements for representing the product in their respective countries which will translate into incremental sales between now and year end. Three systems will go into France immediately, one of which will be used to perform a live surgery teaching Seminar at the prestigious **Rothschild Eye Institute** in Paris, November 17th and 18th, hosted by its Director, Stephen Ganem, MD and world renowned physicist and ophthalmologist Danielle Aron-Rosa, MD, Clinical Advisor to Paradigm. "The doctors have been waiting for this a long time, but we did not anticipate this fast a reception. It appears Paradigm may be in line for some incremental windfall sales this year," commented Paradigm CEO Thomas Motter.

9/14 **LASER VISION CENTERS** announced that it had filed a lawsuit in U.S. District Court for the Southern District of Florida against the **Laser Vision Institute** for infringement of its registered service marks. "We consider our registered marks to be one of our most valuable assets and continue to vigorously pursue infringers," said Robert May, vice-chairman and General Counsel of LaserVision. "There is only one LaserVision and we founded the service provider business. Anyone who attempts to trade off our name does so at their own peril." May noted that in the last year the company had successfully enforced its marks, which includes LaserVision Center, Laser Vision Centers, LaserVision and the LaserVision logo, against more than 80 infringers. All but two of those centers had settled out of court, a spokesman for LaserVision said.

John Stiles, director of investor relations for Laser Vision Centers, said the Laser Vision Institute was operating as many as 15 facilities using the company's name. Officials at the Lakeworth, Fla.-based Laser Vision Institute were not available for comment.

9/18 **IRIDEX Corporation** announced the results of an expanded clinical study that evaluates a treatment for the vast majority of patients with wet Age-related Macular Degeneration (AMD). The study used Transpupillary Thermotherapy (TTT) photocoagulation to treat patients with subfoveal occult wet AMD. The TTT treatment was effective in improving or stabilizing vision in 81% of eyes and in decreasing subretinal fluid in 83% of eyes.

The study presented at the *Wills Eye Hospital Annual Retina Conference*, held in Philadelphia, was conducted by Dr. Elias Reichel and colleagues at the **New England Eye Center, Tufts University School of Medicine** in Boston. In the retrospective clinical study, 57 eyes of 52 patients with subfoveal occult wet AMD were treated with IRIDEX' IRIS Medical OcuLight SLx 810 nm diode laser photocoagulator in its unique LongPulse operating mode using a TTT protocol and were followed for an average of 10 months. Eighteen percent of eyes showed an improvement (+2 or more lines) in visual acuity; 63% of eyes remained stable (+/- one line); and 19% of eyes lost two or more lines of visual acuity. Eighty-three percent of eyes showed stabilization of their exudative process

after one TTT treatment as evidenced by resorption of subretinal and/or intraretinal exudate and hemorrhage. "This series provides an expansion of our original case series published last year in the journal *Ophthalmology*," commented Dr. Reichel, Assistant Professor of Ophthalmology at the New England Eye Center. "These updated results, with many more patients, support and expand upon the original pilot data for TTT of occult subfoveal wet AMD. The study demonstrates that eyes treated with TTT have minimal complications and compare favorably to the natural history of occult CNV. I am very pleased that the results continue to be favorable in this larger group of patients." Theodore Boutacoff, president and CEO of IRIDEX, added, "This is great news. It supports our confidence that TTT photocoagulation using the IRIDEX infrared laser system can effectively treat occult wet AMD. The occult wet stage of the disease accounts for about 70% of the estimated 500,000 new cases of wet AMD that occur each year world-wide."

9/18 Addressing investors and investment analysts gathered in New York for the **Donaldson, Lufkin & Jenrette** Growth Stock Conference and the 13th Annual **Bear Stearns** Healthcare Conference, Ronald Eidell, executive vice president and CFO of **NovaMed Eyecare, Inc.** last week said that the company is well-positioned for continued growth and leadership in the eye care services industry. "As our results for the last 12 months show, our growth strategy is working, both in our existing markets and in the new markets we have entered," Eidell said, emphasizing that, for the trailing 12 months ending June 30, 2000:

- Laser vision correction procedures at NovaMed grew notably faster than the industry overall, rising to 16,267;
- First-half 2000 LVC procedure volumes represented an annualized year 2000 run rate of 24,000 procedures;
- Net revenues grew to \$123.4 million;
- Operating earnings increased to \$11.7 million;
- Earnings per share rose to 25 cents; and
- Cash flow from operations (EBITDA) increased to \$16.1 million.

Eidell also noted that NovaMed's strong operating cash flows were complemented in June 2000 by a new, three-year \$50 million senior secured credit facility, provided by **National City Bank, The Northern Trust, LaSalle Bank** and **Bank of America, N.A.** "As our performance and solid financial position demonstrate," he said, "we have the capacity to grow profitably, despite continued highly competitive conditions in the LVC consumer market and the LVC equipment and services sectors." Going forward, Eidell said, NovaMed will benefit from three fundamental strengths: (1) the company's emphasis on integrating surgical vision correction procedures, including laser vision correction, into eye care professionals' comprehensive practices; (2) its focus on establishing density in its core regional markets; and (3) its unique facilities-driven revenue and earnings streams. "Our emphasis on regional density provides patient-consumers with multiple access points and the full range of eye care services in every market we serve."

Exemplifying this approach, NovaMed today is expanding its presence in its newest core market, the Southeastern United States, which it entered early in 2000, focusing around Atlanta and Chattanooga. The company recently acquired its first eye-only surgery center in Atlanta and completed another practice affiliation with a regional LVC surgeon. In addition, NovaMed increased its LVC capacity by opening a new LVC center in Atlanta and adding a fixed-site laser in its Chattanooga eye-only surgery center. "With these additions, our presence in the Southeast now includes three LVC centers, two eye-only surgery centers, six clinic locations and 11 doctors," Eidell said.

- 9/19 **LCA-Vision** said it will open three value-priced LasikPlus centers during the next two weeks in the Greater Philadelphia/Wilmington suburban area to serve a metropolitan population of over 5.5 million. The new facilities are located in King of Prussia, just west of Philadelphia; Mount Laurel, New Jersey, across the Delaware River from Philadelphia; and Chadds Ford, between Philadelphia and Wilmington, Delaware.

Commenting on the openings, LCA-Vision chairman and CEO Stephen Joffe said: "Based on our extensive research of the Greater Philadelphia market, we see a relatively underserved region that's ideally suited to a value-priced provider like LasikPlus. With patient acceptance of laser vision correction growing at a dramatic rate, opening multiple centers in the Philadelphia market will allow LCA-Vision to cost-effectively leverage marketing expenses by promoting the three new centers with a single campaign."

LCA-Vision has opened nine new LasikPlus centers year-to-date. By the fourth quarter, the company will own and operate 33 facilities in the U.S. plus two in Canada and one in Europe.

- 9/19 **Prime Medical Services Inc.** announced the opening of its thirteenth refractive vision center, located on Bush Street in central San Francisco, Calif. This new center will be operated by Prime affiliate, **Horizon Vision Centers'** surgeons, Mark Mandel, MD and Stephen Turner, MD, who will act as co-medical directors at the new facility. Brad Hummel, president and CEO, stated, "The successful opening of facilities in St. Louis, Mo., and Concord and San Francisco, Calif., in the past two months gives testament to Prime's commitment to rapidly expand in key markets in order to meet demand. This represents Horizon's seventh facility and is indicative of Prime's commitment to the partnership model as well as our ability to execute our growth strategy. The facility is also an 'open access' center, thereby providing area physicians and their patients advanced technology for the most current laser eye procedures. We anticipate continued rapid growth and expansion for Prime this year, as new markets are identified in our refractive center development program."

- 9/19 The *AP Newswire* reported that Tiger Woods may earn more from endorsements that he earned from playing (and winning) golf tournaments. "Once his new five-year contract with **Nike Inc.** takes effect next August, Woods will bring in about \$54 million each year from endorsement deals he has with 11 companies," according to this week's issue of *Golf World*. The total purse on the PGA Tour the year Tiger Woods turned pro was \$69.1

million. The magazine (Golf World) cited a variety of sources familiar with the contracts, which range from the \$100 million deal Woods signed Friday with Nike to a five-year, \$10 million deal with the company (TLC) that performed LASIK eye surgery on Woods a year ago.

9/19-

9/20 **VISX** announced that the U.S. Patent and Trademark Office had issued a Reexamination Certificate in the case of of VISX's U.S. Patent No. 5,108,388, known as the '388 Patent (Trokkel). During the reexamination, VISX amended the original five claims of the patent and added 60 new claims that pertain to methods of performing laser vision correction. The patent will expire in 2009.

(I was finally able to access the Reexamination Certificate which contained the changed and additional claims of the reexamined '388 patent. The only changes made to the original five claims was the addition of the phrase, "wherein the ablation overlaps the optically used area of the cornea" to claims 1, 3, 4, and 5. (Claim 2 was unchanged.) The 60 added new claims appear to broaden and define the scope of the original patent, but will require a more close scrutiny and analysis before a definitive answer of whether the patent has actually been broadened becomes apparent. In addition, the Blum/**IBM** patent was added as a reference citation (it had apparently been omitted due to oversight in the original filing), along with another dozen or so other patents, and some three pages (of fine print) of "other publications" as references.)

Following the announcement, **Chase H&Q** analyst Robert Faulkner reiterated his buy rating on VISX, stating that, "Tuesday's U.S. Patent and Trademark office decision 'upholding and strengthening' a key company patent may prove a strong basis on which to sue alleged infringers, if the company chooses to do so".

Faulkner went on to say, "No legal result is likely for a year or more. Settlements could be reached at any time between now and then. We do not expect Nidek to settle, however." In a research note published the following day, Faulkner commented, "For owners, the key here is that there is virtually no downside to the legal process. In the worst case, we have the status quo with no acknowledgement of VISX intellectual property. It must be said that projecting legal outcomes is hazardous business, perhaps unwise. What we know today is that the certificate issued today is a key to any progress that is to unfold. We are of the view that this is an important piece of support for the VISX intellectual property, one that has been "out of commission" for years during this reexamination. Outcomes from here include full litigation, or settlement. Full litigation will take years, and rarely results in an injunction -- elimination of competition from the market -- which would be the best-case scenario. Nor do we any longer believe that VISX might collect 100% of the fee, i.e., \$100 per procedure. It appears to us that, to the extent to which the competition has trampled the VISX territory already, competition's ability to negotiate "rent" for that territory has increased. We would expect a relatively low per-procedure fee to VISX. All players except **Summit (Alcon)** would be subject to payments, if one player is deemed to be. At present, we believe the most likely case

scenario is full litigation with **Nidek**. A better-and-possible scenario could include agreement by one competitor to pay a fee. This could happen at any time and is likely to happen sooner than later (e.g., 3-12 months). The longer the patents are ignored, the more likely full litigation is the ultimate process. Net net, this positive event for VISX (and similarly negative for Nidek, **LaserSight** and **Bausch & Lomb**) could drive or maintain multiple expansion as the core of VISX's value is reaffirmed."

The following day after receiving notice of the re-examined patent, VISX announced it had sued Bausch & Lomb for allegedly violating the '388 patent for performing laser vision correction. In papers filed on Tuesday, September 19th in the U.S. District Court in Delaware, VISX alleged its '388 patent is being infringed by Bausch & Lomb Surgical Inc.'s Technolas 217 Excimer Laser System. Bausch & Lomb spokeswoman Holly Houston said "We're not surprised by the lawsuit. We expected it. We will vigorously defend against the lawsuit. We will continue to market our Technolas 217 Excimer System as usual."

9/20 **Refractec, Inc.** will launch its new website on September 25th with a live web cast of the Conductive Keratoplasty (CK) procedure, performed as part of an FDA phase III clinical trial. The web cast of the surgery, performed by world-renowned ophthalmologist Dr. Robert K. Maloney, will be followed by an online chat session with Dr. Maloney and fellow clinical investigator Dr. Steven Brint.

9/20 Brenda Moore, in her "Heard in California" column in the California edition of the *Wall Street Journal*, covered the story about **KeraVision's** money-back guarantee for having Intacs inserted, as first advertised by the **Hunkeler Eye Centers** in Kansas City. According to industry analyst David Harmon of **Market Scope**, "The money-back offer is an "indication of a desperate situation", I was kind of shocked when I saw it."

Medical-ethics experts say the money-back offer is uncomfortably close to guaranteeing results. The American Medical Association frowns on linking fees to treatment outcomes. In its code of ethics, the group says "such arrangements are unethical because they imply that successful outcomes from treatment are guaranteed, thus creating unrealistic expectations of medicine and false promises to consumers." Herbert Rakatansky, a Rhode Island physician who heads the AMA's council on ethical and judicial affairs, says the group considers the KeraVision offer to be in conflict with its ethics policy. Stanley Korenman, associate dean for ethics and medical science training at the University of California-Los Angeles school of medicine, says the standard medical belief system is based "on the fact that you can't make promises" about results. While he doesn't call KeraVision's offer unethical, he warns that "by putting this kind of performance standard out there, more and more of that will be expected and there will be even higher levels of dissatisfaction" among patients.

But John Galantic, KeraVision's president, says he doesn't consider the offer a "guarantee," nor does he see it as unethical. "It's that we're simply giving the patient an out, and the technique is unique in being able to offer that option," he says. David



Schanzlin, president of the International Society of Refractive Surgery and the chief medical investigator for Intacs, says the development of removable surgical devices may necessitate a review of AMA policy. Daniel Durrie, an Overland Park, Kan., ophthalmologist whose Hunkeler Eye Centers are the first to advertise the offer, says the campaign is simply a way to get potential customers to consider the procedure. Dr. Durrie, who was a lead investigator for Intacs' clinical trials, says the offer doesn't cross any ethical lines unless doctors who make such an offer "try to abuse it by taking people from the marketing [effort] to the operating room" and skip the usual education and evaluation process in between. "It's important to understand the only thing being offered in this campaign is if somebody wants to try this procedure and they are not satisfied" that the doctor will remove the implants, he says.

- 9/20 *Vision Monday* reports that its publisher, **Jobson Publishing LLC**, will launch a new publication devoted to refractive surgery, *Review of Refractive Surgery*, which will debut this month. The magazine will be a quarterly, beginning next January. The journal will be produced by the staff of *Review of Ophthalmology* and will have industry journalist Leslie Sabbagh as its editor. According to Leslie, the journal will contain a combination of news, features, a CME article, and staff-written and ophthalmologist-written pieces covering every aspect of refractive surgery. According to Jobson, the target audience for the journal will be all ophthalmologists interested in learning more about the quickly evolving field of refractive surgery, from those who have incorporated it in their practices, to those who are hoping to do so.
- 9/20 This month's issue of *Ophthalmology Management* contains a lead article that discusses (lightly, I may add) eyetrackers for the various next generation lasers for LASIK. The article covers the **Alcon Summit/Autonomous** LadarVision (laser/radar) tracker in some detail, but only cursely covers the others, those used by **VISX**, **Bausch & Lomb**, **LaserSight**, and **Nidek**, which are all video trackers. (I believe that the article I wrote for *Ocular Surgery News* contains much more technical information about these systems, and those from **Schwind** and **WaveLight**.)
- 9/21 **ICON Laser Eye Centers, Inc.** announced that it had signed a corporate care agreement with **Paramount Dental Plan, Inc.** whereby ICON will offer LASIK vision correction at a preferred rate to Paramount members. ICON and Paramount Dental Plan will soon begin an introductory marketing program to inform Paramount members of the special offer and about LVC by ICON. "ICON continues to attract a growing number of health service providers interested in offering LASIK at preferred rates to their members," said Ghassan Barazi, COO of ICON. "The corporate care LVC segment continues to expand at an unprecedented rate and ICON is positioning itself to become the definitive leader in this area. Organizations are looking for a LVC provider that can provide high quality refractive outcomes at affordable prices. ICON is this provider."
- 9/22 **LaserSight** provided a follow-up to its August 14, 2000, Conference Call with an update on various areas of product, product development, and strategic developments. The company announced the recent completion of a \$6.0 million equity financing with

**BayStar Capital, LP** and **BayStar International**. The financing is a private placement of approximately 1.7 million shares of its common stock purchased at \$3.50 per share. BayStar also received a warrant to purchase 600,000 additional common shares at a purchase price of \$3.60 per share. Michael Farris, LaserSight's president and CEO, said, "With its investment BayStar has once again expressed confidence in LaserSight, its management, technology, and products. With this financing we are better positioned to bring our products into the U.S. market, expand our international presence, and maintain a technology leadership position through on-going innovation and improvements to our refractive products."

The company also announced that on September 15, 2000, it entered into a \$5.0 million credit facility with **The Huntington National Bank**. The credit facility provides that the company may borrow amounts at an annual rate equal to 0.5% above the prime rate for short-term working capital needs or for such other purposes as may be approved by Huntington. Borrowings will be limited to 50% of qualified accounts receivable related to U.S. sales. The credit agreement with Huntington replaces a \$2.5 million credit facility that expired on June 30, 2000. The facility requires the company to maintain both a specified liquidity level and tangible net worth level.

According to Farris, the level of interest shown for LaserSight's LaserScan LSX excimer laser system on the domestic and international market remains high. "I am pleased that the marketplace has embraced our technology and recognizes that a high repetition rate, small spot, low fluence, eye tracker-based technology is truly the workstation for the future. This has been the reason why we continue to see high interest in our LaserScan LSX."

However, the company's UltraShaper durable keratome in-house clinical evaluation continues and is expected to be completed within the next 45 days. A follow-on phase of additional testing will be performed to confirm the manufacturability of the device. Upon successful completion of the final tests, we expect that the durable keratome could be commercially available during the fourth quarter of 2000. The UltraShaper, together with the UniShaper single-use keratome and the line of UltraEdge keratome blades and consoles, form the Company's MicroShape family of products. The company believes that until its durable keratome is commercially launched and successfully marketed, revenues associated with all keratome products will continue to fall short of projections.

The company is still working with the FDA on obtaining approval for treating astigmatism. A PMA supplement was filed during March 2000 to include myopia with astigmatism. During August 2000, additional information was provided in response to a request from the FDA. At this time the company is preparing its response to a recent request for clarification received from the agency. While the company believes that its pending response should address all open issues regarding approval of astigmatism, it is not possible to provide an exact time frame within which LaserSight anticipates receipt of the astigmatism approval. When received, the addition of astigmatism to approved clinical indications will be a significant milestone that opens the U.S. market for the

LaserScan LSX to approximately 80% of the refractive corrections currently performed with excimer laser systems. In the international market, the LaserScan LSX is utilized to treat the entire range of refractive errors including myopia, hyperopia and mixed astigmatism.

Clinical testing of the CustomEyes custom ablation products continues at international sites. "The company's goal is to achieve custom ablations that optimize the asphericity and ultimate shape of the eye, so that it is not altered from its preoperative prolate shape thereby inducing certain aberrations that may lead to loss of overall quality of vision," commented Farris. "We believe that this whole approach to laser vision correction will change the way in which patients ultimately make their selection about having their eyes treated and that surgeons, seeking the best treatment for their patients, will embrace the capabilities of our system with respect to custom ablation." Results of international custom ablation activities will be reported at the Annual Meeting of the American Academy of Ophthalmology in October.

#### **OPHTHALMIC LASER UPDATE -- October 2000**

9/26 **Premier Laser Systems** and **SurgiLight** announced that they have signed an agreement under which SurgiLight will acquire Premier's ophthalmic laser division, including the intellectual property and inventory. Under the terms of the agreement, SurgiLight will close the transaction prior to the AAO meeting in the third week of October. JT Lin, CEO of SurgiLight, said "We believe this is an extremely important milestone in the growth and development of our company." Michael Quinn, president and CEO of Premier, said "We are pleased to be selling the ophthalmic laser technology and inventory to SurgiLight. The sale of the combined assets enables Premier to obtain optimum value for its stakeholders."

The transaction between the parties is a culmination of a month long series of negotiations involving two separate suitors. **The Magnum Group, Inc.**, financial advisors to Premier, managed these negotiations. Randy McDonald, managing director for Magnum stated, "We are confident that we have negotiated a deal that maximizes the asset value of Premier' ophthalmic lasers. In addition, we believe that SurgiLight will maximize these assets and immediately enter the market with this important technology." The transaction is subject to customary closing conditions, and approval by the bankruptcy court in which Premier's Chapter 11 case is pending.

According to the legal motion for approval of the sale document, the price for the assets and intellectual property was \$3.725 million. This included 150 completed erbium:YAG laser systems, raw materials and work in process for an additional approximately 100 systems, and accessories. The bid also contained an option by the buyer to purchase an additional 10 lasers for a fixed price of \$50,000, if exercised by March 1, 2001.

9/26 **Prime Medical Services Inc.** announced that its **Barnet Dulaney Perkins Refractive Center** in Phoenix, Ariz., had been chosen as the first in the United States to participate

in clinical research trials of the **Eye Q-Vis** Solid State (213 nm) Refractive Laser. The Eye Q-Vis laser is an investigational delivery system that is being evaluated for LASIK surgical procedures treating nearsightedness and astigmatism. The solid state laser system uses 213 nm radiation from a quintupled Nd:YAG laser for refractive surgery of the eye. This system is the result of over ten years of research and development at the **Lions Eye Institute** in Perth, Western Australia. The Eye Q-Vis has been in clinical trials in Australia for over a year. "Approximately 100 surgical procedures have been performed," said David Dulaney, MD. "The solid state technology, as well as the 213 nm wavelength's ability to operate in a wet environment will be explored during the clinical trials." Ken Shifrin, chairman of **Prime Medical**, stated, "We are pleased that our partners at the Barnet Dulaney Perkins Refractive Center have been chosen as the initial U.S. test sight for this possible advancement to current LASIK techniques."

9/26 **Alcon Laboratories** announced that the **Alcon Summit Autonomous LADARVision** System was the first to win approval from the FDA for the treatment of farsightedness (less than or equal to +6.0 D), with or without astigmatism (less than or equal to -6.0 D) and for mixed astigmatism, using the LASIK procedure, which gives LADARVision the broadest range of approvals of any FDA-approved excimer laser and makes it the only one capable of treating all types of refractive errors with LASIK.

The LADARVision System is currently the only FDA-approved laser system to achieve these indications in a single procedure, minimizing the amount of tissue removed and eliminating potential risk of misalignment possible in second procedures. "We've reached another milestone by becoming the first excimer laser manufacturer to gain approval for hyperopia with or without astigmatism, and for mixed astigmatism, using LASIK," said Charline Gauthier, OD, vice president/general manager-Orlando operations. "Approval for mixed astigmatism is of particular importance since it has recently been defined as a separate indication by the FDA and the LADARVision System is the first excimer laser to demonstrate safety and effectiveness in treating it. Today, no competitor can claim a broader range of approvals."

Following the announcement, several corporate centers, including **TLC Laser Eye Centers**, and **Prime Medical Services** announced that the new treatment would be available at their U.S. centers. TLC said, throughout the past year, TLC has been distributing multiple laser platforms across its North American network of centers to allow patients to be treated on the laser that best meets their clinical needs. As TLC continues to lead in this arena, the company will persist in researching and implementing anything that can clinically reduce the risks to our patients and to provide high quality results. Consistent with that strategy, TLC now operates LADARVision systems at 19 of its U.S. refractive centers. The company has already begun the simple, quick and unique process of upgrading all of the software in its U.S. LADARVision systems via modem.

Prime Medicals' Brad Hummel, president and CEO, stated, "Central to Prime's refractive strategy is maintaining our position as a leader in the industry, which includes being at

the forefront of technological advances. Accordingly, Prime has placed the LADARVision system in selected centers over the past six months in anticipation of FDA approval for these applications. This not only broadens the patient base from which our centers can draw, but importantly, also meets the clinical needs of those patients with the most appropriate technology. Currently, the LADARVision system is available at Prime centers in Phoenix, Ariz., San Francisco, Calif., Beverly Hills, Calif., and St. Louis, Mo."

9/27 **KeraVision** said that the Federal Aviation Administration (FAA) had accepted INTACS inserts as an approved medical procedure for use by the nation's 635,000 licensed pilots. Approval acceptance covers all classes of FAA-licensed private, commercial and transport pilots. INTACS inserts become the first non-laser option for surgically correcting myopia to be accepted by the FAA. The approval acceptance follows a six-month evaluation by the FAA. KeraVision chairman and CEO Thomas Loarie said, "INTACS inserts offer the maintenance-free convenience of a surgical procedure and the flexibility of eyeglasses and contact lenses which can be replaced as consumers go through life. KeraVision believes these unique benefits are a natural match for pilots' demanding lifestyle."

9/28 **Bausch & Lomb** announced a series of changes to its organizational structure intended to more fully realize the operational and commercial synergies that exist among its eye-care product lines, enhance responsiveness to its customers and increase shareholder value. At the core of the company's initiative was the designation of regional managers who will be responsible for the commercial operations of all of the company's businesses --vision care, surgical and pharmaceuticals - within specified markets, and the centralization of the product development and product supply functions. "Four years ago, Bausch & Lomb evolved from a highly decentralized organizational structure to one that aligned our operations around global product lines," said chairman and CEO William Carpenter. "The global structure allowed us to bring strategic focus to our businesses and realize operational efficiencies during a period in which we made dramatic changes to our business portfolio. We are now a highly focused company, with eye-care product lines that present tremendous opportunities for commercial and operational synergies. To fully capitalize on those opportunities, we are evolving further, moving Bausch & Lomb, in essence, to an integrated operating company."

Bausch & Lomb's commercial operations, previously under global management, will now be managed regionally in order to move key decisions to a level that is closer to the customer. Product development and product supply functions will be managed on a company-wide basis, in order to maximize the utilization of resources and expertise across all product lines. Commenting on these changes, Carpenter said, "These changes simplify our organization, allowing faster decision-making and clearer accountability for measurable results. They will also allow us to eliminate redundant support functions and overhead, providing the opportunity to achieve significant cost savings, while at the same time enhancing our responsiveness to our customers. With the implementation of these key management changes, we will now focus on finalizing our plans to achieve the efficiencies inherent in this streamlined organization. As previously indicated, I intend

to update our investors on those cost-savings plans on October 12, 2000, when we release our third-quarter results."

Commercial operations for all business lines will be managed on a regional basis, reporting to a single regional head, with the exception of the European Pharmaceuticals business. Given the strategic importance of bringing capabilities of the company's recently acquired **Groupe Chauvin** business together with its **Dr. Mann Pharma** business, the developing European Pharmaceuticals business will report directly to the CEO. Hakan Edstrom, currently corporate senior vice president and president-global surgical, has been appointed to lead the Americas Region, comprising the United States, Canada and Latin America, with responsibility for the vision care, pharmaceuticals and surgical business lines for the region. Mark Sieczkarek will continue to lead the vision care and surgical businesses in the Europe, Middle East and Africa Region; Alan Farnsworth will continue to lead the European pharmaceuticals business; and John Loughlin will continue to lead all businesses in the Asia Pacific Region.

In order to maximize the utilization of resources and expertise across all business lines and to continue to drive out the cost associated with unnecessary duplication of resources, the product development and product supply chain management functions are being centralized under global leadership. Gary Aron, currently corporate vice president and vice president-global scientific affairs for the vision care business, will now serve as head of research, development and engineering, with responsibility for research, product development, engineering, clinical, medical and regulatory affairs and quality for all business lines. Dwain Hahs, currently senior vice president and president-global vision care, has been appointed head of global supply chain management. He will be responsible for demand planning, manufacturing, logistics and procurement for all business lines.

With the implementation of the new structure, two senior executives have decided to leave the company. Thomas Riedhammer, Ph.D., currently senior vice president and president-global pharmaceuticals, will retire and Daryl Dickson, currently senior vice president-human resources, is resigning to pursue other opportunities.

