

Healthcare Services

July 29, 2009

Closing Price (7/28/09):	\$5.12
12-Month Target Price:	NA
52-Week Range:	\$1.99 - \$8.02
Market Cap (MM):	\$95
Shares O/S (MM):	18.6
Float (MM):	13.6
Shares Short (MM):	1.3
Avg. Vol. (000)	243.4
Book Value/Share:	\$3.98
Dividend/Yield:	\$0.00/0.00%
Risk Profile:	High

Maxim Group FYE: December	Revenues (\$M)	
	2008A	2009E
1Q	\$79.6	\$47.9A
2Q	\$54.2	\$31.7A
3Q	\$37.4	\$29.8
4Q	\$34.0	\$31.0
FY	\$205.2	\$140.4

Maxim Group FYE: December	Current EPS	Prior EPS	Current P/E
2008A: GAAP	(\$0.36)	-	nm
2009E: GAAP	(\$1.05)	(\$1.34)	nm
2010E: GAAP	(\$0.59)	(\$0.71)	nm
LT Earnings Growth	8%		

Maxim Group FYE: December	Quarterly EPS	
	2008A	2009E
1Q	\$0.37	(\$0.15)A
2Q	(\$0.03)	(\$0.37)A
3Q	(\$0.25)	(\$0.27)
4Q	(\$0.33)	(\$0.26)
FY	(\$0.24)	(\$1.05)

Consensus-FC FYE: December	Quarterly EPS	
	2008A	2009E
1Q	\$0.37	(\$0.15)A
2Q	(\$0.03)	(\$0.37)A
3Q	(\$0.25)	(\$0.31)
4Q	<u>(\$0.33)</u>	<u>(\$0.33)</u>
FY	(\$0.24)	(\$0.98)

Anthony Vendetti (212) 895-3802
avendetti@maximgrp.com
 Bryan Brokmeier (212) 895-3845
bbrokmeier@maximgrp.com

LCA-Vision Inc. (LCAV – Nasdaq – \$5.12)

Hold

LCAV reports solid 2Q09 results; Better-than-expected revenue and ongoing focus on cost controls and conserving cash encouraging, but market share decline concerning; Narrowing loss estimates; Maintain Hold.

- **What should investors do now?** We recommend that investors remain on the sidelines with shares of LCAV. In our opinion, LCAV has the capital structure and business model to survive this economic downturn, but it is too early to call the bottom in the Lasik market.
- **Ongoing cost controls encouraging.** The upcoming 9% workforce reduction in June (down 41% in total since 01/08 generating annual savings of \$17 million) as well as the three recently closed vision centers and one pre-operative center help alleviate cash burn concerns. Management estimates cash flow breakeven to be around 110,000 procedures, but that it has enough cash to last beyond 2011 if procedure volume were only 80,000 annually. In our view, these operating changes should enable the company to survive and avoid bankruptcy, though its cash position may continue to deteriorate in the near term.
- **2Q09 results summary.** Yesterday, LCAV reported 2Q09 total revenue of \$31.7 million (down 41.5% y/y), but ahead of our and consensus estimates of \$30.6 million and \$31.5 million, respectively. Procedure volume decreased ~41% y/y to 17,864, from 30,086 last year. However, on a positive note, procedure ASPs increased \$35 during the quarter to \$1,645, which translates to a 2.2% sequential increase. Gross margin of 23.4% was 440bps ahead our estimate of 19%. The quarter's GAAP loss per share of (\$0.37) was \$0.09 narrower than our estimate of (\$0.46), but \$0.05 wider than the consensus loss per share estimate of (\$0.32).
- **Estimate changes.** Given improved revenue and cost trends, we are adjusting our estimates. 3Q09 and 2009 revenue projections increase to \$29.8 million (down 20.2% y/y) and \$140.4 million (down 31.6% y/y), respectively. Accordingly, our 3Q09 and 2009 GAAP loss per share estimates narrow to (\$0.27) and (\$1.05), from prior (\$0.37) and (\$1.34), respectively. Our 2010 estimates also improve; now forecasting revenue of \$152.2 million, from prior \$149.2 million and GAAP loss per share of (\$0.59), from prior (\$0.71). (See the earnings model on page 4 for more details.)