9/28 **VisionCare Ophthalmic Technologies, Inc.** announced that patient enrollment and implant procedures had commenced in a multicenter clinical trial of the company's Implantable Miniaturized Telescope (IMT). The IMT is being evaluated in patients with central vision impairment due to dry or scar stage age-related macular degeneration (AMD). Stephen Lane, MD, **Associated Eye Care**, Stillwater, MN completed the first two U.S. implants of the IMT at his facility on September 27. "We are excited about the potential the IMT provides for improving visual acuity and the quality of life for individuals with severe dry or scar stage AMD," commented Dr. Lane. "We are taking the first steps in a demanding clinical evaluation process necessary to rigorously assess the performance of the IMT in patients who have no viable therapies available to them for their AMD."

The IMT is a miniaturized 3.0X telescope that is surgically implanted in the posterior chamber of the eye, replacing the eye's natural lens. The surgical procedure is similar to that used for implanting standard intraocular lenses, an outpatient procedure lasting 30 to 45 minutes conducted under local anesthesia. The IMT is implanted in one eye, which provides central vision, while the non-operated eye provides peripheral vision. The IMT contains a number of microlenses which magnify objects in the patient's central visual field to improve central vision in the implanted eye without external low-vision aids. The trial is being conducted at three sites in the U.S. and is intended to assess the safety and effectiveness of the IMT. Stephen Lane, MD, Associated Eye Care, Stillwater, MN; Bowes Hamill, MD, Department of Ophthalmology, Baylor College of Medicine, Houston, TX; and Baruch Kuppermann, MD, Department of Ophthalmology, University of California Irvine, Irvine, CA are Principal Investigators for their respective sites for the clinical trial.

- 9/29 According to Toronto's *Globe and Mail*, **TLC Laser Eye Centers** has decided to give stock options to people like Tiger Woods and Se Ri Pak who provide the company with marketing, promotional, and endorsement services, according to the shareholders information circular for the annual meeting, accompanying the company's annual report. Woods and Ms. Pak, who are under multi-year endorsement contracts to TLC, are "examples of individuals to whom options may be issued," the Toronto-based company said. TLC now grants stock options only to directors, officers and employees, but the company will ask shareholders at the annual meeting to amend the stock option plan. TLC spokesperson Stephen Kilmer said stock options would be offered in lieu of cash in future endorsement deals and not to replace cash in existing contracts. "It gives us flexibility. . . to offer an incentive...From a budgeting perspective, Tiger is a small percentage of what we're spending on marketing, but the materials using him is a large percentage," Kilmer said.

Both golfers had laser vision correction surgery at TLC clinics last October and signed endorsement deals in February. Following his surgery, Woods went on to win five consecutive victories on the PGA tour, the most since Ben Hogan won five in a row in 1953.

- 9/30 I received copies of two research reports, dated August 21, 2000, prepared by **Grassroots Research**. One, on the outlook for excimer laser vision correction, was entitled, "Excimer Lasers"; while the second looked at the outlook for **Sunrise Technologies**.

The excimer laser report's key findings were:

- Procedure volume estimates for 2000 are being revised downward slightly, but double-digit, year to year growth is expected to continue for the rest of the year.
- **VISX** is perceived as falling behind competitors in terms of technology, but its devices are considered the workhorses of the industry.
- Sales of non-VISX lasers are stronger than expected, and enthusiasm is limited for costly VISX S2 to S3 upgrades.

- True custom ablation is at least two years away, and it is unclear whether doctors and laser centers will be able to charge extra for this feature.

The key findings of the Sunrise report, which tends to be negative toward the company, were as follows:

- Refractive surgeons are taking a cautious approach to LTK. They want to know more about it, but they are not leaping into purchasing Sunrise lasers, and none of the major corporate laser centers has yet ordered a Hyperion laser.
- The overall market for LTK procedures is expected to be small. LTK is likely to find a role in laser vision correction, but it may be as much of a niche as **KeraVision** Intacs.
- Adoption of LTK is being hindered more by competition from LASIK -- which produces good, more permanent results in hyperopia at a similar or lower cost -- than by the limited range of hyperopia currently approved for LTK treatment.
- Competition from laser centers that offer discount-priced LASIK is expected to force down LTK pricing.

10/2 **Washington & Baltimore Laser Eye Centers** said that it had officially changed its name to **See Clearly Vision**. This was in response to the overwhelming reaction of their patients to the website, **seeclearly.com**, and to the exclusively licensed use of the well-known song I Can See Clearly Now. Dr. Rajesh Rajpal, the founder and medical director of See Clearly Vision stated, "We wanted to make it easier for people to remember our name and capture the image of what we do." See Clearly Vision have offices in Virginia, Maryland and Washington, DC.

10/2 According to *Contact Lenses Today*, about 20% of adult Americans are considering refractive laser surgery, according to a poll commissioned by the *Vision Council of America*. Respondents cited their most common concerns about the surgery as: potential for eye damage, cost and lack of insurance coverage. The poll also reported that 9% of respondents had already had surgery to correct their vision and of those, 79% had LASIK. The poll also noted that "some" of those respondents who said they had had LASIK or PRK could not clearly explain what eye condition the surgery had been used to correct.

10/3 **Prime Medical Services** announced that it had acquired a 65% interest in **Vision Correction Centers of Kansas City** from Jeffrey Couch, MD. Dr. Couch will retain a 35% interest in this center, which is devoted exclusively to laser surgical vision correction. Currently, the center performs approximately 3,000 refractive vision correction procedures annually. Brad Hummel, president and CEO of Prime, said, "This most recent partnership furthers an important aspect of Prime's refractive strategy: selective acquisitions. Dr. Couch's refractive practice provides us entree to an important and appealing market with considerable opportunities for expansion and growth. Through acquisition, expansion and development, we've built a solid base of 14 refractive centers across the United States and have positioned Prime to stand out as one of the most



successful healthcare service companies in the country. We are delighted to have Jeff join our group of nearly 1,300 physician partners."

- 10/3 **Lasik Vision** announced that it had filed a Statement of Defence and Counter Claim with respect to the allegations set forth in the lawsuit filed on August 18, 2000 by Michael Henderson (its former CEO) in the Supreme Court of British Columbia. As stated by chairman Hugo Sutton, "The company sees no foundation or merit in this complaint and will defend this lawsuit diligently and aggressively."
- 10/3 **LCA-Vision Inc.** reported an 86% increase in consolidated procedure volume for the third quarter of 2000. Third quarter procedures rose to a record 16,341, up from 8,769 procedures for the same period a year ago. Sequentially, procedures were up 18% versus last quarter's 13,888. During the third quarter, the company opened six new LasikPlus centers: three in Philadelphia, two additional centers in the D.C. area, and one additional center in the Atlanta area. These openings enable the company to leverage advertising and promotion spending across multiple centers in the same geographic market. "Our aggressive roll out of new centers is focused on establishing unassailable leadership in the nation's most promising markets," said LCA-Vision chairman and CEO Stephen Joffe. "While we will open two additional centers early in the fourth quarter, we intend to resume an aggressive schedule of new center openings in 2001. We are convinced that increasing procedure volume is the surest route to long-term profitability and shareholder value."
- 10/3 **CIBA Vision Corporation** and **QLT Inc.** announced the filing of an application for Visudyne (verteporfin) therapy with the *European Medicines Evaluation Agency (EMEA)* for the treatment of eye diseases other than age-related macular degeneration (AMD). The submission by QLT and CIBA to the EMEA seeks to expand the initial indication to include patients with other ocular conditions characterized by choroidal neovascularization (CNV). These other diseases include pathologic myopia (PM), ocular histoplasmosis syndrome (OHS), angioid streaks, CNV due to certain retinal abnormalities, and idiopathic causes, among others. A similar supplemental new drug application (sNDA) filed recently to expand the indications was given priority review status by the FDA. The specific expanded label requested is for the treatment of patients with predominantly classic subfoveal choroidal neovascularization (CNV) due to AMD, or with subfoveal CNV caused by other macular diseases.
- 10/3 **ICON Laser Eye Centers** announced that it had withdrawn its preliminary prospectus filed on June 30th to raise \$6-10 million because of merger discussions that are at advanced stages. A non-binding letter of intent has been executed which triggered the commencement of a due diligence period. ICON's potential merger partner has infused, as a loan, \$500,000 into the company. Upon completion of the due diligence period, contemplated at less than 30 days and subject to board approval, the transaction would proceed with further debt financings by ICON's new merger partner.

Commenting on the developments, Ghassan Barazi, COO of ICON stated, "ICON intends to be a catalyst for the consolidation of the laser vision correction industry. We are investigating a number of corporate merger and/or acquisition possibilities with the most significant transaction scheduled for closing within 30 days subject to due diligence by the parties. If the current pending transaction is not consummated with a definitive agreement, ICON will again file an amended prospectus and renegotiate terms with investment banking firms toward a goal of raising fresh equity capital."

The company also announced that 22,976 LASIK and/or PRK procedures were performed at ICON wholly owned and affiliated centers during Q3 2000. On a sequential quarter to quarter basis, procedures for Q3 2000 were down approximately 2.2% from the 23,491 procedures performed during Q2 2000 but were up approximately 315% on a year-to-year basis from the 5,541 LVC procedures performed during Q3 1999. ICON performed 7,405 procedures during the month of September. During Q3 2000 ICON consolidated its business interests in 6 laser eye centers that the company jointly operates with **VisionAmerica Incorporated**. ICON also signed definitive corporate care agreements with several leading health service providers and launched its first retail superstore in conjunction with **Henry Ford OptiEyes** in Michigan.

- 10/3 **Vision Twenty-One, Inc.** announced that it had successfully completed the divestiture of its physician practice management business involving optometry and ophthalmology practices. The company is now in a position to implement its strategy of principally focusing the company's resources and efforts on its managed care business. As a result of the company's increased focus on its managed care business, the company is evaluating strategic options regarding its ambulatory and refractive surgery divisions, including the possible sale of these business units. Concurrent with this shift in the company's operating focus, the company announced the appointment of a new executive management team.

Effective immediately, Mark Gordon, OD, will serve as CEO and Andrew Alcorn will serve as president. The company has also appointed Richard Jones as CFO, Ellen Gordon as COO and Howard Levin, OD as vice president and Clinical Director. Dr. Gordon and Mr. Alcorn have extensive experience in the managed care business, having previously served as the head of the company's **MEC Health Care, Inc.** and **Block Vision, Inc.** subsidiaries, respectively. The company's founder and former CEO, Ted Gillette, recently resigned his officer and board positions in order to pursue other business interests.

- 10/4 Eight leading analysts and top management from eighty-two sector firms examined the Healthcare sector in a special 288-page **UBS Warburg Global Life Sciences Conference 2000** issue from *The Wall Street Transcript*. The Vision Care Industry is featured. In an in-depth Analyst Interview, Rebecca Irwin, Associate Director at UBS Warburg, examined the outlook for the sector, including laser vision, rate of adoption, and shared specific stock recommendations. Irwin focused on **Lasik Vision Corp.** "Lasik Vision Corporation, entered the States, offering significantly discounted procedure prices. This forced all the providers here in the States to scramble and change their operating models

so that they could operate and survive in a price-pressured environment. We see that reflected in the stock prices of these companies: they're trading at their lows for the year." She also said that, "We have a buy on VISX. There are risks there with increased competition from **Bausch & Lomb** and with the **Alcon/Summit** deal, but we still think that the significant percentage of the installed base that it has gives it a great head start on the other companies."

At the UBS Warburg Global Life Sciences Conference 2000 meeting, John Klobnak, chairman and CEO of **Laser Vision Centers** presented a company update. According to the company, Klobnak was expected to state that the company's business model transition from a pure access provider to a market development model is on schedule. In addition, the company:

- Believes that while procedure prices range from \$999 per eye to \$2,500 per eye, patient pricing is stabilizing and price segmentation is emerging.
- Believes industry procedural growth will be between 40-50% for its current fiscal year.
- Is exploring alternatives to leverage its large portfolio of surgeons.
- Ranks first in lasers in operations, in surgeons under contract, in sites served and in profitability.
- Believes the sell off of stocks within the sector was caused by concerns over predatory pricing.
- Believes LaserVision will remain an industry leader and will be a consolidator as the industry shakeout continues.

10/4 **Leerink Swann** released a research note about **QLT, Inc.**, in which it downgraded its recommendation from "speculative buy" to "hold". The change was based on a recently completed poll of its **MEDACorp** retinal consultants, in which they found that approximately 16% to 17% of the wet AMD patients they see are candidates for Visudyne therapy, and that the penetration rate could grow to 19% to 20%. That was down from previous polls that indicated utilization rates between 26% and 27%. On that basis, they lowered their year-end Visudyne revenue projections to \$96 million, \$206 million, \$287 million, and \$353 million for the years 2000-2003 respectively, compared to previous estimates of \$108 million, \$309 million, \$458 million, and \$563 million, for those same years. Other findings included that 1) treatments may not be increasing at the rate previously anticipated; 2) the reimbursement environment remains unsettled; 3) the retreatment rate remains strong, at nearly 80%; and 4) Visudyne orders are increasing. Their consultants (at 40 retinal practices) indicate that they are treating an average of 4 patients per week, and they anticipate that to increase to 5 patients, but that was down from previous estimates of 7 patients per week. The Leerink Swann analysts assume that there are currently 500 lasers in use in the U.S., and that this will increase to 600 in 2001 and 700 in 2002.

10/4 **NovaMed Eyecare** announced that its LVC volume for the third quarter totaled 6,744 procedures, up 87% over the 3,615 LVC procedures performed in the third quarter of

1999 (but down 2% over the second quarter). For the nine months, NovaMed's LVC procedure volume of 18,711 rose 113% from 8,765 LVC procedures in the first nine months of 1999.

Following the announcement, Rob Faulkner of **Chase H&Q** issued an updated research note. In it he said that the procedure number was in line with his recently revised estimates. The sequential growth was higher than the year over year estimate, but only 2% quarter over quarter, rather than an expected 4% for the national market model. Faulkner believes that NovaMed's LVC procedure growth was negatively affected by the entry of low-priced providers into its markets. He rated the company's stock as "market perform" and said that he believes that investors should wait to invest until the company has greater clarity on procedure volume growth and control of its spending. He further noted that he questioned whether the low-priced model of some competitors was sustainable, and that he has greater confidence in the NovaMed model. In a comparison table, he noted that only **LCA Vision** (+18%) and **Lasik Vision** (+35% -- over the prior, second quarter) had quarter over quarter double digit growth rates. Both **TLC** (-7%) and **ICON** (-2%) reported negative quarter over quarter growth rates, while **Laser Vision Centers** reported a +7%.

- 10/5 Charles Olsziewski of **Paine Webber** issued a research report on **TLC Laser Eye Centers**, following their announcement of using the LadarVision systems in their U.S. centers to perform hyperopia with astigmatism and mixed astigmatism (see the 9/26 brief above). Olsziewski noted that TLC was steadily removing its **VISX** lasers from its installed base, and replacing them with newer generation systems, like the **Alcon Summit/Autonomous** LadarVision system. He went on to state that, "Although TLCV now seem to have finally bottomed and turned in light of recent trading activity, evidence of a change in the industry dynamics and clarity about eyeVantage's future will provide the impetus needed for the shares to move appreciably higher. Mounting losses and financial difficulties among the deep discounters will force irrational pricing models from the marketplace, while eyeVantage situations should be resolved by the end of October." He rates the company's stock as a "buy".
- 10/5 Kate Sharadin and Jason Mills, formerly with **Preferred Capital Markets**, have moved to **Gerard Klauer Mattison (GKM)**, and issued their first research report for the new firm, on **Staar Surgical**. They initiated coverage with a "buy" rating, based on its broad ophthalmic portfolio, with a proprietary technology platform, and two "blockbuster" products; AquaFlow for the treatment of glaucoma and the biocompatible Collamer IOL. In addition, Staar is developing the ICL (implantable contact lens) for the refractive vision market. The analysts believe that the ICL will penetrate a niche market of patients with high levels of refractive disorders that cannot be treated with laser surgery. And the ICL procedure is reversible. Results from the Phase I and II clinical trials show that 70% of patients have experienced an improvement in best spectacle corrected visual acuity following the surgery. And a comparison of LASIK in one eye and the ICL in the other (done by Dr. Ioannis Pallikariis of Crete), that showed the ICL implanted eye performed

slightly better with regards to UCVA, and a majority of the patients preferred the ICL to LASIK, with respect to fewer incidences of haze, glare, and halos.

The chief competition to the ICL will be from phakic IOLs. Both **Ophtec** and **Ciba Vision** are in early stages of clinical development with their versions of phakic IOLs, and **Bausch & Lomb** intends to enter the fray. They will be vying for what the authors expect will be about 5% of the vision correction market, those 100 million people worldwide (and 14 million in the U.S.) with severe visual acuity problems. (It is interesting to note that the GKM analysts have an even more bullish outlook for total RVC procedures in the U.S. than this author, with an estimate of 1.9 million U.S. procedures for 2000 and 2.9 million for 2001!) They anticipate the ICL will reach the domestic market in 2002, with its first full year of marketing in 2003, when some 32,000 implants will be done, followed by 74,000 in 2004 and 120,000 in 2005.

10/6 We received an updated placement listing of **Sunrise Technologies'** Hyperion lasers. As of October 6th, the company had placed at least 60 systems in the U.S., plus another 4 systems internationally, after about 12 weeks of marketing. If all of the systems are producing royalty income, the company's next quarter report should be fantastic.

10/6 **Asclepion-Meditec** announced that it had begun the approval process with the Japanese health authorities for its MEL 70 G-Scan and Phacolase lasers. A contract providing for extensive support was recently signed with the Japanese company **Admis**. The company belongs to the **Itohchu Corp.**, one of Japan's largest wholesale distributors, making it "an extremely valuable partner," according to Asclepion CEO Bernhard Seitz. Seitz is pleased that further progress has been made toward an important goal associated with the IPO: "As part of its comprehensive expansion strategy Asclepion is now taking a major step towards establishing its products in one of the most promising markets of the world. The sales potential has not yet been included in the sales forecasts for the next years."

At the same time, Admis and Asclepion signed a further so-called "in-country caretaker" agreement. Under this agreement, Admis will function indefinitely as Asclepion's representative in dealings with all public institutions in Japan. Yoshio Mitsumori, managing director of Admis, said he was delighted with the collaboration. The partnership with Admis will give Asclepion extensive support in gaining access to the Japanese market.

10/6 **Lasik Vision** announced the opening of its new International Head Office in Burnaby, Canada. "After a review of our business operations, the management team identified an opportunity to improve cost and operational efficiencies by combining our U.S. and Canadian Corporate Offices and moving to one location," said Hugo Sutton, president and CEO. As part of the new management's commitment to improve efficiencies in the day-to-day business operations of Lasik Vision, the company also has made the decision to close its Quebec City centre, effective October 18, 2000. "Not unlike any company that has experienced rapid growth, there becomes a need to rationalize the costs of expansion with the contribution of the centres. It was our conclusion that Quebec City due to its size

of market and the lack of larger nearby urban centers to draw on, would not be able to sustain continued growth. While we are still committed to being the leading North American provider of laser vision correction services, our future expansion will be carefully managed to control resources and expenses."

- 10/6 To honor New York City firefighters and promote on-the-job safety, the doctors of **Stahl Eye Center** said that they would provide free vision correction surgery to active members of the *Uniformed Firefighters Association of New York (UFA)*. Coinciding with Fire Prevention Week (October 2-9), the program will benefit UFA members with various vision problems and will represent a savings of up to thousands of dollars for each firefighter who takes advantage of this state-of-the-art surgical technique. "Anyone who is dependent on glasses and contact lenses can potentially benefit from this surgery," said Dr. Marc Werner, one of the surgeons at Stahl Eye Center, "but seldom is our work more critical to day-to-day safety because of the essential public service our firefighters perform. The point was dramatically reinforced when we learned that many firefighters remove their eyeglasses before entering a fire site. Firefighters' jobs are difficult enough without coping with limited-sight issues. Our free surgery offer is both an expression of gratitude and a way of assisting them in their often- dangerous work."
- 10/9 According to *EyeWorld Week*, Rep. John Cooksey, MD (R-LA), on behalf of ASCRS and the American Association of Ophthalmology, asked the Department of Defense for clarification regarding the use of excimer lasers on military bases. Acting Assistant Secretary of Defense Jarrett Clinton, MD, MPH, replied that four military medical centers have lasers; that the opening of additional laser centers is not imminent; and that laser eye surgery is not a covered benefit for family members or retirees in the military health system. He also said that while military personnel are participating in photorefractive and laser in-situ keratomileusis studies to determine if laser vision correction stands up to the rigors of military life, the procedures are not yet generally approved for service members.
- 10/9 The law firm of **Keller Rohrback L.L.P.** filed a lawsuit against **Lexington Eye Institute, Ltd.** of British Columbia and **Focus Eye Care, Inc.** of Bellevue, Washington, and certain medical professionals, on behalf of all Washington (state) consumers who had purchased or would purchase laser eye surgery services from some or all of the Defendants since October 9, 2000 (the "Class Period"). The Plaintiffs in this action are three women (sisters) who purchased laser eye surgery services from the Defendants and claim they had suffered severe injury to their vision as a result of undergoing laser eye surgery. Plaintiffs' individual claims allege medical negligence. The class allegations include violations of the Washington Consumer Protection Act ("Act") and contract law. Plaintiffs allege that Defendants violated the Act by, among other things, bombarding Washington residents with advertising in Washington media, providing purchasers pre- and post-operative eye care in Washington, and then, minutes before surgery, requiring purchasers to sign provisions depriving them of the protection of certain Washington laws regardless of the severity of the Plaintiffs' injuries. (I obtained a copy of the complaint and, without knowing all of the details, find that it may be difficult for the plaintiffs to

win their case. There doesn't appear to be sufficient evidence -- at least in the complaint -- of the type of injuries suffered by the plaintiffs. The biggest problem appears to be the notice of not being allowed to sue that they had to sign minutes before having the surgery performed, and not receiving an option of not having the surgery done and getting their monies returned, if they did not sign a "no sue" agreement -- which they had to pay in full at the time of their original examinations in Bellevue.)

- 10/10 The October issue of *Refractive Market Perspectives* includes a lengthy writeup about the history of the VISX '388 patent timeline, from its filing in 1987, to the reexamination in September, and the likely times of the three trials anticipated, with **LaserSight** in May 2001; **Nidek** and **Bausch & Lomb**, both in December 2001 (according to Dave Harmon). (However, according to Mark Logan, during the teleconference following release of VISX's third quarter results, he anticipates that the LaserSight trial would start in June next year; the Nidek trial late in the year, with no trial date yet set; and the B&L trial sometime later, with no schedule as yet set.)

The newsletter also discusses the falling LASIK prices during the second quarter. According to Harmon, average prices for LASIK were \$1800 per procedure during July and August, compared to an average of \$1940 in the first quarter. Prices have declined 14.5% compared to the second quarter of last year. According to his survey, more than 25% of surgeons now offer LASIK at less than \$1500 per eye; about 10% offer it at between \$1500 to \$1800; about 35% offer it at \$1800 to \$2100; slightly more than 35% offer it at \$2100 to \$2400; and just under 10% offer it at more than \$2400. He expects that prices will continue to decline during the third quarter and stabilize somewhat during the fourth quarter.

- 10/10 **Paradigm Medical Industries** announced that it had received FDA clearance on its Photon Workstation platform for the addition of a laser module (doubled YAG) to perform multiple eye surgery procedures. "The ultrasound portion of the Photon is already approved for cataract surgery," stated Tracy Best, Director of Regulatory Affairs. "By incorporating this new laser modality, the eye surgeon for the very first time, can perform multiple eye surgical procedures such as glaucoma surgical filtering procedures, diabetic surgical procedures, retinal procedures, pigmented and venous lesion procedures, along with traditional cataract removal in a single device," Mr. Best explained. (The company is still awaiting final FDA marketing approval for its laser phaco device.)
- 10/10 **ICON Laser Eye Centers, Inc.** announced that effective October 10, 2000, the company's shares would trade on Tier 3 of the Canadian Venture Exchange (CDNX) under the symbol YIL.U. ICON's shares will continue to trade in U.S. dollars. The move is part of the realignment of the Canadian stock exchanges whereby the Canadian Dealing Network Inc. (CDN) will be transferred by the Toronto Stock Exchange to the new national stock exchange, the CDNX. Tier 3 was established as a transitional step to move CDN quoted companies to Tiers 1 or 2 on CDNX's prescribed auction market.

- 10/11 Following release of third quarter sales by **Novartis AG, QLT Inc.** reported global Visudyne therapy sales of \$31 million (CDN \$46.5 million or 53 million Swiss Francs) for the quarter ended September 30, 2000. "We are pleased with the 22% growth of Visudyne sales in the third quarter versus the second quarter, which was consistent with expectations", said Julia Levy, QLT's president and CEO. "The strong endorsement by retinal specialists of Visudyne clearly point to a product launch which, to date, has been the fastest introduction in the ophthalmology pharmaceutical sector in the U.S. We are confident in CIBA Vision's ability to continue the strong growth in sales in the U.S. and rapidly introduce Visudyne in Europe and other markets as approvals are received."

Commercial Visudyne sales in North America represented approximately \$22 million (CDN \$33 million or \$37.5 million Swiss Francs) or approximately 71% of total Visudyne sales in the third quarter. The remaining \$9 million (CDN \$13.5 million or 15.5 million Swiss Francs) was related to sales in Europe and other markets.

Following the announcement, **Nesbitt Burns** commented that the sales were in line with their estimates, but that U.S. sales were lower than anticipated whereas international sales were higher. Since Visudyne is shipped directly to the physician who has ordered it, there is very little pipeline fill. On its conference call, Novartis management reiterated its confidence that Visudyne would reach sale of \$1 billion Swiss Francs at peak, and that the drug was meeting its expectations. They believe that over 1000 lasers have been placed worldwide, and that 1200 lasers would be in place by year's end. (During the AAO, I learned that both Coherent and Humphrey Zeiss agree with these numbers, and it appears that placements are evenly split between the two companies, with Coherent holding the majority lead in the U.S., while Zeiss leads outside of the U.S.)

- 10/11 **LCA-Vision** announced the opening of a facility in Columbia, Maryland, the company's seventh in the Greater Baltimore-Washington, D.C. metropolitan area. The estimated population of the Baltimore-Washington Consolidated Metro Statistical Area (CMSA) currently exceeds 7.3 million. LCA-Vision also operates value-priced LasikPlus centers in Baltimore, Annapolis, Bethesda, and Rockville, Maryland, as well as in Alexandria and Falls Church, Virginia. Year-to-date, LCA-Vision has opened 13 new LasikPlus centers. The company now owns and operates 33 facilities in the U.S. plus two in Canada and one in Europe.
- 10/11 **TLC Laser Eye Centers** announced its first fiscal quarter results for the period ended August 31, 2000. As previously reported, more than 33,400 paid laser procedures were performed at TLC refractive centers in the quarter. This was up marginally from the procedure volumes reported for the same period a year ago and down from the 35,800 paid procedures performed last quarter. Unlike the industry trend of increased procedure volumes coupled with moderate year-over-year refractive revenue growth and significant sequential refractive revenue declines, TLC's fiscal 2001 first quarter refractive revenues were in-line with paid procedure volumes, totaling \$45.6 million. Total net revenues for the quarter were \$47.9 million.



In the face of an ongoing industry price war, throughout the year TLC continued to make significant investments in people, information systems, new centers, research and development, and marketing to expand its leadership position. TLC generated positive EBITDA (earnings before interest, taxes, depreciation and amortization) of \$3.7 million from its core refractive business in the first quarter of fiscal 2001 compared to EBITDA of \$13.1 million in the same period a year ago. Refractive cash EPS (before amortization of acquired goodwill and intangibles) in the fiscal 2001 first quarter was positive \$0.03 compared to last year's cash EPS of \$0.19. The Q1-01 net loss from TLC's core refractive business was \$1.4 million, compared to a net refractive profit of \$6.3 million reported in Q1-00.

The company continues to explore strategic opportunities with respect to **eyeVantage.com**. The company is focusing all of its efforts on the core laser eye surgery business and expects to come to a final decision about either the sale, merger, or discontinuation of operations of this subsidiary by an internally imposed deadline of October 15, 2000. Elias Vamvakas, TLC's Chairman and CEO, commented that, "The industry is currently hyper competitive and characterized by a great deal of uncertainty over pricing. TLC's focus throughout this period will be on maximizing revenues, controlling costs and providing superior quality of care and clinical outcomes. As the industry and pricing stabilize, this positioning will leave us well placed strategically for the future."

Following release of the fiscal first quarter results, Robert Faulkner and Tatyana Daniels of **Chase H&Q** issued a research note in which they questioned the negative procedure growth and operating leverage of TLC. As they put it:

- Following TLC's quarterly report - with weak procedures preannounced - the question is whether procedures can even remain flat in the face of price competition.
- With negative 7% sequentially in a moderately robust time of year and industry growth of positive 6%, we conclude that procedure volumes may be on a negative trajectory.
- If procedures decline, as we project, TLC will suffer operating deleverage, with cost cuts unlikely to offset volume declines. Operating leverage/deleverage is significant in this business.
- We are reducing FY2001 sales from \$187 million to \$157 million, and EPS from (\$0.64) to (\$0.70).
- Our reduced numbers reflect an expected decline in procedures from 134,000 in FY00 to 127,000 in FY01. Further, we estimate prices off 10% and doctors compensation constant in dollars per procedure, or up 1% of revenue. Offsetting margin contraction is a likely reduction in EyeVantage spending, a reduction of \$9.5 million in our model.
- We are highly encouraged by the cost controls put in place this quarter - a key positive for us going forward. If TLC can maintain volumes flat in FY01 in the face of declining prices, we are inclined to be positive on the stock at these prices

(\$2 in cash, cash flow positive, etc.) We will wait to confirm stability in procedures before changing our stance.

- 10/11 **20/10 Perfect Vision GmbH** announced that the first custom ablation treatments using their wavefront technology were performed on September 26, 2000 by Axel Gleibs, MD, and Rainer Volz, MD, of the **Surgical Eye Center** in Heidelberg, Germany. The treatments were done on the **VISX STAR S3 ActiveTrak** Excimer Laser System. Last year, 20/10 Perfect Vision entered into a technology alliance with VISX, to commercialize wavefront technology, known as the VISX WaveScan Wavefront System. Using the WaveScan, doctors obtained a WavePrint, a unique fingerprint of the eye, for each of the eyes being treated. These WavePrints were verified against each eye's manifest refraction. Based on this patient WavePrint data, the laser created a PreVue lens for each eye. This lens allowed the patients to preview their corrected vision before the surgery took place. This is VISX's proprietary method of optimizing the likelihood that the treatment of higher order aberrations will result in better vision. After the patients experienced their wavefront-corrected vision through the PreVue lens in a closed loop phoropter system, the doctors performed the treatments using the patient's unique and specific wavefront data. The doctors used a VISX STAR S3 ActiveTrak laser with Variable Spot Scanning (VSS).

"These custom ablations using both the wavefront technology from 20/10 Perfect Vision and the Variable Spot Scanning capabilities of the VISX STAR S3 ActiveTrak laser have tremendous potential," said Dr. Gleibs. "Wavefront-based customized treatments can help patients achieve their full visual potential." Dr. Volz added, "I think we will see this technology raise the industry standard for future refractive treatments. The preliminary results are very encouraging." "Wavefront-driven custom ablations should provide a level of accuracy that has not previously existed," said Frieder Loesel, president and CEO of 20/10 Perfect Vision. "At 20/10, we look forward to the day when everyone can realize their best possible vision."

10/10-

- 10/11 *Reuters* reported that **LaserSight** had been issued a warning letter by the FDA following an inspection of their facilities, triggered by the late filing of a required document for use of a newly completed manufacturing facility in Winter Park, Florida, for producing its lasers. The company responded the following day, acknowledging the warning letter and explaining the events that led to the letter. The company stated that, beginning in early May 2000, LaserSight moved the manufacture of its LaserScan LSX excimer laser system to a new facility in Winter Park, Florida. Due to an oversight, the company did not file the requisite Express PMA Supplement for a Facility Change before beginning manufacturing at the new facility. When the oversight was recognized, the company immediately filed the Supplement, and subsequently modified its Management Review Procedures to insure that in the future any such significant changes to the manufacturing process will be treated as unique, document controlled, project files and will be reviewed by LaserSight's senior management before implementation. The filing of the Supplement on July 7, 2000 triggered a routine FDA audit during the latter part of July. The audit was

completed on August 2, 2000. In its Warning Letter of September 28, 2000, the FDA asserted that certain aspects of LaserSight's Quality System's procedures and controls for manufacturing were not in conformance with FDA Good Manufacturing Practice (GMP) requirements. Issues raised in the Warning Letter specifically concern management review, process validation, corrective and preventive action and PMA Supplements, relating to the new facility and to certain minor modifications to the excimer laser head.

Michael Farris, president and CEO commented, "We remain committed to meeting the demand for our advanced precision beam scanning laser system, and want to ensure our customers and their patients that none of the activities described in the FDA's letter affect the safety and/or effectiveness of the manufactured products." Farris continued, "In our response to the FDA, we indicated that we have strengthened our internal procedures and controls in the areas addressed in the letter. While awaiting certification of our new manufacturing facility, we have been able to maintain full production of LSX systems at our original facility that was previously approved by the FDA. We remain confident that our LSX precision beam scanning system offers surgeons the most advanced scanning laser platform that meets today's refractive surgical requirement and offers expansion into custom ablation treatments when approved and available in the U.S."

10/12 **Lasik Vision Corporation** announced that 40,191 paid laser procedures were performed at the company's refractive centres in the third quarter. This is a 210% increase from 12,929 the same period a year ago and represents a new record volume quarter for Lasik Vision. The third quarter procedures represent a 13% sequential increase from the 35,599 procedures performed in the second quarter of 2000. "The new management's goal for the third and fourth quarters is to establish the foundations for growth and profitability. Our industry-leading procedural volume, standardization of procedures and outcomes measurement system sets us apart from the rest of the industry. Lasik Vision remains committed to its core values of being the largest vision correction provider while maintaining the highest quality of outcomes and exceeding patient expectations," said Hugo Sutton MD, president and CEO, Lasik Vision Corporation.

10/12 **Laser Vision Centers** announced that its U.S. case volume for the month of September increased 35% compared to the same month a year ago.

10/12 **VISX** announced financial results for the third quarter and nine-month period ended September 30, 2000. Revenue for the quarter was \$45.7 million compared to \$79.7 million for the comparable period of the prior year. Net income was \$12.0 million (19 cents per share) compared to net income of \$24.7 million (36 cents per share) last year. Commenting on the announcement, Mark Logan, chairman and CEO of VISX, said, "In addition to a solid earnings performance in the third quarter, VISX has made substantial progress on other fronts. The company is confident in its technology leadership position and sees the ophthalmic community's enthusiastic response to the recently approved VISX STAR S3 laser system reaffirming this view. Another important event occurring during this quarter was our move to the New York Stock Exchange, joining the ranks of other top healthcare companies."

Revenue for the nine-month period was \$157.7 million compared to \$196.1 million for the comparable period of the prior year. Net income was \$35.7 million (56 cents per share) compared to net income of \$66.0 million (97 cents per share) for the year.

During the ensuing teleconference call with analysts, Logan commented on the changing marketing place, including the consolidation occurring in the industry. He noted that VISX now had two or three viable competitors, including **Alcon Summit** and **B&L**. Since six years ago, when Summit had been ahead, with a \$1 billion market cap and VISX was in trouble, both with the FDA and with lawsuits, the situation had turned around, and now VISX was in the lead. On the competitive front, **Chiron** had purchased **Technolas** and then Chiron was absorbed by B&L; **Autonomous** was originally partially funded by **Ciba Vision**, then become a part of Summit, who in turn had been absorbed by Alcon, a subsidiary of **Nestles**. In addition, there were several smaller firms out there, including **LaserSight**, **Meditec** (now **Asclepion-Meditec**), and **Schwind**, formerly aligned with **Coherent** (who is now a marketing partner of **WaveLight's**). He went on to say that it took VISX four years, until 1999 to achieve its goals which include being the market leader, with 65% of procedures and slightly less than that in laser systems installed. He believes that Alcon Summit is #2, but that there might be some resentment amongst ophthalmologists that they are abandoning the Apex system in favor of the LadarVision. Although **Nidek** doesn't collect a per procedure fee, he wasn't sure that their service and response time was good, and they face potential lawsuits from both VISX and Alcon Summit. As for B&L and LaserSight, although B&L is the leader in microkeratomes and blades, they do not have approval for tracking and needed a major effort to catch up in service; while LaserSight has a very small installed base, and still need astigmatism and hyperopia clearances -- and they may need substantial financing to continue their viability. He also noted that VISX's alliance with Allergan gave them equal footing to Alcon Summit and B&L in their ability to "bundle" and offer multiple products.

The company said it would no longer report the number of systems it had sold during the quarter for competitive reasons, but would rely on the analysts following it to "fill in the blanks". For the quarter, the company reported revenue from system sales of \$12.3 million, down from the \$15.3 million in the second quarter, which was a decline from the first quarter's revenues of \$19.9 million. (It would appear that, as predicted, system sales were feeling the impact of competition and lowered ASPs.) (**Chase H&Q**, in its followup research note, estimated that the company placed a total of 62 lasers in the quarter, 37 in the U.S. and 25 outside of the country. The slowdown of international sales was attributed to the wait for the newer S3 models. **Dain Rauscher** analyst Dave Therkelsen believes that VISX's U.S. placements were even lower, in the low thirties.) Royalty and service revenues were \$33.5 million, only slightly ahead of the second quarter's results of \$32.7 million, but way down from the first quarter's \$44.1 million (before the price break from \$250 down to \$100). According to the company, quarterly sequential procedure royalty income was flat with the preceding quarter, although up 38% over the same quarter last year. (It must be remembered that procedure income now includes retreats, whereas it did not last year.)

The company said that the rollout of the Star S3 systems was on track, with pilot systems placed internationally, and full scale rollout scheduled for next year, including upgrades of current S2 systems shortly. Logan noted that over 200 doctors had signed up for the upgrades, which would begin after the AAO meeting. He also noted that they were going slowly with their wavefront system, wanting to be sure how much higher aberrations really needed to be corrected to give improved vision. In addition, with its PreVue lens technique, patients can assess the results of correcting various amounts of aberration prior to having the surgery done. Liz Davila said that the first group of patients had been treated in Germany (see the preceding brief from **20/10 Perfect Vision**), with half receiving PRK and half LASIK -- the reason for the PRK being to try and better understand the effect of replacing the flap after treatment versus treating the cornea's surface. Also, a small group of patients with decentered ablations have been treated at Moorfields in London and all reported improved vision. The company plans to take customized ablations slowly, probably waiting until more data is available from the European studies before beginning U.S. studies.

The company also announced that it had signed an agreement to fund research to develop treatments for AMD with Stanford University, in a program headed by Professor Mark Blumenkranz, chairman of Stanford's Department of Ophthalmology. VISX will sponsor work focused on the new areas of tissue engineering, cell transplantation (using autologous tissue), and electronic visual prosthesis development. According to Logan, "Stanford's ability to create a centralized environment will allow multiple research teams to work together in a collaborative fashion. Professor Blumenkranz will lead the team which will include scientists in the areas of medicine, ophthalmology, neurobiology, computer science, electronic engineering, and applied physics. Stanford has outstanding strengths in all these areas and its relationship with VISX and other Silicon Valley high tech firms facilitates the integration of ideas and technology for the purpose of developing novel treatments for previously untreatable diseases." He mentioned that there was a product in the offering, but it would be some time before it would be ready for marketing. In response to the funding, VISX will have an exclusive world wide right to market any products that come out of the research efforts.

Following the teleconference, Robert Faulkner and Tatyana Daniels of **Chase H&Q** issued a research note in which they noted that although the earnings per share were in line with their estimates, they were disappointed by the procedure growth and told investors to be cautious about the future. Their conclusions:

- VISX reported in-line EPS but fell short of our revenue estimate, reporting revenues of \$45.7 million and EPS of \$0.19, versus our estimates of \$49.2 and \$0.19, respectively.
- We estimate VISX's annual procedure growth rate was 38% and sequential procedure growth was flat for the quarter, falling slightly short of our estimates of 42% and 2%, respectively. After August volumes, we had hoped for minor outperformance, but September volumes were light.

- We estimate the company placed a total of approximately 62 lasers in the quarter, also slightly short of our estimate of 70, but with more in the US than we expected.
- The rollout of the important upgrade program is reportedly on track, with installations of S3 upgrades to begin in the fourth quarter.
- We are leaving 2000 and 2001 EPS estimates unchanged at \$0.88 and \$1.00, respectively.
- We are willing to take these lackluster results in stride during this seasonally weak quarter. However the quarter's results leave open larger issues of industry procedure growth and the potential for increased share loss for VISX. These are trends we will be watching for.
- We believe investors should be slightly more cautious regarding VISX shares today. In view of limited apparent upside and potential share erosion, we are lowering our price target to \$28, 25x a preliminary \$1.10-1.15 EPS in 2002.

The analysts noted in their report that VISX is beginning to lose market share and they suspect that most of that loss was from large corporate centers that were irritated with VISX, and sought to differentiate their centers with new technology. They go on to state that **TLC** and **LCA** are increasingly using others lasers.

10/12 **Bausch & Lomb** announced the results of its operations for the third quarter. Revenues from the company's continuing operations were \$440.9 million, down 1% from the \$446.3 million reported in the third quarter of 1999. In constant dollars (that is, excluding the impact of changes in foreign currency exchange rates), revenues increased 2% over the prior year period. Reported net earnings were \$14.7 million (27 cents per share) compared to \$231.8 million (\$3.94 per share) in the same period last year. However, the reported results include a number of items that make year-to-year comparisons difficult. Excluding the impact of the following items, comparable basis net earnings from continuing operations were \$37.8 million (70 cents per share) in the third quarter of 2000, compared to \$37.3 million (64 cents per share) in 1999, an increase of 9%. Prior year results included \$8.4 million after taxes (14 cents per share) related to earnings from discontinued operations, and a gain of \$181.8 million after taxes (\$3.09 per share) on the divestiture of the former healthcare businesses. In addition, the prior year quarter included a pre-tax gain on redemption of securities of \$6.7 million (7 cents per share) after taxes.

Revenues in the company's surgical segment were up 4% from the prior year, and were up 9% in constant dollars. These gains were driven by continued strong double-digit growth in sales of products used in refractive surgery, including the continuing U.S. rollout of the Technolas 217 excimer laser, which were partially offset by continued flat performance for cataract products. The company had originally projected surgical growth in actual dollars in the upper single digits for the third quarter. Actual results were lower than expectations as a result of a weaker Euro, as well as the timing of laser revenues outside the United States. A number of lasers ordered in the third quarter, and included

in the company's original estimates, were not included in third-quarter revenues because their installation at customers' locations had not been fully completed.

In the ensuing teleconference with analysts, Bill Carpenter, chairman and CEO noted that refractive revenues represented 40% of surgical revenues and that laser placements worldwide were up a plus 30% over last year. At the end of the quarter, the company had a backlog of orders not yet installed. Asia, Latin America and the Middle East were all very strong, and that sales in these locations take longer to complete than in other parts of the world. In the U.S., the company now has 36 lasers in place, with 14 sold during the third quarter. They are well along in their goal to place 40 systems in the U.S. this year. However, there has been a slower rampup in procedure fees, as most of their lasers were going into new centers, which had lower startup volumes. He also noted that there had been a slowdown in sales of Hansatomes, as more surgeons were buying kits for half price, rather than complete units. However, blade sales continued strong. Commenting on the vision correction marketplace, he noted that the market was becoming more competitive, with centers being more creative in their marketing efforts, but which was slowing down corporate purchases due to the price competition. With approximately 40% of the procedures being done outside of the U.S., B&L would seek to collect some sort of per procedure fees with the rollout of its customized ablation efforts with Zyoptix, hoping to collect between \$50 and \$100 for the procedure using their new diagnostics. Early indications are that Europe and Asia would accept paying a royalty fee, with Asian physicians lining up for the system upgrades.

(At press time, I was still trying to obtain how many lasers the company had sold during the quarter outside of the U.S. Company representatives at the AAO were being tight lipped about these numbers.)

According to *Reuters*, Bausch, still struggling to regain investor confidence after warning on profits and firing its president, posted a slight rise in third-quarter earnings, cautioned about fourth-quarter and 2001 results and said it will cut 4% of its work force. The company said it plans to cut about 450 non-manufacturing positions over the next several months. The reductions, which will take place mainly in North America, will help cut costs by \$20 million to \$30 million annually and result in a fourth-quarter charge of between \$30 million and \$35 million, it said. The company also warned that continued deterioration of currency rates will pull down fourth-quarter and 2001 earnings. "This news means there is clearly more work ahead for Bausch & Lomb," said industry analyst David Gruber of **Lehman Brothers**. "Contact lenses is the bright spot on the quarter, but the concern lies more with higher margin lens care solutions and pharmaceuticals. It's a company with problems, and we still need additional clarity in terms of where it's going on these restructuring activities," said Gruber, who rates the stock as "attractive" based on valuation, but with a "wait and see perspective".

10/13 **ICON Laser Eye Centers** announced that the company's Board of Directors had authorized a private placement of up to 1 million common shares at a price of \$1.00 per common share. The Offering will only be available to the company's executives,

employees, and consultants and is subject to approval of the Canadian Venture Exchange and the regional securities laws in the purchaser's jurisdiction of residence. The company also said that it had previously made a public announcement that it was in merger talks with a competitor. Negotiations continue at advanced stages but there can be no assurance that a transaction will be consummated.

10/13 **HumanOptics AG**, a startup German company in the field of IOLs, announced that they would be showing a new accommodating IOL at the AAO meeting. (I visited their booth at the meeting, and was told that they could say little until their patent issued. The lens illustrated in their literature showed a ring lens with spokes connecting to a central optic. The impression I was given was that the lens was made of combination of hard and soft acrylic materials, which would allow the central optic portion to "flip" forward (similar to the C&C accommodatating lens) to provide near vision. As I learn more, I will keep you informed.)

10/16 In a press release from **IntraLase**, the company said that one of the highlights of this year's AAO meeting will be presentations by leading refractive surgeons on the new IntraLASIK procedure. In its first application, IntraLASIK uses the Pulsion FS (femtosecond) Laser to create a corneal flap as part of LASIK vision correction surgery. The ultrafast Pulsion FS Laser, developed by IntraLase Corp., brings a new level of safety, control and precision to LASIK. The minimally invasive IntraLASIK flap procedure provides a bladeless alternative to the microkeratome used in performing LASIK surgery today. Flap creation with the Pulsion FS Laser eliminates many of the risks and complications, which may occur in flap creation with a blade. The IntraLASIK flap procedure is the first FDA-cleared application in what IntraLase predicts will be a series of innovative IntraLASIK procedures using the Pulsion FS Laser. "These presentations will provide many refractive surgeons with their first detailed look at the significant clinical advantages provided by IntraLASIK," said Randy Alexander, president and CEO of IntraLase. "We're very pleased that we will be able to offer this technology to refractive surgeons beginning next year."

(The IntraLase booth at the AAO was very crowded, indicative of a lot of interest by physicians. However, the expected \$400,000 price tag of this new laser may put a damper on its sales just for creating a flap, until other indications are approved.)

10/16 **Medennium**, which received an equity investment in July from **CIBA Vision** is using the funds to create a minimum of 16 high-level professional jobs during the next year as well as a variety of new programs including systems upgrades and research and development of new materials, products and technologies. For its investment, **CIBA Vision Surgical Business Unit**, the eye care division of **Novartis**, was given 10% of the company and exclusive worldwide rights to market and distribute Medennium's innovative Phakic Refractive Lens (PRL). CIBA Vision also has the option to acquire a larger holding in Medennium. Medennium was formed in January 1999 by the merging of two start-up companies, **International Vision Inc.** and **Medennium**, to develop and introduce innovative ophthalmic products to be made from the patented polymer materials



developed by the Irvine-based firm. The first product is the PRL, a phakic refractive intraocular lens designed for implantation into the posterior chamber of the eye to correct a wide range of myopia and hyperopia. This revolutionary new way to see would be an alternative to eyeglasses, contact lenses and LASIK surgery. Other products already developed and currently in clinical trials or about to start the FDA approval process include a new treatment for dry eyes and a new type of the intraocular lens designed for use in cataract surgery.

10/17 **Laser Corp.** announced that the Q-LAS 10 had received FDA 510(K) clearance and the company will begin marketing this laser in the United States. This unique ophthalmic laser, developed in cooperation with **Haag-Streit AG**, Switzerland, is used by the surgeon to perform posterior capsulotomies. The Q-LAS 10 is a Q-Switched YAG laser which is fully integrated into the arm of the slit lamp. This allows the surgeon to not only utilize the slit lamp for YAG laser treatments but also allows the use of the slit lamp as a standard examination unit. The integration of the YAG laser into a standard slit lamp is achieved without compromising its optical quality. Joyce Wickham, president and CEO commented that, "With the addition of the Q-LAS 10 to the company's currently available medical products, the Nuvolase 532 for photocoagulation and the Dodick Laser PhotoLysis for cataract removal, the company now provides the ophthalmologist with a full range of laser instruments for treatment of the most common eye disorders -- cataracts, secondary cataracts, glaucoma, and diabetic retinopathy." The company is currently marketing and selling its ophthalmic laser products through its wholly owned subsidiary, **A.R.C. Laser Corp.**, Salt Lake City.

10/17 **QLT Inc.** reported financial results for both the third quarter and first nine months of 2000. For the three months period, QLT reported net income of CND\$4.3 million (6 cents per share, U.S. 4 cents per share) compared to a net loss of CND\$9.7 million (15 cents per share, U.S. 11 cents per share) for the same period in 1999. "We are extremely pleased that the strong growth in Visudyne sales has resulted in the treatment of a significant number of additional patients with age-related macular degeneration (AMD), the leading cause of blindness among people over the age of 50," said Kenneth Galbraith, QLT's executive vice president and CFO. "We were able to accomplish our corporate goal of profitability a calendar quarter earlier than expected due to a combination of 22% growth in Visudyne sales, strong investment and other income and lower than expected costs."

For the nine month period, the company reported net income of CDN\$5.9 million (9 cents per share, U.S. 6 cents per share) compared to a net loss of \$21.7 million (36 cents per share, U.S. 26 cents per share) in the same period in 1999. "Global sales of Visudyne of approximately US\$31 million during the third quarter slightly exceeded expectations due to continued growth in the U.S. market and higher than expected contributions from European and other markets for which approvals were recently received," said Galbraith. "We are confident that our co-development and marketing partner, **CIBA Vision**, the eye care unit of **Novartis**, will continue its efforts to ensure that Visudyne is made widely available to the thousands of patients diagnosed with this devastating condition each

month in the United States, Canada, Europe and other markets where approvals have been received."

Commercial Visudyne sales in North America represented US\$22 million or approximately 71% of total Visudyne sales in the third quarter. The remaining US\$9 million was related to sales in Europe and other markets. QLT's revenue from the Visudyne business is a combination of a manufacturing reimbursement and 50% of the net profits computed by deducting marketing and manufacturing costs from Visudyne sales revenue. During the quarter, the company received a milestone payment of \$2.5 million from **Axcan Pharma** relating to the sale of PHOTOFIN completed in the second quarter of 2000. The company ended the quarter with approximately CND\$270 million (US\$180 million) in available cash resources. The company also has an investment of approximately CND\$16 million in Axcan Pharma.

10/17 **Sunrise Technologies International** announced that it had activated a "FIND A DOCTOR" section on its website at the address: [www.sunriseltk.com/consumer](http://www.sunriseltk.com/consumer). Since activated, over 7,500 persons had registered. The new feature enables consumers to find a refractive surgeon who uses the HYPERION LTK System by simply entering a zip code and an e-mail address. The site then delivers a map with the names and addresses of several doctors closest to the consumer who perform the SUNRISE LTK procedure. The company will continue to update this site each week as it installs more systems around the country. "Our website is a primary vehicle of communication for our company. The 'FIND A DOCTOR' feature is another example of how Sunrise is helping the surgeons attract the farsighted patient to their practices," said Russell Trenary, chairman and CEO. The 'FIND A DOCTOR' feature is in addition to the company's SYNERGY3 Program, which Sunrise developed for its customers and provides internal and external marketing communication strategies to help drive demand into the refractive practices that buy or lease the HYPERION LTK System.

10/17 **STAAR Surgical** reported third quarter results with net income of \$541,000 (4 cents per share). Sales were \$13.6 million, comprised of \$8.4 million in North America (U.S. and Canada) and \$5.2 million internationally. "We are extremely pleased with these results," stated Andrew Pollet, chairman, "which exceeded the Street consensus on both the top- and bottom-line. The third quarter is the seasonally slowest period of the year, yet we showed sequential growth over the second quarter. Results were essentially flat versus last year's third quarter, which is a tremendous achievement given that currency exchange rates negatively impacted us by about \$750,000 year-over-year." "We posted record third quarter sales in North America as a result of strong acceptance of our new products," added Robert Kenz, VP of Domestic Sales, "particularly the Collamer and Toric IOLs, and the Sonic WAVE phacoemulsification system. Trends in each of these product lines continued to rise sharply in each month as the quarter progressed."

Other highlights during the third quarter include:

- Notification that the FDA Ophthalmic Device Panel (ODP) will review the company's pre-market approval (PMA) application for the AquaFlow glaucoma device on November 8, 2000;
- Submission of an application for Medical Device License with Health Canada, Canada's primary healthcare regulatory agency, for the AquaFlow glaucoma device;
- Receipt of Good Manufacturing Practices (GMP) approval from the FDA to begin manufacturing the one-piece Collamer IOL in Monrovia;
- Completion of a \$21.0 million (gross proceeds) private placement with five prominent institutional investors;
- Coverage initiation by **Gerard Klauer Mattison** with a "Buy" rating and \$25 price target, as well as price target increases by **CIBC World Markets** and **Adams Harkness & Hill**; and
- Retention of **Spencer Stuart**, a world leader in executive recruiting, to assist in the on-going CEO search.

10/17 **ICON Laser Eye Centers** announced that it had begun performing procedures in its newest laser eye center in downtown Minneapolis, Minnesota. The center is a state-of-the-art laser facility located in the Medical Arts Building of the Nicollet Mall. Leading ophthalmologist Dr. Mark Golden was selected as the center's medical director. "Initial response to our advertising efforts in Minneapolis has been extremely positive, once again demonstrating consumers' ready acceptance of ICON's "Value LASIK" model," said Ghassan Barazi, COO of ICON. "Historically, Minnesota has been a very competitive marketplace for laser vision correction, and ICON feels that its affordable pricing and excellent refractive results will allow the company to emerge as Minnesota's LVC provider of choice. Our plans for North American expansion are right on target, and we look forward to opening other new facilities shortly."

10/17 Word had reached us of a possible glitch in the ongoing U.S. clinical trials for the **WaveLight** Allegretto laser. In response to an inquiry, the company reported that the clinical trials remained on track. "The results obtained so far present no reason whatsoever for a discontinuation of the FDA study, stated Max Reindl, WaveLight's CEO, in response to the rumors suggesting that WaveLight planned to discontinue the study. Reindl went on to say that the study merely had been modified through the exchange of a few technical modules so as to further enhance the Allegretto in preparation for its being outfitted with the WaveFront Analyzer.