Figure 1: LCAV 2Q09 Results Comparison

LCA Vision, Inc. 2Q09 Comparison	LCAV	Maxim	Difference	FCC	Difference
Total revenue	\$31.7M	\$30.6M	\$1.1M	\$31.5M	\$0.2M
Gross margin	23.4%	19.0%	440bps	N/A	N/A
GAAP EPS	(\$0.37)	(\$0.46)	\$0.09	(\$0.32)	(\$0.05)

Source: Company reports, Thomson ONE, and Maxim Group Estimates

Figure 2: LCAV 2Q09 Income Statement Comparison

LCA-Vision				
Income Statement				
<i>Actuals vs. Estimates</i>				
	2Q09E	2Q09A	\$ Diff	% Diff
Revenues				
Laser refractive surgery	\$ 30,557	\$ 31,681	1,125	3.7%
Y/Y Chg.	(43.6%)	(41.5%)		
Expenses				
Medical professional and license fees	\$7,334	\$6,987	(347)	-4.7%
% of total revenue	24.0%	22.1%		(190bps)
Y/Y Chg.	(34.9%)	(37.9%)		
Direct costs of services	17,417	17,269	(148)	-0.9%
% of total revenue	57.0%	54.5%		(250bps)
Y/Y Chg.	(13.4%)	(14.2%)		
Gross Profit	5,806	7,425	1,619	27.9%
Gross Margin	19.0%	23.4%		440bps
General & administrative	4,706	4,452	(254)	-5.4%
% of total revenue	15.4%	14.1%		(130bps)
Y/Y Chg.	14.8%	14.8%		
Marketing & advertising	9,283	9,485	202	2.2%
% of total revenue	30.4%	29.9%		(50bps)
Y/Y Chg.	(40.0%)	(38.7%)		
Depreciation & amortization	4,225	3,768	(457)	-10.8%
% of total revenue	13.8%	11.9%		(190bps)
Y/Y Chg.	(8.4%)	(18.3%)		
Special charges (benefits)	650	1,554	904	NM
% of total revenue	2.1%	4.9%		
Y/Y Chg.	100.0%	100.0%		
Operating Expenses	18,863	19,259	396	2.1%
Income (loss) from operations	(13,058)	(11,834)	1,224	-9.4%
Y/Y Chg.	3	3		
Operating Margin	NM	NM	NM	
Other income (expense):	2	20		
Equity in earnings from other businesses	30	48	18	60.0%
Minority equity interest	-	-		
Net interest (expense)	-	-		
Investment (loss) income	-	633		
Other income (expense)	2.00	20.00	18	900.0%
Litigation settlement	-	-		
Pretax income (loss) EBT	(13,026)	(11,133)	1,893	-14.5%
EBT Margin	NM	NM	NM	
Tax provision (benefit)	(4,429)	(4,246)	183	-4.1%
Implied tax rate	34.0%	38.1%		410bps
GAAP - Net income (loss)	(8,597)	(6,887)	1,710	-19.9%
Y/Y Chg.	1400.3%	NM		
Net Margin	NM	NM	NM	
Diluted Shares Outstanding ¹	18,571	18,590	19	0.1%
GAAP EPS (including FAS-123R)	(\$0.46)	(\$0.37)	0.09	-19.6%
Y/Y Chg.	NM	NM		
Non-GAAP EPS	(0.51)	(\$0.39)	0.12	-23.5%
Y/Y Chg.	NM	NM		
Non-GAAP Net Income	(9,531)	(7,203)	2,328	NM

Source: Company reports and Maxim Group Estimates



LCA Vision Inc.
Income Statement 2006-2010E

(\$ in thousands)