During a meeting with company officials at the AAO, we learned that there were some problems with the early results in the first 250 eyes studied, causing WaveLight to make modifications in their laser, including increasing the fluency and adding a plume evacuator, in addition to modifications to allow the system to be used in trials with its wavefront sensor. The company intends to expand the number of sites and include an additional 1000 to 1300 eyes, as soon as they are given the go-ahead by the FDA, following review of the data for the first 250 eyes. The company also plans to begin FDA trials with its WaveFront Analyzer early next year.

10/17 **Option Care, Inc.** announced that its specialty pharmacy and distribution subsidiary, **OptionMed**, had signed a Preferred Distribution and Administration Agreement with **CIBA Vision Corporation**, to distribute its biotech drug, Visudyne for AMD. Visudyne, (verteporfin for injection) is the first drug therapy approved for patients with age-related macular degeneration with predominantly classic subfoveal choroidal neovascularization (CNV). OptionMed will work with managed care organizations to administer authorization guidelines and other policies and procedures with respect to the dispensation and reimbursement of Visudyne. It will also be responsible for the design and implementation of unique education awareness programs for managed care organizations regarding the benefits of Visudyne. In conjunction with CIBA Vision's marketing representatives, OptionMed will also launch the Visudyne Program by a preferred status announcement letter, initial and ongoing newsletters, high prescriber targeting strategies and reimbursement information.

10/18 **SurgiLight Inc.** announced that it had concluded the acquisition of the ophthalmic laser division of **Premier Laser Systems** in an all cash deal of \$3.72 million payable within 4 months. Pursuant to the terms of the acquisition, SurgiLight will own all the intellectual properties and inventory of Premier's ophthalmic division, which includes more than 14 granted patents, 13 pending patents and numerous FDA clearances. The granted patents cover the use of infrared Erbium laser for three of the most important areas of ophthalmic applications: glaucoma, cataracts and refractive surgery. Premier's FDA clearances cover a broad range of incision and excision of tissues of the eye. The company intends to continue the ongoing clinical trials in cataracts treatment and other applications using the Erbium laser. According to Premier, the cataract market is estimated to be approximately 2.6 million procedures annually in U.S. and another 4.5 million procedures internationally. For the glaucoma market in U.S., it is estimated that over 3 million Americans have glaucoma. Glaucoma is also estimated to be over 40% of the entire global ophthalmic pharmaceutical market. The company will start to market in U.S. and internationally immediately for the cleared procedures and will exhibit these systems next week at the American Academy of Ophthalmology (AAO) in Dallas.

After this acquisition, SurgiLight will own more than 14 granted patents and an additional 17 patents pending, which cover a broad range of laser spectrum for ophthalmic applications and the use of various optical fibers for eye surgeries. The company will also own numerous FDA clearances including for the EX-308 for laser treatment of psoriasis and IR-3000 series for ophthalmic uses. The company is aggressively pursuing domestic representation for these new ophthalmic products and the recently FDA cleared EX-308 laser for the treatment of psoriasis. JT Lin, president and CEO commented, "This acquisition will allow the company to begin marketing these systems worldwide. We are very excited about the potential of this new product line and anticipate an increase in sales and revenue. The additional intellectual properties, patents and FDA clearances further solidifies our technological advantages over our competitors."

10/18 **Moria Inc.** said it would launch two new microkeratomes: the M2 and the CB Single-Use, designed for LASIK, at the AAO meeting in Dallas. The M2 and the CB

Single-Use compliment Moria's existing microkeratome portfolio, consisting of the Moria ONE, ONE use, and CB microkeratomes. Moria is the only company, worldwide, to offer manual, automated, reusable and single-use microkeratomes for LASIK, all fully compatible with the same Evolution II control unit. The new M2 features a dual motor, with a unique drive mechanism that makes it the only non-g geared automated keratome able to create hinges anywhere a surgeon chooses. The M2 is FDA approved and available for sale in the U.S. "The automated Moria M2 microkeratome is faster, easier and gives a perfect flap on every single eye" said investigator Renato Neves, MD. Raul Suarez, MD, added, "It is a powerful automated microkeratome generating flaps with consistent thickness". The CB Single Use microkeratome adds to Moria's worldwide reputation as the finest manufacturer of quality disposable microkeratomes. The CB Single Use offers the only pivoting microkeratome with a clear head, creating superior visibility for the surgeon during flap creation. The CB Single Use comes pre-assembled for safety and ease of use, and is disposed of after each surgical case.

- 10/18 **ICON Laser Eye Centers, Inc.** announced that the Phoenix Suns professional basketball team had selected ICON as its official provider of laser vision correction procedures and services. Laser vision correction by ICON will be incorporated into the health benefit packages of all Phoenix Suns players, management, and employees. Dr. Jay Schwartz, DO, surgeon and Arizona Medical Director at ICON's center in Scottsdale, Arizona has been selected as the official eye physician of the Phoenix Suns. As part of the corporate partnership, ICON will promote its brand name and services during all Phoenix Suns games. ICON has planned innovative radio spots, billboard advertising and will install promotion booths informing basketball fans of the benefits of laser vision correction by ICON. ICON has also been given permission by the team to use the Phoenix Suns logo in its local advertising within the Arizona marketplace.

Ghassan Barazi, COO of ICON stated, "ICON is very excited about being the official laser vision correction provider of the Phoenix Suns and we're proud to have one of our associated surgeons, Dr. Jay Schwartz, named as the team's eye physician. The Phoenix Suns are one of the most recognized and powerful sports brand names in the state of Arizona. Sports and laser vision correction are a natural fit as many athletes feel their performance can be hampered by conventional eyewear. Many professional athletes in all sports are finding that laser eye surgery can actually enhance their visual acuity and performance."

- 10/18 **IRIDEX Corporation** announced that sales for the third quarter increased by 35% to \$8.5 million compared to \$6.3 million for the corresponding 1999 quarter. Net income increased 73% to \$561,000 (8 cents per share) compared to \$325,000 (5 cents per share). The major driver of strong third quarter sales was the company's ophthalmic products; specifically the IRIS Medical Oculight GLx and OcuLight GL photocoagulators. A record number of these green wavelength photocoagulators were shipped during the quarter. Contributing to the increase in sales of ophthalmic products was the introduction of the IRIS Medical Integrated Slit Lamp/Laser Workstation. In addition, sales of infrared laser products used to treat diseases such as AMD increased significantly

compared to the prior year quarter. Also during the third quarter, the company continued to supply laser devices to **Miravant Medical Technologies** and **Pharmacia Corporation** in support of their clinical development efforts to treat the wet form of AMD using the PDT agent (SnET2). Prior to FDA approval and commercialization of SnET2, the company expects to supply additional study laser devices as needed.

New orders of the company's DioLite 532 dermatology laser product that treats vascular and pigmented skin lesions increased compared to the second quarter of this year. However, shipments of the DioLite were lower in the third quarter compared to the corresponding 1999 quarter. The company expects shipments of the DioLite to improve in the fourth quarter from current quarter levels due to focused marketing and increased sales support efforts along with the commencement of shipments of the Apex 800 hair removal laser system.

Theodore Boutacoff, president and CEO, commented, "We met our stated objectives for the third quarter. Of high importance was the change in reimbursement policy by the Health Care Financing Administration (HCFA) to allow local carrier reimbursement determination for AMD procedures that involve the use of our infrared lasers. We believe that the policy change is a major first step towards a national policy to cover AMD procedures that can preserve the vision of our elderly. We are continuing our efforts in this important reimbursement area. In related events, several new studies on the use of transpupillary thermotherapy (TTT) photocoagulation for the treatment of occult subfoveal wet AMD were presented during the quarter. There are now eight studies which have been presented: three from the U.S.A., four from Europe and one from Japan. Overall the results of the studies are consistent with the high rate of success reported earlier by Dr. Elias Reichel as published in *Ophthalmology* last year. The study from Japan, presented last week at the 39th annual meeting of the *Vitreoretinal Society of Japan* by Annabelle Okada, MD, was performed at Kyorin University School of Medicine in Tokyo, and treated 27 eyes with subfoveal occult wet AMD using a TTT protocol, except that laser power was optimized to account for the typically higher pigmentation of Japanese eyes. Six month results on 20 eyes showed that 80% of treated eyes had stable or improved vision and that 75% of treated eyes had decreased exudation (i.e. less fluid under the macula). Dr. Okada will present results of this study at the AAO. A ninth TTT study conducted by a group in Maryland will also be presented at the AAO meeting."

The company also announced the introduction of its new IRIS Medical Integrated Slit Lamp/Laser Workstation. The product will provide ophthalmologists with a full function slit lamp delivery device integrated with an IRIS Medical OcuLight GLx 532 nm solid-state laser photocoagulator to enhance clinical versatility and convenience. The workstation combines high-quality optics, a 5-position magnification changer, and converging optics. The EasyFit Adapter, with the UltraView eye safety filter optics, improves resolution and contrast at the treatment site. The integrated eye safety filter offers the flexibility to move the filter out of the field of view when not treating, thus allowing unimpeded visualization of the target, and it is electronically interlocked with the laser console to ensure that it is always in the appropriate position at the time of laser

activation. With parfocal spot sizes from 50 to 500 microns that maximize versatility, and a self-centering micromanipulator for greater control and precision, the new Laser Workstation is well suited for use either in the private practice or the clinic.

10/19 **VISX** announced that the FDA had approved the use of its VISX STAR excimer laser systems as safe and effective for the treatment of hyperopic astigmatism. Commenting on the approval, Liz Davila, president and COO of VISX, said, "We are extremely pleased to add another FDA-approved indication to our product offering. The ability to treat hyperopic astigmatism on the VISX STAR laser systems will benefit our customers and their patients."

10/19 **Sunrise Technologies International** announced financial results for the third quarter. Revenues for the three-and nine-month periods were \$10 million and \$10.4 million respectively, compared to \$6,000 and \$21,000, respectively, for the same periods in 1999. The increase in revenue was due to the sale of 48 HYPERION LTK SYSTEM units during the quarter, which is on pace for the largest U.S. launch of refractive laser units. Included in the third quarter revenue was \$1.6 million of other revenue recognized in just the first quarter of post FDA approval sales.

Operating expenses for the three-month and nine-month periods were \$8.0 million and \$22.9 million respectively, compared to \$4.3 million and \$13.6 million respectively for the same periods in 1999. This represents an increase of \$3.7 million in operating expenses for the three-month and \$9.3 million for the nine-month periods as compared with 1999. The increase in operating expenses was due to the ramp-up of sales and marketing expenses and other related infrastructure expenses to support the launch, as well as significant increases in non-cash general and administrative expenses.

Net losses for the three- and nine-month periods were \$4.1 million (9 cents per share) and \$32.0 million (68 cents per share), respectively as compared with \$5.8 million (13 cents per share), and \$20.1 million (47 cents per share) respectively, for the same periods in 1999. The company closed the third quarter of 2000 with cash and cash equivalents of \$2.3 million and working capital increased to \$12.8 million as compared to \$10.6 million in cash and cash equivalents and working capital of \$5.7 million on December 31, 1999.

"The 48 HYPERION LTK SYSTEM installations are in line with our expectations. Additionally, we generated over \$1.5 million in other revenue in just our first quarter of post FDA approval operations, indicating that surgeons are performing, or expecting to perform, the SUNRISE LTK Procedure at a robust rate early in the adoption of this new technology," said Russell Trenary, chairman, president and CEO. "Also, we know of at least three ophthalmologists and the wife of a fourth who were treated since FDA approval with the HYPERION LTK SYSTEM. This type of early adoption speaks of the safety and efficacy of this procedure. If ophthalmologists are treating other ophthalmologists this early in the life of the Sunrise LTK procedure's introduction we believe they are recommending this to their patients as well," continued Trenary. The company expects that its sales efforts will have continued momentum in the fourth

quarter of 2000. "The Sunrise sales team reports our prospects are promising for the fourth quarter. I am delighted with the sales growth since the FDA approval this summer."

In a private conversation with Russ Trenary, I learned that approximately 7300 paid LTK refractive procedures were done on about 50 installed laser systems during the third quarter. It will be interesting to follow the ramp up of LTK procedure volumes, as we have done with PRK/LASIK and Intacs.

10/19 **IntraLase Corp.** the developer of femtosecond laser technology, announced it had successfully completed its largest financing round to date totaling \$22 million. "This latest financing means we are now poised to begin the commercialization of IntraLASIK, The All Laser Solution for vision correction," said Randy Alexander, the company's president and CEO. "We will use this funding primarily to build the manufacturing infrastructure needed to ramp up increased production of our patented Pulsion FS Laser, as well as for our sales and marketing efforts, and clinical field support for refractive surgeons performing IntraLASIK." The Pulsion FS Laser received clearance from the FDA in December 1999 to produce LASIK-type flaps, and made its debut at the AAO meeting in Dallas.

In its first application, the company's patented Pulsion FS Laser was used to create safer, more precise corneal flaps as part of laser vision-correction procedures. This approach, branded IntraLASIK, replaces the microkeratome traditionally used to create corneal flaps in LASIK. "While LASIK performed with a mechanical microkeratome is a very good procedure with a low incidence of complications, those complications that do occasionally occur are often associated with the microkeratome blade used to create corneal flaps," said Alexander. "By providing refractive surgeons and their patients with the only 'bladeless' approach to creating the corneal flap prior to laser ablation, IntraLase believes it has delivered a new level of safety and precision." (What was left unsaid, was that the laser to produce flaps would cost about \$400,000, a lot more than a \$50,000 microkeratome! Although, it is expected that the device will be sold on a per procedure basis, would could conceivably bring the cost in line with that of the microkeratome and blade.)

**InterWest Partners** led this latest round of financing for privately held IntraLase, investing \$12 million. **Domain Associates LLC** invested \$6 million, with the remainder provided by several others, including prior investors **EDF Ventures** and **Brentwood Venture Capital**. "IntraLase's solid state femtosecond laser technology is potentially the biggest innovation in laser eye surgery in the last ten years," said Gilbert Kliman, MD, a general partner at InterWest Partners, one of the nation's largest venture capital partnerships with more than \$1.6 billion in committed capital. "We are pleased to be part of the growth of this emerging industry leader, whose technology we believe will attract strong surgeon and consumer interest because of the even greater margin of safety it provides to complement the widely recognized benefits of laser vision correction." The



previous round of financing for IntraLase was completed in October 1999 and totaled \$7.5 million.

10/19 **Nidek, Inc.** announced that Dr. Arturo Chayet, performed the first aspheric custom ablation using the Nidek EC-5000 Excimer Laser System. Aspheric custom ablation is intended to produce a prolate cornea that mirrors the eye's natural curved shape more accurately. This technology is currently being evaluated for the correction of each eye to its unique, individualized ablations and specifications. "This aspheric ablation using the Nidek EC-5000 Excimer Laser System may become the standard practice for all laser vision corrections," said Dr. Chayet. "I am very excited and honored to perform an aspheric custom ablation. In the future, I hope this technology will correct each eye to its special ablation profile." Dr. Chayet performed the first aspheric custom ablation to treat myopia and myopic astigmatism at his practice in Tijuana, Mexico as part of Nidek's developmental testing. Nidek will be sponsoring clinical trials of this new technology, and subsequently seeking approval from the FDA.

10/19 **LaserSight** provided an update on certain of its regulatory activities. Although laser sales have been affected by the delay in the astigmatism approval, the company reported a continued high level of interest in its LaserScan LSX excimer laser system in the United States. The LSX's low fluence, small spot size, high repetition rate scanning features provide an ideal platform for the future development of custom ablation applications. The effectiveness of the LSX has already been demonstrated internationally. During the period in which the company continues to pursue U.S. approval for treatment of astigmatism, LaserSight's objective is to continue to grow its U.S. customer base. To facilitate this, the company will be unveiling a unique pricing strategy at the AAO meeting that lowers the up front acquisition cost of an LSX system while preserving average system pricing as the LSX is approved for additional new clinical indications.

On the FDA regulatory front, by the end of October, LaserSight will submit a PMA supplement requesting the FDA's approval to expand the approved indications for the LaserScan LSX to include the treatment of myopia, hyperopia, astigmatism and mixed astigmatism utilizing LASIK. Also, by the end of October the company will file a "Real Time PMA Supplement" requesting FDA approval for its AccuTrack eye tracking system. The advanced pattern recognition eye tracking system is an upgradable feature already incorporated into the standard international version of the LSX excimer laser.

As announced earlier, the company is awaiting approval of their "Real Time PMA Supplement" approval for their facility change in Winter Park, FL. LaserSight has provided its final response to the FDA's request for clarification on certain points contained in its pending PMA supplement expanding the approval of the LSX to treat astigmatism. While the company believes that its response should address all open issues regarding approval of astigmatism, it is not possible to provide an exact time frame within which LaserSight anticipates receipt of the astigmatism approval. When received, the addition of astigmatism to approved clinical indications will be a significant milestone that opens the U.S. market for the LaserScan LSX to approximately 80% of the refractive

corrections currently performed with excimer laser systems. In the international market, the LaserScan LSX is utilized to treat the entire range of refractive errors including myopia, hyperopia and mixed astigmatism.

- 10/19 **NovaMed Eyecare** announced that net revenue for the nine months ended September 30th, increased 41% from the first nine months of 1999, to \$100.8 million. Net income for the period rose 46% to \$4.1 million, while earnings per share increased 33% to 16 cents from 12 cents per share in 1999's first nine months. Third-quarter 2000 net revenue of \$35.1 million rose 33% from the third quarter of 1999. Net income for the quarter of \$1.2 million (5 cents per share) was equal to published consensus estimates and was down modestly from \$1.4 million (6 cents per share) in 1999's third quarter. "The fact that NovaMed is a comprehensive eye care services company with a surgical facilities focus is proving its importance given today's highly competitive LVC market," said Stephen Winjum, chairman, president and CEO. "We continue to operate profitably, thanks to our proven business model with its growing, diverse revenue streams. We are capitalizing on our strong positions in our core regional markets, our eye care domain knowledge, our access to advanced medical technology and our information technology platform. As a result, we are uniquely positioned to benefit from a broad range of long-term industry growth drivers, such as the growth in demand for surgical vision correction, including laser vision correction, the aging of the U.S. population, and continued breakthroughs in eye care technology."

The company said that its operating earnings were achieved despite continued highly competitive conditions in the laser vision correction consumer marketplace, as well as the LVC equipment and services sectors -- conditions that are expected to persist for the foreseeable future. NovaMed continues to support its premium-priced LVC provider position and its regional brands with sales and marketing spending. While at a higher year-over-year level, companywide sales and marketing expense of \$2.4 million in the third quarter 2000 was approximately 10% lower than the second quarter 2000 amount. As previously reported, NovaMed's LVC procedure volume of 18,711 for the first nine months increased 113% over the first nine months of 1999. Third-quarter LVC procedures increased 87% from the third quarter of 1999 to 6,744. Revenue from LVC procedures accounted for approximately 27% of nine-month net revenue and 25% of third-quarter net revenue, up from 22% for full year 1999.

- 10/19 Noting that the company reduced its net loss per share to 49 cents from 57 cents in the previous quarter, **KeraVision** reported revenues of \$426,000 for the third quarter. Revenues were based mostly on procedure sales, compared to \$4.2 million for the third quarter in 1999 that were based primarily on nonrecurring sales of surgical instruments necessary for surgeons to practice the INTACS insertion procedure following FDA approval for KeraVision's technology. Revenues for the first nine months were \$2.1 million vs. \$8.6 million for the same period a year ago. Noting that low consumer awareness for INTACS inserts continued to be the company's main challenge, KeraVision said it is encouraged by early results in three test markets where the company launched a complete business model in September. The model, which includes

KeraVision's first TV commercials along with other marketing elements, had no material affect on third quarter revenues or procedure volume because of the mid-September timing of the business model roll-out.

Total procedure volume for the quarter, based on receipt of surgeons' procedure cards to date, was estimated to be just over 800 procedures, bringing total post-FDA approval procedure volume to over 5,000. (Note: The 800 procedures for the third quarter represents a continued drop in procedures following the Intacs launch. The company reported 1100 procedures in the first quarter, followed by a drop to 945 procedure in the second quarter. The total number of commercial procedures is thus only about 2900 of the total reported. If the number of procedures doesn't pick up dramatically, this company could be in deep trouble.)

The net loss for the third quarter was \$8.8 million vs. \$10.3 million for the second quarter and \$5 million for the third quarter of 1999. Due to savings in sales and marketing and research and development expenses, net loss per share applicable to common stockholders was 49 cents per share compared to 57 cents for the previous quarter and 32 cents for the third quarter of 1999. The increase in net loss from the year-ago period was primarily due to consumer market-development activities in the U.S. and the lower gross margin associated with a decrease in revenue. KeraVision chairman and CEO Thomas Loarie said, "In the third quarter, KeraVision launched a complete business model in three markets where we believe we have the basic elements for success: namely, strong market coverage by our 'Fast Track' practices and extensive networks of referring optometrists. For the first time we've included TV commercials in the media mix using consumer messages that were tested in over 20 markets during May and June of this year. While results are early, we are encouraged by the ratio of consumer inquiries within our target range and by the ratio of inquiries resulting in actual visits to eye doctors and referring optometrists in these test markets. For those reasons, we believe KeraVision is getting closer to unlocking the potential of this large segment of nearsighted consumers who are dissatisfied with glasses and contacts and apprehensive about permanent procedures."

10/20 **ICON Laser Eye Centers** announced that it had entered into a binding letter of intent to combine with **Aris Vision, Inc.** of Los Angeles. The merged company will be a Delaware corporation. The transaction will be structured in order to afford ICON shareholders tax deferrals in the U.S. and Canada. ICON and Aris will each hold shareholder meetings to approve the transaction. ICON shareholders will receive 50% of the merged company, subject to dissenters' rights and to certain possible adjustments. Ghassan Barazi, COO of ICON stated, "ICON is excited about the opportunity to roll-out its "Value LASIK" concept into those Aris centers that present the greatest opportunities.

10/20 **Nidek** announced it had submitted a supplemental pre-market approval application for hyperopic indications to the FDA. Once this application is accepted for filing, the FDA will evaluate the Nidek EC-5000 Excimer Laser System for its ability to safely and effectively treat hyperopia and hyperopia with astigmatism as part of the LASIK

procedure. Currently, the EC-5000 is approved to reduce or eliminate myopia with or without astigmatism, as part of LASIK.

The company also announced that it had submitted a 510(k) application for the OPD Scan, used for customized ablations. Once this application is accepted for filing, the FDA will evaluate the Nidek OPD Scan as a stand-alone device that generates refractive eye maps. The OPD Scan is currently in U.S. beta-site testing. Nidek's new OPD Scan is a state-of-the-art diagnostic instrument that combines auto-refraction, corneal topography and wavefront analysis to create unique refractive power maps of the corneal surface. These maps are much more precise than traditional autorefractometers and represent a powerful diagnostic tool. Current stand-alone devices only use wavefront analysis to create a map of the eye's refractive errors. "This technology will change the way that laser vision correction procedures are performed," said Hiroshi Okada, vice president and general manager, Nidek Inc. "Refractive surgeons can create topographical maps to help them provide the best optical outcome in laser vision correction procedures. Nidek is proud to be involved in developing and providing new methods for the vision care industry and patients."

- 10/20 Several news sources reported that corporate raider Carl Icahn had held discussions with **VISX** COO Liz Davila, suggesting that "the company merge with a bigger medical equipment maker to more effectively compete with better-capitalized and broader-based companies in the field". Icahn reportedly also said that the company should increase its 10% poison pill threshold so that his investment group could purchase more stock in the company. Davila reportedly told Icahn that she "would take his views under consideration".
- 10/20 **Pharmacia Corporation** announced that it was continuing Phase III clinical trials of SnET2 (Tin Ethyl Etiopurpurin) for the treatment of 'wet' AMD. The more than 900 patients previously enrolled in these two-year studies are being followed and evaluated for retreatment through 2001. Results of a scheduled analysis of one-year patient data may be available during the first half of 2001. Pharmacia has an exclusive worldwide, royalty-bearing license granted by **Miravant Medical Technologies** to manufacture, use, distribute and sell SnET2 for use in ophthalmology. Pursuant to various agreements, Pharmacia has assumed control of the clinical and regulatory aspects of SnET2 in ophthalmology and will also assume responsibility for the manufacturing scale-up of SnET2 to commercial levels.
- 10/22 **Bausch & Lomb** announced that it was partnering with the prolific inventor and key patent holder of the LASIK eye surgery method, to develop technology that will create the next generation of the very popular and effective laser vision correction surgery procedure. The new surgical procedure, PAI-LASIK, has the potential to extend the range of nearsightedness correctable by LASIK and, if necessary, can for the first time make the LASIK procedure **reversible**. Bausch has obtained exclusive development and marketing rights for this novel technology called *photoablative inlay* (PAI), from its inventor, world-renowned ophthalmic surgeon Gholam Peyman, MD, of *Tulane*

*University Medical School* in New Orleans, and **Stromax Technologies LLC**, a privately held company based in Pittsboro, N.C. The technology consists of a corneal inlay that is designed to shape the human cornea during laser vision correction surgery. The PAI-LASIK surgical procedure uses the corneal inlay in conjunction with LASIK. In this procedure, a surgeon would make a corneal flap with a microkeratome and then place the inlay on the corneal bed. The Technolas 217 Excimer Laser would be used to ablate the inlay, rather than the patient's corneal tissue, as is common with current LASIK, to create the intended correction. That ablation could be applied based on information obtained from Bausch & Lomb's integrated diagnostic system, which identifies the abnormalities throughout the patient's eye and then creates a personalized laser treatment.

"There would be several potential advantages to using this surgical approach," said Peyman. "First, such a new procedure would preserve the patient's corneal tissue, thereby reducing the risk of creating a cornea that's too thin and, therefore, prone to weakening, leading to unstable refractive results. With traditional LASIK for patients who are highly myopic, you must ablate a significant amount of corneal tissue in order to achieve the intended correction. Second, should a patient not be satisfied with the initial surgical result or should the patient's eyesight change in the years following LASIK surgery, the original inlay potentially could be replaced with a new inlay that is then custom ablated to correct the new refractive error." Also according to Peyman, in addition to correcting myopia, PAI-LASIK potentially could be used to correct hyperopia and astigmatism. "We are excited about our partnership with Dr. Peyman and Stromax Technologies," said Gary Aron, Bausch & Lomb corporate vice president and vice president of global research, development and engineering. "PAI-LASIK represents a tremendous advance in refractive surgery that has the potential to help millions more people see the wonders of the world without the aid of spectacles or contact lenses; and our pursuit of this development demonstrates Bausch & Lomb's commitment to leading the global market with innovative refractive surgical solutions."

Bausch & Lomb will work with Peyman and Stromax throughout the product development process. The development team's **first assignment is to identify the best corneal inlay material that will produce optimal results. Once a material is selected, clinical studies will begin in the United States and abroad.** Financial terms of the agreement are not being disclosed. (Emphasis added. Finding the "right" material is not an easy task. In the past, a number of hydrogels and other synthetic materials have been tried as stromal implants, and to date, the only one that appears successful in keeping the stromal tissue viable is the PermaVision hydrogel called Nutrapore from **Anamed**.)

10/23 **Q-Vis Limited** of Australia, exhibited a prototype of its new solid-state Eye:Q<sup>2</sup> laser that operates at 213 nm, at the AAO meeting. Some of the features incorporated into the new laser include a three-axis movement bed layout, miniturized ergonomic design (nearly everything, including the laser head, is incorporated into the bed), and network-linked touch screen user interface. The quintupled Nd:YAG laser has a 0.5 mm to 4.0 mm variable sized flying spot and incorporates a 200 Hz eye tracking system, with 200 Hz feedback. "We believe the Eye:Q<sup>2</sup> represents state-of-the-art in LVC laser design and engineering," said John Roper, managing director. "The Q-Vis design team has

incorporated the benefits of the company's solid-state technology, comprising a standard Nd:YAG engine and our proprietary crystal arrangement, to add an array of features and design benefits aimed directly at surgeon and patient needs."

The introduction of the Eye:Q<sup>2</sup> laser follows the company's announcement that treatment of the first cohort of 50 eyes in the U.S., under an IDE, was completed in September. The IDE is for treatments of up to -10 diopters of myopia, with up to 4 diopters of astigmatism. The testing was accomplished by Drs. David Dulaney of Phoenix and Alexander Hatsis of Long Island. Clinical data will be reviewed over the coming months as Q-Vis seeks regulatory approval in major markets of Europe and the U.S. The laser is approved for sale in Australia. Eye:Q is protected by ten patent applications, most of which are in the international stage of review, covering key components of the system.

10/23 **Asclepion-Meditec AG and WaveFront Sciences, Inc.** jointly announced an exclusive co-operation in integrating WaveFront Sciences' wavefront technology (called the Complete Ophthalmic Analysis System (COAS)) into the new Asclepion WASCA (Wavefront Aberration Supported Corneal Ablation) system. The integration of this new diagnostic method with the Asclepion MEL 70 G-Scan excimer laser enables the visual acuity of persons even without vision defects, to be improved. In a comparison with various competing technologies scientists judged WASCA, developed by Asclepion and Wavefront Sciences, to be "the researcher's dream" due to its unsurpassed degree of precision. "The combination of WASCA technology with the precision of the MEL 70 G-Scan creates a new standard for the measurement of the overall optical system of the eye and subsequent treatment: the vision improvements achieved in clinical evaluations and further potential uses for this new technology which are currently being investigated have made WASCA one of the most hotly discussed topics among our customers, even before it has hit the market," said Dr. Bernhard Seitz, chairman of the Asclepion-Meditec Management Board. Vice president and technical director of WaveFront Sciences, Dr. Daniel Neal, also expressed his contentment, "Our co-operation with the pioneer in the field of medical excimer laser enables us to participate in the new and interesting growth market for medical applications with our technology. The new COAS G-200 provides a number of advanced features which provide for better measurements. The new COAS system provides both the highest resolution measurement of the eye together with a new, smaller instrument that is ideal for clinical settings. The resolution of the COAS system is crucial in measuring the higher order aberrations of the eye. Researchers are beginning to demonstrate how critical the resolution of this measurement is. COAS is currently providing from 2-40 times the resolution of competing products and this data translates directly to the quality of the laser correction."

Up until now, WaveFront Sciences' basic technology for wavefront aberrometry has been used in industry and scientific laboratories wherever a high degree of measuring accuracy is essential. WaveFront Sciences has the largest number of Hartmann-Shack Wave Front sensors installed worldwide. The core of the aberrometer is a CCD chip and an optical element, a so-called microlens array which incorporates a multitude of tiny lenses. The number of lenses determines the resolution and thus the accuracy of the measuring results. A further advantage of the Wavefront Sciences' technology is its large dynamic

measuring range, unequalled in the market. "The COAS system is a derivative of WaveFront Sciences' Complete Light Analysis System (CLAS-2D) which is the industry standard in optics and laser metrology. This system provides both the patented hardware design and the critical software analysis capability to make this product possible," said Tim Turner, President of WaveFront Sciences. "In many ways, testing the eye is just like testing any other optical system. We're now gathering the same information for the human eye that was previously only available for complex optical systems."

With the new WASCA system expansion, whose shipment is due to begin immediately after AAO, Asclepion can build on its extensive experience in topography-supported customized ablation of the eye. Over the past two years the company has been marketing a solution by the name of TOSCA, with which the surface of the patient's cornea can be individually measured and converted online to treatment data for the MEL 70 G-Scan laser can be easily accomplished. Difficult treatments are thereby safer and treatment results are considerably improved. With more than one hundred users of this system, expansion to the MEL 70 G-Scan, Asclepion has become the market leader in this segment for the individual correction of vision defects (customized ablation).

At the AAO, Asclepion also presented the new AWACS (Asclepion Wavefront Aberration Correction Simulator) workstation, which includes a phoropter and a projector. AWACS offers the possibility to ophthalmologists to apply the calculated treatment data from the WASCA software to special optical plastic material which can then be placed in the phoropter. Thus, the patient can judge before the actual treatment if he/she wishes to have the vision enhancement treatment performed on his eye. Asclepion did the first evaluations on patients earlier this year and presented the very first results at the DOG fair in Nuremberg (Germany). (Editor's note: AWACS is essentially similar to the **VISX** PreView system. In discussions with both companies, it has been determined that Asclepion was the first to have such a system, showing it last June at the German Ophthalmic Fair noted above. VISX officials corroborated the fact that they didn't come up with their PreView system until mid-summer. I had my eyes AWACSeD at the AAO, and even over my contact lenses, I could see a sharpening of my vision.)

10/23 **KeraVision** said it was introducing a faster, simpler and more patient-friendly surgical procedure to surgeons attending this week's joint meeting of the AAO and World Refractive Surgery Symposium in Dallas. The procedure improvements are part of a larger program called The KeraVision Prolate System that the company is using to upgrade its vision correction technology for ophthalmic surgeons. "With the KeraVision Prolate System, we believe we've succeeded in making our procedure easier to learn, about 30% faster to perform, and extremely consistent in producing outstanding clinical results for patients," said David Applegate, KeraVision vice president of Medical Marketing and Business Development. "We've also added new financing options to make it easier for surgeons to integrate our technology into their practice."

The KeraVision Prolate System is named for the prolate, or natural pear-like shape of corneas that are treated with INTACS inserts. KeraVision is one of the first companies

to use advanced wavefront analysis to develop a vision correction technology that maintains the natural corneal curvature and avoids some of the refractive aberrations that have been associated in the medical literature with excimer laser-based refractive procedures. The KeraVision Prolate System surgical procedure for the placement of INTACS inserts is the only FDA-approved vision correction procedure that maintains the natural prolate shape of the cornea.

Key features of the KeraVision Prolate System include:

- about 15% fewer steps and almost 40% fewer instrument passes required to complete the procedure;
- improved surgeon training course that is designed to produce more consistent patient outcomes including minimal discomfort and swift recovery for patients;
- two additional financing options to help reduce economic barriers for refractive surgeons, especially small- to medium-volume practitioners, who want to integrate INTACS inserts into their practice and achieve a competitive edge in their markets as "comprehensive" refractive providers;
- innovative new program that provides a portable cart, complete with surgical microscopes and other special equipment, so that small-volume refractive surgeons can perform the INTACS insert procedure in-office without having to pay facility fees to surgery centers.

10/23 **Refractec, Inc.** released 12-month results from its US FDA clinical study of Conductive Keratoplasty (CK). The results indicated that most patients continue to not need glasses one year after having Conductive Keratoplasty, with 56% of the patients having 20/20 vision or better, 70% having 20/25 or better and 93% having 20/40 or better. "These results are a bit more modest than those for myopic LASIK, but they go toe-to-toe with almost any hyperopic LASIK results," said Marguerite McDonald, MD, clinical professor at Tulane University and medical monitor for Refractec. "Considering that these patients have had only one treatment and given that retreatments would provide further improvement in these outcomes, I think these results are excellent," added Dr. McDonald.

Refractec is the only company to use radio frequency energy to reshape the cornea and correct hyperopia. The company's unique device, called the ViewPoint CK System, is already approved in most major international markets, and the company has submitted PMA modules for FDA review. "We are very pleased with our 12-month study results," said Mitchell Campbell, Refractec's president and CEO. "These preliminary results indicate that the less invasive CK procedure may provide a more stable refractive outcome than LASIK, PRK and LTK treatment for hyperopia."

10/23 **Nidek Inc.** and **TotalEyeSight.com**, the single source of web and wireless applications for the vision care industry, today announced a new strategic marketing relationship designed to increase office management efficiencies for Nidek users. Through this alliance, TotalEyeSight.com will provide its full complement of web-based applications



to Nidek's customer base of refractive surgeons. TotalEyeSight.com will also develop unique features to its Practice Zone application suite for the Nidek customer base.

10/23 **Coronado Industries** announced that extensive negotiations have culminated in signing an exclusive agreement with **CIBA Vision** that gives Ciba an exclusive option for global licensing and distribution rights to Coronados' patented Pneumatic Trabeculoplasty (PNT) equipment and treatment. PNT, a non-invasive treatment for glaucoma developed and patented by Coronado, is designed to treat the two most common types of glaucoma -- open-angle and pigmentary. A suction device, applied to the eye for two minutes, reduces intraocular pressure non-invasively.

10/24 **Bausch & Lomb** said it was encouraged by results from the first clinical study of its Envision TD technology for the treatment of diabetic macular edema (DME), a sight-threatening back-of-the-eye disease afflicting almost two million people worldwide. The results of the initial clinical study were announced along with the fact that the FDA had granted the product "fast track" status, which has the potential to shorten the FDA approval process. In light of these developments, Bausch & Lomb revealed that it planned to begin a pivotal Phase IIB/III of the clinical study by the end of 2000, approximately six months ahead of schedule. "The early start of the Phase III clinical study could advance our timetable for gaining FDA approval and beginning to market the fluocinolone acetonide implant using the Envision TD technology to thousands of people afflicted with the sight-stealing disease," said Gary Aron, corporate vice president and vice president Global Research, Development and Engineering. "The tremendous breakout potential of this technology has made it our top R&D priority. We have significantly increased our investment in this technology and are extremely pleased to see this acceleration of the development process."

10/24 **Chase H&Q** analysts Rob Faulkner and Tatyana Daniels released a research note with highlights from the AAO and ISRS meetings.

- Progress continues with wavefront guided custom ablation, the buzz at last years' AAO and ISRS (International Society of Refractive Surgery) meetings, albeit the road to super vision is longer than many hoped.
- The AAO and ISRS meetings again drew a great deal of physician interest in custom ablation, filling two multi-hour sessions and sparking many discussions.
- Alcon's Summit Autonomous continues to be the farthest along in custom ablation, with Bausch & Lomb and VISX following, respectively.
- We are encouraged by VISX's early results with custom ablation for re-treatments and eagerly look forward to data on virgin eyes.
- The VISX booth was vibrant yet again, with many physicians stopping to inquire about the Star S3 upgrade.

10/24 **TLC Laser Eye Centers** and **Tracey Technologies LLC** announced that they had entered into an exclusive world-wide agreement pertaining to the co-development, use and marketing of the proprietary Tracey Visual Function Analyzer for wavefront guided

LASIK. Over the past year, various excimer laser manufacturers have been participating in an intense technology race to develop and commercialize a Custom LASIK platform capable of addressing the inherent uniqueness of each human eye. TLC currently operates the only Custom LASIK center in North America. Working alongside a variety of technology partners, Dr. Jeffery Machat -- an internationally renowned refractive surgeon and Co-National Medical Director for TLC -- has been leading the company's own pioneering research and development activities in this area. After extensive evaluation of all available technologies, Dr. Machat and his research team have come to the conclusion that the Tracey wavefront analyzer, using its ray tracing approach, is the ideal diagnostic tool for customized procedures for both new patients and for patients who have experienced long-term complications from previous laser vision correction surgeries.

The Tracey Visual Function Analyzer features unique "plug and play" capabilities and can be adapted for use with any small beam flying spot excimer laser currently available on the market once it is linked to the laser via software that has been developed by and is proprietary to TLC. TLC, therefore, now enjoys exclusive rights to two of the three pieces of the Custom LASIK "puzzle" -- the third piece being laser technology that is already available. Consistent with its commitment to allow patients to be treated on the laser that best meets their clinical needs, TLC intends to work with all laser manufacturers to bring Custom LASIK to market.

TLC intends on commercializing its Custom LASIK platform in both Canada and the United States as soon as possible. TLC also plans to cross-license its Custom LASIK platform to other laser vision correction surgeons and surgery companies in a variety of countries, providing TLC with a share of the worldwide royalties that are generated from the technologies' use. Dr. Machat commented: "Today's announcement further demonstrates TLC's unique ability to remain at the clinical forefront of the laser vision correction industry by taking advantage of the company's preferred access to the newest refractive technologies. TLC doctors have pioneered many of the refractive surgery techniques now considered state-of-the-art. Through a continuing commitment to providing patients with the best possible vision -- even beyond 20/20 -- and by clearly differentiating ourselves in terms of technology and quality of service and care, TLC is positioning itself to lead this industry well into the future."

Lamar Laster, president and COO of Tracey Technologies, said, "We are pleased that TLC, after extensive evaluation, has chosen the Tracey Visual Function Analyzer as the ideal diagnostic tool for customized procedures. These procedures are for both new patients and patients who have experienced long-term complications from previous laser vision correction surgery. Our relationship with TLC provides us with an opportunity to continue development of advanced technology for diagnostic and therapeutic products used in refractive ocular surgery. In addition, we are teaming up with the world's largest provider of LASIK surgery for refractive corrections. With 61 vision care centers using lasers from all manufacturers, and considering its expansion plans, TLC will provide our products with immediate worldwide exposure." Joe Wakil, MD, chairman and CEO of Tracey said, "We are excited about the joint development effort that will make our ray

tracing wavefront technology available to all refractive lasers and the customers they serve. We believe this alliance with TLC will make Tracey's technology the standard in the refractive market place. Tracey is pursuing the diagnostic market place as well as applying its expertise to alternative refractive technologies including custom contact and intra-ocular lenses. These lenses are intended to provide 20/10 to 20/8 vision on a consistent basis, higher than the current 20/20 accepted standard."

10/25 **Bausch & Lomb** continued its aggressive campaign to stop competitors from infringing on its exclusive patents for microkeratome blades, when it filed a complaint against eye-care company **Oasis Medical, Inc.** of Glendora, California. The lawsuit, filed in United States District Court for the Central District of California, Santa Ana Division, alleged that Oasis had infringed a recently issued patent that offers significant protection for Bausch & Lomb's blades, blade designs and blade holders that are intended for use with pivoting microkeratomes, such as Bausch & Lomb's Hansatome microkeratome, the world's best-selling microkeratome for laser eye surgery. The patent, U.S. No. 6,051,009, is in addition to other issued patents and pending applications on the Hansatome. Bausch & Lomb is seeking an injunction against further manufacturing of the blades, as well as unspecified damages. "We have both the right and the responsibility to aggressively protect our extensive portfolio of intellectual property," said Hakan Edstrom, Bausch & Lomb corporate senior vice president and president of the Americas region. "We have invested considerable resources to bring the latest and best technology to ophthalmic surgeons and we will do what is necessary to keep our portfolio free from unlawful competition."

10/25 **LCA-Vision** announced that its common stock will begin trading on the European Association of Securities Dealers Automated Quotations (EASDAQ), the largest pan-European stock exchange, October 27, 2000, under the symbol "LCAV." LCA-Vision will continue to trade on NASDAQ under the ticker symbol "LCAV" in the U.S. "The listing on EASDAQ is a logical step for the company," said LCA-Vision chairman and CEO Stephen Joffe. "The listing will better serve our existing non-U.S. shareholders while providing increased access to a broad base of investors across Europe who prefer to trade in their own time zone."

10/25 As reported at the AAO, vision continues to improve for up to three years for nearsighted consumers who are treated with KeraVision's INTACS micro-thin prescription inserts -- the first FDA-approved non-laser option for surgically correcting nearsightedness. INTACS inserts resulted in 20/20 or better vision for 79% of wearers who were monitored for three years. That compares to 76% of INTACS insert wearers who saw 20/20 or better at the end of two years of wear, and 74% who saw 20/20 or better after one year of wear. The percentage of wearers who improved to 20/16 or better and 20/12.5 or better also grew over time, rising to 61% and 26%, respectively, after three years of INTACS insert wear, said Bradley Fouraker, MD, of Tampa, FL.

INTACS inserts have been in use in clinical trials since 1991. The 36-month clinical results were based on 183 cases from 11 clinical study sites that were involved in

FDA-regulated clinical studies initiated prior to FDA approval last year. Wearers were treated for -1.0 to -3.0 diopters of myopia (or up to about 20/400 vision) with up to +1.0 diopters of astigmatism.

- 10/25 As part of a continuing strategy to focus on its core business of providing laser vision correction surgery services, **TLC Laser Eye Centers** announced that it had chosen to exit from its eye care e-commerce enterprise, **eyeVantage.com**. Seeing a need for the consolidation and rationalization of ophthalmic product distribution, and an opportunity to further strengthen the company's relationship with its affiliated network of more than 12,500 eye doctors, TLC created eyeVantage.com at a time when public financing for similar e-commerce ventures seemed attainable. As the public financing environment eroded, TLC continued to fund the start-up and continuing operations. Throughout its effort to explore strategic alternatives, and right up until today, TLC was involved in discussions with third parties with the goal of completely removing any TLC responsibility to "self-fund" the enterprise. However, no firm offer was ultimately received that would have allowed TLC to satisfy this primary objective.

As previously reported, operating profits in the three months ended August 31, 2000, were negatively impacted by approximately \$3 million (8 cents per share) by the operating costs associated with eyeVantage.com. Ceasing the operations is expected to eliminate any future losses from this subsidiary. As a result of this decision, TLC intends to take a one-time charge in its fiscal 2nd quarter that is expected to be in a range of \$10 - \$12 million. Although exact amounts cannot yet be determined, the company expects that this charge will be attributable to a combination of goodwill, cash, and impairment of assets.

Following the announcement, Rob Faulkner and Tatyana Daniels of **Chase H&Q** issued the following:

- TLC will stop funding its e-commerce initiative, eyeVantage.com, after failed attempts to find a buyer or public financing.
- Our estimates only had one more quarter of eyeVantage.com expenses, which we are trimming.
- We are raising EPS estimates for 3QFY01 and FY2001 from (\$0.19) to (\$0.16) and from (\$0.70) to (\$0.67), respectively.
- We are highly encouraged by both the cost controls put in place last quarter and the elimination of eyeVantage.com spending - key positives for us going forward.

- 10/26 **Sunrise Technologies International** announced that it had reached agreement with **HYE KWANG TECHNOLOGIES, INC.**, Korea's largest excimer laser distributor, to begin selling the Sunrise LTK System for treatment of hyperopia in Korea. The Korean agreement is a three-year contract that calls for a committed minimum of 60 HYPERION LTK SYSTEMS to be sold in Korea over the span of the contract. HYE KWANG TECHNOLOGIES will begin to sell the systems after the Korean regulatory agency approves the HYPERION LTK SYSTEM for sale in Korea. "Korea is one of Asia's most

dynamic vision correction markets, and we believe it is an excellent market for Sunrise Technologies. To have a relationship with the top refractive surgical laser distributor in the country should guarantee that Korean refractive surgeons soon will have access to this exciting new technology," said Russell Trenary, chairman and CEO of Sunrise. "HYE KWANG TECHNOLOGIES is known throughout the Korean ophthalmic community as a quality distributor that emphasizes service. At Sunrise, this melds nicely with our philosophy that the refractive surgeon is the customer and our mission is to aggressively partner with the doctor in helping the doctor build his or her practice," said Paul Malin, vice president International Marketing and Business Development of Sunrise.

10/27 **ICON Laser Eye Centers** and **Aris Laser Vision Institute (Aris)** announced that they had entered into a joint venture agreement to jointly develop laser eye centers in select markets within the United States. The companies rolled out advertising promoting five centers in the state of California on October 22nd. The centers located in Glendale, San Diego, Irvine, Encino and La Jolla, will combine ICON's value pricing and marketing concepts with Aris's excellence of patient care and top quality refractive outcomes. The initial pricing of the Value LASIK promotion is \$499 per eye for myopic and astigmatic correction, which includes all pre- and post-operative care, surgery and an ICON Lifetime Enhancement Guarantee. There is an additional charge for patients with hyperopia.

ICON and Aris announced last week that they had signed a binding letter of intent to merge together subject to definitive documentation and shareholder and regulatory approvals. The joint venture agreement in California anticipates ongoing discussions toward a business combination on terms yet to be negotiated. Ghassan Barazi, COO of ICON stated, "ICON is thrilled to be entering into California in collaboration with Aris which has established itself as one of the leading premium laser vision correction providers in the industry. ICON is eager to pair its successful value-pricing model with the advanced laser vision correction techniques and protocols developed in Aris's centers of excellence. Both companies look forward to working together in the very competitive and rapidly expanding California marketplace."

## **OPHTHALMIC LASER UPDATE -- November 2000**

10/29 **SurgiLight** announced that it had exhibited a new fiber-coupled infrared laser for ocular surgery at the AAO meeting held in Dallas, TX last week. Two papers were presented at the ISRS to up-date the clinical results of presbyopia correction using IR-3000 laser. These results included up to 18 months of follow-up for 97 cases. The company's IR-3000 fiber-coupled laser is the world's first innovative system designed for ocular surgeries with an emphasis on presbyopia reversal. The company has not yet received FDA clearance to perform presbyopia reversal in the U.S., but expects to begin clinical studies soon.

At the ISRS Conference, the company presented 97 cases of "Laser Presbyopia Reversal" (LAPR) performed by two groups in Venezuela and Argentina. The clinical results of the

company's IR-3000 system indicated that LAPR is safe, effective and may offer advantages over other non-laser methods including being simpler, faster, and with minimal regression. The clinical results were reviewed by U.S. ophthalmologists, Drs. Gailitis, Burks and Beyer who visited and interviewed patients at the company's Venezuela Laser Center. According to these doctors, the results are very promising and all treated presbyopia patients are happy with the results.

The company plans to offer the IR-3000 and IR-3000A systems at retail prices of \$150,000 to \$180,000 each. The IR3000 will be sold outside the U.S., while the IR3000A is targeted for the U.S. market. An additional royalty fee of \$300 to \$500 per patient will be charged to surgeons. The company estimates that royalty fee income may be in the range of \$70 million annually, based on 200 systems installed and 1,500 procedures performed per system per year. The company currently has an inventory of 150 completed systems and additional 200 units that are approximately 70% complete.

- 10/30 Two rather negative articles appeared in today's *Los Angeles Times*. One, reprinted from *The Washington Post* was entitled, "For Some, LASIK Has a Downside" and relates how one ophthalmologist in Chevy Chase, MD has seen over 100 LASIK patients with problems, that were referred to him from other physicians. "Some of it's the result of surgeons with bad judgment, some of it's inexperienced surgeons and some of it is patients who haven't been educated preoperatively so they know what to expect," said Roy Rubinfeld, a Chevy Chase, MD, surgeon who is director of training for TLC, one of the Washington area's busiest and most expensive laser centers, and a competitor of Lasik discounters. The story goes on to tell of the class-action lawsuit on behalf of nearly 3,000 patients that is awaiting the approval of a settlement by a California Superior Court judge in San Francisco. The case involves a husband-and-wife team of ophthalmologists, Sanjay Bansal and Swati Singh, owners of **LaserVue Eye Center**, a chain of four clinics in the San Francisco area. For several years, Bansal, Singh and other doctors at two LaserVue centers rinsed and reused disposable blades and failed to sterilize other equipment between patients, according to court papers. Reusing disposable blades potentially exposed patients to AIDS, hepatitis, staphylococcus and other infections, the lawsuit contends, and is a violation of standard medical practice and state law. The class-action suit, filed by several patients of LaserVue, alleges that the couple "willfully and recklessly used unclean blades . . . in an attempt to maximize their profits." The proposed settlement, according to Geoffrey Gordon-Creed, the lawyer who filed the lawsuit, would require the doctors to pay each patient \$500, which could be used for blood tests for HIV, hepatitis and other diseases. Gordon-Creed said no patients have come forward and said they contracted an infection as a result of the practice.

The second negative article was written by a LA Times staff writer and involved quality concerns, as area vision centers have slashed their prices. "Only a few years ago, Southern Californians who wanted Lasik surgery to improve their vision had to pay about \$2,500 per eye to one of a handful of high-profile ophthalmologists. Now, they can have the laser procedure for far less -- as little as \$499 in some cases -- and any of about 100 local physicians can do it." It goes on to note that some doctors who have held their

prices, criticize the price reductions, saying that they reflect shortcuts in patient care. Others, usually those offering the rock-bottom fees, say the trend is part of a normal, competitive process. The story mentions **Lasik Vision** as one of the low priced chains, with 5 centers in Southern California, and quotes James Watson, executive vice president of operations for Lasik Vision, who calls it "ridiculous" to pay thousands of dollars per eye for Lasik surgery, saying it's a myth that higher costs mean better health care. "I wouldn't pay it as a patient," he said. His company's size allows "efficiency and economy of scale," he says, acknowledging that profits are slim at \$499 per eye and that the prices are available only to the first 1,000 customers at each new center. The usual charge is \$999 per eye.

Other companies offering similar prices include **LCA Vision**, which operates 33 LasikPlus centers nationally, and **ICON**, which has 25 centers nationally. All of the rock-bottom prices are bound to increase, the doctors agreed, but will stay well below those of more established vision centers. At those offices, prices have remained virtually unchanged, and the ophthalmologists there expect them to stay comparatively high.

Another good quote is from Dr. Robert Maloney, of the **Maloney Vision Institute**, who continues to charge \$2,450 per eye. "The way I view it, cheap LASIK is like a cheap parachute," he says. "It usually works, but when it doesn't, it's a disaster."

The fee battles worry some ophthalmologists and consumer safety advocates. "We have concerns that a driving down of price will be accomplished by a lack of proper screening to get as many people through the door as possible," said Ron Link, a spokesman for the **Surgical Eyes Foundation**. The foundation is a consumer group for people whose sight has been harmed by refractive surgery. But Link acknowledged that surgery "all across the board" has its share of side effects and that price is no guarantee of good, or bad, service.

The third, more positive story, deals with the potential of using LASIK surgery for some children where it would do some good. "Eye surgeons report that a small but growing number of teenagers who for various reasons cannot -- or don't want to -- wear glasses and contact lenses are seeking LASIK eye surgery. Some doctors question the ethics of performing LASIK on young eyes that are still developing, while also noting that the procedure, despite a strong safety record, is not without risks." Meanwhile, some researchers have begun performing LASIK on young children with serious eye disorders that have not responded well to other treatments. One such clinical trial is underway in Pittsburgh, and studies are set to begin soon in Los Angeles. While LASIK in youths who simply don't want to wear glasses or contact lenses remains controversial, support is growing for studying LASIK in young children with a vision defect in which one eye is much worse than the other. The condition, called anisometropia, affects about 1% of children at birth. Most children begin treatment as babies by wearing special glasses or contact lenses to improve vision. They may also wear a patch over the stronger eye to force the weaker eye to work. If the treatment doesn't work, the child can develop amblyopia--or lazy eye--in which the brain sends messages to see through the stronger

eye and ignore the weaker one. The weaker eye can eventually become useless. But glasses often don't work because kids won't wear them or the treatment is ineffective, says Dr. Jonathan Davidorf, a West Hills ophthalmologist. And getting a toddler to wear contact lenses could be all but impossible. "With LASIK," he says, "we may be able to make a correction to the bad eye and allow the eyes to balance out. It can give these kids a fighting chance."

A few studies in India and Egypt have been promising, as has one small study underway at the University of Pittsburgh. Five young children with severe anisometropia who had failed conventional therapy have had LASIK to improve vision in the weaker eye, says Dr. Deepinder Dhaliwal, chief of refractive surgery at the University of Pittsburgh Medical Center. None of the children had their vision worsen, while four of the five children had improved vision, says Dhaliwal, who says providing anesthesia to the children is one of the trickiest parts of the procedure. "After the surgery they continue to do the patching [therapy]. But they are much more accepting of the patch after the surgery," she says, adding that making the weaker eye even a little better can allow patching therapy to work. The Pittsburgh team is overjoyed at the response, Dhaliwal says, "because if you don't intervene in these children early, they will never recover their vision. There is a sensitive period in visual development until about age 9. That is why we were motivated to try this in young children."

- 10/31 **LaserSight** announced that the FDA had approved the company's express premarket approval (PMA) supplement related to its state-of-the-art manufacturing facility in Winter Park, Florida. With this approval, LaserSight can resume shipping its LaserScan LSX excimer laser systems from this new manufacturing location. With approval for the new facility, the company anticipates that it will manufacture and deliver units produced in this new location during the current quarter.

In related matters, the company confirmed that it also filed a "real time PMA supplement" requesting FDA approval for its AccuTrack eye tracking system. The advanced pattern recognition eye tracking system is an upgradable feature already incorporated into the standard international version of the LSX excimer laser. Also, the company now expects that in November it will submit to the FDA a PMA supplement requesting the FDA's approval to expand the approved indications for the LaserScan LSX to include the treatment of myopia, hyperopia, astigmatism and mixed astigmatism utilizing the LASIK procedure.

- 11/1 Lynn Sarko of **Keller Rohrback LLP** appeared on *ABC's Good Morning America* with plaintiffs Marie Harris, Sherry Stauffer, and Janet Janke to discuss problems they had experienced in connection with their laser eye surgeries. Harris, Stauffer and Janke have filed a medical malpractice and consumer protection lawsuit against a Canadian clinic and surgeon and their Bellevue, Washington affiliate. The named plaintiffs sued on behalf of consumers who have purchased or will purchase laser eye surgery services from some or all of the Defendants since October 9, 2000. (For all of the details, see the October 9th brief last month.)



11/2 **LCA-Vision** reported financial results for the three and nine months ended September 30, 2000. Laser vision correction revenues for the third quarter rose 4.8% to \$15.6 million, compared with \$14.9 million in the third quarter of 1999, and were up 3.9% compared with \$15.0 million in the second quarter of 2000. Average price realization per procedure was \$954 in the third quarter compared with \$1,080 in the second quarter of 2000. The company narrowed its third quarter net loss to \$201,000 (0 cents per share) compared with a net loss of \$668,000 (1 cent per share) in the second quarter. A year ago, LCA-Vision third quarter net income was \$1.4 million (3 cents per share). Net loss for the nine months was \$807,000 (2 cents per share), compared with net income of \$5.4 million (12 cents per share) in the comparable period last year. Laser vision correction revenues for the first nine months were \$48.7 million, up 14.4% over \$42.6 million for the first nine months of 1999.

"We have added 13 new LasikPlus value-priced laser vision correction centers so far this year, bringing our total number of U.S. centers to 33," said Stephen Joffe, chairman and CEO of LCA-Vision. "The benefit of opening centers in existing markets was demonstrated in the third quarter as marketing expenditures decreased to \$2.8 million, from \$4.1 million in the second quarter. We expect marketing and advertising in the fourth quarter to be flat sequentially with the third quarter bringing the annual marketing expenditures to approximately \$14 million, which is below the previously announced range of \$15-20 million." Joffe went on to say, "Despite continued intense competitive pricing in most markets we serve, we have been able to maintain our contribution margin near an all-time high at 78.3%. (Contribution margin is calculated by deducting medical, professional and license fees from laser refractive surgery revenues.) Our consumer-driven, tiered pricing model provides flexibility for LCA-Vision to compete at all pricing levels and to grow market share, while providing the consumer a choice of lasers and a menu of additional services. Clearly, procedure pricing remains the industry's highest concern. We are frequently asked when pricing in our industry will stabilize. If this were baseball, I would say we are in the fifth or sixth inning of the price war. Early in the second quarter of this year, we made a commitment not to allow thinly capitalized foreign competition to enter our markets and establish stronghold positions at our expense. We have positioned the company to grow market share, generate positive cash flow and achieve an operating profit, despite the current brutal pricing environment. We are making excellent progress towards these objectives."

11/3 Hugo Sutton MD, President & CEO of **Lasik Vision Corporation** announced that the company will amend 3.5 million stock options previously granted at prices ranging from \$3.95 to \$5.00 under the terms of the company's amended and restated stock option plan by consolidating the options on a 1 new for 3 old basis thereby reducing the number of options previously awarded to 1.2 million options. The exercise price of these options will be reduced to \$1.00. All other terms of the options will remain in force.

11/6 According to *EyeWorld Week*, the new Medicare fee schedule contains good news for ophthalmology. Last week, the Health Care Financing Administration released the 2001 Medicare physician fee schedule. A higher conversion factor will mean increases for all

codes. Furthermore, payment for YAG (66821) will increase by 8% (in office) or 16% (facility) and cataract surgery (66984) increases 3% above the proposed rule, due in part to pre-service clinical staff time edits for ophthalmology. There is also a new code, 66982, which carries higher reimbursement for complex cataract surgery, something the American Society of Cataract and Refractive Surgery has fought for. ASCRS is concerned, however, that the agency did not outline its strategy for further practice expense refinement.

The online news magazine also reported that **Oasis Medical Inc.** responded to **Bausch & Lomb's** charges of patent infringement last week, saying that although its microkeratome blade was designed to fit and operate in B&L's Hansatome microkeratome, Oasis was "very careful to avoid" violating a patent. The company also stated that it provided B&L an opportunity to identify an objection to its device before it was marketed, but that B&L failed to do so. "Oasis has determined that there is a need to break Bausch & Lomb's stranglehold on this very important market for a precision blade at a lower price," said Norman Delgado, Oasis president.

- 11/7 **LaserSight** announced completion of the quality evaluation phase for the 200 Hz repetition rate version of its LaserScan LSX precision beam scanning spot excimer laser system. The company also commented on its plan for upgrading the installed base of LaserScan LSX's in the United States to operate at 200 Hz. As previously announced, LaserSight received FDA approval to advance the laser pulse repetition rate of its LSX system to 200 Hz, which is the fastest pulse rate available in the U.S. market.

The company expects that by the end of the month it will provide the 200 Hz upgrade to all LSX systems installed in the U.S. All future LSX shipments will be made with the laser operating at the 200 Hz pulse repetition rate. In the international market the company has been delivering new laser systems operating at the 200 Hz repetition rate for the past year, and has upgraded its installed base of LSX systems to operate at 200 Hz. Currently the company has over 130 laser systems that operate at this higher pulse frequency.

- 11/7 **ICON Laser Eye Centers** announced that 7,214 LASIK and/or PRK procedures were performed at ICON wholly-owned and affiliated centers during the month of October 2000. This figure represents an approximate 142% increase over 2,982 LVC procedures performed in October 1999. October 2000 procedures dropped approximately 2.5% from 7,405 LVC procedures in September 2000. Ghassan Barazi, COO of ICON stated, "ICON's totals for October were less than anticipated, largely due to some unsubstantiated negative press about the LASIK procedure and consumer confusion generated by recent industry downturns within the laser eye sector. However, even though price compression is growing in selected markets, ICON's 'Value LASIK' model promoting 'Excellence At An Affordable Price' allows the company to remain extremely competitive without comprising our high standard of patient care or our fiscal bottom-line. Early projections indicate that ICON will return to positive sequential month-to-month procedure growth in November."

- 11/8 **STAAR Surgical Company** announced that the Ophthalmic Device Panel of the FDA's Medical Advisory Committee made a formal recommendation to the FDA to approve the company's pending PMA application for the STAAR AquaFlow Collagen Glaucoma Drainage Device. The Panel recommended approval with the understanding that STAAR would continue the 2-year study after approval and make minor modifications to the device's labeling. The Panel's recommendations are not binding upon the FDA, but the Agency generally follows the recommendation of the Panel. "The Panel looked at our data quite closely and concluded that the AquaFlow is a safe and effective device for the reduction of intraocular pressure in patients with open-angle glaucoma and should be approved as such by the FDA," said Steven Ziemba, STAAR's sr. vice-president of Regulatory Affairs. "We are obviously pleased, because we think this device is an important step forward in the treatment of this dreaded disease, which is the second leading cause of blindness. We will do whatever we can to support the FDA so they can grant full approval, we would hope by early next year."
- 11/9 **Sight Resource Corporation** announced financial results for its third quarter. Revenue for the quarter was \$16.9 million compared to \$18.2 million for the third quarter of 1999. The net loss in the third quarter was \$1.2 million (14 cents per share) versus net income of \$3,000 (0 cents per share) in the third quarter of 1999. The net loss for the quarter included establishing a reserve for a note receivable due from a former employee and current member of the Board of Directors of \$714,000, and a loss of \$89,000 for the disposal of assets relating to the closure of two stores. Two items continue to have an adverse impact on sales in the third quarter. Sales in the New England business were less than last year by approximately \$725,000 due to difficulties experienced by the company's largest managed care plan customer in New England. Also, sales in Sight Resource's laser vision correction business were less than last year by \$430,000 due to the termination of the company-owned laser operations in New England.
- 11/9 **Prime Medical Services** announced its financial results for the third quarter of 2000. Revenues increased by 16% to a record \$35.4 million from \$30.6 million for the comparable year ago period. Net income for the quarter was \$3.3 million before non-recurring charges, compared to \$4.3 million a year earlier, resulting in earnings per share before nonrecurring items of \$.21 as compared to \$.26 the prior year. For the nine month period, revenues also increased 16% to a record \$97.9 million from \$84.6 million the prior year period. Net income before nonrecurring items for the quarter was \$10.0 million (61 cents per share) compared to \$11.1 million (65 cents per share) the prior year. Ken Shifrin, chairman, stated, "Prime posted record revenue, enjoyed strong cash flows across each of our business units, and once again met analysts' EPS expectations. We continued our advance in refractive vision correction during the quarter, adding two centers (the sixth and seventh) within the **Horizon Vision Center** partnership, opening a new center in St. Louis and acquiring a 65% interest in the **Vision Correction Center of Kansas City**, bringing our total number of RVC centers to 14." Brad Hummel, president and CEO said, "Our refractive unit revenues for the quarter were \$6.9 million as acquisition and development efforts continued. Despite a competitive and generally

undisciplined market, the unit is profitable, generating strong cash flow, and providing returns on invested cash of approximately 20%."

- 11/9 **SurgiLight** announced that it had acquired the exclusive worldwide licensing rights (including the right to sub-license), to a diode-pumped multi-wavelength laser for medial applications patented by Lowell Crow. Pursuant to the terms of the Licensing Agreement, the company will own a worldwide exclusive license to make, use, export, offer for sale and sell Licensed Products which are covered by US Patent No. 5,243,798 (the '798 Patent). To acquire the patented technology, the company agreed to issue 3,100 shares of its common stock to the licensor and pay a 5% royalty fee from the net sale price of the licensed products. The '798 Patent covers the use of a solid state ophthalmic laser apparatus for photocoagulating and photoablating ocular tissue. The patent also covers the use of multi-wavelength semiconductor laser and diode-pumped Er:YAG laser which are coupled to a single optical. JT Lin, president & CEO commented, "The additional intellectual properties, patents and FDA clearances further solidifies our technological advantage over our competitors." The company believes that this Licensing Right will accelerate the company's development of future new products of diode-pumped infrared lasers (DPIR) for various medial applications. The DPIR system may replace many of the existing laser systems and offer the advantages of being compact (15 pounds versus 150 pounds) and more reliable (at least 50 times longer lifetime).

Dr. Lin also said he had filed a new U.S. patent on Nov. 3, 2000 for the use of fiber-coupled lasers for the new procedure of "presbyopia correction" which has a potential market of \$150 billion in US. The company currently owns 5 of the 18 pending patents directly related to "Laser Presbyopia Reversal".

- 11/9 **LaserSight** announced that it had received U.S. Patent No. 6,132,424 related to its precision scanning technology. The patent covers several scanning techniques utilized to achieve smooth and uniform ablations when reshaping the cornea of an eye during laser refractive surgical procedures and is expected to become a key patent in LaserSight's intellectual property portfolio. Smooth and uniform corneal ablations can be achieved with the precision beam scanning spot technology incorporated in LaserSight's LaserScan LSX excimer laser system. Proprietary software-controlled ablation algorithms have been specifically developed to optimize smoothness and uniformity of the ablated area. Smoothness is ensured by utilizing proprietary beam scanning patterns that purposefully position individual pulses of laser energy in non-sequential locations. The use of an algorithm that incorporates a pattern of small spots that are purposefully overlapped in a non-sequential manner is intended to have a polishing effect on the corneal surface to optimize smoothness. A smooth and uniform ablation is an important requirement for today's refractive procedures and for custom ablations, when available, in the future.

Michael Farris, president and CEO of LaserSight commented, "Receiving this patent once again demonstrates LaserSight's ability to maintain a leadership role in state-of-the-art technology for laser vision correction. It also demonstrates the company's commitment to shareholders to maximize the value of our technology through a strong

intellectual property portfolio. As the state-of-the-art progresses towards patient-specific custom ablations, I believe that the smoothness and precision achievable with the beam scanning spot technology incorporated into the LSX will become an important factor in the surgeon's choice of a refractive laser."

The following day, the company issued another news release, commenting on the Court's upholding its Blum patent (U.S. 4,784,135), in connection with litigation between **Baxter Healthcare Corporation** and **Spectranetics Corporation**. Shortly before this case settled, the court construed several claims contained in the Blum patent consistently with the definitions LaserSight and Baxter had proposed. For example, the court interpreted the term "ultraviolet" to mean laser energy with a wavelength "in the range of 100 to 400 nanometers." Mike Farris, president and CEO of LaserSight commented, "We are extremely pleased with the court's interpretation of these claims contained in the Blum patent. The ophthalmic laser manufacturers have long recognized the blocking nature of the Blum patent and now with the court's clarification of the laser energy wavelength covered by the Blum patent other medical laser manufacturers will have to carefully consider the Blum patent's claims."

LaserSight acquired the Blum patent from **International Business Machines Corporation** in August of 1997. Shortly thereafter, LaserSight granted Baxter an exclusive, paid up license in the vascular and cardiovascular fields in exchange for a payment of \$4 million. LaserSight as owner of the Blum patent agreed to become a named plaintiff in this litigation. In settling the suit Baxter, along with Baxter's spin-off company **Edwards Lifesciences LLC**, licensed Spectranetics to the Blum patent in the cardiovascular field. Payments under this license will be made to Edwards.

- 11/10 The November issue of *Refractive Market Perspectives* reports that third quarter refractive procedures were way down from early estimates of just under 10% over the second quarter, falling to 3.9%. That followed a 14.8% growth rate in the second quarter, and a 15.7% growth in the first quarter. Third quarter procedures were estimated at 375,000, giving a estimated total for the year of just over 1 million (1,053,000), bringing this year's full year estimate down to just under 1.5 million (1.47 million), from earlier estimates of between 1.5 to 1.65 million. Dave Harmon blames the downward trend to the availability of low priced LASIK, which has raised awareness, but recent bad publicity in the national press (see the October 30th brief above) has had a negative impact on procedure volumes in some markets. As Dave put it, many prospective LASIK patients are on the sidelines waiting for the prices to stabilize.

The newsletter also notes that approximately 130 new lasers were put into operation during the quarter, with 48 installed into established laser centers and 72 going to new centers. He estimates that there are approximately 1000 U.S. laser centers now in operation.

- 11/10 **Laser Vision Centers** held its Annual Meeting in St. Louis and announced that it had secured a \$20 million line of credit. "While we remain well capitalized, and since we

continue to believe that cash will be king, we have obtained a \$20 million line of credit from **LaSalle Bank** and **Heartland Bank** for the purpose of helping to grow the company," LaserVision chairman and CEO John Klobnak told shareholders.

In addition, the company said that because of the new Fair Disclosure regulations it was changing the way it disseminated key company data. LaserVision said that it would discontinue reporting monthly case volume but would continue to report case volume quarterly. The company also said that it would begin giving mid-quarter updates on its progress.

11/10 **CIBA Vision Corporation** and **QLT Inc.** announced that the Health Care Financing Administration (HCFA) had issued its national coverage policy for Visudyne (verteporfin for injection) therapy in patients with predominantly classic choroidal neovascularization (CNV) secondary to age-related macular degeneration (AMD) -- a leading cause of blindness. The decision, posted November 9 by HCFA, was the result of a series of consultations with physicians, clinical investigators and representatives from CIBA Vision and QLT. HCFA, in its memorandum, establishes guidelines for patient coverage. Most importantly, the policy clarifies that the level of visual acuity at which patients may be eligible for Visudyne therapy will be left to the judgment of the treating physician.

"We are pleased with the endorsement from HCFA that Visudyne therapy offers a significant benefit on visual function in patients with the predominantly classic form of wet AMD," said Dan Myers, president of CIBA Vision's North American Ophthalmics group. "This decision now clarifies the reimbursement status of Visudyne enabling patients to be treated with this sight-saving new therapy." Dr. Julia Levy, president and CEO of QLT commented, "This is excellent news for patients and physicians. HCFA has confirmed the value that Visudyne therapy represents to patients affected by the wet form of AMD by providing guidelines in support of our FDA approved label."

(CIBA Vision's Ophthalmics Business Unit will become part of **Novartis Pharmaceuticals** after December 31, 2000, and will be called **Novartis Ophthalmics**.)

Following release of the new national coverage policy for Visudyne, analysts Carol Werther and Patrick Flanigan of **Adams, Harkness & Hill** issued a research note, in which they stated, "The new Medicare National Coverage Policy to cover Visudyne treatment for patients with classical AMD will be limited to patients with subfoveal CNV lesions that are at least 50% classic by a fluorescein angiogram. In these patients, Medicare deemed Visudyne "medically reasonable and necessary treatment." Importantly, there were no limitations for coverage based upon visual acuity of 20/200 or lesion size less than 5.4 mm (the inclusion criteria used in the TAP trial). All off-label uses of Visudyne treatment will not be covered: Specific indications outlined in the Decision Memorandum include: (1) patients with minimally classic CNV lesions where the classic CNV occupies less than 50% of the area of the entire lesion; (2) patients with juxtafoveal or extrafoveal CNV lesions; (3) patients unable to obtain a fluorescein angiogram; (4) patients with atrophic AMD; and, (5) disorders currently under FDA

review, such as pathologic myopia, ocular histoplasmosis syndrome, angioid streaks, CNV due to certain retinal abnormalities, and idiopathic causes. Pending a favorable FDA review, which we anticipate in H1:01, Medicare will reconsider exclusion of these indications from national coverage. Greater than 6 retreatments over 24 months will be subject to medical review: The coverage policy is consistent with HCFA's reimbursement guidelines, which do not place limitations upon how many retreatments are performed during one year. In addition, follow-up visits that do not require Visudyne treatments are billed separately."

"We continue to believe that Visudyne is on its way to become \$400+ million product based on classic wet AMD and pathologic myopia sales alone. There has been no increase in safety issues in the 20,000+ patients treated. We continue to expect strong patient demand for Visudyne. Also, there is no near term competition, as we do not expect results from the Phamacia & Upjohn/Miravant trial to be revealed before mid-2001. Given the longer half-life, and thus higher likelihood of photosensitivity, we expect a positive result would likely serve as a strong endorsement for PDT therapy, and help Visudyne sales. The retreatment rate remains a key element to our model. We should be able to have a better gauge on retreatments in H2:01-H1:02, as more information becomes available. Our Q4:00 worldwide Visudyne sales estimate is \$40 million, which is consistent with company guidance."

What was left unsaid, was that HCFA had reduced the doctors payment for giving the drug to \$341, down from approximately \$700 in the original guidance. That, combined with the \$230 payment for the drug, gives physicians a total of \$571 for providing treatment. This may prevent some physicians from becoming involved, as they previously had been receiving between \$800 to \$930 for the treatment. However, the removal of the 90 day global period, meaning doctors are no longer restricted on how frequently they can treat patients may prove to be a benefit.

11/14 **LaserSight** announced financial results for the three months and nine months ended September 30, 2000. The company also provided an update on the regulatory status of its products and announced two key management changes (see the People in the News section of this newsletter for the latter).

Revenues for the third quarter increased approximately 15% to \$8.0 million from \$6.9 million in the third quarter of 1999. Revenues for the nine months increased approximately 65% to \$28.2 million from \$17.1 million in the comparable period of 1999. For the quarter, the company reported a net loss of \$4.5 million (21 cents per share), compared to a net loss of \$3.0 million (17 cents per share), reported for the third quarter of 1999. The net loss for the nine months was \$9.4 million (46 cents per share), compared to a net loss of \$9.8 million (62 cents per share) reported for the same period last year. The company's loss in 2000 is attributed to the investment in building the infrastructure necessary to support the introduction of the LaserScan LSX excimer laser system into the U.S. market, developing, testing and launching the company's

MicroShape family of keratome products and developing and testing the company's Astra family of products for CustomEyes.

In the third quarter, the company sold a total of 19 laser systems, including nine systems into the U.S. market. During the previous quarters, the company sold a total of 19 and 30 LaserScan LSX excimer laser systems, respectively, with 6 and 17 of those systems sold in the U.S., respectively. The company's sales of laser systems for the nine months, were 68, an increase of approximately 31% from the 52 systems sold in the comparable period of 1999. Compared to the second quarter of 2000, revenues decreased approximately 30% from \$11.5 million. Laser system sales were affected by delays in the approval of the company's PMA supplement for astigmatism. As previously announced, this PMA supplement was filed earlier this year for expansion of approved clinical indications for the LaserScan LSX to include myopia with astigmatism. Subsequent to that filing the FDA asked the company to provide additional information and clarifications. While the company believes that its responses address all open issues regarding approval of astigmatism, it is not possible to provide an exact time frame within which LaserSight anticipates receipt of the astigmatism approval. The addition of astigmatism to LaserSight's approved clinical indications will be a significant milestone with the potential to open the U.S. market for the LaserScan LSX to approximately 80% of the refractive corrections currently performed with excimer laser systems.

Michael Farris, president and CEO of LaserSight commented, "While sales during the third quarter reflect the still-pending FDA approval, our activities during the quarter continued to confirm the high level of interest and acceptance of the LSX by individual physicians, academic medical centers and corporate providers. I believe that the refractive surgical community has come to recognize the advantages of LaserSight's state-of-the-art technologies for the planning and execution of refractive procedures. The LaserScan LSX incorporates the features of low fluence, small spot size, and high repetition rate precision beam scanning technology into what is being recognized as the ideal platform for refractive procedures. We anticipate that in 2001, the LSX will be fully approved for refractive procedures that include treatment of myopia, hyperopia, astigmatism and mixed astigmatism utilizing the LASIK procedure, and that the company will commence and conclude U.S. clinical trials utilizing the AstraPro planning software for CustomEyes custom ablations."

In related matters, the company expects that during this month it will submit to the FDA a PMA supplement requesting the Agency's approval to expand the approved indications for the LaserScan LSX to include the treatment of myopia, hyperopia, astigmatism and mixed astigmatism utilizing the LASIK procedure. The company also confirmed that it filed a PMA supplement requesting FDA approval for its AccuTrack eye tracking system. The advanced pattern recognition eye tracking system is an upgradable feature already incorporated into the standard international version of the LSX excimer laser.

On October 31, 2000, the company announced that the FDA approved its PMA supplement related to its state-of-the-art manufacturing facility in Winter Park, Florida.



With receipt of this approval, LaserSight has now resumed manufacturing and shipping its LaserScan LSX excimer laser systems from this new manufacturing location. LaserSight completed its quality evaluation for the 200 Hz repetition rate version of the LaserScan LSX precision beam scanning spot excimer laser system, and by the end of this month will have provided the 200 Hz upgrade to all LSX systems installed in the U.S. The company has filed a 510(k) pre-market notification for the AstraMax. Taking diagnostic measurements of the cornea at advanced levels of precision is critical for custom ablation planning. The AstraMax is a patented stereo-camera based diagnostic instrument that utilizes a patent pending polar grid image to acquire a number of diagnostic measurements of the cornea. AstraPro is a surgical planning tool that will utilize advanced levels of precise diagnostic measurements for the planning of custom ablation treatments when approved.

With an installed base of more than 350 systems, it is LaserSight's intent to capture per procedure revenues related to the use of CustomEyes. Farris continued, "We have experienced delays in the commercial launch of the company's UltraShaper durable keratome and sales of the our MicroShape keratome products. LaserSight's MicroShape product strategy is to provide a full complement of keratome products centered around the UltraShaper durable keratome and supported by the UniShaper single-use keratome and UltraEdge keratome blades. The delays we have experienced in the commercial launch of the durable keratome continue to impact sales of the MicroShape product line. We are making significant progress with the field evaluation of the UltraShaper, and during the AAO meeting one of the surgeons evaluating the instrument reported his very positive results from an early phase of our quality evaluation. As I have stated previously, LaserSight remains committed to not only matching, but to advancing keratome technology and will not commercially ship its durable keratome until it can satisfy this commitment."

11/15 **SurgiLight** announced financial results for the third quarter and nine month period. Net income for the third quarter of 2000 increased to \$252,000 (1 cent per share) from \$12,000 for the second quarter. Revenue for the third quarter increased 24% to \$1.3 million from \$1.0 million for the second quarter, attributed mainly to the growth of system sales and the income from cosmetic laser centers. Revenues for the six- and nine-month periods were \$1.8 million and \$3.0 million, the latter a 30% increase, respectively, compared to \$1.4 million and \$2.3 million for the same periods in 1999. The total revenue for the third quarter was attributed to the company's two divisions: the Laser Centers and Technology. In addition, the company also gained income from the Cosmetic Laser Centers which was acquired by the company in the third quarter. In the third quarter the company added 4 new international Eye Laser Centers. The company currently has a total of 28 Laser Eye Centers and Cosmetic Centers. The growth of revenues and net income are attributed to the company's growth in system sales and procedure income from the Laser Centers.

For the third quarter of 2000, the company reported an operating income of \$386,000, excluding the facility depreciation of \$137,000. The net income (after the facility

depreciation) of the third quarter 2000 was \$252,000 compared to a net income of \$12,000 of the second quarter 2000.

The total assets of the company increased to \$5 million as of September 30, 2000, compared with \$3.6 million at the end of 1999. This increase in total assets is mainly attributed to the additional paid in capital of \$1.2 million from an accredited investor and the net operational profit. The company has obtained a commitment of additional funds of \$3.0 million from an investment group **Global Emerging Markets, Inc. (GEM)**, a United Kingdom-based firm. The company will use this funding to pay a portion of the cost of the acquisition of the Ophthalmic Laser Division of **Premier Laser Systems**. The total cost of this acquisition is \$3.725 million in cash payable between October, 2000 and February 28, 2001. The company is currently negotiating additional funding of approximately \$5 million to be concluded by the end of the year to continue its on-going new product development, clinical trials and to expand its international Laser Eye Centers. In particular, these additional funds will accelerate the worldwide marketing of our 510(k)-cleared new products EX-308 for psoriasis and the IR-3000 system acquired from Premier Laser. The company anticipates that its current cash, cash equivalents, as well as anticipated cash flows from operations and additional capital contribution from private placements, will be sufficient to meet its working capital and capital equipment needs at least through the next 12-18 months.

11/15 **Blue Cross and Blue Shield of Oklahoma** and its subsidiaries, **BlueLincs HMO** and **GHS Property and Casualty**, announced one of the first health plan-sponsored laser vision correction discount programs in Oklahoma, that also provides discounts on mail-order contact lenses. Discounts are being offered at no additional premium cost to members. Members will pay the discounted price for LASIK or PRK -- \$945 per eye -- when the procedure is performed by a participating ophthalmologist in Oklahoma City or Tulsa. Cost includes a screening, a pre-operative exam, surgery and post-operative care. Services are offered through **TruVision, Inc.**, an organization that provides vision-related discounts to more than 30 million health plan members in the U.S.

11/20 **SurgiLight** announced that it had expanded its clinical trial studies of laser presbyopia reversal (LAPR) using its IR-laser, in Venezuela, Argentina, Brazil, Bahamas and Japan. The company also scheduled installation of the IR-laser in some European countries. As reported earlier, the company presented the first 97 cases of presbyopia data at the WRSS. The company recently submitted 4 papers for presentation at the spring ASCRS meeting, where more than 500 cases of LAPR will be presented by ophthalmologists from various countries that are using the company's IR-laser. They include groups of doctors from Japan, Brazil, Venezuela, Argentina, The Bahamas and U.S.

The company is also in the process of obtaining CE-Mark certification and selecting various international distributors. The initial promotional systems in Italy, France and Israel are scheduled to be delivered before the end of the year. The company plans to submit additional 510(k) applications based on certain 510(k) clearances acquired from **Premier Laser Systems**.

- 11/20 **KeraVision** said it will reduce its work force by 64 people, or nearly 60%, in order to continue investing in its test-market program. The company also intends to support existing surgeon-customers, as well as surgeons to be trained in the future, and to maintain clinical studies that could lead to additional products and applications for the INTACS micro-thin prescription insert technology. In an effort to ensure the viability of these key market-building and business-expanding initiatives, the company has taken steps to significantly reduce KeraVision's cash-burn rate and stretch out its cash reserves, which amounted to \$19 million as of September 30. In addition, options for additional financing and-or possible strategic alliances are being considered.

The work force reduction will affect all areas and levels of the company and is expected to be completed within 60 days. KeraVision chairman and CEO Thomas Loarie said, "I am pleased with the increases in consumer awareness and procedure volume that we are seeing in the test markets since implementing KeraVision's complete business model in September. In order to build on these results we must pare back other activities to conserve cash. We believe this can be accomplished while also protecting KeraVision's existing surgeon-customers as well as surgeons who recently have been trained or will be in the future, and key clinical studies that could expand the applications and treatment range for INTACS inserts."

- 11/21 **Nidek** announced it was issued a U.S. patent for the refractive correction of astigmatism via bitoric ablation. Specifically, Nidek's patent covers refractive correction of monogenic myopic astigmatism and compound astigmatism (bi-toric astigmatic correction). Dr. Arturo Chayet of Tijuana, Mexico was named as the inventor of this new method which he developed using Nidek's excimer laser technology. "I selected a Nidek laser to perform the first bitoric ablation because of the company's high quality equipment and experience in the ophthalmic field," said Dr. Chayet.

Dr. Chayet's method enables varied tissue ablation, which will address astigmatic corrections in addition to either hyperopia or myopia. This method reduces the amount of corneal tissue removed, facilitating more precise laser vision correction of astigmatic corneas and resulting in better patient vision outcomes. "With an estimated 71 million Americans affected by astigmatism, this new method will help people achieve better vision without restrictive eyewear," said Hiroshi Okada, general manager and vice president of Nidek Inc. "Dr. Chayet is a premier refractive surgeon and we are honored he selected Nidek as the equipment of choice."

- 11/21 **Lasik Vision** announced its results for the three months ended September 30, 2000. Results reflect record revenues based primarily on strong growth in the number of laser vision correction procedures performed in Lasik Vision's North American refractive centres. Third quarter revenue from laser vision correction and management and service fees grew to \$27.6 million up 189% from \$9.6 million for the same period a year ago. Lasik Vision performed 40,191 paid laser procedures at the company's refractive centres in the third quarter. This is a 210% increase from 12,929 the same period a year ago and represents a new record volume quarter for Lasik Vision. The third quarter procedures

represent a 13% sequential increase from the 35,599 procedures performed in the second quarter of 2000. Laser vision correction and management and service fee revenues for the first nine months were \$70.3 million, up 265% over \$19.3 million in the nine months last year. Earnings before interest taxes depreciation and amortization (EBITDA) for the three months were \$897,463 compared to an EBITDA loss of \$4.5 million for the preceding quarter and \$906,082 for the first quarter of this year. For the nine months period, EBITDA were a loss of \$2.7 million compared to an EBITDA loss of \$424,934 for the comparable nine months in 1999.

Net loss for the third quarter was \$2.0 million (5 cents per share) compared to a net profit of \$1.0 million (3 cents per share for the third quarter of 1999. The net loss reflected the costs associated with the company's decision to consolidate operations in the North American market where it has become the leading provider of affordable laser vision correction. Net loss for the nine months was \$10.0 million (26 cents per share) compared with a net loss of \$2.4 million (10 cents per share) in the comparable period last year.

"In the third quarter, management has established the foundations for growth and profitability. Although Lasik Vision continues to lead the industry in procedural volume, the company's decision in the third quarter to consolidate its operations contributed to a net loss position. Most importantly in terms of tracking our performance, we are encouraged by the positive EBITDA the company reported in the third quarter. Despite the intense competition in the laser vision correction industry, Lasik Vision has also been able to significantly reduce GS&A expenses. The consolidation of operations implemented by the company's new management in the third quarter underscores management's commitment to being the largest vision correction provider with the best medical outcomes achieved through standardization and training," said Hugo Sutton MD, president and CEO.

- 11/22 **Sunrise Technologies International, Inc.** reported it had collected over 95% of the accounts receivable resulting from sales of its HYPERION LTK SYSTEM reported on the company's financial statement in the quarter ending September 30, 2000. "We are delighted with our strong cash collections. Our capital equipment leasing and purchase programs are designed to insure that the company will continue to have strong cash collections of the company's accounts receivable," said Russell Trenary, chairman, president and CEO.

#### **OPHTHALMIC LASER UPDATE -- December 2000**

- 11/27 **Lasik Vision Corporation** announced that it had expanded the disclosure within its financial statements and the discussion items contained in the management prepared Schedules B and C sections of the December 31, 1999 and March 31, and June 30, 2000 reports to provide greater clarity for the operating results.

The following day, the company announced that it had created a Medical Standards Board replacing the former Medical Advisory Board. The company appointed Dan

Reinstein, MD as the Chair of the Medical Standards Board and Jonathan Carr, MD who has been appointed as Director of Medical Operations and Secretary for the Medical Standards Board. The Medical Standards Board will be responsible for guiding the company's medical decision making processes, enforcing the highest possible standards from the company's surgeons and ensuring the highest possible patient outcomes as verified by external third party experts.

- 11/28 **SurgiLight, Inc.** announced that the company had concluded a \$3 million investment from the United Kingdom-based firm, **Global Emerging Markets, Inc. (GEM)**, an investment group specializing in private equity investments. The GEM group entered into a commitment with the company in July, 2000 to fund capital of \$3 million under a convertible debenture Agreement (with 3% annual interest) to purchase registered common stocks which became effective in the company's recent SB-2 filing. According to the Agreement, GEM also has the right to invest additional \$750,000 underlying Warrant at a fixed price of \$7.50.

Announcing the investment, JT Lin, president and CEO of the company, said, "We are delighted that GEM has concluded the investment which endorses our corporate strategy and provides the platform for further important developments including the expansion of additional International Laser Centers, R&D and marketing of new products and will assist us as we continue our FDA clinical trials. In particular, these additional funds will accelerate the worldwide marketing of our 510K-cleared new products the EX-308 for psoriasis and the IR-3000 series acquired from **Premier Laser**.

- 11/28 **Laser Corp.** announced that, as a result of the increased interest in the Dodick Laser PhotoLysis System, the company will accelerate its sales and marketing activities to include nationwide PhotoLysis training courses and add to its sales force. The company will now begin offering surgeon instructed training courses held on site at clinics throughout the United States. These courses are very popular in the industry, are an excellent promotional tool, and provide the company with a one-on-one sales opportunity with the surgeon. The company plans to hold at least one training course per month during the next year.

- 11/28 **Paradigm Medical Industries** said that it had commenced shipments of its Photon Laser System for cataract removal. company officials said systems have recently been shipped to Italy, Portugal, France and Germany with more European countries in the process of arranging delivery. The device is still awaiting FDA approval in the U.S., but was recently approved by the European Economic Community EEC.

In Europe, approximately 3 million cataract surgeries are performed annually. A similar number are performed in the U.S. Dr. Stephen Ganem, Chief of Ophthalmology at the **Rothschild Eye Institute** in Paris has already begun cataract surgeries with the device. Last week, he performed five demonstration-teaching surgeries with the Photon System at a course for 250 other eye surgeons sponsored by the Institute. Afterwards, he commented, "This is an important advancement in cataract surgery. Paradigm has made

enormous progress since I first came in contact with the company several years ago. Not only is the laser system safer but it is able to remove much harder cataracts than the company has led us to believe. I have video footage of my procedures removing hard cataracts -- no problem! It is much better than the 'other' machine that has been out there in Europe for the past few years. I've now had experience with both and can say and show that Paradigm unequivocally has the laser cataract removal technology that works. We look forward to becoming a teaching and certification center for the Paradigm Photon System for Europe. It's important to get the word out on this significant new technologic advancement in cataract removal."

- 11/28 **Gimbel Vision International** reported its third quarter results, with revenues of \$4.1 million versus \$5.6 million in the prior year's third quarter. For the nine month period, consolidated revenues were \$14.0 million as compared to \$16.3 million in the comparable period of the prior year. The net earnings (loss) for the 2000 and 1999 third quarters were (\$302,947) (1 cent per share) and \$463,412 (2 cents per share) respectively. Net earnings (loss) for the nine months were (\$294,545) (1 cent per share) and \$949,287 (4 cents per share) in 2000 and 1999 respectively.

During the third quarter of 2000, refractive procedure volumes for the company amounted to 4,394. North American procedure volumes were 3,912 representing a 14% decrease from the comparable period in the prior year. Non-North American procedure volumes totaled 482 as compared to 400 in the prior year third quarter. In order to provide a meaningful comparison of procedure volumes from ongoing operations, 1999 procedure volumes exclude procedures from Brazilian operations which were written off in fiscal 1999. Third quarter procedure volumes for the refractive vision correction market have historically slowed in comparison to other quarters as a result of a decline in the number of procedures performed during the summer months. During this year's third quarter, the industry appears to have experienced a more significant than normal decline in same store procedure volumes. Furthermore, increased competitiveness in the refractive vision market, consumer uncertainty as a result of numerous price points being offered, and the number of refractive vision suppliers may also be causing a delay in the purchase of refractive vision correction procedures.

It is the company's belief that offering the highest quality patient care at a reasonable price will result in increasing market share and profitability.

- 11/29 **Pro-Laser Ltd.** announced that it achieved record sales for the third quarter 2000 of E18.3 million, an increase of 20% over E15.5 million sales of Q2 of 2000. "This quarter represents a significant milestone for the Pro-Laser Group," commented Ronnie Jaegermann president & CEO of the Pro-Laser Group. "We have dramatically improved our performance both in sales and profits, demonstrating the strategy we initiated in the beginning of the year. We derive our sales growth both from our new product mix and our rapidly growing North American business".

The Group has invested heavily in the quarter in its refractive surgery subsidiary **ProLaser Medical Systems Inc.** The investment was done mainly in sales and marketing efforts and Research and development activities. The investment was done in order to achieve the target of Pro-Laser Medical systems Inc. to become a leader in providing affordable refractive solutions to eye doctors world wide.

ProLaser Medical Systems made a 5.3% equity investment in **Quest Vision Inc.**, an early-stage American company, incorporated in California in March 2000. The company's Focus IOL is being designed to replace the eye's natural crystalline lens during ophthalmic surgery. ProLaser Medical Systems Inc. has entered into a Strategic Alliance with the French laser vision correction provider **HAUTE TECHNOLOGY MULTISITES - HTM**, a division of Medicare to grant access to the Rodenstock DTK refractive laser to over 300 Refractive Surgery ophthalmologists in 35 cities throughout France. Pro-Laser and HTM intend to build initially two DTK sites in France under an agreement that potentially widens the number of installations to over 10. In September 2000, Prolaser Medical Systems participated in the ESCRS in Brussels. During this show, the Rodenstock DTK attracted much interest and the company received orders from customers from Taiwan, Greece, Belgium, Venezuela and other countries. Several Rodenstock DTK users made keynote presentations during the program.

The Group has acquired the exclusive worldwide patents and rights to provide the SLO (The Scanning Laser Ophthalmoscope) with laser surgery treatment capabilities. Several enhancements which will be developed together with the University of Antwerp, Department of Ophthalmology and The Schepens Eye Research Institute, an affiliate of Harvard Medical School, are intended to provide the eye doctor with precision tools to diagnosis and treatment of several forms of AMD -- age related macular degeneration -- even at early stages, when prevention of permanent damage to the patient's eye sight would still be possible. The disease is now a leading cause of severe visual impairments and blindness in the elderly population of Western Europe and the United States. At present, the Rodenstock SLO is already extensively used in over 250 hospitals worldwide for the diagnosis of several retina diseases and low vision rehabilitation of patients.

11/29 Analysts Ted Huber and Anthony Sterling of **Bank of America Securities** issued their "Eyecare Industry Overview". They declared that a "Renaissance" of new technologies was improving eye care and spurring growth. They highlighted:

- Refractive Surgery is in the beginning phase of fundamentally changing the way we correct vision. Technologies and market penetration are in their infancy; we believe new technologies will emerge that offer even safer surgery with better outcomes.
- We look for 35% U.S. LASIK procedure growth in 2001 to drive new excimer laser and micro-keratome sales. Demand for LASIK will be bolstered by a continuing decline in procedure prices, FDA approval of safer and better technologies and continued positive outcomes.

- We believe investment in **VISX** is the best way for investors to profit from this trend. We believe **Bausch and Lomb** may experience additional shortfalls in 2000, in part due to missing overly aggressive goals in refractive surgery.
- Advances in treatment of retinal disease are halting disease progress and restoring vision in conditions that previously led to blindness. Bausch & Lomb is in the early stages of testing a drug delivery technology that could be a blockbuster treatment for these diseases.
- Advances in Glaucoma and Cataract surgery appear to be more incremental, but improved diagnostic and therapeutic options are being considered by the FDA and Medicare. **Staar Surgical** has an emerging portfolio of glaucoma and cataract surgery products.

11/29 **Lasik Vision Corporation** announced that it had appointed **McDonald Investments Inc.** as its investment banker and financial advisor. Under the terms of the engagement, McDonald Investments will evaluate strategic options for the company, including merger, consolidation, reorganization, strategic alliance or financial restructuring of the company. "In the context of both the current volatility in the laser vision correction market and our company's position within it, as one of the world's largest providers of laser refraction, Lasik Vision has decided to take a leading role in industry consolidation. We are looking forward to working closely with McDonald Investments in this serious attempt to increase market share and maximize shareholder value in the present and long-term," said Hugo Sutton MD, President and CEO, Lasik Vision Corporation.

12/1 **SeeClearly Vision** announced the opening of a laser vision correction center in Richmond, Virginia, its fifth laser vision correction center in the Mid-Atlantic. In honor of the occasion, SeeClearly Vision Richmond will offer patients the opportunity to get laser vision correction on both eyes for the price of one.

SeeClearly Vision has offices in Tysons Corner, Virginia, Richmond, Virginia, Rockville, Maryland, Baltimore, Maryland and Washington, DC and specializes in laser vision correction for nearsightedness, farsightedness and astigmatism using LASIK, PRK, and Intacs.

12/3 John Nolan of the *AP* issued a report on LASIK surgery, entitled "Caution Urged Before Eye Surgery". In the story, sent out on the AP Newswire, he cautioned consumers to think carefully about their choice of where and how much to pay for LASIK surgery. In the story, Dr. Stephen Joffe is among those quoted, "There are risks. It's surgery," he said, noting that he had built **LCA-Vision Inc.** into a company with 33 U.S. laser vision correction centers, two in Europe and one in Canada. LCA-Vision grew within five years to a publicly traded company with \$57 million in revenues and \$10.7 million in profits last year. Joffe said his company always pre-examines patients and turns away those not suited to the surgery. Critics of the fast-growing industry say not all providers take that precaution.



Also quoted is Marcandrea Musa, owner of **Laser Vision Institute**, who said his company charges \$998 per eye for the surgery and lifetime follow-up care. He said there is an additional charge if the patient has an astigmatism, a condition that blurs and distorts both distant and near objects. Musa warned that discounters won't make money charging \$499 per eye, and are likely to spring additional charges on the patient for follow-up care. Some studies have found 10% to 15% of patients must return so the surgeon can redo or fine-tune the work.

12/5 **Lasik Vision** reported the company had negotiated a non-brokered private placement with John Porter, an outside director and member of the Board of Lasik Vision, for the sale of up to 3.125 million units at a price \$0.80 per unit. Each unit is comprised of one common share and one non-transferable share purchase warrant. Each share purchase warrant is exercisable for a period of two years at a price of \$0.80 per share in the first year and \$0.92 per share in the second year. The proceeds of the private placement will be used for working capital purposes.

12/5 **Paradigm Medical Industries** announced that it had secured an equity financing commitment from a private investment fund in the form of an equity line facility. According to the terms of the facility, Paradigm would have the right, but not the obligation, to obtain as much as \$20 million through the issuance of its common stock to the fund in a series of draw downs over a three year period.

Paradigm chairman and CEO Thomas Motter, commented, "The availability of this equity line will assure Paradigm of long term financial viability and, in the short term, will allow Paradigm to expand the manufacturing and sales of its Photon laser surgery system for cataract removal in Europe. This kind of financing option is very attractive to Paradigm since it gives it complete flexibility over timing and a substantial degree of control over pricing."

12/5 *Reuters* reported that financier Carl Icahn planned to nominate directors to VISX Inc.'s board in an effort to sell the laser vision correction company, according to a regulatory filing. The "registrants have determined to conduct a proxy contest to elect directors to issuer's board of directors who would favorably consider implementing the registrant's views that such a consolidation would be beneficial to issuer and its stockholders," Icahn said in a filing made with the Securities and Exchange Commission. Icahn, who holds a 9.9% stake in the Santa Clara, Calif.-based firm with more than 6 million common shares, is seeking a sale of the company to a larger pharmaceutical or medical device company to increase shareholder value.

According to *CBS MarketWatch*, Icahn said he plans to launch a proxy fight in an attempt to gain six seats on the board of VISX at the 2001 annual meeting. He said the roster of nominees -- that includes himself -- would "favorably consider" his views that the firm should be merged with a large pharmaceutical company or medical device concern. The other proposed nominees include Jerome Becker, Robert Kauss, Russell Glass, Samuel Waksal and Paul Zegger.

The following day, analysts Ted Huber and Anthony Sterling of **Bank of America Securities** issued their take on the matter:

- Investor Carl Icahn has taken the next step in his effort to force the sale of Visx, Inc. Icahn announced after the market close yesterday that he plans to nominate a slate of directors to Visx's Board for consideration at the 5/01 annual shareholder meeting. With a non-staggered election of directors, an Icahn led group of investors could gain control of the company at this meeting.
- Given Visx's recent poor stock performance, modest valuation (14.6x projected 2001EPS excluding cash balances of \$3.50 per share), and modest institutional ownership (56%) Icahn could gain significant investor support in a fight for control of Visx.
- Separately, recent positive news coming from important Visx corporate customers includes: (1) LASIK Vision announced yesterday a \$2.5 million private placement, addressing operating cash needs for the near-term and (2) another major Visx corporate customer provided us with a positive review of the new S3 upgrade and indicated intentions to upgrade the remainder of its Visx laser fleet.
- Our channel checks reveal weak industry laser procedure volumes in October and November but expectations for robust December volumes; we have not uncovered evidence that concerns about a 'hard-landing' for the economy and the recent market correction are impacting December schedules.
- On balance, while our Q4 8% sequential procedure volume growth (48% yr/yr) projection for Visx may prove optimistic, we still expect positive sequential growth in the quarter. Maintaining Q4 EPS estimate of \$0.20; reiterating BUY and \$30 12-month price target.

Finally, on December 8th, the company responded. In its news release, the company stated that chairman and CEO Mark Logan had written the following letter to shareholders, telling of the company's plans to enhance shareholder value.

"Dear Stockholders:

Like many of you, your management and Board are disappointed with the recent performance of the company's stock price, particularly in view of the company's record of profitable performance and industry leadership position. Let me assure you that we are committed to enhancing stockholder value. In that regard, I am writing to you to describe certain initiatives, in addition to our normal business activities, that your Board and senior management have been pursuing. From time to time over the past few years the company has reviewed possible strategic alternatives that may be available to the company to enhance stockholder value. Earlier this year the company engaged **Goldman, Sachs & Co.**, as its financial advisor, and **Skadden, Arps, Slate, Meagher & Flom LLP**, as its outside special counsel, for the purpose of assisting the company in analyzing and pursuing various alternatives. These alternatives include possible acquisition, merger, sale, strategic alliance or other business combination transactions involving the company.

While we are continuing to pursue our objective of identifying one or more transactions which could lead to enhanced stockholder value, we caution stockholders that there can be no assurance that we will reach any agreement for any transaction or, if we reach any such agreement, that any transaction will be consummated or successful.

Mark B. Logan  
Chairman of the Board and Chief Executive Officer"

- 12/6 VISX announced that its customers had now collectively performed over two million laser vision correction procedures in the United States. This two million milestone came just over a year following the millionth VISX procedure, which occurred in October 1999. "VISX doctors continue to see the growing popularity of laser vision correction with their patients," commented Liz Davila, president of VISX. "It took 42 months from the first FDA approval in 1996 to achieve one million procedures, and it took only 14 months to reach the next million," added Davila. "Clearly, patients who enjoy the benefits of having better vision following treatment on VISX STAR laser systems are spreading the word." With this milestone, the company believes that VISX's technology has treated approximately two-thirds of all patients in the U.S. who have had the procedure.
- 12/6 **IRIDEX Corporation** announced that it expected sales for the fourth fiscal quarter would be in the range of \$8.0 to \$8.3 million, \$1.6 to \$2.0 million less than the amount previously expected for the quarter. Earnings per share for the quarter are expected to be between \$0.04 and \$0.05 per share, \$0.06 to \$0.09 less than the number previously expected. While these expected results are short of expectations, IRIDEX expects to report a record year for 2000 with revenue of approximately \$33.5 million. Earnings per share for 2000 is expected to be between \$0.31 and \$0.32, an increase of between 29% and 33% compared to 1999. The revenue shortfall is primarily due to a delay in initial customer shipments of its new Apex 800 hair removal system. The company now expects initial customer shipments of the Apex to occur in the first quarter of 2001. The purpose of the delay is to enhance the product's competitiveness in the market. Secondly, the company believes that the lack of clarity in reimbursement in the U.S. for certain Age-related Macular Degeneration (AMD) procedures is delaying order placement for company products used to perform the procedures. While it is expected that these reimbursement issues will be resolved in 2001, revenues for 2001, particularly in the first half of the year, are likely to be lower than previously expected. During an accompanying teleconference with analysts, management noted that reimbursements for its TTT procedure, which are determined by local Medicare carriers, was running between \$127 to as high as \$700. Once this reimbursement issues gets cleared up, the company expects to get back on track with sales of its diode lasers for this important application.
- 12/7 **LCA-Vision Inc.** announced that its board of directors had authorized the repurchase of an additional 5 million shares of common stock in the open market. The repurchase authorization, representing approximately 10% of shares outstanding, is in addition to the five million share repurchase authorized by the company's board in June 2000. Under that earlier authorization, LCA-Vision has already bought back 3.8 million shares at an

average price of \$2.24 per share. The repurchase program will continue into 2001. Stephen Joffe, chairman and CEO of LCA Vision, stated, "At the end of the third quarter, the company had cash and short-term investments of \$39.4 million and virtually no debt. With our stock dramatically under valued, buying back shares at today's prices represents an attractive opportunity to increase shareholder returns by decreasing the number of shares outstanding. Share repurchases will not impact our growth plans for the coming year."

- 12/7 **ICON Laser Eye Centers** said that 8,434 LASIK and/or PRK procedures were performed at ICON wholly-owned and affiliated centers during the month of November 2000. ICON currently operates in 6 North American and European countries; 18 states; 2 provinces of Canada; and 46 cities globally. November 2000 LVC procedures increased significantly by 16.9% from 7,214 LVC procedures in October 2000. In addition, year over year LVC procedure volume increased 129% from the 3,675 procedures performed in November 1999.

Of the total monthly procedures performed, 3,011 -- or 35.7% -- were accounted from ICON's joint venture partner centers as dictated by existing agreements with **VisionAmerica Incorporated** and/or **Aris Vision** and/or other JV-partnered refractive surgeons or OD's. Ghassan Barazi, COO of ICON stated, "We are very pleased with our return to positive sequential monthly procedure growth. As ICON enters its second full year of operation, we are beginning to experience the beneficial leverage of our Internet-based central patient response and education center located in Windsor, Ontario. ICON anticipates further procedure growth with the launch of our "Value LASIK" program in California and the maturing of our operations in other growth markets."

- 12/7 **LaserVision Centers** announced its eleventh straight profitable quarter. Revenue for the fiscal second quarter ended October 31, 2000 was \$21.7 million compared to \$20.8 million for the same quarter a year ago, a 4% increase. Revenue for the six-month period increased 5% to \$43.9 million compared to \$41.8 million for the same period a year ago. Net income for the quarter was \$449,000 (2 cents per share) compared to \$3.9 million (15 cents per share) for last year's fiscal second quarter. Net income for the six-month period was \$1.6 million (6 cents per share) compared to \$8.1 million (32 cents per share) for the same six-month period a year ago. Both 1999 periods reflected income tax benefits while both 2000 periods reflected a normalized book income tax provision.

The company said U.S. refractive case volume increased 31% to 29,661 during the quarter. Worldwide refractive case volume was 30,516, a 30% increase over the same quarter a year ago. As of October 31st, LaserVision operated 101 excimer lasers in the U.S. and 105 worldwide. More than 695 surgeons accessed LaserVision services at 308 locations in the U.S. during the quarter.

"While our industry remains in a very difficult period, we are proud that we have been able to maintain our profitable, well capitalized status," said John Klobnak, LaserVision chairman and CEO. "The short to intermediate term prospects for our industry mandate

that the company position itself for survival and ultimate victory against certain companies that are willing to lose millions of dollars while attempting to achieve market share. We think their strategy is not sustainable at some of the unrealistic price points we have seen recently. It is important that the company diversify into related ophthalmic product lines that will not be affected by irrational pricing in the LASIK business."

The company also announced that it had signed a letter of intent to acquire certain intellectual property and key personnel from **The BSM Consulting Group** which designs and develops ambulatory surgery centers (ASC's). LaserVision said the acquisition would pave the way for the company to enter the ASC business. As part of the agreement, Bruce Maller, President and CEO of **BSM Group**, will provide consulting services to LaserVision. "Bruce Maller is well respected for his ophthalmic consulting. We believe our new relationship will be very well received by the ophthalmic community," Klobnak said. Financial terms of the agreement were not disclosed. The company said that the acquisition of BSM's intellectual property will allow LaserVision to capitalize on relationships developed with approximately 900 surgeons who are already accessing the company's refractive and cataract services to become a more fully integrated ophthalmic services company. The acquisition will lead to the creation of a yet to be named subsidiary of LaserVision and the company expects to name an operating executive of the subsidiary shortly. Klobnak said it is possible LaserVision may sell a minority interest of the new subsidiary to an equity partner and over time, the new unit could be spun off to shareholders. "We will continue to explore all avenues of increasing shareholder value," said Klobnak.

12/7 **TLC Laser Eye Centers** announced paid procedure volumes for the period ending November 30, 2000. Traditionally the weakest period from a growth perspective, TLC reported that over 27,100 paid laser procedures were performed at TLC refractive centers in the second quarter, representing a 12% decline from the same period a year ago. Reiterating comments made in October, Elias Vamvakas, TLC's chairman and CEO said that, "The industry is currently hyper competitive and characterized by a great deal of consumer uncertainty over pricing, quality, and safety. TLC's focus remains on maximizing revenues, controlling costs and providing superior quality of care and clinical outcomes. As the industry and pricing stabilize, this positioning will leave us well placed strategically for the future."

The following day, Robert Faulkner and Tatyana Daniels of **Chase H&Q** issued an updated research report on TLC. They noted that "A Negative Trend Turns Frightening", as they stated:

- TLC underperformed our modest expectation for quarterly procedure volume, reporting 27,100 procedures and a sequential decline of 19% versus our estimate of 30,000 and a sequential decline of 10%.
- This is the first time TLC reported a Y/Y decline. This quarter's procedure volume declined 12% year over year.

- We are trimming our estimate for procedures for FY01 from 127,400 to 117,500. Revenue goes from \$158 million to \$147 million. EPS is reduced from \$(0.67) to \$(0.68).
- We maintain our market perform rating.

12/8 **Lasik Vision** announced the closure of its Beverly Hills, CA center. "In the company's ongoing effort to consolidate and increase operational efficiencies, management has made the decision to close the Beverly Hills centre. We recognized that with four clinics in the Los Angeles marketplace, the company had overcapacity and would be able to meet expanding consumer demand in this key market at our existing Santa Monica, Pasadena and Long Beach Centres," said Hugo Sutton MD, president and CEO. "Lasik Vision continues to explore expansion opportunities. Future clinic development will access sites which meet the company's demographics and strengthen the company commitment to being the largest vision correction provider, with the highest standards of medical outcomes exceeding patients' expectations."

12/11 This months issue of *Refractive Market Perspectives* highlighted the market share gain of surgeon-owned centers over both corporate and institution centers during the third quarter. According to the newsletter, the surgeon-owned segment grew 6.6%, the institutions gained 3.5%, while corporate centers rose only 2.6%. Dave Harmon attributed the performance to the rapid expansion of surgeon-owned laser centers while the corporate center segment slowed down to absorb the impact of price-cutting competition. According to the newsletter, the procedure market share for surgeon-owned center grew to 42.2%, while corporate center share dropped by about 0.5% to 47.5%, with only a handful of new centers opening during the quarter. Within the corporate segment, Lasik Vision increased its share to 8.3% from 5.8%, while increasing its prices slightly; TLC dropped from 21.9% to 17.6%; Laser Vision Centers dropped from 19.1% to 17.5%; LCA Vision grew to 9.5%, up from 9.1%; and Prime Medical increased its share to 4.8%. Others with listed shares included NovaMed at 3.9%; Icon at 9.4%; Aris at 2.9%; and Clear Vision at 8.2%.

**Market Scope** also announced that its *2000 Comprehensive Report on the U.S. Refractive Market* was published and available from the company for \$1800 (or \$1500 for the newsletter's subscribers). The report includes a detailed analysis of vision disorders and prospective patient demographics, plus a full report on laser manufacturers, laser center operators, and refractive surgeons. Issues such as procedure pricing, business models, market share and other important information are covered in detail, including a five-year forecast for procedures, new and installed lasers, and average pricing. (If this new report is anything like previous issues, it is well worth the money for anyone following this industry.) A table of contents is available at the company's website, **[www.mktsc.com](http://www.mktsc.com)**.

12/11 **Emerging Vision, Inc.** announced that its Board of Directors had decided to pursue the separation of its Internet optical portal business and its non-Internet businesses (principally, **Sterling Optical**, the company's 250-store retail chain, and the company's majority interest in **Insight Laser Centers, Inc.**) by spinning off the Internet business. In that regard, the company has terminated its engagement of **Legg Mason Wood Walker**,

**Incorporated**, which had been hired to assist in the sale of the non-Internet businesses as part of the company's previously announced plans to evolve from a retail eye wear and vision services operation to an Internet-based trading portal. The Board concluded that a spin-off would be the best way to maximize value because it allows existing shareholders to participate in the potential of both businesses. (Emerging Vision holds a majority interest in its subsidiary, Insight Laser Centers, Inc., which offers refractive laser surgery procedures at three New York centers.)

12/12 **Prime Medical Services Inc.** announced the opening of its fifteenth refractive vision center in Stamford, Connecticut, **The New York Eye Specialists of Stamford**. Ken Moadel, MD, of **New York Eye Specialists** of New York City, a Prime affiliate, has performed over 11,000 procedures and will serve as medical director for the center. Brad Hummel, president and CEO of Prime stated, "Prime continues the implementation of our announced refractive expansion plan with the opening of a new center in Connecticut. Our research of this market revealed an underserved dense population that could be serviced through the leveraging of existing advertising campaigns and clinical staff. This new center brings cutting edge technology to the community, along with the best surgical skills available in the greater New York area."

12/12-

12/13 *The NY Times* published a positive article about **Sunrise Technologies International's** LTK procedure entitled, "In a Burst of Laser Heat, Farsightedness is Zapped", extolling the virtues of the procedure for hyperopic people.

The following day, the company got some additional good news, with the FDA approving a label change reflecting that the effect of its LTK procedure could last for up to 10 years and perhaps longer -- deflecting some ophthalmologist's criticism about the "temporary" label that was given with the June 30th approval. According to the company, it provided substantially more data compared to the data presented at the time the LTK procedure was FDA approved. In the most recent submission to the FDA, the company presented a substantial increase in the number of patients and followed them all the way to 2½ years post-treatment. The FDA agreed that based on existing information for the clinical parameters used in the U.S. Clinical Trials for the LTK procedure, the model calculating the average longevity for the procedure indicated that some of the effect lasted 10 years and beyond. The FDA also agreed to change the labeling pointing out that age related drift toward hyperopia is a contributor to loss of effect after the initial two years. This drift is a natural occurrence which has nothing to do with the Sunrise LTK procedure.

According to Russell Trenary, chairman, president & CEO of Sunrise Technology, "We believe this substantial change to the labeling for the Sunrise LTK procedure is a major improvement because it more accurately describes to patients and physicians the longevity of effect of our procedure. We know there has been confusion among doctors and patients who believe that 'temporary' means the effect lasts only a couple of months. Our new FDA approved labeling ensures that while the label indicates the procedure may be 'temporary' it really means some effect can still remain 10 years and beyond. We

expect that continued enhancements to surgical techniques and nomogram development will result in even more improvement to the capabilities of the Sunrise LTK procedure."

The new labeling says that, based upon existing information for the clinical parameters used in the clinical trial, the company's model for the average longevity for the procedure indicates that some of the effect lasts 10 years and beyond. Age related drift towards hyperopia contributes to the loss of effect after the initial two years.

12/13 **BioShape** sent along an infomail updating what was happening with its Real Time Stromal Topography system. The message noted that the company and its technology remained for sale. Recent developments included:

- An actively closed loop refractive laser surgery system was demonstrated to a potential buyer on November 17th. During the in vitro surgery the stromal topography was measured and instantaneously the data fed into the laser. The laser then calculated an optimized ablation pattern and applied it to the surface to reach the optimal surgery result.
- Biomechanical reactions of the cornea on laser excisions were measured under several different experimental conditions. These effects are currently proclaimed to have an influence on the final shape. Our results might bring some light into the ongoing discussions.
- The drying effects on invitro stroma was studied by measuring the surface continuously for 20 minutes. That gave information on the surface change connected with the evaporation of water from the tissue.
- Whole flap thickness measurements were performed to assess the cutting effects on the 3D shape of the flap. An ACS microkeratome was used for these first in vitro experiments.
- The measurement precision on calibration samples was improved by a factor of two from  $\pm 1$  micron to  $\pm 0.5$  microns in another presentation on December 1st. This range of improvement applies to any measurement sample, thus we have proceeded a big step in the direction of a perfect refractive surgery result.

Further information about the company and its technology can be found at **[www.bioshape.com](http://www.bioshape.com)**.

12/14 **IRIDEX Corporation** announced that results from two clinical studies, one performed in Japan and a second performed in the U.S., provide additional validation of successful outcomes following Transpupillary Thermotherapy (TTT) treatment of subfoveal occult wet age-related macular degeneration (AMD). Stabilization or improvement in vision was seen in 80% of treated eyes in the Japanese study and 70% of treated eyes in the U.S. study. The TTT study procedures were performed with the company's IRIS Medical OcuLight Slx infrared laser system.

The first study was recently presented by Annabelle Okada, MD, at the *Japan Clinical Ophthalmology Society* annual meeting held in Tokyo and, at the *American Academy of*



*Ophthalmology* annual meeting held in Dallas. The study, performed at Kyorin University School of Medicine in Tokyo, treated 30 eyes with subfoveal choroidal neovascularization (CNV) following a TTT protocol using a laser power adjusted to account for the typically higher pigmentation of Japanese eyes. Twenty of the treated eyes had occult wet AMD, 2 eyes had classic wet AMD, 7 eyes had CNV due to pathologic myopia and one eye had CNV due to other causes. Results for the 20 eyes with occult wet AMD at 8.75 months (mean) follow-up showed that visual acuity improved in one eye (5%), stabilized ( $\pm$  one line) in 15 eyes (75%) and decreased in 4 eyes (20%). Exudation (i.e. fluid in the macula) reduced in 15 eyes (75%). The mean number of treatments per eye was 1.3. The authors of the Japanese study commented that TTT has a major advantage over conventional laser photocoagulation in that it does not cause immediate tissue necrosis. They further stated that since TTT utilizes near-infrared light to deliver hyperthermia to the posterior pole, there is minimal absorption by clear ocular media. These factors make TTT an ideal treatment for conditions in the fundus, particularly when involving the fovea. With treatment parameters adjusted for greater pigmentation in Japanese eyes, the results for TTT of subfoveal occult CNV in eyes with AMD were similar to that observed in the Reichel study.

The second study was presented by Richard Ahuja, MD (University of Maryland) at the recent American Academy of Ophthalmology annual meeting in Dallas. Thirty-three eyes of 30 patients with occult subfoveal wet AMD were treated with TTT. Mean initial visual acuity was 20/400. After a 10 month (mean) follow-up, visual acuity improved in 5 eyes (15%), stabilized ( $\pm$  one line) in 18 eyes (55%), and decreased in 10 eyes (30%). Sub-retinal fluid resolved in 63% of eyes. The mean number of treatments required was 1.4. There was no immediate necrosis and minimal to no ophthalmoscopic evidence of retinal damage reported.

Theodore Boutacoff, president & CEO of IRIDEX, added, "These results further support our confidence that TTT photocoagulation using our infrared laser system can effectively treat occult wet AMD. The occult wet stage of the disease accounts for about 70% of the estimated 500,000 new cases of wet AMD that occur each year world-wide. Demonstrating effective treatment in Japanese eyes increases our belief that TTT will be successful globally."

- 12/14 **QLT** announced that fourth quarter demand for Visudyne vials was expected to grow 20% to 25% over Q3 which would translate into sales of approximately \$36-38 million. Slower than expected growth was due to lack of reimbursement in some countries in Europe and in the U.S., as well as a reduction in revenue caused by the decline in the EURO and Swiss currencies, which impacted the upside sales potential for the current year. "We continue to be on track for the most successful launch of an ophthalmic product ever and will meet our original forecasts established earlier in the year," commented Julia Levy, president and CEO of QLT. "Unfortunately, expectations after such a strong second quarter may have been a little too bullish given that we did not have a clear resolution on reimbursement. We consider these issues to be short lived and are not changing our outlook on the opportunity we have with Visudyne."

Negotiations in Europe for reimbursement continue on a country-by-country basis between **CIBA Vision**, the eye care unit of **Novartis AG**, physician representatives from ophthalmology associations, and local and government payers to ensure that third-party payers provide adequate coverage for Visudyne therapy so that patients in Europe have access to the treatment. Last month, in the United States, HCFA issued its national coverage policy for Visudyne (which turned out to be disappointing -- see my accompanying inclusion on the outlook for laser treatments of AMD). In addition, the administration announced the establishment of a new procedure code for Ocular Photodynamic Therapy along with payment levels that will take effect on January 1, 2001. "The National Coverage policy proposed by HCFA is a very positive step moving forward," stated Levy. "Despite the obstacles that our corporate partner has faced both with reimbursement related issues in Europe and in the U.S., we've seen tremendous underlying demand for Visudyne by patients and retina specialists. To put this in perspective, we will be missing our upside sales target by approximately 2.3% of the vials we projected we would sell, the remainder of the sales shortfall is due to currency fluctuations."

QLT expects 2001 sales to be in the range of \$240-260 million. (Analyst estimates range from a low of \$206 million, to a high of \$335 million.)

- 12/14 **WaveLight Laser Technologie AG** announced that it would further expand its market position in the United States by opening a branch office in Wilmington, Delaware. The office will assume responsibility for preparing the market introduction of WaveLight Laser's ALLEGRETTO eye-laser system. However, in addition to planning business activities in the United States in the area of ophthalmology lasers, the branch office will also focus on expanding the company's market standing in the business areas of urology and aesthetic-surgery laser systems.

"Opening this office enables us to promote sales of our successful laser systems in the United States, and to make preparations for the market introduction of the ALLEGRETTO. It also constitutes a move to reinforce our performance on the U.S.-American market, the world's largest market for medical laser systems," said Max Reindl, CEO of WaveLight Laser, by way of explaining the rationale for the establishment of a headquarters in the United States. The U.S. office will assume a liaison function between the WaveLight Group in Erlangen and its sales partners, **Dornier Surgical Products Inc.** and the **Coherent Medical Group**, located in the United States.

The announcement went on to state, "Having posted sales revenues of E1.1 million in the previous business year, the WaveLight urology laser was quite successful on the American market for medical laser systems. The new location in the United States will serve to reinforce the success of the urology business division on the American market. Just as sales of the urology lasers receive direct support from WaveLight, the business area comprised of aesthetic-surgery laser systems will receive reinforced product support."

"Together with our sales partner on location, the Dornier Surgical company, we are intensifying our standing on the important U.S.-American market," said Max Reindl, by way of summarizing the cooperation between the new WaveLight affiliate and Dornier Surgical, a company which has been selling WaveLight laser systems successfully in the United States for three years.

In addition, WaveLight employees have begun preparations for the marketing of the ALLEGRETTO. "Making sure to enter new markets well-prepared has always been a part of WaveLight's company philosophy," Max Reindl said in reference to the further aims of the U.S. office. Thus, immediately after the ALLEGRETTO has been granted market approval by the FDA, the laser system will enter the world's largest market for ophthalmology lasers with an established marketing and sales concept.

In addition to assuming a liaison role, the WaveLight employees in Wilmington will also be responsible for supporting the eleven clinical investigators charged to carry out investigations with the ALLEGRETTO. The Erlangen-based medical laser manufacturers will thereby guarantee optimal support for the clinical study initiated to gain FDA approval for the ALLEGRETTO laser system.

12/15 **Asclepion-Meditec AG** released its figures for the 1999/2000 financial year, announcing a 35% rise in operative result (EBIT) from Euro 3.5 million (1998/1999) to Euro 4.7 million, an increase of 11.3%. The Group's turnover (revenues) experienced a similar upswing, increasing by 22% to Euro 41.9 million (previous year: Euro 34.4 million). The gross operating result rose 25% and therefore stronger than sales, amounting to Euro 21.6 million (1998/1999: Euro 17.2 million). As a result of non-recurrent taxation effects calculated according to US-GAAP that were connected with the cost of going public, the result after tax amounts to Euro 2.0 million (1998/1999: Euro 3.7 million). In line with the company's IPO plan, an almost uniform turnover distribution was achieved all over the world.

Asclepion CEO, Bernhard Seitz, said of the figures, "The presented annual statement confirms our expansion strategy for the fourth year in succession, while we were able to improve our profitability at the same time. By going public on 22nd March of this year, we created the financial conditions required to continue the strategic growth of the enterprise in years to come, as we planned. In this manner we were able to acquire **U.S. Medical** a fast-growing distribution partner for the growth market USA, in whom we acquired a 10.6% share after it more than exceeded the agreed sales objectives. The scheduled higher than average expenditure in R&D led to numerous new product launches and continued to strengthen our position as a pioneer and worldwide innovation leader. Furthermore, we are currently checking out several other acquisition possibilities that suit our strategy. We expect the first results in the course of the current financial year."

A significant factor for the increase in turnover was the Vision business unit with sales at Euro 26.2 million, an increase of 45% (1998/1999: Euro 18.1 million). With the WASCA and AWACS systems, two new concepts were introduced into ophthalmology. WASCA is a joint development with the world market leader for wavefront sensorics, **WaveFront Sciences**, and is the most precise system available on the market. With this system it will be possible for the first time to measure the entire optical system of the eye individually for each patient. WASCA also enables "eagle-eye treatment", which increases a person's visual acuity without vision defects to over 20/20. AWACS is a brand new innovation with which doctor and patient can already assess the probable result of the eagle eye treatment before the actual laser operation.

Turnover in the Aesthetic business unit was slightly lower than last year (-7%), amounting to Euro 10.8 million (1998/1999: Euro 11.6 million). However, during the previous financial year, a basis for above-average future growth was created with the establishment of a separate sales force for this unit, which resulted in a 125% increase in Aesthetic business unit sales in the fourth quarter compared with the third quarter. A further milestone in this sector was the launch of the high-end diode laser MeDioStar as well as the conclusion of the distribution agreement with U.S. Medical. Only three months after signing the contract, U.S. Medical had exceeded the agreed sales objectives by more than 300%, thus achieving a turnover in this period of Euro 2.7 million. In addition, at the end of the 1999/2000 financial year all lasers in the Aesthetic business unit were approved for sale in the USA by the FDA.

As planned, sales in the Dental business unit were low (Euro 0.3 million; previous year: Euro 0.8 million). The comprehensive research activities during the current 2000/2001 financial year will lead to new products that will clearly increase and sustain the unit's sales contribution. On the one hand, there is SaveDent, a new method of pain-free caries treatment, which is being developed together with the British company **Denfotex** within the scope of a complete application family called Photo Activated Disinfection (PAD). After important progress was made here, Asclepion increased its share in this company in October of this year from 15% to 24.78%. Additionally, Asclepion extended its already existing long-term co-operation in the Dental business unit with the **Kaltenbach & Voigt GmbH & Co. (KaVo)** for a further six years. Together with KaVo, in the near future Asclepion intends to increase its lead in the world in the field of erbium-based dental lasers. Moreover, both companies have combined their activities in the development of new products.

- 12/15 **QLT** announced that the *Committee for Proprietary Medicinal Products (CPMP)* of the *European Medicines Evaluation Agency (EMA)* had recommended the granting of a Marketing Authorization for Visudyne (verteporfin) therapy for choroidal neovascularization (CNV) in patients with pathologic myopia (PM) -- a serious eye disorder with a worldwide incidence rate of 50,000 new cases every year. The EU Commission is expected to make a final decision regarding the application for an expanded indication for Visudyne in the next few months. When approved by the EU

Commission, Visudyne therapy for pathologic myopia will be available throughout the EU, and the Norwegian and Icelandic authorities will grant corresponding national authorizations. Visudyne is already commercially available in 30 countries for use in age-related macular degeneration (AMD) patients with CNV.

"This recommendation by the CPMP is excellent news," said Luzi von Bidder, president of the business unit **Novartis Ophthalmics** worldwide. "We are now one step closer in making this important treatment for pathologic myopia commercially available throughout Europe." Dr. Julia Levy, president and CEO of QLT said, "We are extremely pleased by this decision from the Committee and look forward to helping the many thousands of people around the world who have this serious ocular condition."

12/15 According to *Reuters*, U.S. financier Carl Icahn said he was "deeply troubled" with rumors of talks aimed at settling **VISX's** patent infringement suit against a unit of **Bausch & Lomb Inc.** In September, VISX filed a lawsuit against Bausch & Lomb Surgical Inc.'s Technolas 217 Excimer Laser System, claiming infringement of a VISX patent for performing laser vision correction. "As one of the largest stockholders of VISX, I am deeply troubled with rumors of ongoing negotiations between VISX and Bausch & Lomb to settle" what Icahn called a "very legitimate" claim. Icahn expressed his concern to Mark Logan, chairman and chief executive of VISX in a letter, which was made public in a filing made with the Securities and Exchange Commission. "Entering into a premature and unattractive settlement agreement with B&L and possibly licensing the company's technology could, in my opinion, damage the company and limit its ability to successfully merge or be sold," Icahn said in the letter. VISX did not respond to Icahn's comments.

12/18 Analysts Robert Faulkner and Tatyana Daniels of **Chase H&Q** issued a research report in which they downgraded **VISX** because of what they perceived as a procedure slowdown and loss of market share to competitors. They stated:

- We are downgrading VISX shares from Buy to Market Perform due to the slowdown in industry procedures coupled with the anticipation that VISX will continue to lose share. (The slowdown was based on reports of sequential declines in procedures from both **TLC** and **Laser Vision Centers**, two of VISX's largest accounts, leading the analyst to reduce fourth quarter growth to 0% from 8%.)
- LVC procedure growth has slowed dramatically industry-wide, and we believe the trend will continue through 2001. (They now expect 2000 procedures to be at 1.365 million, and 2001 at 1.549 million.)
- As a result of these deteriorating industry fundamentals, we are reducing our expectations for industry and VISX procedure growth.
- We further anticipate VISX will continue to lose share in the major corporate center accounts, namely TLC Laser Eye Centers, Laser Vision Centers and **LCA-Vision**. (Faulkner and Daniels believe that VISX's procedure market share will decrease from

about 70% (3Q 00) to 64% by 4Q 01, with the pickup mostly by **Summit Autonomous, Nidek, and Bausch & Lomb**, who are better able to bundle products.)

- We are trimming our revenue estimate for 4Q from \$52.4 million to \$50.4 million and EPS from \$0.21 to \$0.19. We are reducing 2001 revenue and EPS estimates from \$217.9 million to \$208.6 million and from \$1.00 to \$0.89, respectively.
- Further, we believe 2002 EPS could be flat to down, as we anticipate the majority of laser-upgrade revenue will come in 2001, and have limited visibility on procedures accelerating in 2002 to compensate for the lower systems sales.

12/18 According to *EyeWorld Week*, Michael Bartell, COO of **Moria**, clarified the company's response to the purported incidences of thin flaps with the Carriazo-Barraquer microkeratome blade lot #CBQ092. "As a pre-emptive measure, all shipments of that lot number were halted and every account where they had been shipped was immediately contacted, informed of our concerns, and the blades were exchanged on a next day basis," Bartell said in a letter to the *American Society of Cataract and Refractive Surgery*. In most cases, he said, surgeons or staff had already disposed of the blades after use. No problems were found with blades that Moria was able to inspect and replacement blades from later lot numbers have been of normal quality. "When a surgeon has a problem cut with any microkeratome, he must save the blade along with its original package," Bartell suggested.

12/18 At the **Dain Rauscher Wessels Healthcare & Life Sciences Conference**, **Iridex** CEO Theodore Boutacoff explained why he thought AMD is one of IRIDEX' biggest opportunities. He stated, "IRIDEX is leading the development of several evolutionary applications that will greatly expand the markets for our products. We do this by providing laser devices and support for clinical studies to find solutions for diseases such as AMD, diabetic retinopathy and glaucoma. The effectiveness of these new applications has been published, and the use of these procedures is expanding. If we continue to have success in the treatment of AMD, then IRIDEX will clearly exceed expectations."

12/19 Also at the **Dain Rauscher Wessels Healthcare & Life Sciences Conference**, CEO Stephen Joffe of **LCA-Vision** gave an overview of his company. "LCA-Vision pioneered laser vision correction in the United States. It's been some five years since we opened the very first free-standing laser vision correction center in the U.S. following FDA approval. LCA-Vision is no newcomer to the field of laser vision correction. We actually started in Canada in 1992 and have shown steady growth since, moving into the United States and then Europe; expanding in Canada; and, most recently, negotiating a licensing agreement in Japan."

Joffe talked about the laser correction industry, "Current estimates indicate a potential U.S. market of total nearsighted, farsighted and astigmatic patients approaching 130 million -- a market that is replenished every year by at least a million new individuals, who require visual correction. The market size is actually enormous with major upside potential." Looking forward, Joffe stated, "As of now, we are one of the dominant

players in the laser vision correction industry. We have a very strong balance sheet. We see ourselves in the next three-to-five years becoming THE dominant player -- either by a combination of mergers and acquisitions with consolidations or, alternatively, by continuing to expand by opening new centers, as we have done this year. We're committed to continuing this expansion strategy over the next three-to-five years. Those are our firm plans for the United States."

- 12/20 **Eyesite Laser Centers** announced that its subsidiary, **Eyesite.com, Inc.**, opened its LASIK facility, Eyesite Laser Centers (Eyesite) to ophthalmologists for use in their LASIK procedures. The Lasik facility is equipped with the LADARVision eye-tracking laser. This marks the start of the second prong of Eyesite's strategic development plan, which calls for building alliances with individual ophthalmologists. "Our center is one of the best in Dallas. Not only do we have the most-advanced laser system," said Johnnie Hitt, Managing Director, "but we have a very experienced staff and a great location. When you add a volume-based facility fee to the doctors, it allows them to be very competitive in the marketplace."

Eyesite developed a two-tiered fee schedule for the ophthalmologists using the Eyesite center -- a Per-Use plan and a unique Pre-Pay plan. Both are patient-volume based. The Per-Use plan offers a discount structure based on the total number of procedures performed during a single month. However, the Pre-Pay plan allows ophthalmologists to pre-pay for a projected number of procedures on a quarterly basis at a larger discount.

- 12/21 In a surprise announcement, **Gimbel Vision International** said that **Aris Vision, Inc.** had entered into a binding letter of intent to become the controlling shareholder of GVI. Under the terms of the letter of intent and subject to definitive documentation and any necessary regulatory and third party approvals, Dr. Howard Gimbel and Judith Gimbel will exchange their holdings in GVI, representing approximately 64% of the outstanding common voting shares of GVI, for common voting shares of Aris. Dr. Gimbel will continue his practice of refractive eye surgery at GVI's Calgary Centre and will assume added responsibilities as Aris' International Medical Director. "The relationship with Aris offers an exciting opportunity for GVI and its shareholders," said Karen Gimbel, president and CEO of GVI. "Together GVI and Aris will be amongst the largest service providers in the eye care service industry. Aris and GVI will benefit from the operational synergies resulting from the relationship." Cataract surgery services, which are publicly funded and are provided by Gimbel Eye Centre surgeons in Alberta only, are not impacted by this transaction.

What makes this announcement surprising was the previous October 20th announcement by **ICON Laser Eye Centers** that it had entered into a binding letter of intent to combine with Aris. According to industry sources, that deal was in trouble, primarily because of the amount of cash that Aris was supposed to have, but apparently didn't. However, the CFO of ICON told me in an email correspondence that ICON expected to complete the merger with Aris in early January. I guess we

will just have to wait and see what transpires. Could it be that Aris emerges with the controlling interest in both Gimbel and ICON? And where does that leave **Lasik Vision**?

Aris is a private company based in Los Angeles, California with 24 refractive vision correction centers in the United States, Mexico and Japan. ICON is a publicly traded company based in Toronto, Ontario with 35 refractive vision correction centers in the United States, Canada and Europe. GVI is a public company that owns or is partnered with refractive vision correction centers in Canada, the United States, Thailand, and China.

12/26 In line with other notices of poor fourth quarter results, **VISX** announced that it anticipated earnings for its fourth quarter ending December 31, 2000 would be below the earlier guidance given on its Third Quarter 2000 Earnings Conference Call. The Company's earnings per share for the fourth quarter, excluding the effects of an increase in reserves against customer receivables, are expected to be in the range of \$0.15 to \$0.17 per share. The Company anticipates increasing its reserves against accounts receivable and other assets due from customers by approximately \$18 million, or approximately \$0.18 per share net of taxes.

The Company's license revenue from laser vision correction procedures performed by its customers, its primary source of income, has been negatively impacted by several factors. Laser vision correction is a relatively expensive elective procedure that depends on disposable income, and is easily postponed by the consumer in times of economic uncertainty. We believe that VISX, as well as the entire laser vision correction industry, is being affected by the current weakness in economic conditions. We also believe that consumers are confused by the extremely wide range of procedure prices being advertised. In light of the present turmoil in the laser vision correction industry, it is likely that one or more of VISX's customers will be unable to meet their financial obligations.

Commenting on the expected earnings shortfall, Mark Logan, VISX chairman and CEO, stated, "Although we are disappointed with this quarter's performance versus our expectations and believe it is prudent to increase reserves at this time, we remain positive about the future of laser vision correction. While over three million commercial laser vision correction procedures have been performed in the United States, this represents only a fraction of the potential market."