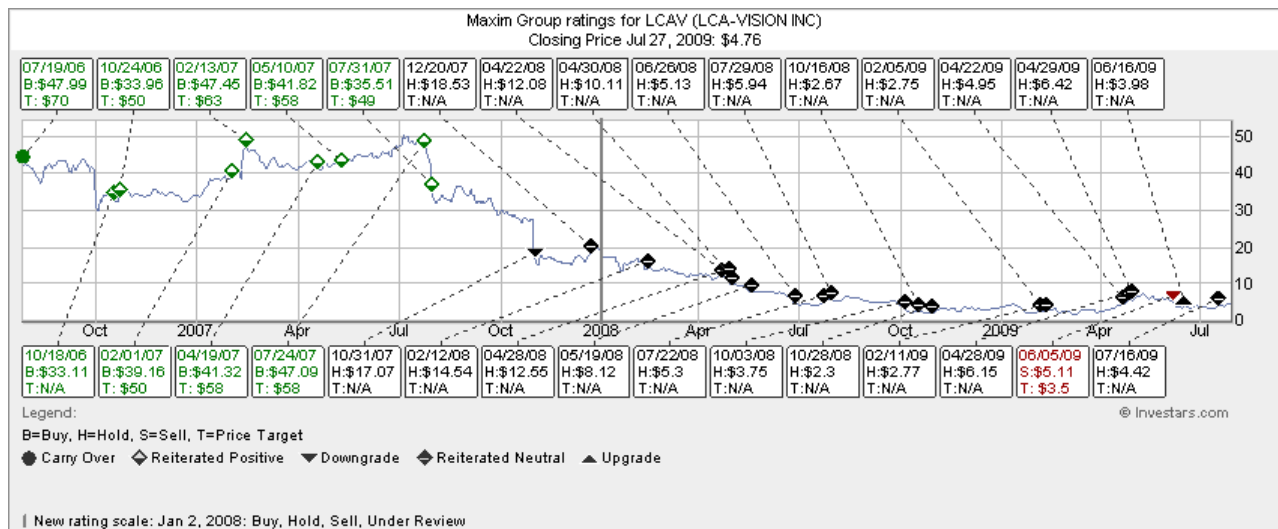
Fiscal Year ends December 31

	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09E	4Q09E	2009E	2010E
Revenues													
Laser refractive surgery	\$238,925	\$292,634	\$79,568	\$54,181	\$37,397	\$34,029	\$205,176	\$47,921	\$31,681	\$29,839	\$30,954	\$140,395	\$152,198
Y/Y Chg.	35.1%	22.5%	1.2%	(22.2%)	(49.9%)	(51.2%)	(29.9%)	(39.8%)	(41.5%)	(20.2%)	(9.0%)	(31.6%)	8.4%
Expenses													
Medical professional and license fees	42,956	49,312	14,761	11,260	8,201	7,575	41,797	10,776	6,987	6,654	6,903	31,320	33,483
% of total revenue	18.0%	16.9%	18.6%	20.8%	21.9%	22.3%	20.4%	22.5%	22.1%	22.3%	22.3%	22.3%	22.0%
Y/Y Chg.	28.2%	14.8%	5.6%	(1.4%)	(33.6%)	(34.6%)	(15.2%)	(27.0%)	(37.9%)	(18.9%)	(8.9%)	(25.1%)	6.9%
Direct costs of services	77,612	97,422	24,726	20,119	17,686	15,504	78,035	17,816	17,269	16,531	16,467	68,083	67,302
% of total revenue	32.5%	33.3%	31.1%	37.1%	47.3%	45.6%	38.0%	37.2%	54.5%	55.4%	53.2%	48.5%	44.2%
Y/Y Chg.	41.2%	25.5%	1.1%	(18.3%)	(24.1%)	(38.0%)	(19.9%)	(27.9%)	(14.2%)	(6.5%)	6.2%	(12.8%)	(1.1%)
Gross Profit	118,357	145,900	40,081	22,802	11,510	10,950	85,344	19,329	7,425	6,654	7,584	40,992	51,412
Gross Margin	49.5%	49.9%	50.4%	42.1%	30.8%	32.2%	41.6%	40.3%	23.4%	22.3%	24.5%	29.2%	33.8%
General & administrative	21,157	22,657	5,372	5,674	4,869	5,125	21,040	4,418	4,452	4,297	4,395	17,562	16,590
% of total revenue	8.9%	7.7%	6.8%	10.5%	13.0%	15.1%	10.3%	9.2%	14.1%	14.4%	14.2%	12.5%	10.9%
Y/Y Chg.	50.9%	7.1%	3.3%	5.3%	5.0%	(31.0%)	(7.1%)	(17.8%)	14.8%	(11.8%)	(14.2%)	(16.5%)	(5.5%)
Marketing & advertising	47,970	66,469	19,984	15,466	8,294	8,685	52,429	13,026	9,485	6,057	6,191	34,759	38,354
% of total revenue	20.1%	22.7%	25.1%	28.5%	22.2%	25.5%	25.6%	27.2%	29.9%	20.3%	20.0%	24.8%	25.2%
Y/Y Chg.	50.8%	38.6%	16.3%	(1.6%)	(51.8%)	(46.9%)	(21.1%)	(34.8%)	(38.7%)	(27.0%)	(28.7%)	(33.7%)	10.3%
Depreciation & amortization	8,451	11,210	4,254	4,612	4,508	4,597	17,971	4,358	3,768	3,982	4,256	16,364	15,716
% of total revenue	3.5%	3.8%	5.3%	8.5%	12.1%	13.5%	8.8%	9.1%	11.9%	13.3%	13.8%	11.7%	10.3%
Y/Y Chg.	10.7%	32.6%	84.6%	84.9%	52.2%	33.2%	60.3%	2.4%	(18.3%)	(11.7%)	(7.4%)	(8.9%)	(4.0%)
Special charges (benefits)	-	-	-	-	-	2,137	2,137	1,706	1,554	-	-	3,260	-
% of total revenue	-	-	-	-	-	-	-	3.6%	4.9%	-	-	-	-
Y/Y Chg.	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	77,578	100,336	29,610	25,752	17,671	20,544	93,577	23,508	19,259	14,336	14,842	71,945	70,659
Income (loss) from operations	40,779	45,564	10,471	(2,950)	(6,161)	(9,594)	(8,233)	(4,179)	(11,834)	(7,682)	(7,259)	(30,953)	(19,247)
Y/Y Chg.	16.7%	11.7%	NM	NM	NM	NM	NM	NM	301.2%	24.7%	NM	276.0%	NM
Operating Margin	17.1%	15.6%	13.2%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Other income (expense):													
Equity in earnings from other businesses	746	814	56	265	132	24	477	27	48	30	25	130	200
Minority equity interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Net interest (expense)	(125)	(205)	-	-	-	-	-	-	-	-	-	-	-
Investment (loss) income	6,386	6,346	736	831	(724)	(2,366)	(1,523)	(177)	633	-	-	456	-
Other income (expense)	(106)	(794)	18	-	-	5	23	2	20	2	2	26	10
Litigation settlement	-	-	-	-	-	-	-	-	-	-	-	-	-
Pretax income (loss) EBT	47,680	51,725	11,281	(1,854)	(6,753)	(11,931)	(9,256)	(4,327)	(11,133)	(7,650)	(7,232)	(30,341)	(19,037)
EBT Margin	20.0%	17.7%	14.2%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Tax provision (benefit)	19,310	19,221	4,405	(1,281)	(2,036)	(3,711)	(2,623)	(1,483)	(4,246)	(2,601)	(2,459)	(10,789)	(7,805)
Implied tax rate	40.5%	37.2%	39.0%	69.1%	30.2%	31.1%	28.3%	34.3%	38.1%	34.0%	34.0%	35.6%	41.0%
GAAP - Net income (loss)	28,370	32,504	6,876	(573)	(4,717)	(8,220)	(6,633)	(2,844)	(6,887)	(5,049)	(4,773)	(19,553)	(11,232)
Y/Y Chg.	23.4%	14.6%	(37.1%)	NM	NM	NM	NM	(141.4%)	NM	7.0%	NM	194.8%	NM
Net Margin	11.9%	11.1%	8.6%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Diluted Shares Outstanding	21,212	19,858	18,587	18,525	18,537	18,587	18,559	18,561	18,590	18,600	18,610	18,590	19,090
GAAP EPS	\$1.34	\$1.64	\$0.37	(\$0.03)	(\$0.25)	(\$0.44)	(\$0.36)	(\$0.15)	(\$0.37)	(\$0.27)	(\$0.26)	(\$1.05)	(\$0.59)
Y/Y Chg.	25.2%	22.4%	(31.5%)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Non-GAAP EPS (including FAS-123R)	\$2.53	\$1.43	\$0.20	(\$0.18)	(\$0.35)	(\$0.49)	(\$0.82)	(\$0.19)	(\$0.39)	(\$0.33)	(\$0.31)	(\$1.23)	(\$0.76)
Y/Y Chg.	136.4%	NM	(72.6%)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM

Non-GAAP Net Income (including FAS-123R) 53,702 28,746 3,805 (3,334) (6,550) (9,084) (15,164) (3,532) (7,203) (6,193) (5,858) (22,786) (14,498)

Source: Company reports and Maxim Group Estimates

DISCLOSURES



Source: Investars.com

Maxim Group LLC Stock Rating System		As of: 7/28/2009	
Expected Performance*		% of Coverage Universe with Rating	% of Ratings that Firm received Banking fees
Buy	Expected total return of 15% or more over next 12 months	54.0%	36.2%
Hold	Expected total return of plus or minus 14% over next 12 months	37.9%	0.0%
Sell	Expected total negative return of at least 15% over next 12 months	8.0%	0.0%

* Relative to Nasdaq Composite.
An Under Review (UR) rating represents a stock that the Firm has temporarily placed under review due to a material change.

Maxim Group makes a market in LCA-Vision Inc.

I, **Anthony Vendetti**, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

I, **Bryan Brokmeier**, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

The research analyst(s) primarily responsible for the preparation of this research report have received compensation based upon various factors, including the firm's total revenues, a portion of which is generated by investment banking activities.

Valuation Methods. One or more of the following valuation methods are used by Maxim Group analysts in making a ratings or price projection: Analysis of companies P/E ratio, price/book ratio, earnings expectations or sales growth as they relate within an industry group or to the broader market, enterprise value/sales, Individual sector analysis, sum of the parts analysis and discounted cash flow.

Price Target Risks. Investment risks associated with the achievement of the price target include, but are not limited to, the company's failure to achieve our earnings and revenue estimates, unforeseen macroeconomic and/or industry events that adversely impact demand for the company's products and services, product obsolescence, the company's ability to recruit and retain competent personnel, changes in investor sentiment regarding the specific company or industry, changing competitive pressures, and adverse market conditions. For a complete discussion of the risk factors that could affect the market price of the company's shares, refer to the most recent form 10-Q or 10-K that the company has filed with the SEC.

Investment Risks. Aside from general market and other economic risks, key company-specific risks particular to our rating for LCAV include: 1) If LCAV begins to lose market share the company may lower its prices in order to remain competitive. 2) Competition from other companies and independent physicians. 3) Any long-term complications or side effects of laser vision correction surgery may negatively affect market acceptance of laser vision correction.

RISK RATINGS

Risk ratings take into account both fundamental criteria and price volatility.

Speculative –

Fundamental Criteria: This is a risk rating assigned to early-stage companies with minimal to no revenues, lack of earnings, balance sheet concerns, and/or a short operating history. Accordingly, fundamental risk is expected to be significantly above the industry.

Price Volatility: Because of the inherent fundamental criteria of the companies falling within this risk category, the price volatility is expected to be significant with the possibility that the investment could eventually be worthless.

Speculative stocks may not be suitable for a significant class of individual investors.

High –

Fundamental Criteria: This is a risk rating assigned to companies having below-average revenue and earnings visibility, negative cash flow, and low market cap or public float. Accordingly, fundamental risk is expected to be above the industry.

Price volatility: The price volatility of companies falling within this category is expected to be above the industry.

High-risk stocks may not be suitable for a significant class of individual investors.

Medium –

Fundamental Criteria: This is a risk rating assigned to companies that may have average revenue and earnings visibility, positive cash flow, and is fairly liquid.

Accordingly, both price volatility and fundamental risk are expected to approximate the industry average.

Low –

Fundamental Criteria: This is a risk rating assigned to companies that may have above-average revenue and earnings visibility, positive cash flow, and is fairly liquid.

Accordingly, both price volatility and fundamental risk are expected to be below the industry.

DISCLAIMERS

Some companies that Maxim Group LLC follows are emerging growth companies whose securities typically involve a higher degree of risk and more volatility than the securities of more established companies. The securities discussed in Maxim Group LLC research reports may not be suitable for some investors. Investors must make their own determination as to the appropriateness of an investment in any securities referred to herein, based on their specific investment objectives, financial status and risk tolerance.

This communication is neither an offer to sell nor a solicitation of an offer to buy any securities mentioned herein. This publication is confidential for the information of the addressee only and may not be reproduced in whole or in part; copies circulated, or disclosed to another party, without the prior written consent of Maxim Group, LLC (“Maxim”).

Information and opinions presented in this report have been obtained or derived from sources believed by Maxim to be reliable, but Maxim makes no representation as to their accuracy or completeness. Maxim accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to Maxim. This report is not to be relied upon in substitution for the exercise of independent judgment. Maxim may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and Maxim is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Maxim and are subject to change without notice. The price, value of and income from any of the securities mentioned in this report can fall as well as rise. The value of securities is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Securities recommended, offered or sold by Maxim: (1) are not insured by the Federal Deposit Insurance Company; (2) are not deposits or other obligations of any insured depository institution; and (2) are subject to investment risks, including the possible loss of principal invested. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; you may be required to pay more money to support these losses.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST
