TLC VISION CORPORATION

2005 Annual Report
and Form 10-K

Introduction	1
Industry	2
Refractive	4
Cataract	6
At a Glance	8
Financial Overview	9
Letter to Shareholders	10
Board of Directors	12
Form 10-K	13
Shareholder Information	IBC

Financial Highlights

(in millions, except per share and volume amounts)

Year ended December 31	2004	**2005**	Increase/ (Decrease)
Consolidated Results as Reported:			
Total Revenue	$ 247.2	**$ 260.0**	5 %
Pre-Tax Income	$ 44.3	**$ 14.8**	(67) %
Earnings Per Share, Pre-Tax (Fully Diluted)	$ 0.62	**$ 0.21**	(66) %
Operating Cash Flow Per Share	$ 0.50	**$ 0.32**	(36) %
Operating Results Before AMD Business ("Operating Business"):*			
Total Revenue	$ 246.4	**$ 258.2**	5 %
Pre-Tax Income	$ 21.1	**$ 22.6**	7 %
Earnings Per Share, Pre-Tax (Fully Diluted)	$ 0.30	**$ 0.32**	7 %
Operating Cash Flow Per Share	$ 0.49	**$ 0.58**	18 %
Fully Diluted Shares Outstanding	71,088	**71,380**	

TLC*Vision*® is North America's premier eye care services company, providing eye doctors with the technology and services needed to deliver high-quality eye care. With a network of 13,700 doctor relationships, we maintain leading positions in the Refractive, Cataract and Optometric Services markets.

*We also participate in an emerging eye care market, Dry AMD (Age-Related Macular Degeneration), with a significant ownership position in OccuLogix, Inc.™ (NASDAQ: RHEO and TSX: RHE).

The Company's common shares trade on the NASDAQ National Market under the symbol "TLCV" and on the Toronto Stock Exchange under the symbol "TLC."

SEE

It's easy to see why TLC*Vision*® is the number one services provider in several large eye care markets. A closer look reveals a diversified Company, with a history of solid execution and strategies in place to deliver long-term shareholder value.

At TLC*Vision*, we see growth opportunities across the eye care industry. With over 13,700 doctor relationships, we're positioned to take advantage of this industry growth – and we have the numbers to prove it.

#1 refractive surgery services provider

Refractive surgery is the world's most frequently performed elective procedure, yet in the United States this $2.3 billion market has only 8% penetration. Our refractive business is TLC*Vision*'s largest segment, contributing 72% of total revenues. We're expanding this business to leverage opportunities in a market in which 1.4 million procedures were performed last year.

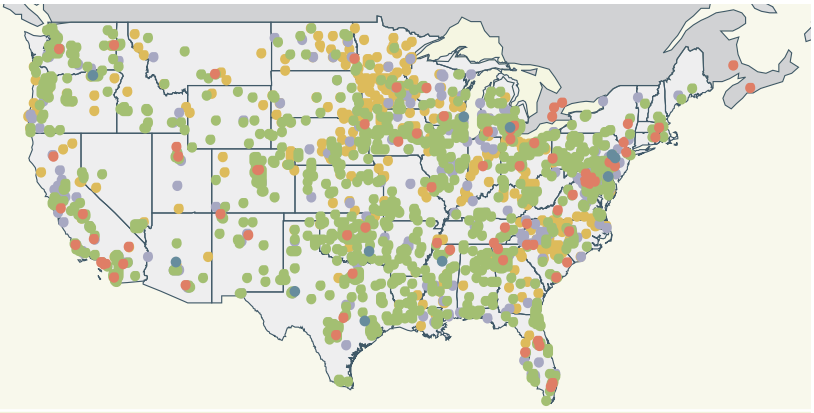
#1 cataract outsource provider:

Our cataract surgery outsource business has grown at a compound rate of 23% over the last five years. This business, combined with our expanding ambulatory surgery center operations, is prepared to meet the increased needs of the aging population. Cataract surgery has long been the most frequently performed non-elective surgical procedure in the United States, with more than 2.8 million Americans having the surgery each year.

#1 private practice optometric service network:

Through **Vision Source!**®, we're serving over 2,000 eye doctors – the nation's largest private practice network – providing them with optical products and services to increase the success of their practices. This business has realized compound growth of 30% over the last two years.

Clearly, TLC*Vision* has become North America's premier eye care services provider.



Refractive	Sites	Other Healthcare Services	Sites
Corporate Centers	83	Ambulatory Surgery Centers	11
Access	320	Cataract Outsource	563
		Optometric Service Network	1,356

EYE CARE IS A $40 billion INDUSTRY –

By year-end 2005, 70% of adult Americans – 155.7 million people – were wearing some form of vision correction.

AND growing.

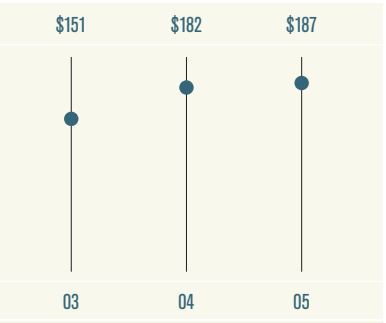
55 million people

ARE CANDIDATES FOR REFRACTIVE SURGERY.

A pioneer in refractive surgery for the past 10 years, TLC*Vision* has performed over 1.5 million procedures – more than any other provider. We see continued opportunity to capitalize on this growing market with our three refractive business models.

Through our Company owned and operated **TLC Laser Eye Centers®**, we have historically targeted patients in the premium-priced segment of the market. We work closely with local optometrists to educate these patients who are medically oriented and prefer a premier surgeon when choosing a provider. We are continuing to invest in same-store growth initiatives across these centers.

Our **Laser*Vision*®** business offers surgeons access to technology and support services in their own practices. The model represents the combination of our transportable and fixed site operations. Overall, **Laser*Vision*** continues to be a solid contributor to the refractive business.



Refractive Revenue Growth
(dollars in millions)

TLC*Vision* is the only company offering multiple refractive service options:

- 73 profitable, premium-priced TLC Laser Eye Centers® – reaching 52% of the population
- 15 value-priced centers planned for 2006, including 10 LASIK Select Centers℠
- 650+ independent surgeons at 300+ mobile and fixed sites accessing technology through Laser*Vision*®

Today, our own extensive research has shown that the value-priced segment of the market has emerged as the largest and fastest-growing. Its patients are more price-sensitive, driven by consumer advertising and attracted by aggressive financing programs. In response to this changing refractive patient trend, TLC*Vision* announced a refractive expansion strategy in late 2005 and introduced our new brand, **LASIK Select℠**, to appeal to these consumers. We plan to have 15 value-priced centers open by the end of 2006 and will continue to expand this brand in 2007 and beyond.

As part of this new strategy, we acquired **TruVision™**, a leading managed care contractor for elective health care services. In 2005, **TruVision** referred over 20,000 LASIK procedures. We expect this business to serve as a patient acquisition channel for our new **LASIK Select** branded centers, as well as provide procedure volume across all of our refractive business models.

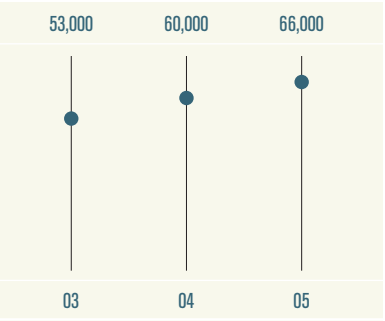
3,900 surgeons in the United States performed refractive surgery in 2005 – and TLC*Vision* worked with more than 1,200, or over 25%. During the same year, TLC*Vision* performed its 1.5 millionth laser vision correction procedure.

Despite the availability of an effective surgical treatment, cataracts are the leading cause of blindness in the world. As the population ages, the prevalence of cataracts is expected to increase. At TLC*Vision*, we view this trend as an opportunity to grow our cataract business both organically and through acquisitions – providing a stable revenue stream and a solid balance to our highly profitable refractive business.

TLC*Vision* has been steadily growing its share of the cataract surgery business, and this segment now represents 20% of total annual revenues. We are approaching this market in two ways – by offering technology outsourcing services and through partnerships with physicians in opening and operating ambulatory surgery centers (ASCs).

Our **MSS℠ Surgical and Diagnostic Services** subsidiary delivers cataract surgery equipment, supplies and technicians to rural areas of the country. **MSS** works with the local eye doctors and hospitals, and surgeons who travel to these locations. For rural patients, **MSS** offers the benefit of being able to have their cataract surgery done close to home. For TLC*Vision*, **MSS** is a growing, highly profitable operation that now covers 45 states. **MSS** has also begun to offer glaucoma screening, expanding our Company's portfolio of services for older patients.

Our **ASC** division enables high-volume eye surgeons to perform surgery in their own facilities. Our partnerships allow these physicians to concentrate on providing the best treatment to cataract patients, while we provide operating and market development expertise for the centers. We exited 2005 with ownership interest in eight **ASC**s with three additional centers under development.



Cataract Procedures

TLC*Vision*'s cataract surgery operations represent:

- 20% of 2005 revenues
- 66,000 procedures in 2005
- 26% 5-year CAGR

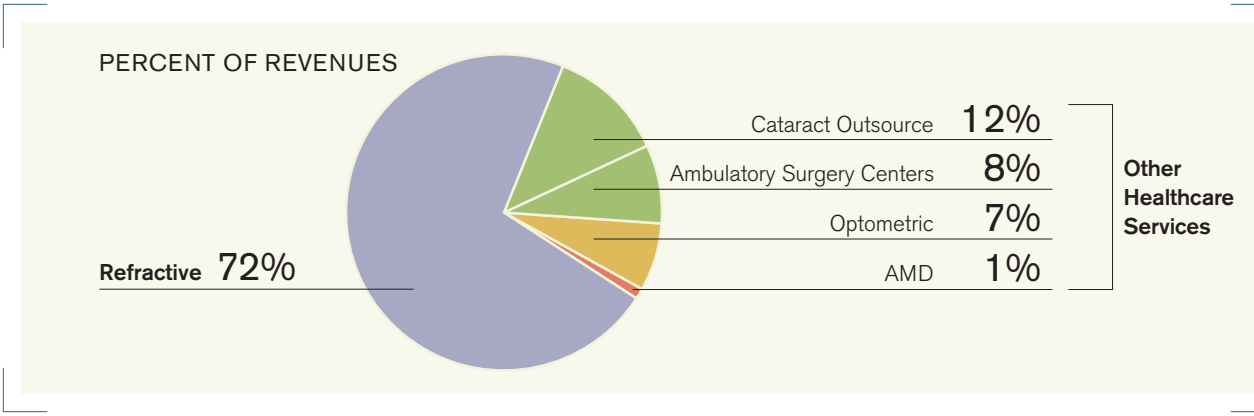
MORE THAN 50% OF THE U.S. POPULATION

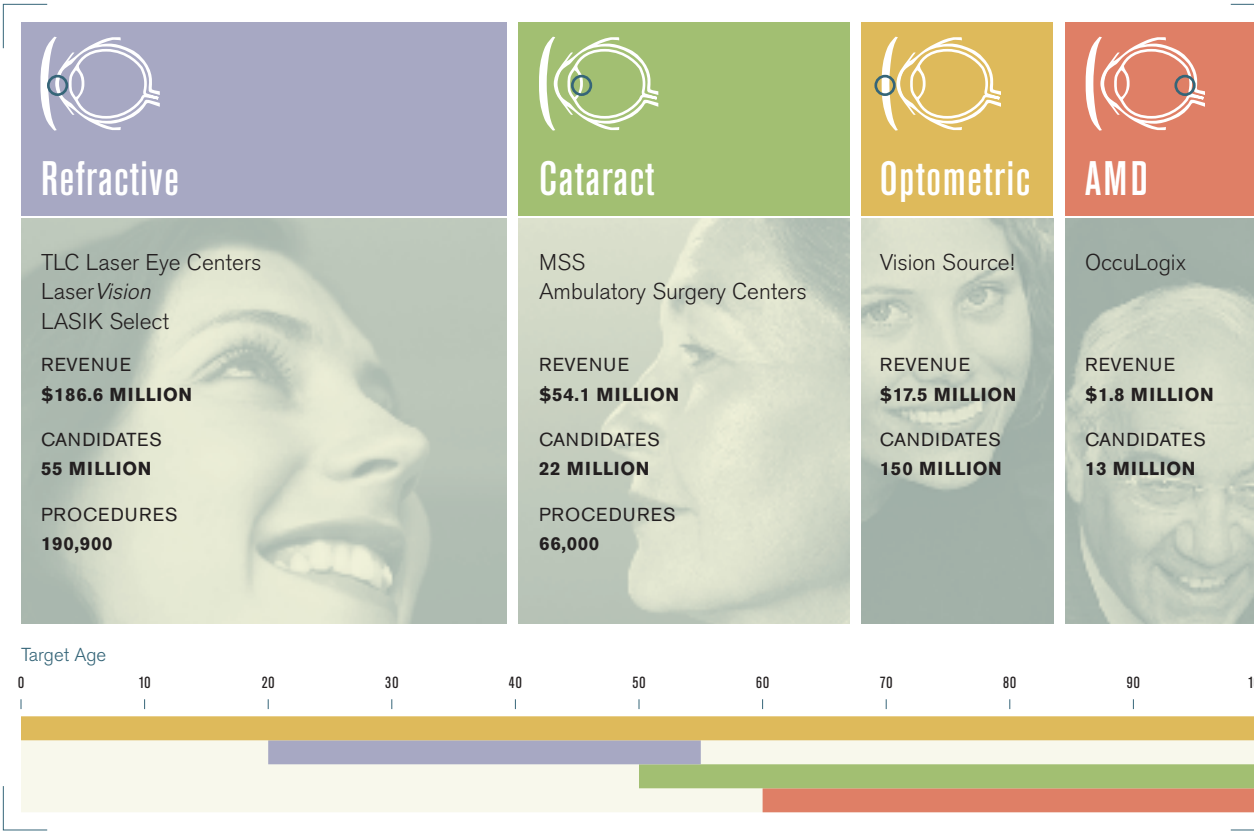
More than $3.4 billion is spent each year treating cataracts through the Medicare program. 60% of all cataract surgeries are performed in ambulatory surgery centers.

WILL DEVELOP A CATARACT
by age 80.

AT A GLANCE

TLC*Vision*® is North America's premier eye care services company, providing eye doctors with the tools and technologies needed to deliver high-quality patient care. Through its centers management and technology access service models, TLC*Vision* maintains leading positions in Refractive, Cataract and Optometric Services markets. The key drivers of TLC*Vision*'s strategy are its affiliated network of thousands of eye doctors, proven corporate and consumer marketing and education programs, and access to state-of-the-art clinical technologies. The Company is supported by a strong operations management culture and superior information technology.

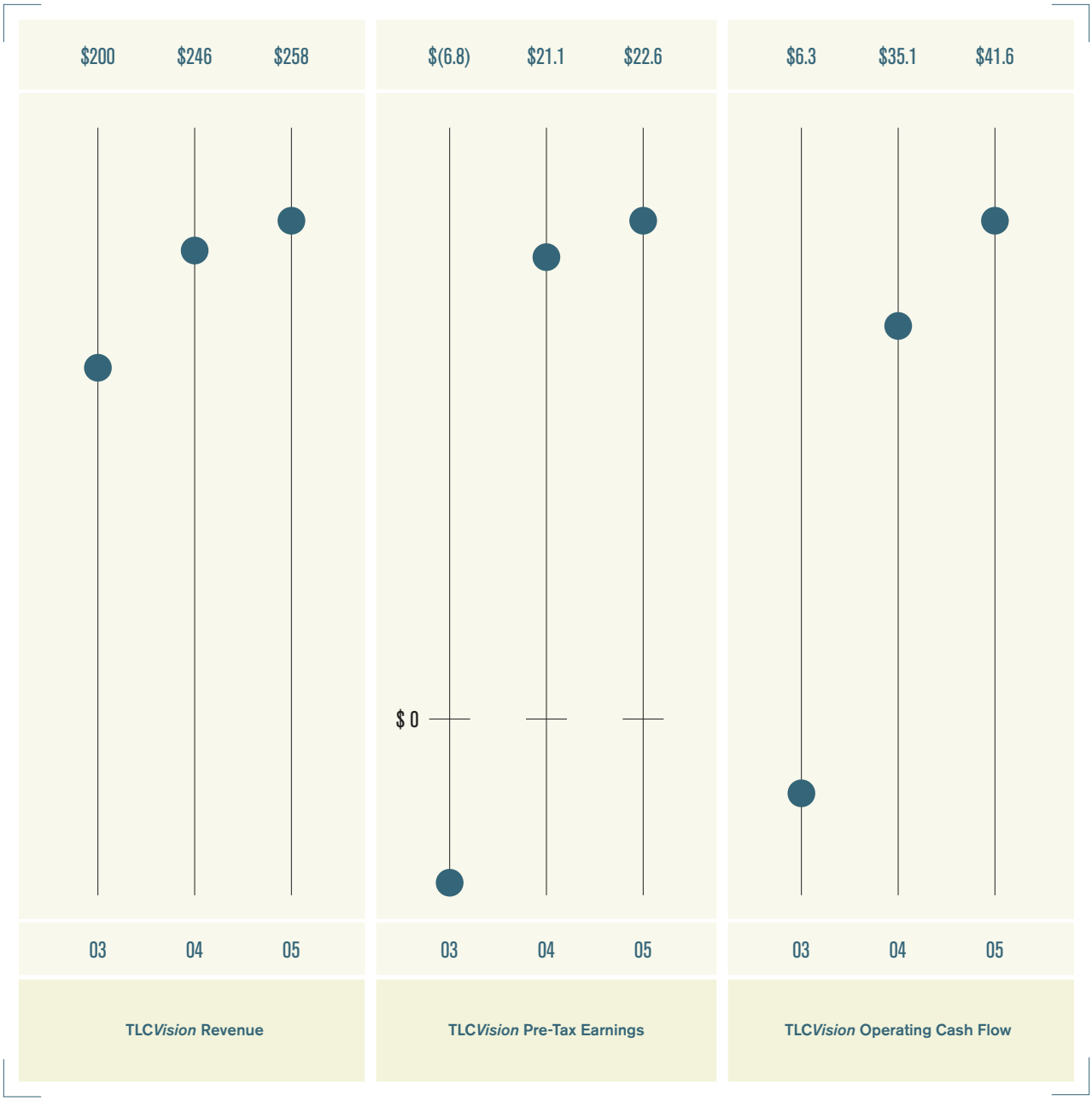




FINANCIAL OVERVIEW

OPERATING BUSINESS RESULTS

(dollars in millions)



DEAR SHAREHOLDERS:

Shareholders often tell me that when they look at TLC*Vision*, they see a Company with a lot of moving parts. We're proud of that. Our strategy, quite frankly, is to create those moving parts around the eye care industry ... an industry filled with opportunities for a focused service provider like TLC*Vision*.

Over the past 10 years we have developed solid, trusting relationships with over 1,200 ophthalmologists and 12,500 optometrists who manage the delivery of eye care in the United States and Canada. These relationships are the cornerstone of our strategy to provide centers management and technology access services to these eye doctors, helping them deliver more efficient, cost-effective care. TLC*Vision* will continually seek to maximize shareholder value by capitalizing on these relationships and competencies.

In 2005, we continued to execute on this strategy through investment in our core refractive business while driving more diversification in other eye care services. The Operating Business of TLC*Vision* delivered $258 million in revenue and $22.6 million in pre-tax income, or $0.32 per share. This represented earnings growth of 7% despite a slowdown in the refractive industry, which drives the majority of our overall profitability. While we performed over 190,000 refractive surgeries, more than any single provider, our premium-priced centers segment showed little procedure volume growth. Just as all of the 73 premium centers across the U.S. and Canada were profitable, it became clear, from extensive Company and industry market research, that the refractive patient was changing and two distinct patient segments had emerged.

The value-priced segment has become the largest and fastest-growing segment, comprising a consumer who is much more price-sensitive and primarily driven to decision-making through consumer advertising. In contrast, our centers have historically served the premium-priced segment by appealing to their preference for a premier surgeon and the involvement of their family eye doctor. In order to realize the levels of growth we and our shareholders expect from the Company, we needed to maintain our profitable, premium business but capitalize on the opportunity in the value-priced segment as well.

From left to right:
James C. Wachtman, President and Chief Executive Officer
Brian L. Andrew, General Counsel and Secretary
Steven P. Rasche, Chief Financial Officer and Treasurer

We responded quickly to these trends with a major strategic decision. In 2005, TLC*Vision* announced a strategy to broaden our reach to a different patient segment, while continuing to realize the strong earnings and cash flow contribution from our existing TLC Laser Eye Centers.

This strategy includes a new centers brand, LASIK Select, focused on the value-priced segment. In addition, we acquired TruVision, a discount contractor of eye care services to managed care plans. Our goal is to use LASIK Select as our primary expansion strategy, adding 15 new value-priced centers by the end of 2006 and continue to expand this brand moving forward, while leveraging the TruVision relationship which covers 37 health plans and over 80 million lives. The LASIK Select brand and the TruVision acquisition will complement our already strong offering, and are expected to deliver both revenue and earnings growth for the Company.

Meanwhile, our Other Healthcare Services, excluding the AMD segment, continued to perform extremely well, posting 12% growth in revenue and 17% growth in pre-tax earnings. These businesses are driven by third-party reimbursement and are less sensitive to economic conditions, providing a relatively stable revenue and earnings stream. They also complement our refractive business, which is largely an out-of-pocket, non-reimbursed expenditure.

TLC*Vision* grew its cataract business by 14% in 2005, performing over 66,000 surgeries. MSS, our outsourced cataract services provider, grew 13% through the addition of new customers and services and integrating several small acquisitions. We also added investments in four new ambulatory surgery centers plus two development deals for centers to be opened in 2006. Through additional acquisitions, new customers and organic growth, we expect our cataract business to continue providing solid returns to the Company.

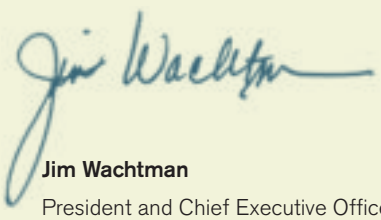
Our Vision Source! subsidiary, which focuses on franchising independent Optometric practices, added an additional 181 practices in 2005, bringing their total to 1,356 practices across 50 states. Vision Source! has grown revenues at 30% over the past two years and has an excellent growth strategy focused on adding new practices and expanding existing services to their network.

We continue to maintain an investment in OccuLogix, Inc.™, which is pursuing FDA approval for its revolutionary RHEO™ treatment for the dry form of AMD. While it appears that additional trials may be required to achieve this goal, OccuLogix has taken steps to diversify the company through related eye disease products.

TLC*Vision* will continue to be a company of many moving parts. And our goal is clear: To deliver sustained top- and bottom-line growth for our shareholders through a diversified eye care services strategy. Our 2005 investments and actions were designed to expand TLC*Vision* as well as the quality and growth of its earnings. Looking ahead, with a strong balance sheet and solid cash generation to fund our growth, we're well-positioned to take advantage of emerging trends and the increased demand for our services.

As a service-driven business, we clearly understand the importance of high service levels in delivering growth. Our over 1,000 employees continue to provide the outstanding levels of doctor and patient service for which our Company has become recognized. We are grateful for their incredible passion and commitment, and confident that this professional team will lead us toward achieving our goals. We are also fortunate for the guidance we receive from our very active Board of Directors and thank them for their dedication to the growth and success of TLC*Vision*.

Finally, I want to thank you – our shareholders – for your continued support. I assure you that we remain clearly focused on delivering the levels of revenue and earnings growth that our management, Board and shareholders expect from a company like TLC*Vision*.



Jim Wachtman
President and Chief Executive Officer

BOARD OF DIRECTORS

From left to right: Toby Wilt, Richard Lindstrom, Thomas Davidson, Elias Vamvakas, Michael DePaolis, James Wachtman, Warren Rustand

Elias Vamvakas

Chairman of the Board,
TLC Vision Corporation

Mr. Vamvakas co-founded TLC Vision Corporation and has served as chairman since 1994 and as chief executive officer from 1994 until 2004. He is also the chairman and chief executive officer of OccuLogix, Inc., an ophthalmic therapeutic company founded to commercialize innovative evidence-based treatments for eye diseases. (Director since 1994.)

Thomas N. Davidson

Chairman, NuTech Precision Metals Inc.
Chairman, Quarry Hill Group

Mr. Davidson is chairman of NuTech Precision Metals Inc., a manufacturer of high-performance metal fabrications, and of Quarry Hill Group, a private investment holding company. He is a director of MDC Partners, Azure Dynamics. (Director since 2000.)

Michael D. DePaolis, O.D.

Co-founder and Member,
DePaolis and Ryan, O.D., PC

Dr. DePaolis is a Fellow of the American Academy of Optometry and has been the Chief Optometric Editor of *Primary Care Optometry News* since 1995. He is an Adjunct Clinical Professor of Optometry at the Pennsylvania College of Optometry and is a Clinical Associate in the Department of Ophthalmology at the University of Rochester School of Medicine. (Director since 2005.)

Richard L. Lindstrom, M.D.

Medical Director, TLC Vision Corporation
Medical Director, MSS, Inc.

Dr. Lindstrom is medical director of TLC Vision Corporation and its MSS subsidiary. He is founder of Minnesota Eye Consultants and an attending surgeon at the Phillips Eye Institute and Minnesota Eye and Laser Surgery Center in Minneapolis. (Director since 2002.)

Warren S. Rustand

Managing Partner, SC Capital Partners
Partner, Harlingwood Equity Partners

Mr. Rustand is a managing partner of SC Capital Partners, an investment banking firm, and a partner with Harlingwood Equity Partners, a private equity fund focused on leveraged build-ups and consolidations. He formerly served as chairman and/or chief executive officer of seven publicly traded or private companies, and has served on the boards of over 40 public, private and non-profit organizations. (Director since 1997.)

James C. Wachtman

President and Chief Executive Officer,
TLC Vision Corporation

Mr. Wachtman has served as president and chief executive officer of TLC Vision Corporation since 2004. He formerly served as president and chief operating officer of Laser Vision Centers, Inc. and, with the merger of the two companies in 2002, was named president and chief operating officer of TLC*Vision*. (Director since 2004.)

Toby S. Wilt

Chairman, Christie Cookie Company

Mr. Wilt is chairman of Christie Cookie Company, a privately held manufacturer of baked food products. He is also president of TSW Investment Company, a private investment firm. He is currently a director of Outback Steakhouse, Inc. and 1st Source Corporation. (Director since 2004.)

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

FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2005

COMMISSION FILE NUMBER: 0-29302

TLC VISION CORPORATION
(Exact name of registrant as specified in its charter)

NEW BRUNSWICK, CANADA (State or jurisdiction of incorporation or organization)	980151150 (I.R.S. Employer Identification No.)
5280 SOLAR DRIVE, SUITE 300 MISSISSAUGA, ONTARIO (Address of principal executive offices)	L4W 5M8 (Zip Code)
Registrant's telephone, including area code:	(905) 602-2020

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Shares, No Par Value, with common share purchase rights

NAME OF EACH EXCHANGE ON WHICH REGISTERED:

Nasdaq National Market
Toronto Stock Exchange

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [X] No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. [ ] Yes [X] No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b(2) of the Exchange Act.
[ ] Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b(2) of the Exchange Act). [ ] Yes [X] No

As of June 30, 2005, the aggregate market value of the registrant's Common Shares held by non-affiliates of the registrant was approximately $548.5 million.

As of March 10, 2006, there were 68,766,000 shares of the registrant's Common Shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Definitive Proxy Statement for the Company's 2006 annual shareholders meeting (incorporated in Part III to the extent provided in Items 10, 11, 12 and 13).

This Annual Report on Form 10-K (herein, together with all amendments, exhibits and schedules hereto, referred to as the "Form 10-K") contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which statements may be identified by the use of forward looking terminology, such as "may", "will", "expect", "anticipate", "estimate", "plans" or "continue" or the negative thereof or other variations thereon or comparable terminology referring to future events or results. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth elsewhere in this Form 10-K. See "Item 1A. Risk Factors" for cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from results referred to in forward-looking statements. The Company operates in a continually changing business environment and new factors emerge from time to time. The Company cannot predict such factors nor can it assess the impact, if any, of such factors on its financial position or results of operations. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results. The Company disclaims any responsibility to update any forward-looking statement provided in the Form 10-K. Unless the context indicates or requires otherwise, references in this Form 10-K to “we,” “our,” “us,” the "Company" or "TLC*Vision*" shall mean TLC Vision Corporation and its subsidiaries. References to "$" or "dollars" shall mean U.S. dollars unless otherwise indicated. References to "C$" shall mean Canadian dollars. References to the "Commission" shall mean the U.S. Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS

OVERVIEW

TLC Vision Corporation is a diversified eye care services company dedicated to improving lives through better vision by providing eye doctors with the tools and technologies they need to deliver high quality patient care. The majority of the Company's revenues come from laser refractive surgery, which involves using an excimer laser to treat common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company's business models include arrangements ranging from owning and operating fixed site centers to providing access to lasers through fixed site and mobile service relationships. In addition to refractive surgery, the Company is diversified into other eye care businesses. Through its MSS, Inc. (formerly Midwest Surgical Services, Inc.) ("MSS") subsidiary, the Company furnishes hospitals and other facilities with mobile or fixed site access to cataract surgery equipment, supplies and technicians. The Company is continuing to expand MSS into other mobile diagnostic services, such as glaucoma screening. Through its ambulatory surgery center (“ASC”) subsidiaries, TLC*Vision* develops, manages and has equity participation in single- and multi-specialty ASCs. The Company also owns a 51% majority interest in Vision Source, which provides franchise opportunities to independent optometrists. In addition, the Company is a 51% majority owner of OccuLogix, Inc. (“OccuLogix”), which focuses on the treatment of a specific eye disease known as dry age-related macular degeneration, via rheopheresis, a process for filtering blood. OccuLogix is also a reporting company with the Commission, and its stock is publicly traded on the Nasdaq National Market and the Toronto Stock Exchange.

The Company focuses on three main strategic initiatives: (1) continue to grow its core refractive business through same store growth in premium-priced centers, successful roll-out of the Company’s recently introduced value-priced strategy and successful integration of acquisitions, while maintaining its access base; (2) grow its other health care services MSS, ASCs and Vision Source; and (3) expand into new eye care segments. Financial information about the Company’s business segments is contained in Note 17 “Segment Information” to the consolidated financial statements.

REFRACTIVE DISORDERS

The eye is a complex organ composed of many parts, and normal vision requires these parts to work well together. When a person looks at an object, light rays are reflected from the object to the cornea. In response, the cornea and lens refract and focus the light rays directly on the retina. At the retina, the light rays are converted to electrical impulses that are transmitted through the optic nerve to the brain, where the image is translated and perceived.

Any deviation from normal vision is called a refractive error. Myopia, hyperopia, astigmatism and presbyopia are different types of refractive errors.

- Myopia (nearsightedness) means the eye is longer than normal resulting in difficulty seeing distant objects as clearly as near objects.
- Hyperopia (farsightedness) means the eye is shorter than normal resulting in difficulty seeing near objects as clearly as distant objects.
- Astigmatism means the cornea is oval-shaped resulting in blurred vision.

- Presbyopia is the loss of lens and eye muscle flexibility due to the natural aging process, causing difficulty in focusing on near objects and usually corrected by reading glasses. Because vision correction surgery cannot reverse the aging process, presbyopia cannot be corrected surgically. However, there are surgical and non-surgical techniques available that can effectively manage presbyopia.

TREATMENT FOR REFRACTIVE DISORDERS

Eyeglasses. Eyeglasses remain the most common method of correcting refractive errors because they are safe and relatively inexpensive. Eyeglasses correct nearsightedness and farsightedness by using appropriate lenses to diverge or converge light rays and focus them directly on the retina. The drawbacks of eyeglasses are possible dissatisfaction with personal appearance, inability to participate in certain sports or work activities and possible distortion in visual images when eyeglasses are used to correct large refractive errors.

Contact Lenses. Contact lenses correct nearsightedness, farsightedness and astigmatism similarly to eyeglasses. If fitted and used as directed, contact lenses are an effective and safe way to correct refractive errors. However, daily use of contact lenses can result in the increased risk of corneal infections, hypersensitivity reactions and other problems.

Surgical Procedures. Vision correction surgery is an elective procedure available that alters the way light rays are focused directly on the retina, thus eliminating or dramatically reducing the need for eyeglasses or contact lenses. Several types of vision correction surgery are available, and prospective patients are encouraged to carefully consider the alternatives, the associated benefits and risks of each procedure, and seek the advice of their eye care professional. Vision correction surgeries available at TLC*Vision* include:

- LASIK (Laser In Situ Keratomileusis). LASIK corrects nearsightedness, farsightedness and astigmatism by using an excimer laser to reshape the cornea. Because LASIK creates a corneal flap to reshape the cornea and does not disrupt the front surface of the cornea, it generally is less painful, has a quicker recovery period and shorter post-operative need for steroid eye drops than other surgical procedures. LASIK is currently the most common vision correction surgery and may be the treatment of choice for patients desiring a more rapid visual recovery.

- CustomLASIK. Widely introduced in 2003, CustomLASIK is a technologically supported advancement to LASIK. CustomLASIK involves increased pre-operative diagnostic capabilities that measure the eye from front to back using "wavefront" technology to create a three dimensional corneal map. The information from that map guides the laser in customizing the laser ablation to an individual's visual irregularities, beyond myopia, hyperopia and astimgatism. CustomLASIK using wavefront technology has the potential to improve not only how much a person can see, in terms of visual acuity measured by the standard 20/20 eye chart, but also how well an individual can see in terms of contrast sensitivity and fine detail. This translates to a reduced occurrence of night vision disturbances post-LASIK.

- PRK (Photorefractive Keratectomy). PRK corrects nearsightedness, farsightedness and astigmatism by using an excimer laser to reshape the cornea without making a flap. PRK removes the protective surface layer of the cornea to reshape the cornea. The risk of pain, infection and corneal scarring is higher with PRK than with LASIK; however, the intra-operative risks are lessened with PRK because no corneal flap is created.

- LASEK (Laser Assisted Sub-Epithelial Keratectomy). LASEK corrects nearsightedness, farsightedness and astigmatism by using an excimer laser to reshape the cornea. Unlike LASIK that creates a corneal flap, LASEK loosens and folds the protective outer layer of the cornea (the epithelium) during the procedure and, as a result, combines the advantages of LASIK with the safety of PRK. The risk of pain, infection and corneal scarring is higher with LASEK than with LASIK; however, the intra-operative risks are lessened with LASEK because the flap which is created is only in the epithelium. The United States Food and Drug Administration has not yet approved use of the excimer laser for LASEK.

- AK (Astigmatic Keratotomy). AK corrects astigmatism by making microscopic incisions in the cornea to relax and change the shape of the cornea.

- INTACS. INTACS corrects very low levels of nearsightedness (–1.00 diopters to –3.00 diopters) by implanting rings in the cornea to reshape it rather than surgically altering the cornea. INTACS may also be used to correct irregularities in the shape of the cornea.

- CK (Conductive Keratoplasty). For patients age 40 and older, CK is designed for the temporary reduction of farsightedness (+.75 to +3.25 diopters) and uses radio frequency instead of a laser to reshape the cornea.

- PTK (Phototherapeutic Keratectomy). PTK treats abrasions, scars or other abnormalities of the cornea caused by injury or surgery. PTK uses an excimer laser to remove superficial opacities and irregularities of the cornea to improve vision or reduce symptoms of pain or discomfort due to an underlying eye condition.

- Refractive IOL Procedures. Intraocular lenses (IOL's) are permanent or semi-permanent, artificial lenses that are implanted to replace or supplement the eye's natural crystalline lens. While not a common procedure for correcting refractive errors, the placement of a refractive IOL can help patients who are not candidates for LASIK. IOL's have been used in the United States since the late 1960's to restore visual function to cataract patients, and more recently are being used in refractive surgery procedures. There are several types of refractive IOL's: phakic IOL's, multi-focal IOL's and accommodating IOL's. Patient suitability and quality of visual outcome for each of these lens options varies.

LASER CORRECTION PROCEDURES

Excimer laser technology was developed by International Business Machines Corporation in 1976 and has been used in the computer industry for many years to etch sophisticated computer chips. Excimer lasers have the desirable qualities of producing very precise ablation (removal of tissue) without affecting the area outside of the target zone. In 1981, it was shown that the excimer laser could ablate corneal tissue. Each pulse of the excimer laser can remove 0.25 microns of tissue in 12 billionths of a second. The first laser experiment on human eyes was performed in 1985 and the first human eye was treated with the excimer laser in the United States in 1988.

Excimer laser procedures are designed to reshape the outer layers of the cornea to treat vision disorders by changing the curvature of the cornea. Prior to the procedure being performed, the doctor develops a treatment plan taking into consideration the exact correction required utilizing the results of each individual patient's eye examination and diagnostic tests performed, such as topography and wavefront analysis. The treatment plan is entered into the laser and the software of the excimer laser then calculates the optimal number of pulses needed to achieve the intended corneal correction using a specially developed algorithm. These procedures are performed on an outpatient basis using only topical anesthetic eye drops that promote patient comfort during the procedure. Patients are reclined in a chair, an eyelid holder is inserted to prevent blinking, and the surgeon positions the patient in direct alignment with the fixation target of the excimer laser. A thin flap of the outermost layer of the cornea is then cut using either a microkeratome blade or a femtosecond laser. The surgeon uses a foot switch to apply the excimer beam that emits a rapid succession of excimer laser pulses, and once complete, the flap is returned to its original position. The typical procedure takes 10 to 15 minutes from set-up to completion, with the length of time of the actual excimer laser treatment lasting between 15 to 90 seconds, depending on the amount of correction required.

In order to market an excimer laser for commercial sale in the United States, the manufacturer must obtain pre-market approval ("PMA") from the United States Food and Drug Administration ("FDA"). An FDA PMA is specific for each laser manufacturer and model and sets out a range of approved indications. However, the FDA is not authorized to regulate the practice of medicine. Therefore, in the same way that doctors often prescribe drugs for "off-label" uses (i.e., uses for which the FDA did not originally approve the drug), a doctor may use a device such as the excimer laser for a procedure or an indication not specifically approved by the FDA, if that doctor determines that it is in the best interest of the patient. The initial FDA PMA approval for the sale of an excimer laser for refractive procedures was granted in 1995 for the laser of Summit Technologies, Inc. (now Alcon Laboratories, Inc., a division of Nestle, S.A.). That first approval was for the treatment of myopia. To date, the FDA has approved for sale excimer lasers from approximately seven different manufacturers for LASIK and from approximately eight different manufacturers for PRK, including VISX, Inc. ("VISX") the market leader and the provider of most of the Company's excimer lasers. In Canada and Europe, the use of excimer lasers to perform refractive surgery is not currently subject to regulatory approval, and excimer lasers have been used to treat myopia since 1990 and to treat hyperopia since 1996. The Health Protection Branch of Health Canada regulates the sale of devices, including excimer lasers used to perform procedures at the Company's Canadian eye care centers.

THE REFRACTIVE MARKET

While estimates of market size should not be taken as projections of revenues or of the Company's ability to penetrate that market, Market Scope's November 2005 Comprehensive Report on the Refractive Market estimates that the 2006 U.S. refractive market potential is 107.1 million eyes. To date, based on Market Scope's estimate of the number of people who have had procedures, only an estimated 8% of this target population has had laser vision correction.

Estimates by Market Scope indicate that 1.1 million laser vision correction procedures were performed in the U.S. in 2003, 1.3 million were performed in 2004 and 2005, and an estimated 1.4 million will be performed in 2006. The Company believes that the profitability and growth of its refractive business will depend upon continued increasing acceptance of laser vision correction in the United States and, to a lesser extent, Canada, and upon consumer confidence and the condition of the U.S. economy.

There can be no assurance that laser vision correction will be more widely accepted by eye care doctors or the general population as an alternative to existing methods of treating refractive disorders. The acceptance of laser vision correction may be affected adversely by its cost (particularly since laser vision correction is typically not covered fully or at all by government insurers or other third party payors and, therefore, must be paid for primarily by the individual receiving treatment), concerns relating to its safety and effectiveness, general resistance to surgery, the effectiveness of alternative methods of correcting refractive vision disorders, the lack of long-term follow-up data and the possibility of unknown side effects. There can be no assurance that long-term follow-up data will not reveal complications that may have a material adverse effect on the acceptance of laser vision correction. Many consumers may choose not to have laser vision correction due to the availability and promotion of effective and less expensive non-surgical methods for vision correction. Any future reported adverse events or other unfavorable publicity involving patient outcomes from laser vision correction procedures also could adversely affect its acceptance whether or not the procedures are performed at TLC*Vision* eye care centers. Market acceptance also could be affected by regulatory developments. The failure of laser vision correction to achieve continued increased market acceptance would have a material adverse effect on the Company's business, financial condition and results of operations.

MARKET FOR CATARACT SURGERY

According to the American Academy of Ophthalmology, cataract surgery currently is the most frequently performed non-elective surgical procedure in the United States, with more than 2.8 million people having cataract surgery each year. Medicare pays approximately $4.4 billion annually for 2.2 million patients having cataract surgery. According to the American Academy of Ophthalmology, individuals between the ages of 52 and 64 have a 50% chance of having a cataract. By age 75, almost everyone has a cataract. Fifty percent of the people between the ages of 75 and 85 with cataracts have lost some vision as a result. The National Eye Institutes of Health Cataracts indicates that cataracts are the leading cause of blindness in the world, and cataracts affect more than 20 million Americans aged 65 and older. U.S. Census Bureau data indicates that there are approximately 35 million Americans who are age 65 or older.

TLC VISION CORPORATION

TLC*Vision* was originally incorporated by articles of incorporation under the Business Corporations Act (Ontario) on May 28, 1993. By articles of amendment dated October 1, 1993, the name of the Company was changed to TLC The Laser Center Inc., and by articles of amendment dated March 22, 1995, certain changes were effected in the issued and authorized capital of the Company with the effect that the authorized capital of the Company became an unlimited number of Common Shares. On September 1, 1998, TLC The Laser Center, Inc. amalgamated under the laws of Ontario with certain wholly owned subsidiaries. By articles of amendment filed November 5, 1999, the Company changed its name to TLC Laser Eye Centers Inc. On May 13, 2002, the Company filed articles of continuance with the province of New Brunswick and changed its name to TLC Vision Corporation. On May 15, 2002, the Company completed its business combination with LaserVision, a leading U.S. provider of access to excimer lasers, microkeratomes, cataract equipment and related support services.

BUSINESS STRATEGY

TLC*Vision*'s business strategy is to be a diversified eye care services company, leveraging its relationships with over 13,000 ophthalmologists and optometrists throughout North America to (1) continue to grow its core refractive business through same store growth in premium-priced centers, successfully roll-out the Company’s recently introduced value-priced strategy and successfully integrate acquisitions, while maintaining its access base; (2) grow its other health care services MSS, ASCs and Vision Source; and (3) expand into new eye care segments.

GROWING THE CORE REFRACTIVE BUSINESS

The Company will focus on growing the core refractive business through increasing surgical volume through existing premium-priced centers, entry into the large, under-penetrated, value-priced consumer segment with introduction of new centers and supporting our access customer base. The primary tactic in increasing surgical volume include the following initiatives:

- direct-to-consumer advertising in new value-priced center markets;
- integration of TruVision, a managed care contractor acquired in 2005, which serves as a patient acquisition channel;
- additional marketing to health plans and health plan members for increased penetration in the managed care market;

- continued commitment to a co-management model, which allows primary care doctors to provide the best clinical outcomes for their patients while retaining them in their practice;

- continuing clinical education to ophthalmologists and optometrists;

- quality patient outcomes support through the TLC*Vision* quality assurance and improvement system;

- practice development education and tools focused on educating the staff of the ophthalmologists and optometrists;

- cooperative marketing/advertising programs to build awareness for the procedure;

- access to emerging technologies; and

- selected expansion into new and existing markets.

DIVERSIFICATION BEYOND REFRACTIVE LASER BUSINESSES

TLC*Vision*'s diversification strategy is to expand into a broader eye care services company through internal business development and complementary acquisitions. The Company believes it can continue to leverage its relationships with a large number of ophthalmologists and optometrists to create new business opportunities. The primary focus of the Company's diversification strategy is in the United States, where the Company continues to position itself to benefit from the growing market for eye care services.

TLC*Vision* plans to further diversify its business in three ways:

- continuing to expand the Company's existing cataract service business, MSS, through focused growth strategies and acquisitions of complementary businesses;

- continuing to develop the Company's optometric practice franchising organization, Vision Source, through increasing the number of affiliated practice franchises; and

- continuing to develop or acquire ophthalmic ambulatory surgery centers through the Company's ASC subsidiary.

DESCRIPTION OF REFRACTIVE LASER CENTERS BUSINESS

The Company currently owns and manages 77 TLC*Vision* refractive centers in the United States and five centers in Canada. Each TLC*Vision* center has a minimum of one excimer laser with many of the centers having two or more lasers. The majority of the Company's excimer lasers are manufactured by VISX.

The Company centers employ different pricing and patient acquisition strategies depending upon the market. Its premium-priced TLC centers feature premier surgeons and is driven by the co-management referral relationship, with a price inclusive of all follow up visits and the TLC Lifetime Commitment. Its value-priced LASIK Select brand, introduced in late 2005, will feature experienced surgeons and is a consumer advertising driven model, with a lower price point and a la carte pricing options.

A typical TLC*Vision* center has between 3,000 and 5,000 square feet of space and is located in a medical or general office building. Although the legal and payment structures can vary from state to state depending upon state and provincial law and market conditions, the Company generally receives revenues in the form of (1) amounts charged patients for procedures performed at laser centers, (2) management and facility fees paid by doctors who use the TLC*Vision* center to perform laser vision correction procedures and (3) administrative fees for billing and collection services from doctors who co-manage patients treated at the centers. Most TLC*Vision* centers have a clinical director, who is an optometrist and oversees the clinical aspects of the center and builds and supports the network of affiliated eye care doctors. Most centers also have a receptionist, ophthalmic technicians and patient consultants. The number of staff depends on the activity level of the center. One senior staff person, who is designated as the executive director of the center, assists in preparation of the annual business plan and supervises the day-to-day operations of the center.

TLC*Vision* has developed proprietary management and administrative software and systems designed to assist eye care professionals in providing high levels of patient care. The software permits TLC*Vision* centers to provide a potential candidate with current information on affiliated doctors throughout North America, to help them locate the closest TLC*Vision* center, to permit

tracking of calls and procedures, to coordinate patient and doctor scheduling and to produce financial and surgical outcome reporting and analysis. The software has been installed in all TLC*Vision* centers. TLC*Vision* also has an online consumer consultation site on its premium-priced website (www.tlcvision.com), as well as its value-priced website (www.lasikselectvision.com). These consumer consultation sites allow consumers to book their consultation with the Company online. TLC*Vision* also maintains two call centers (1-800-CALL TLC VISION and 1-866-393-9870), which are staffed seven days a week.

The Company's "Lifetime Commitment" program, established in 1997 and offered through TLC*Vision* premium-priced centers, entitles patients within a certain range of vision correction to have certain enhancement procedures for further correction at no cost at any time during their lifetime, if necessary. To remain eligible for the program, patients are required to have an annual eye exam, at the patient's expense, with a TLC*Vision* affiliated doctor. The purpose of the program is to respond to a patient's concern that the patient's sight might regress over time, requiring an enhancement procedure. In addition, the program responds to the doctors' concern that patients may not return for their annual eye examination once their eyes are treated. The Company believes that this program has been well received by both patients and doctors.

PRICING

At TLC*Vision* premium-priced centers in the United States, patients are typically charged between $1,500 and $2,500 per eye for LASIK (or on average approximately $2,000 per eye). The Company typically charges an additional $350 to $500 per eye for custom ablation. At TLC*Vision* premium-priced centers in Canada, patients are typically charged approximately C$1,700 per eye for LASIK. The primary care eye doctor also charges patients an average of $400 or 20% of the patient fee for pre- and post-operative care, though the total procedure costs to the patients are often included in a single invoice. In the TLC*Vision* value-priced centers, patients are typically charged between $999 and $1799, with custom ablation and IntraLase flap creation at the higher rates. Although competitors in certain markets continue to charge less for these procedures, the Company believes that important factors affecting competition in the laser vision correction market, other than price, are quality of service, reputation and skill of surgeon, customer service reputation, and relationships with affiliated doctors.

The cost of laser vision correction procedures is not covered by provincial health care plans in Canada or reimbursable under Medicare or Medicaid in the United States. However, the Company believes it has positioned itself well in the private insurance and employer market through its “Corporate Advantage” program, which offers discounts to participants and is now available to more than 100 million individuals.

CO-MANAGEMENT MODEL

The Company has developed and implemented a medical co-management model under which it not only establishes, manages and operates TLC*Vision* premium-priced centers and provides an array of related support services, but also coordinates the activities of primary care doctors (usually optometrists), who co-manage patients, and refractive surgeons (ophthalmologists), who perform laser vision correction procedures in affiliation with the local center. The primary care doctors assess whether patients are candidates for laser vision correction and provide pre- and post-operative care, including an initial eye examination and follow-up visits. The co-management model permits the surgeon to focus on providing laser vision correction surgery while the primary care doctor provides pre- and post-operative care. In addition, most TLC*Vision* premium-priced centers have an optometrist on staff who works to support and expand the local network of affiliated doctors. The staff optometrist provides a range of clinical training and consultation services to affiliated primary care doctors to support these doctors' individual practices and to assist them in providing quality patient care. See "Item 1 - Business - Government Regulation - Regulation of Optometrists and Ophthalmologists."

TLC*Vision* believes that its strong relationships with its affiliated eye care doctors, though non-exclusive, represent an important competitive advantage for its premium-priced centers.

The Company believes that primary care doctors' relationships with TLC*Vision* and the doctors' acceptance of laser vision correction enhances the doctors' practices. The affiliated eye doctors (usually optometrists) charge fees to assess candidates for laser vision correction and provide pre- and post-operative care, including an initial eye examination and follow-up visits. The primary care doctor's potential revenue loss from sales of contact lenses and eyeglasses may be offset by professional fees earned from both laser vision correction pre- and post-operative care and examinations required under the Company's "Lifetime Commitment" program.

SALES AND MARKETING

The Company also seeks to increase its refractive procedure volume and its market penetration through other innovative marketing programs for both the TLC*Vision* premium-priced and value-priced centers.

While TLC*Vision* believes that many myopic and hyperopic people are potential candidates for laser vision correction, these procedures must compete with corrective eyewear and surgical and non-surgical treatments for myopia and hyperopia. The decision to have laser vision correction largely represents a choice dictated by an individual's desire to reduce or eliminate their reliance on eyeglasses or contact lenses.

The Company markets to doctors, corporations and directly to the public. In support of the premium-priced centers, a portion of the Company's marketing resources are devoted to joint marketing programs with affiliated doctors. The Company provides doctors with brochures, videos, posters and other materials that help them educate their patients about laser vision correction. Those doctors who wish to market directly to their patients or the public may receive support from the Company in the development of marketing programs.

The Company believes that the most effective way to market to doctors is to be perceived as a leader in the eye care industry. To this end, the Company strives to be affiliated with clinical leaders, educate doctors on laser vision and refractive correction and remain current with new procedures, technology and techniques. See "Item 1 - Business - Ancillary Businesses and Support Programs." The Company also promotes its services to doctors in Canada and the United States through conferences, advertisements in journals, direct marketing, its web sites and newsletters.

In support of the value-priced centers, a portion of the Company’s marketing resources are devoted to direct to consumer advertising which is the primary vehicle for attracting this market segment.

The Company believes that as market acceptance for laser vision correction increases, competition among surgical providers will continue to grow and many candidates for laser vision correction will increasingly select a provider based on factors other than solely price.

TLC*Vision* has also developed marketing programs directed primarily at large employers and third party providers to provide laser vision correction to their employees and participants through a TLC*Vision* center. Participating employers may partially subsidize the cost of an employee's laser vision correction at a TLC*Vision* center, and the procedure may be provided at a discounted price. The Company has more than 1,500 participating employers. In addition, more than 100 million individuals qualify for the program through arrangements between TLC*Vision* and third party providers. TruVision, acquired by the Company in 2005, is a managed care contractor, with key contracts among leading health plans in the U.S., providing discounted LASIK benefits.

Tiger Woods, world-famous golfer and TLC*Vision* patient, continues to serve as spokesperson for the Company in marketing efforts, including those aimed directly to the public. The Company uses a variety of traditionally accepted advertising, direct marketing and public relations efforts to reach potential patients. The Company maintains a comprehensive Internet strategy with the goal of having a leading refractive presence on the Internet, through TLC*Vision*-owned websites and partnerships and sponsorships with other websites.

CONTRACTS WITH EYE DOCTORS

In each market where the Company operates a premium-priced center, the Company works with a network of eye care doctors (mostly optometrists) who perform the pre-operative and post-operative care for patients who have had laser vision correction. Those doctors then co-manage their patients with affiliated surgeons in that the surgeon performs the laser vision correction procedure itself, while the optometrist performs the pre-operative screening and post-operative care. In most states and provinces, co-management doctors have the option of charging the patient directly for their services or having the Company collect the fees on their behalf.

Most surgeons performing laser vision correction procedures through a TLC*Vision* center owned, managed or operated by the Company do so under one of three types of standard agreements (as modified for use in the various U.S. states as required by state law). Each agreement typically prohibits surgeons from disclosing confidential information relating to the center, soliciting patients or employees of the center, or participating in any other eye care center within a specified area. However, although certain affiliated surgeons performing laser vision correction at the Company's branded laser eye centers have agreed to certain restrictions on competing with, or soliciting patients or employees associated with the Company, there can be no assurance that such agreements will be enforceable.

Surgeons must meet the credentialing requirements of the state or province in which they practice and must receive training approved by the manufacturer of the laser on which they perform procedures. Surgeons are responsible for maintaining appropriate malpractice insurance and most agree to indemnify the Company and its affiliates for any losses incurred as a result of the surgeon's negligence or malpractice.

Most states prohibit the Company from practicing medicine, employing physicians to practice medicine on the Company's behalf or employing optometrists to render optometric services on the Company's behalf. Because the Company does not practice medicine or optometry, its activities are limited to owning and managing eye care centers and affiliating with other health care providers. Affiliated doctors provide a significant source of patients for laser vision correction at the Company's centers. Accordingly, the success of the Company's operations depends upon its ability to enter into agreements on acceptable terms with a sufficient number of health care providers, including institutions and eye care doctors, to render surgical and other professional services at facilities owned or managed by the Company. There can be no assurance that the Company will be able to enter into or maintain agreements with doctors or other health care providers on satisfactory terms or that such agreements will be profitable to the Company. Failure to enter into or maintain such agreements with a sufficient number of qualified doctors will have a material adverse effect on the Company's business, financial condition and results of operations.

DESCRIPTION OF REFRACTIVE LASER ACCESS BUSINESS

OVERVIEW

TLC*Vision*'s access business provides access to excimer laser platforms, microkeratomes, other equipment and value-added support services such as training, technical support and equipment maintenance to eye surgeons for the treatment of nearsightedness, farsightedness and astigmatism primarily in the United States. TLC*Vision*'s access delivery system utilizes both mobile equipment, which is routinely moved from site to site in response to market demand, and fixed site locations. The Company believes that its flexible delivery system enlarges the pool of potential locations, eye surgeons and patients that it can serve, and allows it to effectively respond to changing market demands. The Company also provides a broad range of support services to the eye surgeons who use its equipment, including arranging for training of physicians and staff, technical support and equipment maintenance, industry updates and marketing advice, clinical advisory support, patient financing, partnership opportunities and practice satelliting. As of December 31, 2005, TLC*Vision* was utilizing approximately 74 excimer lasers and 138 microkeratomes in connection with its laser access business.

Eye surgeons pay TLC*Vision* a fee for each procedure the surgeon performs using its equipment and services. The Company typically provides each piece of equipment to many different eye surgeons, which allows it to more efficiently use the equipment and offer it at an affordable price. TLC*Vision* refers to its practice of providing equipment to multiple eye surgeons as shared access.

TLC*Vision*'s shared access and flexible delivery system benefits eye surgeons in a variety of ways, including the ability to:

- avoid a large capital investment;
- reduce the risks associated with buying high technology equipment that may become obsolete;
- obtain technical support provided by the Company's laser engineers and microkeratome technicians;
- use the equipment without responsibility for maintenance or repair;
- cost-effectively serve small to medium-sized markets and remote locations; and
- serve satellite locations even in large markets.

FLEXIBLE DELIVERY SYSTEM

TLC*Vision* seeks to maximize the number of locations, eye surgeons and patients that can utilize its access and related services and respond quickly to changing market demand by utilizing a flexible delivery system that features both mobile and fixed site locations.

TLC*Vision*'s mobile access systems are typically used by eye surgeons who perform fewer than 30 procedures per month or are in markets where they are able to offer consolidated surgery days to patients. A certified laser technician accompanies each excimer laser from location to location. If an eye surgeon uses the microkeratome service, the Company generally supplies one microkeratome, one accessory kit and a second Company employee, who is certified by the microkeratome manufacturer and acts as a surgical technician.

Mobile laser equipment is provided by means of a proprietary "Roll-On/Roll-Off" laser system. The Roll-On/Roll-Off laser system, elements of which have been patented, consists of an excimer laser mounted on a motorized air suspension platform. The Roll-On/Roll-Off laser system is transported between locations in a specifically modified truck and allows an excimer laser to be easily moved upon reaching its destination. Due to the design of the Roll-On/Roll-Off system, the laser usually requires only minor adjustments and minimal set-up time at each destination. As of December 31, 2005, TLC*Vision* had 31 Roll-On/Roll-Off systems in operation, all of which were located in the United States.

TLC*Vision*'s fixed site lasers are dedicated to single locations where eye surgeons typically perform more than 40 cases per month over several surgery days to maintain a competitive offering for patients. As of December 31, 2005, the Company had approximately 41 U.S. fixed sites. Some fixed sites exclusively serve single practice groups and others are located in ambulatory surgery centers where they can be used by a qualified eye surgeon.

VALUE-ADDED SERVICES

TLC*Vision* provides access eye surgeons value-added support services that distinguish it from its competitors, enhance the Company's ability to compete for business and enable it to grow with its customers by offering them various service and support arrangements. The following value-added services help eye surgeon customers to expand their practices, thereby increasing the use of equipment and services:

- Technical Support and Equipment Maintenance - As of December 31, 2005, the Company employed 30 certified laser engineers and 23 microkeratome technicians. The laser engineers perform most required laser maintenance and help ensure rapid response to most laser repair or maintenance needs.

- Staff Training and Development - Through both field and corporate-based practice development support, TLC*Vision* provides its access eye surgeon customers with a comprehensive menu of options to enhance patient education, staff knowledge, and patient recruitment. Start-up services include centralized refractive coordinator training programs and access to patient financing program. These centralized training programs and field-based support provide eye surgeon staff an opportunity to learn best practices with respect to patient conversion, patient flow and marketing programs. Extended services, such as corporate programs, database management and networking techniques, enable eye surgeon customers to experience continued growth in their practice.

- Building Relationships - TLC*Vision* works to form relationships between access eye surgeons and optometrists. These optometric networks are valuable in referring patients to eye surgeons who use the Company’s equipment and services. The Company helps to form these referral networks by training optometrists, who are then able to provide pre-operative screenings as well as post-surgical follow-up to their patients. TLC*Vision* also provides access eye surgeon customers with marketing advice designed to foster these referrals and generate new patients.

- Clinical Advisors - TLC*Vision* maintains a Clinical Advisory Group which conducts regular conference calls with access eye surgeon customers. Our clinical advisors, who are refractive surgeons and optometrists with extensive clinical experience, chair these conference calls. In addition, TLC*Vision* conducts clinical advisory meetings at major industry conferences each year. The clinical advisors also make themselves available to consult with eye surgeon customers in addition to regularly scheduled conference calls and meetings.

- Practice Satelliting - TLC*Vision* assists access eye surgeons with high-volume practices who desire to serve smaller markets through satellite surgical locations. This program allows eye surgeon customers to leverage their time performing eye surgery.

SALES AND MARKETING

TLC*Vision*'s business development personnel develop sales leads, which come from sources such as customer contact through trade shows and professional organizations. After identifying a prospective eye surgeon customer, the regional manager guides the eye surgeon through the contract process. Once an eye surgeon is prepared to initiate surgeries using our services and equipment, the access operations department and business development personnel assume primary responsibility for the ongoing relationship.

MOBILE AND FIXED ACCESS AGREEMENTS

Under standard refractive mobile access agreements with surgeons, TLC*Vision* provides some or all of the following: laser platform and microkeratome equipment, certain related supplies for the equipment (such as laser gases, per procedure cards and microkeratome blades), laser operator, microkeratome technicians, maintenance and certain technology upgrades. In addition, the Company may provide marketing assistance, coordination of surgeon training and other support services. This access is provided on agreed upon dates at either the surgeons' offices or a third party's facility. In return, the surgeons pay a per procedure fee for access services and generally agree to exclusively use TLC*Vision*'s equipment for refractive surgery. The Company does not provide medical services to the patients or any administrative services to the access surgeon customer.

Under standard refractive fixed access agreements with surgeons, TLC*Vision* generally provides the following: a fixed-base laser platform and microkeratome equipment, certain related supplies for the equipment (such as laser gases, per procedure cards and microkeratome blades), periodic maintenance and certain technology upgrades. In return, the surgeons pay either a per procedure fee and guarantee a minimum number of procedures per month, or a flat monthly fee plus the cost of per procedure cards and blades. In addition, the surgeons generally agree to use exclusively TLC*Vision*'s equipment for refractive surgery. The Company does not provide a laser operator, microkeratome technician, medical services or any administrative services to the access surgeon customer.

Under joint venture arrangements, TLC*Vision* directly or indirectly provides either mobile or fixed-base laser access and the following: microkeratome equipment, certain related supplies for the equipment (such as laser gases, per procedure cards and microkeratome blades), laser operator, microkeratome technician, maintenance and certain technology upgrades, the laser facility, management services which include administrative services such as billing and collections, staffing for the refractive practice, marketing assistance and funds and other support services. TLC*Vision* receives an access fee and management services fees in addition to being reimbursed for the direct costs paid by the Company for the laser facility operations. In return, the surgeons generally agree to exclusively use its equipment for refractive surgery and/or not to compete with the Company within a certain area. Neither TLC*Vision* nor the joint ventures provide medical services to the patients.

DESCRIPTION OF MOBILE CATARACT BUSINESS

Through its MSS subsidiary, TLC*Vision* provides mobile and fixed site cataract equipment and related services in 40 states. As of December 31, 2005, MSS employed 58 cataract equipment technicians and operated 55 mobile cataract systems. An MSS certified surgical technician transports the mobile equipment from one surgery location to the next and prepares the equipment at each stop so that the operating room is ready for cataract surgery. Technicians are also certified to scrub for cataract cases as requested by the surgeon and facility. A typical service offering will include cataract equipment (a phaco emulsifier with back-up, a surgical microscope), the IOL, surgical instruments and supplies. Related services, including YAG capsulotomies and SLT lasers treatments, are also offered.

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

The MSS sales staff focuses on identifying small to medium-sized markets, which usually do not have convenient access to the services of a cataract eye surgeon. After identifying such a market, MSS's sales staff will contact the local hospital and local optometrists to develop interest in "close to home" cataract surgery services. When there is sufficient interest, the sales staff brings the hospital and optometrists in contact with an eye surgeon who is willing to provide services to that local market. By bringing these various parties into contact, MSS seeks to increase demand for its mobile cataract services and increase convenience for cataract patients.

DESCRIPTION OF AMBULATORY SURGICAL CENTER BUSINESS

As of December 31, 2005, TLC*Vision* had an ownership position in eight ASCs that are currently operating and three ASCs that are in various stages of development. The Company anticipates that it will acquire or build more ASCs during 2006.

ASCs provide outpatient surgery services in a less institutional, more productive and cost-efficient setting than traditional surgical hospitals. The two primary procedures performed in the ASCs are cataract extraction with IOL implantation and YAG capsulotomies. However, the ASCs have the capability to accommodate additional ophthalmic surgical procedures as well as additional procedures such as podiatry and pain control.

DESCRIPTION OF OPTOMETRIC FRANCHISING BUSINESS

Vision Source is a majority-owned subsidiary that provides marketing, practice development and purchasing power to independently-owned and operated optometric practices in the United States. As of December 31 2005, Vision Source had 1,356 practices under franchise agreements across the United States, and in exchange for providing services to its franchisees, it received franchise fees equal to a predetermined percentage of gross practice billings. This business supports the development of independent practices and complements the Company's co-management model.

SUPPORT PROGRAMS

CLINICAL ADVISORY GROUP

The Company's Clinical Advisory Group is comprised of refractive surgeons and optometrists selected based upon clinical experience and previous involvement with TLC*Vision*. The Clinical Advisory Group acts as both a clinical and business resource to the Company by providing an eye care professional's perspective on market competition, proposed policies and operational strategies. Additionally, the Clinical Advisory Group acts as a resource to the Company's employees and affiliated doctors. The Clinical Advisory Group holds scheduled meetings throughout the year and meets as necessary to consider clinical issues as they arise.

EMERGING TECHNOLOGIES

The Company considers itself a leader in the provision of vision correction technology. The Company's medical directors continually evaluate new vision correction technologies and procedures to seek to ensure that affiliated doctors have access to state-of-the-art technology to provide the highest level of care. TLC*Vision*'s branded eye care centers in Canada are state-of-the-art facilities that are used to examine and evaluate new technologies for TLC*Vision*. The Company's Clinical Advisory Group monitors emerging technologies and procedures being developed by third party equipment and device manufacturers to address whether these technologies may complement or improve our service offerings.

EDUCATION

The Company believes that ophthalmologists, optometrists and other eye care professionals who endorse laser vision correction are a valuable resource in increasing general awareness and acceptance of the procedures among potential candidates and in promoting the Company as a service provider. The Company seeks to be perceived by eye care professionals as the clinical leader in the field of laser vision correction. One way in which it hopes to achieve this objective is by participating in the education and training of eye care doctors in Canada and the United States.

The Company provides educational programs to doctors in all aspects of clinical study, including programs in conjunction with several of the major optometry schools in the United States. In addition, the Company has an education and training relationship with the University of Waterloo, the only English language optometry school in Canada.

WEBSITE AND AVAILABLE INFORMATION

TLC*Vision* has linked its premium-priced branded eye care centers, network doctors and potential patients through its website, www.tlcvision.com, which provides a directory of affiliated eye care providers and contains questions and answers about laser vision correction. Information on TLC*Vision*'s value-priced centers is located at www.lasikselectvision.com. TLC*Vision*'s corporate website, ww.tlcv.com, contains information for shareholders and investors.

TLC*Vision* makes available free of charge on or through its website (http://www.tlcv.com) its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The material is made available through the Company's website as soon as reasonably practicable after the material is electronically filed with or furnished to the Commission. All of TLC*Vision*'s filings may be read or copied at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website (http://www.sec.gov) that contains reports, proxy and information statements regarding issuers that file electronically.

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. This code of ethics and the Company's corporate governance policies are posted on the Company's website. The Company intends to satisfy its disclosure requirements regarding amendments to or waivers from its code of ethics by posting such information on this website. The charters of the committees of the Company's Board of Directors are available on the Company's website and are also available in print free of charge.

EQUIPMENT AND CAPITAL FINANCING

The Company utilizes the VISX, Alcon, Wavelight and Bausch & Lomb excimer lasers for refractive surgery. See "Industry Background - Laser Vision Correction."

Although there can be no assurance, the Company believes that based on the number of existing manufacturers, the current inventory levels of those manufacturers and the number of suitable, previously owned and, in the case of U.S. centers, FDA-approved lasers available for sale in the market, the supply of excimer lasers is more than adequate for the Company's future operations.

A new excimer laser costs up to $300,000. However, the industry trend in the sale of excimer lasers is moving away from a flat purchase price to the alternative of charging the purchaser a per-procedure fee.

As available technology improves and the FDA approves additional procedures, the Company expects to upgrade the capabilities of its lasers. See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

COMPETITION

CONSUMER MARKET FOR VISION CORRECTION

Within the consumer market, excimer laser procedures performed at the Company's centers compete with other surgical and non-surgical treatments for refractive disorders, including eyeglasses, contact lenses, other types of refractive surgery and technologies currently available and under development such as corneal rings, intraocular lenses and surgery with different types of lasers. Although the Company believes that eyeglass and contact lens use will continue to be the most popular form of vision correction in the foreseeable future, as market acceptance for laser vision correction continues to increase, competition within this market will grow. There can be no assurance that the Company's management, operations and marketing plans are or will be successful in meeting this competition. Further, there can be no assurance that the Company's competitors' access to capital, financing or other resources or their market presence will not give these competitors an advantage against the Company. In addition, other surgical and non-surgical techniques to treat vision disorders are currently in use and under development and may prove to be more attractive to consumers than laser vision correction.

MARKET FOR LASER VISION CORRECTION

Within the consumer market for laser vision correction, the Company continues to face increasing competition from other service providers. As market acceptance for laser vision correction continues to increase, competition within this market may grow. Laser vision correction providers are divided into three major segments: corporate-owned centers; independent surgeon-owned centers; and institution-owned centers. According to Market Scope, as of November 2005, independent surgeon-owned centers accounted for the largest percentage of total procedure volume in the industry with a 62% market share. Corporate-owned centers accounted for 27% of total procedures performed. The remaining 11% of laser vision correction procedures were performed at institution-owned centers, such as hospitals or universities.

Although many competitors continue to charge less for laser vision correction than the Company's premium-priced centers and its affiliated doctors, the Company believes that the important factors affecting competition in the laser vision correction market are quality of service, surgeon skill and reputation and price and that its competitiveness is enhanced by a strong network of affiliated doctors. Suppliers of conventional vision correction (eyeglasses and contact lenses), such as optometric chains, also compete with the Company either by marketing alternatives to laser vision correction or by purchasing excimer lasers and offering refractive surgery to their customers. These service providers may have greater marketing and financial resources and experience than the Company and may be able to offer laser vision correction at lower rates. Competition has also increased in part due to the greater availability and lower costs of excimer lasers.

During 2005, the laser vision correction industry experienced modest growth. As an elective procedure, laser vision correction surgery volumes were constrained by economic conditions in North America. Rising oil prices and the impact of hurricanes weakened the financial situation of many consumers, leaving them with less disposable income. In addition, it became evident that the market is segmenting into two distinct groups of patients who have laser vision correction: (1) value-priced segment and (2) premium-priced segment. Industry trends and research indicate that the value-priced segment is larger and growing faster than the premium-priced segment. TLC*Vision* is introducing a new brand to address this consumer segment, while maintaining its successful premium-priced brand.

TLC*Vision* competes in fragmented geographic markets. The Company's principal corporate competitors include LCA-Vision Inc. and Lasik Vision Institute, Inc. See "Item 1 - Business - Overview."

GOVERNMENT REGULATION

EXCIMER LASER REGULATION

UNITED STATES

Medical devices, such as the excimer lasers used in the Company's U.S. centers, are subject to stringent regulation by the FDA and cannot be marketed for commercial use in the United States until the FDA grants pre-market approval ("PMA") for the device. To obtain a PMA for a medical device, excimer laser manufacturers must file a PMA application that includes clinical data and the results of pre-clinical and other testing sufficient to show that there is a reasonable assurance of safety and effectiveness of their excimer lasers. Human clinical trials must be conducted pursuant to Investigational Device Exemptions issued by the FDA in order to generate data necessary to support a PMA. See "Item 1 - Business - Industry Background - Laser Vision Correction."

The FDA is not authorized to regulate the practice of medicine, and ophthalmologists, including those affiliated with TLC*Vision* eye care centers, may perform the LASIK procedure, using lasers with a PMA for PRK only (off-label use) in an exercise of professional judgment in connection with the practice of medicine.

The use of an excimer laser to treat both eyes on the same day (bilateral treatment) has not been approved by the FDA. The FDA has stated that it considers the use of the excimer laser for bilateral treatment to be a practice of medicine decision, which the FDA is not authorized to regulate. Ophthalmologists, including those affiliated with the Company's branded eye care centers, widely perform bilateral treatment in an exercise of professional judgment in connection with the practice of medicine. There can be no assurance that the FDA will not seek to challenge this practice in the future.

Any excimer laser manufacturer which obtains PMA approval for use of its excimer lasers will continue to be subject to regulation by the FDA. Although the FDA does not specifically regulate surgeons' use of excimer lasers, the FDA actively enforces regulations prohibiting marketing of products for non-approved uses and conducts periodic inspections of manufacturers to determine compliance with Quality System Regulations.

Failure to comply with applicable FDA requirements could subject the Company, its affiliated doctors or laser manufacturers to enforcement action, including product seizure, recalls, withdrawal of approvals and civil and criminal penalties, any one or more of which could have a material adverse effect on the Company's business, financial condition and results of operations. Further, failure to comply with regulatory requirements or any adverse regulatory action, including a reversal of the FDA's current position that the "off-label" use of excimer lasers by doctors outside the FDA-approved guidelines is a practice of medicine decision, which the FDA is not authorized to regulate, could result in a limitation on or prohibition of the Company's use of excimer lasers, which in turn could have a material adverse effect on the Company's business, financial condition and results of operations.

The marketing and promotion of laser vision correction in the United States are subject to regulation by the FDA and the Federal Trade Commission ("FTC"). The FDA and FTC have released a joint communiqué on the requirements for marketing laser vision correction in compliance with the laws administered by both agencies. The FTC staff also issued more detailed staff guidance on the marketing and promotion of laser vision correction and has been monitoring marketing activities in this area through a non-public inquiry to identify areas that may require further FTC attention.

CANADA

The use of excimer lasers in Canada to perform refractive surgery is not subject to regulatory approval, and excimer lasers have been used to treat myopia since 1990 and hyperopia since 1996. The Health Protection Branch of Health Canada ("HPB") regulates the sale of devices, including excimer lasers used to perform procedures at the Company's Canadian eye care centers. Pursuant to the regulations prescribed under the Canadian Food and Drugs Act, the HPB may permit manufacturers or importers to sell a certain number of devices to perform procedures provided the devices are used in compliance with specified requirements for investigational testing. Permission to sell the device may be suspended or cancelled where the HPB determines that its use endangers the health of patients or users or where the regulations have been violated. Devices may also be sold for use on a non-investigational basis where evidence available in Canada to the manufacturer or importer substantiates the benefits and performance characteristics claimed for the device. The Company believes that the sale of the excimer lasers to its eye care centers, as well as their use at the centers, complies with HPB requirements. There can be no assurance that Canadian regulatory authorities will not impose restrictions, which could have a material adverse effect on the Company's business, financial condition and results of operations.

REGULATION OF OPTOMETRISTS AND OPHTHALMOLOGISTS

UNITED STATES

The health care industry in the United States is highly regulated. The Company and its operations are subject to extensive federal, state and local laws, rules and regulations, including those prohibiting corporations from practicing medicine and optometry, prohibiting unlawful rebates and division of fees, anti-kickback laws, fee-splitting laws, self-referral laws, laws limiting the manner in which prospective patients may be solicited and professional licensing rules. Approximately 42 states in which the Company currently does business limit or prohibit corporations from practicing medicine and employing or engaging physicians to practice medicine.

The Company has reviewed these laws and regulations with its health care counsel, and although there can be no assurance, the Company believes that its operations currently comply with applicable laws in all material respects. Also, the Company expects that doctors affiliated with TLC*Vision* will comply with such laws in all material respects, although it cannot ensure such compliance by its affiliated doctors.

Federal Law. A federal law (known as the "anti-kickback statute") prohibits the offer, solicitation, payment or receipt of any remuneration which directly or indirectly is intended to induce or is in return for the referral of patients for or the ordering of items or services reimbursable by Medicare or any other federally financed health care program. This statute also prohibits remuneration intended to induce the purchasing of or arranging for or recommending the purchase or order of any item, good, facility or service for which payment may be made under federal health care programs. This statute has been applied to otherwise legitimate investment interests if one purpose of the offer to invest is to induce referrals from the investor. Safe harbor regulations provide absolute protection from prosecution for certain categories of relationships that meet all elements of an applicable safe harbor. However, relationships that do not meet all elements of a safe harbor are not illegal per se, but must be reviewed to determine the risk of fraud and abuse to any federal or state funded health care system.

Subject to certain exceptions, federal law also prohibits referrals for the provision of Medicare or Medicaid-covered “designated health services” from a physician to another entity with which the physician (or an immediate family member) has a financial relationship (which includes ownership and compensation arrangements). This law, known as the "Stark Law," applies only to referrals made by a physician and does not apply outside of the Medicare and Medicaid programs or to items or services that are not one of the 11 designated health services.

Laser vision correction is not reimbursable by Medicare, Medicaid or other federal programs. As a result, neither the anti-kickback statute nor the Stark Law applies to the Company's laser vision correction business, but the Company may be subject to similar state laws that apply regardless of the type of service or the manner of payment.

Doctors affiliated with the Company's ambulatory surgery company, OR Partners, Inc., the Company's mobile cataract services business, MSS, or the Company's secondary care centers provide services that are reimbursable under Medicare and Medicaid. Further, ophthalmologists and optometrists co-manage Medicare and Medicaid patients who receive services at the Company's secondary care centers. The co-management model is based, in part, upon the referral by an optometrist for surgical services performed by an ophthalmologist and the provision of pre- and post-operative services by the referring optometrist. The Office of the Inspector General for the Department of Health and Human Services, the government agency responsible for enforcing the anti-kickback statute, has stated publicly that to the extent there is an agreement between optometrists and ophthalmologists to refer back to each other, such an agreement could constitute a violation of the anti-kickback statute. The Company believes, however, that its co-management program does not violate the anti-kickback statute, as patients are given the choice whether to return to the referring optometrist or to stay with the ophthalmologist for post-operative care. Nevertheless, there can be no guarantee that the Office of the Inspector General will agree with the Company's analysis of the law. If the Company's co-management program were challenged as violating the anti-kickback statute and the Company were unsuccessful in defending against such a challenge, then civil or criminal fines and penalties, including exclusion of the Company, the ophthalmologists and the optometrists from the Medicare and Medicaid programs may be imposed on the Company. The Company could also be required to revise the structure of its co-management program or curtail its activities, any of which could have a material adverse effect upon the Company's business, financial condition and results of operations.

The provision of services covered by the Medicare and Medicaid programs in the Company's ambulatory surgery business, mobile cataract business and secondary care centers also triggers potential application of the Stark Law. The co-management model could establish a financial relationship, as defined in the Stark Law, between the ophthalmologist and the optometrist. Similarly, to the extent that the Company provides any designated health services, as defined in the statute, the Stark Law could be triggered as a result of any of the several financial relationships between the Company and ophthalmologists. Based on its current interpretation of the Stark Law as set forth in the interim final rule published in 2004, the Company believes that the referrals from ophthalmologists and

optometrists either will be for services which are not designated health care services as defined in the statute or will be covered by an exception to the Stark Law. There can be no assurance, however, that the government will agree with the Company's position or that there will not be changes in the government's interpretation of the Stark Law including an expansion of the services that constitute "designated health services." In such case, the Company may be subject to civil penalties as well as administrative exclusion and would likely be required to revise the structure of its legal arrangements or curtail its activities, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") were enacted to (a) improve the efficiency and effectiveness of the healthcare system by standardizing the exchange of electronic information for certain administrative and financial transactions and (b) protect the confidentiality and security of health information. HIPAA directed the U.S. Department of Health and Human Services to promulgate a set of interlocking regulations to implement the goals of HIPAA. The regulations apply to "covered entities" which include health plans, healthcare clearinghouses and healthcare providers who transmit patient health information ("PHI") in electronic form in connection with certain administrative and billing transactions. These regulations can be divided into the following:

- Privacy Regulations designed to protect and enhance the rights of patients by providing patient access to their PHI and controlling the use of their PHI;

- Security Regulations designed to protect electronic health information by mandating certain physical, technical and administrative safeguards;

- Electronic Transactions and Code Sets Regulations designed to standardize electronic data interchange in the health care industry;

- Standard Unique Employer Identifier Regulations designed to standardize employer identification numbers used in certain electronic transactions; and

- Standard Unique Health Identifier for Health Care Providers Regulations designed to standardize the identification of health care providers used in electronic transactions.

While the regulations are all in final form, the compliance date for each set of regulations varies. Compliance with the Privacy Regulations was required by April 14, 2003 (except for "small" health plans) and compliance with the Electronic Transaction and Code Sets Regulations was required by October 16, 2003. Compliance with the Standard Unique Employer Identifier Regulations was required by July 30, 2004; compliance with the Security Regulations by April 21, 2005; and compliance with the Standard Unique Health Identifier for Health Care Providers Regulations by May 23, 2005.

The Company has instituted policies and procedures designed to comply with the Privacy Regulations at various centers throughout the Company. Because the Company is self-insured and meets the definition of "small" health plan, the Company's health plan had until April 14, 2004 to comply with the Privacy Regulations. The Company's plan sponsor has taken steps to institute new policies and procedures to comply with the Privacy Regulations. The Company has implemented employee training programs explaining how the regulations apply to their job role. The Company has implemented programs to ensure compliance with the other HIPAA regulations by the applicable compliance dates.

State Law. In addition to the requirements described above, the regulatory requirements that the Company must satisfy to conduct its business will vary from state to state, and accordingly, the manner of operation by the Company and the degree of control over the delivery of refractive surgery by the Company may differ among the states.

A number of states have enacted laws which prohibit what is known as the corporate practice of medicine. These laws are designed to prevent interference in the medical decision-making process by anyone who is not a licensed physician. Many states have similar restrictions in connection with the practice of optometry. Application of the corporate practice of medicine prohibition varies from state to state. Therefore, while some states may allow a business corporation to exercise significant management responsibilities over the day-to-day operation of a medical or optometric practice, other states may restrict or prohibit such activities. The Company believes that it has structured its relationship with eye care doctors in connection with the operation of eye care centers as well as in connection with its secondary care centers so that they conform to applicable corporate practice of medicine restrictions in all material respects. Nevertheless, there can be no assurance that, if challenged, those relationships may not be found to violate a particular state corporate practice of medicine prohibition. Such a finding may require the Company to revise the structure of its legal arrangements or

curtail its activities, and this could have a material adverse effect on the Company's business, financial condition, and results of operations.

Many states prohibit a physician from sharing or "splitting" fees with persons or entities not authorized to practice medicine. The Company's co-management model for refractive procedures presumes that a patient will make a single global payment to the laser center, which is a management entity acting on behalf of the ophthalmologist and optometrist to collect fees on their behalf. In turn, the ophthalmologist and optometrist pay facility and management fees to the laser center out of the patient fees collected. While the Company believes that these arrangements do not violate any of the prohibitions in any material respects, there can be no assurance that one or more states will not interpret this structure as violating the state fee-splitting prohibition, thereby requiring the Company to change its procedures in connection with billing and collecting for services. Violation of state fee-splitting prohibitions may subject the ophthalmologists and optometrists to sanctions, and may result in the Company incurring legal fees, as well as being subjected to fines or other costs, and this could have a material adverse effect on the Company's business, financial condition and results of operations.

Just as in the case of the federal anti-kickback statute, while the Company believes that it is conforming to applicable state anti-kickback statutes in all material respects, there can be no assurance that each state will agree with the Company's position and not challenge the Company. If the Company were unsuccessful in defending against such a challenge, the result may be civil or criminal fines or penalties for the Company as well as the ophthalmologists and optometrists. Such a result would require the Company to revise the structure of its legal arrangements or curtail its activities, and this could have a material adverse effect on the Company's business, financial condition and results of operations.

Similarly, just as in the case of the federal Stark Law, while the Company believes that it is operating in compliance with applicable state anti-self-referral laws in all material respects, there can be no assurance that each state will agree with the Company's position or that there will not be a change in the state's interpretation or enforcement of its own law. In such case, the Company may be subject to fines and penalties as well as other administrative sanctions and would likely be required to revise the structure of its legal arrangements or curtail its activities. This could have a material adverse effect on the Company's business, financial condition and results of operations

CANADA

Conflict of interest regulations in certain Canadian provinces prohibit optometrists, ophthalmologists or corporations owned or controlled by them from receiving benefits from suppliers of medical goods or services to whom the optometrist or ophthalmologist refers his or her patients. In certain circumstances, these regulations deem it a conflict of interest for an ophthalmologist to order a diagnostic or therapeutic service to be performed by a facility in which the ophthalmologist has any proprietary interest. This does not include a proprietary interest in a publicly traded company and the company is not owned or controlled by the ophthalmologist or a member of his/her family. Certain of the Company's eye care centers in Canada are owned and managed by a subsidiary in which affiliated doctors own a minority interest. The Company expects that ophthalmologists and optometrists affiliated with TLC*Vision* will comply with the applicable regulations, although it cannot ensure such compliance by doctors.

The laws of certain Canadian provinces prohibit health care professionals from splitting fees with non-health care professionals and prohibit non-licensed entities (such as the Company) from practicing medicine or optometry and, in certain circumstances, from employing physicians or optometrists directly. The Company believes that its operations comply with such laws in all material respects, and expects that doctors affiliated with TLC*Vision* centers will comply with such laws, although it cannot ensure such compliance by doctors.

Optometrists and ophthalmologists are subject to varying degrees and types of provincial regulation governing professional misconduct, including restrictions relating to advertising, and in the case of optometrists, a prohibition against exceeding the lawful scope of practice. In Canada, laser vision correction is not within the permitted scope of practice of optometrists. Accordingly, TLC*Vision* does not allow optometrists to perform the procedure at TLC*Vision* centers in Canada.

FACILITY LICENSURE AND CERTIFICATE OF NEED

The Company believes that it has all licenses necessary to operate its business. The Company may be required to obtain licenses from the state Departments of Health, or a division thereof, in the various states in which it opens eye care centers. There can be no assurance that the Company will be able to obtain facility licenses in all states which may require facility licensure.

Some states require the permission of the Department of Health or a division thereof, such as a Health Planning Commission, in the form of a Certificate of Need ("CON") prior to the construction or modification of an ambulatory care facility, such as a laser

center, or the purchase of certain medical equipment in excess of an amount set by the state. There can be no assurance that the Company will be able to acquire a CON in all states where a CON is required.

The Company is not aware of any Canadian health regulations which impose facility-licensing requirements on the operation of eye care centers.

RISK OF NON-COMPLIANCE

Many of these laws and regulations governing the health care industry are ambiguous in nature and have not been definitively interpreted by courts and regulatory authorities. Moreover, state and local laws vary from jurisdiction to jurisdiction. Accordingly, the Company may not always be able to predict clearly how such laws and regulations will be interpreted or applied by courts and regulatory authorities and some of the Company's activities could be challenged. In addition, there can be no assurance that the regulatory environment in which the Company operates will not change significantly in the future. Numerous legislative proposals have been introduced in Congress and in various state legislatures over the past several years that would, if enacted, effect major reforms of the U.S. health care system. The Company cannot predict whether any of these proposals will be adopted and, if adopted, what impact such legislation would have on the Company's business. The Company has reviewed existing laws and regulations with its health care counsel, and although there can be no assurance, the Company believes that its operations currently comply with applicable laws in all material respects. Also, TLC*Vision* expects that affiliated doctors will comply with such laws in all material respects, although it cannot assure such compliance by doctors. The Company could be required to revise the structure of its legal arrangements or the structure of its fees, incur substantial legal fees, fines or other costs, or curtail certain of its business activities, reducing the potential profit to the Company of some of its legal arrangements, any of which may have a material adverse effect on the Company's business, financial condition and results of operations.

NASDAQ QUORUM EXEMPTION

The exemption that the Company had received from the Nasdaq National Market System with respect to compliance with Rule 4350(f) of the Nasdaq corporate governance rules was no longer available after July, 2005. Therefore, the Company’s shareholders amended the by-laws so that a quorum for any meeting of shareholders shall be not less than 33 1/3% of the outstanding shares of voting common stock.

INTELLECTUAL PROPERTY

The Company and its subsidiaries own over 30 trademarks and service marks that are subjects of U.S. federal and/or Canadian registrations or pending applications for registration. In addition, the Company owns a U.S. patent directed to certain aspects of the Laser Vision Centers Roll-On/Roll-Off system, which will expire in November 2016. It also owns a U.S. patent directed to a treatment of a potential side effect of laser vision correction generally known as "central islands," that will expire in May, 2014. The Company owns two pending patent applications directed to certain methods of administering a member-provider organization. The Company's service marks, patents and other intellectual property may offer the Company a competitive advantage in the marketplace and could be important to the success of the Company. One or all of the patents, trademarks, service marks or registrations therefore may be challenged, invalidated or circumvented in the future. The Company’s pending patent applications are subject to examination by the U.S. Patent and Trademark Office and may not result in an issued patent.

The medical device industry, including the ophthalmic laser sector, has been characterized by substantial litigation in the United States and Canada regarding patents and proprietary rights. There are a number of patents concerning methods and apparatus for performing corneal procedures with excimer lasers. Although the Company currently leases or purchases excimer lasers and other technology from the manufacturers, in the event that the use of an excimer laser or other procedure performed at any of the Company's refractive or secondary care centers is deemed to infringe a patent or other proprietary right, the Company may be prohibited from using the equipment or performing the procedure that is the subject of the patent dispute or may be required to obtain a royalty-bearing license, which may not be available on favorable terms, if at all. The costs associated with any such licensing arrangements may be substantial and could include ongoing royalty payments. In the event that a license is not available, the Company may be required to seek the use of products that do not infringe the patent.

EMPLOYEES

Including part-time employees, the Company had approximately 1,100 employees as of December 31, 2005. The Company's growth has been highly dependent upon the skills of its key technical and management personnel both in its corporate offices and in its eye care centers, some of whom would be difficult to replace. There can be no assurance that the Company can retain such personnel or that it can attract or retain other highly qualified personnel in the future. No employee of the Company is represented by a collective

bargaining agreement, nor has the Company experienced a work stoppage. The Company considers its relations with its employees to be good. See "Item 1 - Business - Risk Factors - Dependence on Key Personnel."

ITEM 1A. RISK FACTORS

The following are certain risk factors that could affect our business, financial results and results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause the actual results and conditions to differ materially from those projected in forward-looking statements. The risks that we have highlighted here are not the only ones that we face. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our stock could decline, and our stockholders may lose all or part of their investment.

WE HAVE REPORTED ACCUMULATED DEFICITS; OUR FUTURE PROFITABILITY IS UNCERTAIN.

We reported a net loss of $9.4 million for the year ended December 31, 2003. As of December 31, 2005, we reported an accumulated deficit of $244.2 million. Even though we reported net income of $6.9 million and $43.7 million for the years ended December 31, 2005 and 2004, respectively, we may not be able to sustain profitability. Our profitability will depend on a number of factors, including:

- demand for our services;
- our ability to control costs;
- our ability to execute our strategy and effectively integrate acquired businesses and assets;
- our ability to obtain adequate insurance against malpractice claims and reduce the number of claims;
- economic conditions in the markets in which we compete, including the availability of discretionary income;
- concerns about the safety and effectiveness of laser vision correction;
- competitive factors;
- regulatory developments;
- our ability to retain and attract qualified personnel; and
- doctors' ability to obtain adequate insurance against malpractice claims at reasonable rates.

In addition, our subsidiary OccuLogix expects to report significant net losses for the next several years. We will be required to report the financial results of OccuLogix on a consolidated basis as long as we have a controlling financial interest.

CHANGES IN GENERAL ECONOMIC CONDITIONS MAY CAUSE FLUCTUATIONS IN OUR REVENUES AND PROFITABILITY.

The cost of laser vision correction procedures is typically not reimbursed by health care insurance companies or other third-party payors. Accordingly, our operating results may vary based upon the impact of changes in economic conditions on the disposable income of consumers interested in laser vision correction. A significant decrease in consumer disposable income in a weakening economy may result in decreased procedure levels and revenues. In addition, weakening economic conditions may result in an increase in the number of our customers, who experience financial distress or declare bankruptcy, which may negatively impact our accounts receivable collection experience.

THE MARKET FOR LASER VISION CORRECTION IS INTENSELY COMPETITIVE AND COMPETITION MAY INCREASE.

Some of our competitors or companies that may choose to enter the industry in the future, including laser manufacturers themselves, may have substantially greater financial, technical, managerial, marketing and/or other resources and experience than us and may compete more effectively than we are able to compete. We compete with hospitals, individual ophthalmologists, other corporate laser centers and manufacturers of excimer laser equipment in offering laser vision correction services and access to excimer lasers. Our principal corporate competitors include LCA-Vision Inc. and Lasik Vision Institute, Inc.

Competition in the market for laser vision correction could increase as excimer laser surgery becomes more commonplace and the number of ophthalmologists performing the procedure increases. In addition, competition would increase if state or provincial laws were amended to permit optometrists, in addition to ophthalmologists, to perform laser vision correction. We will compete on the basis of quality of service, surgeon skill and reputation and price. If more providers offer laser vision correction in a given geographic market, the price charged for such procedures may decrease. Competitors have offered laser vision correction at prices considerably

lower than our prices. The laser vision correction industry has been significantly affected by reductions in the price for laser vision correction, including the failure of many businesses that provided laser vision correction. Market conditions may compel us to lower prices in our centers to remain competitive and any reduction in our prices may not be offset by an increase in our procedure volume or decreases in our costs. A decrease in either the fees or procedures performed at our eye care centers or in the number of procedures performed at our centers could cause our revenues to decline and our business and financial condition to weaken.

Laser vision correction competes with other surgical and non-surgical means of correcting refractive disorders, including eyeglasses, contact lenses, other types of refractive surgery and other technologies currently available and under development, such as intraocular lenses and surgery with different types of lasers. Our management, operations and marketing plans may not be successful in meeting this competition. Certain competitive optometry chains and other suppliers of eyeglasses and contact lenses may have substantially greater financial, technical, managerial, marketing and other resources and experience than we have and may promote alternatives to laser vision correction or purchase laser systems and offer laser vision correction to their customers.

If the price of excimer laser systems decreases, additional competition could develop. The price for excimer laser systems could decrease for a number of reasons, including technological innovation and increased competition among laser manufacturers. Further reductions in the price of excimer lasers could reduce demand for our laser access services by making it economically more attractive for eye surgeons to buy excimer lasers rather than utilize our services.

Most affiliated surgeons performing laser vision correction at our centers and our significant employees have agreed to restrictions on competing with us, or soliciting patients or employees associated with their facilities; however, these non-competition agreements may not be enforceable.

THE MARKET ACCEPTANCE OF LASER VISION CORRECTION IS UNCERTAIN.

We believe that the profitability and growth of our company will depend upon broad acceptance of laser vision correction in the United States and, to a lesser extent, Canada. We may have difficulty generating revenue and growing our business if laser vision correction does not become more widely accepted by the general population as an alternative to existing methods of treating refractive vision disorders. Laser vision correction may not become more widely accepted due to a number of factors, including:

- its cost, particularly since laser vision correction typically is not covered by government or private insurers;
- general resistance to surgery;
- the fact that effective and less expensive alternative methods of correcting refractive vision disorders are widely available;
- the lack of long-term follow-up data;
- the possibility of unknown side effects; and
- reported adverse events or other unfavorable publicity involving patient outcomes from laser vision correction.

CONCERNS ABOUT POTENTIAL SIDE EFFECTS AND LONG-TERM RESULTS OF LASER VISION CORRECTION MAY NEGATIVELY IMPACT MARKET ACCEPTANCE OF LASER VISION CORRECTION AND PREVENT US FROM GROWING OUR BUSINESS.

Concerns have been raised with respect to the predictability and stability of results and potential complications or side effects of laser vision correction. Any complications or side effects of laser vision correction may call into question the safety and effectiveness of laser vision correction, which in turn may damage the likelihood of market acceptance of laser vision correction. Complications or side effects of laser vision correction could lead to product liability, malpractice or other claims against us. Also, complications or side effects could jeopardize the approval by the U.S. Food and Drug Administration of the excimer laser for sale for laser vision correction. Although results of a study showed that the majority of patients experienced no serious side effects seven years after laser vision correction using PRK, complications may be identified in further long-term follow-up studies of PRK. There are no long-term studies on the side effects of LASIK, the procedure more often performed in recent years. However, a study of patients five years after LASIK reported the majority of patients had a high overall satisfaction of the procedure.

There is no independent industry source for data on side effects or complications from laser vision correction. In addition, we do not track side effects. Some of the possible side effects of laser vision correction are:

- foreign body sensation,
- pain or discomfort,
- sensitivity to bright lights,
- blurred vision,

- dryness or tearing,
- fluctuation in vision,
- night glare,
- poor or reduced visual quality,
- overcorrection or undercorrection,
- regression, and
- corneal flap or corneal healing complications.

We believe that the percentage of patients who experience serious side effects as a result of laser vision correction at our centers is likely less than 1%. However, there is no study to support this belief.

Laser vision correction may also involve the removal of "Bowman's membrane," an intermediate layer between the outer corneal layer and the middle corneal layer of the eye. Although several studies have demonstrated no significant adverse reactions to excimer laser removal of Bowman's membrane, the long-term effect of the removal of Bowman's membrane on patients is unclear.

WE MAY BE UNABLE TO ENTER INTO OR MAINTAIN AGREEMENTS WITH DOCTORS OR OTHER HEALTH CARE PROVIDERS ON SATISFACTORY TERMS.

We will have difficulty generating revenue if we are unable to enter into or maintain agreements with doctors or other health care providers on satisfactory terms. Most states prohibit us from practicing medicine, employing doctors to practice medicine on our behalf or employing optometrists to render optometric services on our behalf. In most states we may only own and manage centers and enter into affiliations with doctors and other health care providers. Also, affiliated doctors have provided a significant source of patients for our premium-priced centers and that is expected to continue. Our value-priced centers will rely on direct-to-consumer advertising as a source of patients. Accordingly, the success of our business depends upon our ability to enter into agreements on acceptable terms with a sufficient number of health care providers, including institutions and eye care doctors to render or arrange surgical and other professional services at facilities we own or manage.

QUARTERLY FLUCTUATIONS IN OPERATING RESULTS MAKE FINANCIAL FORECASTING DIFFICULT.

We may experience future quarterly losses, which may exceed prior quarterly losses. Our expense levels will be based, in part, on our expectations as to future revenues. If actual revenue levels were below expectations, our operating results would deteriorate. Historically, our quarterly results of operations have varied, and future results may continue to fluctuate significantly from quarter to quarter. Accordingly, quarter-to-quarter comparisons of our operating results may not be meaningful and should not be relied upon as indications of our future performance or annual operating results. Quarterly results will depend on numerous factors, including economic conditions in our geographic markets, market acceptance of our services, seasonal factors and other factors described in this Form 10-K.

THE MARKET PRICE OF OUR COMMON SHARES MAY BE VOLATILE.

Historically, the market price of our common shares has been volatile. For example, the market price of our common shares decreased from a high of $53.50 to a low of $0.79 between July 1999 and March 2003, then increased to $13.13 by April 2004. As of March 10, 2006, the last sale price of our common shares was $6.84. Our common shares will likely be volatile in the future due to industry developments and business-specific factors such as:

- our ability to effectively penetrate the laser vision correction market;
- the impact of OccuLogix on results of operations;
- perception of the potential for rheopheresis for dry age-related macular degeneration;
- our ability to execute our business strategy;
- new technological innovations and products;
- changes in government regulations;
- adverse regulatory action;
- public concerns about the safety and effectiveness of laser vision correction;
- loss of key management;
- announcements of non-routine events such as acquisitions or litigation;
- variations in our financial results;
- fluctuations in competitors' stock prices;

- the issuance of new or changed stock market analyst reports and recommendations concerning our common shares or competitors' stock;
- changes in earnings estimates by securities analysts;
- our ability to meet analysts' projections;
- changes in the market for medical services; or
- general economic, political and market conditions.

In addition, in recent years the prices and trading volumes of publicly traded shares, particularly those of companies in health care related markets, have been volatile. This volatility has substantially affected the market prices of many companies' securities for reasons frequently unrelated or disproportionate to their operating performance. Following the terrorist attacks in the United States in September 2001, stock markets experienced volatility and stock prices declined, in some cases substantially. Continued volatility may reduce the market price of our common shares.

WE MAY BE UNABLE TO EXECUTE OUR BUSINESS STRATEGY.

Our business strategy is to be a diversified eye care services company, leveraging our relationships with over 13,000 ophthalmologists and optometrists throughout North America to 1) grow the core refractive business while 2) continuing to expand the non-refractive business segment.

If we do not successfully execute this strategy or if the strategy is not effective, we may be unable to maintain or grow our revenues and profitability.

WE MAY MAKE INVESTMENTS THAT MAY NOT BE PROFITABLE.

We make investments that are intended to support our strategic business purposes. These investments are generally made in companies in the laser vision correction business or other eye care services. If we are unable to successfully manage our current and future investments, including ASC investments, or if these investments are not profitable or do not generate the expected returns, then future operating results may be adversely impacted.

OUR GROWTH STRATEGY DEPENDS ON OUR ABILITY TO OPEN NEW CENTERS OR TO MAKE ACQUISITIONS OR ENTER INTO AFFILIATION ARRANGEMENTS.

The success of our growth strategy will be dependent on increasing the number of procedures at our eye care centers and/or increasing the number of eye care centers through internal development or acquisitions and entering into affiliation arrangements with local eye care professionals in markets not large enough to justify a corporate center.

The addition of new centers will present challenges to us, including the integration of new operations, technologies and personnel. The addition of new centers also presents special risks, including:

- unanticipated liabilities and contingencies;
- diversion of management attention; and
- possible adverse effects on operating results resulting from:
  - possible future goodwill impairment;
  - increased interest costs;
  - the issuance of additional securities; and
  - increased costs resulting from difficulties related to the integration of the acquired businesses.

Our ability to achieve growth through acquisitions will depend on a number of factors, including:

- the availability of attractive acquisition opportunities;
- the availability of capital to complete acquisitions;
- the availability of working capital to fund the operations of acquired businesses; and
- the effect of existing and emerging competition on operations.

We may not be able to successfully identify suitable acquisition candidates, complete acquisitions on acceptable terms, if at all, or successfully integrate acquired businesses into our operations. Our past and possible future acquisitions may not achieve adequate levels of revenue, profitability or productivity or may not otherwise perform as expected.

WE MAY BE UNABLE TO SUCCESSFULLY IMPLEMENT AND INTEGRATE NEW OPERATIONS AND FACILITIES.

Our success depends on our ability to manage our existing operations and facilities and to expand our businesses consistent with our business strategy. In the past, we have grown rapidly in the United States. Our future growth and expansion will increase our management's responsibilities and demands on operating information technologies and financial systems and resources. Our business and financial results are dependent upon a number of factors, including our ability to:

- implement upgraded operations, information technologies and financial systems, procedures and controls;
- hire and train new staff and managerial personnel;
- adapt or amend our business structure to comply with present or future legal requirements affecting our arrangements with doctors, including state prohibitions on fee-splitting, corporate practice of optometry and medicine and referrals to facilities in which doctors have a financial interest;
- obtain regulatory approvals, where necessary, and comply with licensing requirements applicable to doctors and facilities operated, and services offered, by doctors;
- successfully integrate acquisitions into our existing business model; and
- successfully develop new LASIK Select centers and achieve growth and profitability goals of those centers.

Our failure or inability to successfully implement these and other factors may adversely affect the quality and profitability of our business operations.

WE DEPEND ON KEY PERSONNEL WHOSE LOSS COULD ADVERSELY AFFECT OUR BUSINESS.

Our success and growth depends in part on the active participation of key medical and management personnel, including Mr. Elias Vamvakas, Chairman of the Board of Directors, and Mr. James Wachtman, Chief Executive Officer. We maintain key person insurance for each of Mr. Vamvakas, Mr. Wachtman and several key ophthalmologists. Despite having this insurance in place, the loss of any one of these key individuals could adversely affect the quality, profitability and growth prospects of our business operations.

We have employment or similar agreements with the above individuals and other key personnel. The terms of these agreements include, in some cases, entitlements to substantial severance payments in the event of termination of employment by either us or the employee.

WE MAY BE SUBJECT TO MALPRACTICE AND OTHER SIMILAR CLAIMS AND MAY BE UNABLE TO OBTAIN OR MAINTAIN ADEQUATE INSURANCE AGAINST THESE CLAIMS.

The provision of medical services at our centers entails an inherent risk of potential malpractice and other similar claims. Beginning October 1, 2002, all of our U.S. professional malpractice insurance had a $250,000 deductible per claim. Patients at our centers execute informed consent statements prior to any procedure performed by doctors at our centers, but these consents may not provide adequate liability protection. Although we do not engage in the practice of medicine or have responsibility for compliance with regulatory and other requirements directly applicable to doctors and doctor groups, claims, suits or complaints relating to services provided at our centers may be asserted against us in the future, and the assertion or outcome of these claims could result in higher administrative and legal expenses, including settlement costs or litigation damages.

We currently maintain malpractice insurance coverage and accruals that we believe is adequate both as to risks and amounts covered. In addition, we require the doctors who provide medical services at our centers to maintain comprehensive professional liability insurance and most of these doctors have agreed to indemnify us against certain malpractice and other claims. Our insurance coverage, however, may not be adequate to satisfy claims, insurance maintained by the doctors may not protect us and such indemnification may not be enforceable or, if enforced, may not be sufficient. Our inability to obtain adequate insurance or an increase in the future cost of insurance to us and the doctors who provide medical services at the centers may have a material adverse effect on our business and financial results.

The excimer laser system uses hazardous gases which if not properly contained could result in injury. We may not have adequate insurance for any liabilities arising from injuries caused by the excimer laser system or hazardous gases. While we believe that any claims alleging defects in our excimer laser systems would usually be covered by the manufacturers' product liability insurance, the manufacturers of our excimer laser systems may not continue to carry adequate product liability insurance.

WE MAY FACE CLAIMS FOR FEDERAL, STATE AND LOCAL TAXES.

We operate in 48 states and two Canadian provinces and are subject to various federal, state and local income, payroll, unemployment, property, franchise, capital, sales and use tax on our operations, payroll, assets and services. We endeavor to comply with all such applicable tax regulations, many of which are subject to different interpretations, and have hired outside tax advisors who assist in the process. Many states and other taxing authorities have been interpreting laws and regulations more aggressively to the detriment of taxpayers. We believe that we have adequate provisions and accruals in our financial statements for tax liabilities, although we cannot predict the outcome of future tax assessments.

Tax authorities in two states have contacted us and issued proposed sales tax adjustments in the aggregate amount of approximately $0.7 million for various periods through 2005 on the basis that certain of our business arrangements constitute at least a partially taxable transaction rather than an exempt service. Our discussions with these two state tax authorities are ongoing. If it is determined that any sales tax is owed, we believe that, under applicable laws and our contracts with our customers, each customer is ultimately responsible for the payment of any applicable sales and use taxes in respect of our services. However, we may be unable to collect any such amounts from our customers, and in such event we would remain responsible for payment. We cannot yet predict the outcome of these outstanding assessments or any other assessments or similar actions which may be undertaken by other state tax authorities. We have evaluated and implemented a comprehensive sales tax reporting system. We believe that we have adequate provisions in our financial statements with respect to these matters.

COMPLIANCE WITH INDUSTRY REGULATIONS IS COSTLY AND BURDENSOME.

Our operations are subject to extensive federal, state and local laws, rules and regulations. Our efforts to comply with these laws, rules and regulations may impose significant costs, and failure to comply with these laws, rules and regulations may result in fines or other charges being imposed on us. We have incurred significant costs, and expect to incur additional costs in connection with compliance with the provisions of the Sarbanes-Oxley Act of 2002. Our failure to comply with the provisions of Sarbanes-Oxley, including provision relating to internal financial controls, could have a material adverse effect on us.

Many state laws limit or prohibit corporations from practicing medicine and optometry, and many federal and state laws extensively regulate the solicitation of prospective patients, the structure of our fees and our contractual arrangements with hospitals, surgery centers, ophthalmologists and optometrists, among others. Some states also impose licensing requirements. Although we have tried to structure our business and contractual relationships in compliance with these laws in all material respects, if any aspect of our operations were found to violate applicable laws, we could be subject to significant fines or other penalties, required to cease operations in a particular jurisdiction, prevented from commencing operations in a particular state or otherwise be required to revise the structure of our business or legal arrangements. Many of these laws and regulations are ambiguous, have not been definitively interpreted by courts or regulatory authorities and vary from jurisdiction to jurisdiction. Accordingly, we may not be able to predict how these laws and regulations will be interpreted or applied by courts and regulatory authorities, and some of our activities could be challenged.

Numerous legislative proposals to reform the U.S. health care system have been introduced in Congress and in various state legislatures over the past several years. We cannot predict whether any of these proposals will be adopted and, if adopted, what impact this legislation would have on our business. To respond to any such changes, we could be required to revise the structure of our legal arrangements or the structure of our fees, incur substantial legal fees, fines or other costs, or curtail some of our business activities, reducing the potential profit of some of our arrangements.

State medical boards and state boards of optometry generally set limits on the activities of ophthalmologists and optometrists. In some instances, issues have been raised as to whether participation in a co-management program violates some of these limits. If a state authority were to find that our co-management program did not comply with state licensing laws, we would be required to revise the structure of our legal arrangements or curtail our operations, and affiliated doctors might terminate their relationships with us.

Federal and state civil and criminal statutes impose penalties, including substantial civil and criminal fines and imprisonment, on health care providers and persons who provide services to health care providers, including management businesses such as ours, for fraudulently or wrongfully billing government or other insurers. In addition, the federal law prohibiting false Medicare/Medicaid billings allows a private person to bring a civil action in the name of the U.S. government for violations of its provisions and obtain a portion of the damages if the action is successful. We believe that we are in material compliance with these billing laws, but our business could be adversely affected if governmental authorities were to scrutinize or challenge our activities or private parties were to assert a false claim or action against us in the name of the U.S. government.

Although we believe that we have obtained the necessary licenses or certificates of need in states where such licenses are required and that we are not required to obtain any licenses in other states, some of the state regulations governing the need for such licenses are unclear, and there is no applicable precedent or regulatory guidance to help resolve these issues. A state regulatory authority could determine that we are operating a center inappropriately without a required license or certificate of need, which could subject us to significant fines or other penalties, result in us being required to cease operations in a state or otherwise jeopardize our business and financial results. If we expand to a new geographic market, we may be unable to obtain any new license required in that jurisdiction.

COMPLIANCE WITH ADDITIONAL HEALTH CARE REGULATIONS IN CANADA IS COSTLY AND BURDENSOME.

Some Canadian provinces have adopted conflict of interest regulations that prohibit optometrists, ophthalmologists or corporations they own or control from receiving benefits from suppliers of medical goods or services to whom they refer patients. The laws of some Canadian provinces also prohibit health care professionals from splitting fees with non-health care professionals and prohibit non-licensed entities such as us from practicing medicine or optometry and from directly employing physicians or optometrists. We believe that we are in material compliance with these requirements, but a review of our operations by Canadian regulators or changes in the interpretation or enforcement of existing Canadian legal requirements or the adoption of new requirements could require us to incur significant costs to comply with laws and regulations in the future or require us to change the structure of our arrangements with doctors.

COMPLIANCE WITH U.S. FOOD AND DRUG ADMINISTRATION REGULATIONS REGARDING THE USE OF EXCIMER LASER SYSTEMS FOR LASER VISION CORRECTION IS COSTLY AND BURDENSOME.

To date, the FDA has approved excimer laser systems manufactured by some manufacturers for sale for the treatment of nearsightedness, farsightedness and astigmatism up to stated levels of correction. Failure to comply with applicable FDA requirements with respect to the use of the excimer laser could subject us, our affiliated doctors or laser manufacturers to enforcement action, including product seizure, recalls, withdrawal of approvals and civil and criminal penalties.

The FDA has adopted guidelines in connection with the approval of excimer laser systems for laser vision correction. The FDA, however, has also stated that decisions by doctors and patients to proceed outside the FDA-approved guidelines are a practice of medicine decision, which the FDA is not authorized to regulate. Failure to comply with FDA requirements or any adverse FDA action, including a reversal of its interpretation with respect to the practice of medicine, could result in a limitation on or prohibition of our use of excimer lasers.

Discovery of problems, violations of current laws or future legislative or administrative action in the United States or elsewhere may adversely affect the laser manufacturers' ability to obtain regulatory approval of laser equipment. Furthermore, the failure of other excimer laser manufacturers to comply with applicable federal, state or foreign regulatory requirements, or any adverse action against or involving such manufacturers, could limit the supply of excimer lasers, substantially increase the cost of excimer lasers, limit the number of patients that can be treated at our centers and limit our ability to use excimer lasers.

Most of our eye care centers and access sites in the United States use VISX and/or Alcon Laboratories Inc. excimer lasers. If VISX, Alcon or other excimer laser manufacturers fail to comply with applicable federal, state or foreign regulatory requirements, or if any adverse regulatory action is taken against or involves such manufacturers, the supply of lasers could be limited and the cost of excimer lasers could increase.

The Roll-On/Roll-Off laser system consists of an excimer laser mounted on a motorized, air suspension platform and transported in a specially modified truck. We believe that use of this transport system does not require FDA approval; the FDA has taken no position in regard to such approval. The FDA could, however, take the position that excimer lasers are not approved for use in this transport system. Such a view by the FDA could lead to an enforcement action against us, which could impede our ability to maintain or increase our volume of excimer laser surgeries. This could have a material adverse effect on our business and financial results. Similarly, we believe that FDA approval is not required for our mobile use of microkeratomes or the cataract equipment transported by our mobile cataract operations. The FDA, however, could take a contrary position that could result in an enforcement action.

DISPUTES WITH RESPECT TO INTELLECTUAL PROPERTY COULD ADVERSELY AFFECT OUR BUSINESS.

There has been substantial litigation in the United States and Canada regarding the patents on ophthalmic lasers. Although we currently lease or purchase excimer lasers and other technology from the manufacturers, if the use of an excimer laser or other procedure performed at any of our centers is deemed to infringe a patent or other proprietary right, we may be prohibited from using the equipment or performing the procedure that is the subject of the patent dispute or may be required to obtain a royalty-bearing

license, which may involve substantial costs, including ongoing royalty payments. If a license is not available on acceptable terms, we may be required to seek the use of products which do not infringe the patent.

We have also secured patents for portions of the equipment we use to transport our mobile lasers. Our patents and other proprietary technology are important to our success. These patents could be challenged, invalidated or circumvented in the future. Litigation regarding intellectual property is common and our patents may not adequately protect our intellectual property. Defending and prosecuting intellectual property proceedings is costly and involves substantial commitments of management time. If we fail to successfully defend our rights with respect to our intellectual property, we may be required to pay damages and cease using our equipment to transport mobile lasers, which may have a material adverse effect on our business.

WE MAY NOT HAVE THE CAPITAL RESOURCES NECESSARY IN ORDER TO KEEP UP WITH RAPID TECHNOLOGICAL CHANGES.

Modern medical technology changes rapidly. New or enhanced technologies and therapies may be developed with better performance or lower costs than the laser vision correction currently provided at our centers. We may not have the capital resources to upgrade our excimer laser equipment, acquire new or enhanced medical devices or adopt new or enhanced procedures at the time that any advanced technology or therapy is introduced.

THE ABILITY OF OUR SHAREHOLDERS TO EFFECT CHANGES IN CONTROL OF OUR COMPANY IS LIMITED.

We have a shareholder rights plan which enables the Board of Directors to delay a change in control of our company. This could discourage a third party from attempting to acquire control of our company, even if an attempt would be beneficial to the interests of the shareholders. In addition, since we are a Canadian corporation, investments in our company may be subject to the provisions of the Investment Canada Act. In general, this act provides a system for the notification to the Investment Canada agency of acquisitions of Canadian businesses by non-Canadian investors and for the review by the Investment Canada agency of acquisitions that meet thresholds specified in the act. To the extent that a non-Canadian person or company attempted to acquire 33% or more of our outstanding common stock, the threshold for a presumption of control, the transaction could be reviewable by the Investment Canada agency. The Investment Canada Act also applies to a change of control effected by a sale of all or substantially all of the assets of our company. These factors and others could have the effect of delaying, deferring or preventing a change of control of our company supported by shareholders but opposed by our Board of Directors.

AS THE MAJORITY OWNER OF OCCULOGIX, IT MAY BE NECESSARY FOR US TO FUND ADDITIONAL CAPITAL REQUIREMENTS.

OccuLogix reported approximately $41.3 million of cash and short-term investments as of December 31, 2005, largely as a result of its initial public offering in December 2004. Although it expects the current cash and short-term investments to be adequate to support its operations for at least the next 12 months, OccuLogix anticipates that the funding requirements for its activities will continue to increase substantially, primarily due to its efforts to achieve FDA approval for and to commercialize the RHEO™ System. OccuLogix may need to seek additional funds in the future, and it may be necessary for us to fund OccuLogix's additional capital requirements as the majority shareholder in order to avoid dilution of the value of our ownership.

THERE IS NO GUARANTEE THAT OCCULOGIX WILL BE SUCCESSFUL IN OBTAINING FDA APPROVAL OR COMMERCIALIZING THE RHEO™ SYSTEM.

On February 3, 2006, OccuLogix announced that, based on a preliminary analysis of the data from MIRA-1 (a pivotal clinical trial), MIRA-1 did not meet its primary efficacy endpoint as it did not demonstrate a statistically significant difference in the mean change of Best Spectacle-Corrected Visual Acuity applying the Early Treatment Diabetic Retinopathy Scale, or ETDRS BCVA, between the treated and placebo groups in MIRA-1 at 12 months post-baseline. As expected, the treated group demonstrated a positive result. An anomalous response of the control group is the principal reason why the primary efficacy endpoint was not met. There were subgroups that did demonstrate statistical significance in their mean change of ETDRS BCVA versus control. OccuLogix is in the process of analyzing further the study data.

The MIRA-1 protocol required OccuLogix to obtain a minimum of 150 complete clinical data sets. To that end, OccuLogix had enrolled a total of 185 patients in MIRA-1 as of December 31, 2004. On November 17, 2005, OccuLogix announced that it had collected complete 12-month post-treatment data sets for 169 of these patients. As of December 31, 2004, OccuLogix had also submitted to the FDA the first three of four modules of the Pre-market Approval Application, or PMA, filing, the non-clinical portion. The non-clinical portion of the PMA consisted of technical data relating to components of the RHEO™ System. Although OccuLogix had intended to submit the fourth module, which consists of the follow-up clinical data, in two components, following discussions

with the FDA, it subsequently elected to file only one PMA clinical module following completion of the 12-month data on at least 150 data sets.

Subsequent to the February 3, 2006 announcement, OccuLogix completed an in-depth analysis of the MIRA-1 study data identifying subjects that were included in the intent-to-treat, or ITT, population but who deviated from the MIRA-1 protocol as well as those patients who had documented losses or gains in vision for reasons not related to retinal disease such as cataracts. Those subjects in the ITT population who met the protocol requirements, and who did not exhibit ophthalmic changes unrelated to retinal disease, comprised the modified per-protocol population.

In the modified per-protocol analysis, eyes treated with RHEO™ Therapy demonstrated a mean vision gain of 0.8 lines of ETDRS BCVA at 12 months post-baseline, compared to a mean vision loss of 0.1 lines of ETDRS BCVA in the eyes of the placebo group. The result was statistically significant (repeated measure p value = 0.0147). The following table presents a summary of the ETDRS BCVA changes observed 12 months post-baseline in the modified per-protocol analysis of MIRA-1:

	Treatment Group (n=69)	Placebo Group (n=46)
Vision improvement greater or equal to:		
1 line	46.4%	19.6%
2 lines	27.5%	8.7%
3 lines	8.7%	2.2%
Vision loss greater or equal to:		
1 line	11.6%	23.9%
2 lines	5.8%	6.5%
3 lines	2.9%	2.2%

Within the modified per-protocol population with pre-treatment vision worse than 20/40, 50.0% of RHEO™ Therapy-treated eyes improved, after treatment, to 20/40 or better and would be able to qualify for a driver's license 12 months post-baseline, compared to 20.0% of placebo eyes.

OccuLogix will be re-evaluating its PMA submission strategy. The per-protocol population analysis comprises 115 complete data sets, while OccuLogix had been required to obtain a minimum of 150 complete data sets. OccuLogix is planning to meet with representatives of the FDA in the second quarter of 2006 in order to discuss the impact on the PMA submission strategy of the MIRA-1 study results and the fact of the per-protocol population being fewer than 150. It is more likely than not that OccuLogix will be required to conduct a follow-up clinical trial of the RHEO™ System. However, until OccuLogix has discussions with the FDA, it will not know if a follow-up clinical trial will be necessary and, if one is necessary, what its nature, size, scope or duration will be.

OccuLogix cannot begin commercialization in the United States until it receives FDA approval. Until OccuLogix has discussions with the FDA, it will not be able to anticipate when, if ever, it will receive FDA approval. Accordingly, at this time, OccuLogix does not know when it can expect to begin to generate revenues in the United States.

Prior to the announcement on February 3, 2006 of the preliminary analysis of the data from MIRA-1, in anticipation of commercialization in the United States, OccuLogix was establishing a plan to educate members of the eye care community about RHEO™ Therapy. It was in the process of identifying multi-facility health care service providers, including hospitals, dialysis clinics and ambulatory surgery centers, as well as private practices, which it believes may be interested in providing RHEO™ Therapy in their facilities. One of these potential providers may be TLC*Vision* due to our relationships with a large number of optometrists and ophthalmologists in the United States. Pending the outcome of its discussions with the FDA and the determination of the parameters of any follow-up clinical trial of the RHEO™ System, OccuLogix has suspended, for the time being, all of its activities that were being conducted in anticipation of commercialization in the United States.

In 2003, OccuLogix received Health Canada approval for the components of the RHEO™ System. The approval allows OccuLogix to market the RHEO™ System in Canada for use in the treatment of patients suffering from dysproteinemia due, for example, to abnormal plasma viscosity and/or macular disease. Upon receiving the approval, OccuLogix began limited commercialization of the RHEO™ System through sales of OctoNova pumps and disposable treatment sets to three clinics in Canada. In September 2004, OccuLogix signed an agreement with a private Canadian company called Rheo Therapeutics Inc. (now Veris Health Services Inc.) ("Veris"), a provider of RHEO™ Therapy, which agreed to purchase approximately 8,000 treatment sets and 20 OctoNova pumps by the end of 2005, with an option to purchase up to an additional 2,000 treatment sets, subject to availability. However, due to delays in its plans to open a number of commercial treatment centers in various Canadian cities where RHEO™

Therapy would be performed, Veris no longer required the contracted-for number of treatment sets for such period. OccuLogix agreed to keep the original pricing for a reduced number of treatment sets. In December 2005, by letter agreement, OccuLogix agreed to the volume and other terms for the purchase and sale of treatment sets and pumps for the period ending February 28, 2006. OccuLogix intends to negotiate with Veris purchase orders for the future. Dr. Jeffery Machat, who is an investor in and one of the directors of Veris, was a co-founder and former director of our Company.

In summary, OccuLogix's primary activities to date have included commercialization of the RHEO™ System in Canada, working to obtain FDA regulatory approval for the RHEO™ System and building an operating infrastructure to support potential U.S. sales following approval by the FDA. Pending the outcome of OccuLogix's discussions with the FDA regarding the full analysis of the MIRA-1 study data, it is reasonably likely that the focus of its primary activities will shift.

OUR STOCK PRICE AND REPORTED RESULTS MAY BE IMPACTED BY THE OPERATING RESULTS OF OCCULOGIX.

As a significant shareholder of OccuLogix, our stock price may be affected by changes in the price of OccuLogix's common stock. We are unable to predict how fluctuations in OccuLogix's stock price will affect our own stock price. Because we have a controlling financial interest in OccuLogix, the results of operations of this entity are consolidated into the operating results of our other businesses. OccuLogix expects to continue to report significant operating losses for the next several years. Because of the numerous risks and uncertainties associated with developing and commercializing new medical therapies, including obtaining FDA approval, OccuLogix is unable to predict the extent of any future losses or when it will become profitable, if ever. Because we are a significant shareholder of OccuLogix, our operating results and stock price may be negatively impacted by the operating results of OccuLogix. In the event that we were to reduce our ownership interest to the level where consolidation was not required, our operating results would still be impacted by OccuLogix to the extent of our ownership, via earnings from equity investments.

As noted previously, on February 3, 2006, OccuLogix announced that the preliminary analysis of the data from MIRA-1 indicated that MIRA-1 did not demonstrate a statistically significant mean change of BCVA. As a result, the share price of OccuLogix's stock as traded on the NASDAQ National Market System decreased from $12.75 on February 2, 2006 to close at $4.10 on February 3, 2006. The 10-day average price of the stock immediately following the announcement was $3.65 and reflected a decrease in the market capitalization of OccuLogix from $536.6 million on February 2, 2006 to $153.6 million based on the 10-day average share price after the announcement. The resulting decrease in the share price was identified as an indicator of impairment leading to an analysis of OccuLogix's intangible assets and goodwill and resulting in OccuLogix reporting an impairment charge to goodwill of $147.5 million. Because we accounted for the OccuLogix reorganization at historical cost, we eliminate OccuLogix's goodwill balance in consolidation (see Note 1).

OccuLogix believes that the announcement made it unlikely that it would be able to collect on amounts outstanding from its sole customer, Veris, resulting in a provision for bad debts of $0.5 million related to revenue reported prior to December 2005. OccuLogix did not recognize $0.5 million of revenue related to goods shipped in December 2005, based on collectibility not being reasonably assured. OccuLogix also fully expensed the $0.2 million advance that it had paid to Veris in connection with clinical trial services to be provided by Veris for one of OccuLogix's clinical trials. OccuLogix also evaluated its ending inventory balance as of December 31, 2005 on the basis that Veris may not be able to increase its commercial activities in Canada in line with initial expectations. Accordingly, OccuLogix set up a provision for obsolescence of $2.0 million for filter sets that will unlikely be utilized prior to their expiration dates. As a result of the above entries, our reported pre-tax earnings for the quarter and year ended December 31, 2005 were reduced by $1.6 million.

Additional adjustments to asset values may be required as OccuLogix continues its evaluation and operations, and those adjustments may be material. Those adjustments could impact our stock price as well as our results to the extent of our ownership percentage in OccuLogix.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's 82 centers are located in leased premises throughout the United States and Canada. The leases are negotiated on market terms and typically have terms of five to ten years. TLC*Vision*'s International Headquarters are located in Mississauga, Ontario, Canada. TLC*Vision*'s U.S. Corporate Office is located in approximately 20,500 square feet of leased office space in St. Louis, Missouri under a lease that will expire in 2006. The Company entered into a ten-year lease for new U.S. corporate office space in St. Louis, Missouri that begins in mid-2006. TLC*Vision* also maintains approximately 7,000 square feet of office/warehouse space in Bloomington, Minnesota for its mobile cataract operations. The Bloomington facility lease expires in 2009.

The terms of the Company's leases provide for total aggregate monthly lease obligations of approximately $0.6 million in 2006.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various claims and legal actions in the ordinary course of its business, which may or may not be covered by insurance. These matters include, without limitation, professional liability, employee-related matters and inquiries and investigations by governmental agencies. While the ultimate results of such matters cannot be predicted with certainty, the Company believes that the resolution of these matters will not have a material adverse effect on its consolidated financial position or results of operations.

Except as set forth above, there have been no other material legal proceedings outstanding.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2005.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

The Common Shares are listed on the Toronto Stock Exchange under the symbol "TLC" and on the NASDAQ National Market under the symbol "TLCV." The following table sets forth, for the periods indicated, the high and low closing prices per Common Share of the Common Shares on the Toronto Stock Exchange and the Nasdaq National Market:

	THE TORONTO STOCK EXCHANGE		NASDAQ NATIONAL MARKET	
	HIGH	LOW	HIGH	LOW
Fiscal 2004				
First Quarter March 31, 2004	C$15.38	C$8.32	$11.75	$6.50
Second Quarter June 30, 2004	17.50	13.42	12.82	9.81
Third Quarter September 30, 2004	15.55	10.37	11.92	7.95
Fourth Quarter December 31, 2004	14.90	10.36	12.24	8.48
Fiscal 2005				
First Quarter March 31, 2005	C$12.54	C$10.60	$10.26	$8.87
Second Quarter June 30, 2005	11.46	9.80	9.42	8.16
Third Quarter September 30, 2005	12.14	7.85	9.86	6.77
Fourth Quarter December 31, 2005	7.99	6.90	6.87	5.89

As of March 6, 2006, there were approximately 774 record holders of the Common Shares.

The Company has never declared or paid cash dividends on the Common Shares. It is the current policy of the Board of Directors of the Company to retain earnings to finance growth and development of its business, and therefore, the Company does not anticipate paying cash dividends on its Common Shares in the near future. In addition, the Company's ability to pay dividends is currently restricted pursuant to the Company's line of credit facility.

SHARE REPURCHASE PLAN

The following table provides information about purchases by the Company during the fourth quarter ended December 31, 2005 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Issuer Purchases of TLC*Vision* Common Stock

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Programs (1)
As of 09/30/2005	1,829,800	$ 8.0334	1,829,800	170,200
10/01/2005-10/31/2005	170,200	6.8641	170,200	--
Total	2,000,000	$ 7.9339	2,000,000	--

(1) On December 20, 2004, the Company announced a stock repurchase program, pursuant to which up to 2.0 million shares of its common stock may be repurchased. During 2005, the Company repurchased and retired 2.0 million common shares for $15.9 million completing its previously announced 2.0 million share repurchase program.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2005, regarding compensation plans under which equity securities of TLC*Vision* are authorized for issuance (shares in thousands).

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,536	$5.53(1)	1,031
Equity compensation plans not approved by security holders	--	--	--
Total	3,536	$5.53(1)	1,031

(1) Represents the weighted-average exercise price of outstanding options, warrants and rights denominated in U.S. dollars. The weighted-average exercise price of outstanding options, warrants and rights denominated in Canadian dollars was C$5.26.

See Note 14 to the audited consolidated financial statements for more information regarding the material features of the Company's outstanding options, warrants and rights.

On November 8, 2005, the Company completed the purchase of TruVision, Inc., a managed care contractor to health plan members and large corporations. In connection with the transaction, the Company issued as consideration to one former shareholder of TruVision an aggregate of 3,913 common shares having an approximate dollar value of $24,000. The issuance of common shares was structured as a private placement under Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected historical consolidated financial data of TLC*Vision* for the fiscal years ended December 31, 2005, 2004 and 2003, twelve months ended December 31, 2002, seven-month transitional period ended December 31, 2002 and the fiscal years ended May 31, 2002 and 2001, which have been derived from the consolidated financial statements of the Company included elsewhere in this Form 10-K and the consolidated financial statements of the Company included in the Company's December 31, 2002 Transition Report on Form 10-K, May 31, 2002 and 2001 Annual Reports on Form 10-K and the unaudited twelve-month period ended December 31, 2002. The following table should be read in conjunction with the Company's financial statements, the related notes thereto and the information contained in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations."

	YEAR ENDED MAY 31,		SEVEN-MONTH PERIOD ENDED DECEMBER 31,	TWELVE MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,		
	2001(2)	2002(3)	2002(4)	2002(5)	2003(6)	2004(7)	2005(8)
				UNAUDITED			
(U.S. dollars, in thousands except per share amounts, shares and operating data)							
STATEMENT OF OPERATIONS DATA							
Net revenues	$ 174,006	$ 134,751	$ 100,154	$ 164,605	$ 200,918	$ 247,247	$ 260,025
Cost of revenues	110,016	97,789	80,825	125,163	148,543	170,738	180,725
Gross profit	63,990	36,962	19,329	39,442	52,375	76,509	79,300
General and administrative	44,464	36,382	25,567	38,158	27,001	26,866	36,497
Income (loss) before cumulative effect of accounting change	(37,773)	(146,675)	(43,343)	(144,731)	(9,399)	43,708	6,885
Income (loss) per share before cumulative effect of accounting change, diluted	$(1.00)	$(3.74)	$(0.68)	$(2.68)	$(0.15)	$0.61	$0.10
Weighted average number of Common Shares outstanding, diluted	37,779	39,215	63,407	54,077	64,413	71,088	71,380

	YEAR ENDED MAY 31,		SEVEN-MONTH PERIOD ENDED DECEMBER 31,	TWELVE MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,		
	2001(2)	2002(3)	2002(4)	2002(5)	2003(6)	2004(7)	2005(8)
OPERATING DATA (unaudited)							
Number of eye care centers at end of period	59	80	84	84	76	73	81
Number of access service sites(1)							
Refractive	--	336	304	304	270	327	316
Cataract	--	280	274	274	359	371	563
Number of laser vision correction procedures:							
Centers	122,800	95,000	49,700	95,000	100,500	115,700	119,100
Access	--	--	43,200	47,000	75,600	80,700	71,800
Mobile cataract	--	--	23,300	24,800	40,700	43,700	49,000
Total procedures	122,800	95,000	116,200	166,800	216,800	240,100	239,900

	MAY 31, 2001	MAY 31, 2002	DECEMBER 31, 2002	DECEMBER 31, 2003	DECEMBER 31, 2004	DECEMBER 31, 2005
BALANCE SHEET DATA						
Cash and cash equivalents	$ 47,987	$ 45,074	$ 34,231	$ 21,580	$ 33,435	$ 31,729
Working capital	42,366	23,378	12,523	10,868	131,195	66,896
Total assets	238,438	245,515	196,056	190,748	305,241	301,043
Long-term debt, excluding current portion	8,313	14,643	15,760	19,242	9,991	12,665
STOCKHOLDERS' EQUITY						
Common stock	276,277	387,701	388,769	397,878	458,959	450,703
Option and warrant equity	532	11,755	11,035	8,143	2,872	1,861
Accumulated deficit	(80,161)	(242,010)	(285,353)	(294,752)	(251,044)	(244,159)
Accumulated other comprehensive loss	(9,542)	--	--	--	--	--
Total stockholders' equity	187,106	155,014	111,828	111,269	210,787	208,405

(1) An access service site has provided services in the preceding 90 days.

(2) In fiscal 2001, the selected financial data of the Company included a restructuring charge of $19.1 million.

(3) In fiscal 2002, the selected financial data of the Company included:
(a) a charge of $81.7 million for impairment of intangibles;
(b) a write down of $26.1 million in the fair value of investments and long-term receivables;
(c) a restructuring charge of $8.8 million; and
(d) a reduction of $2.6 million in the carrying value of fixed assets.

(4) In the seven months ended December 31, 2002, the selected financial data of the Company included:
(a) a charge of $22.1 million for impairment of intangibles;
(b) a write down of $2.1 million in the fair value of investments and long-term receivables;
(c) other income of $6.8 million for settlement of a class action lawsuit with laser manufacturers;
(d) a restructuring charge of $4.7 million; and
(e) a reduction of $1.0 million in the carrying value of fixed assets.

(5) In the twelve-month period ended December 31, 2002, the selected financial data of the Company included:
(a) a charge of $103.9 million for impairment of intangibles;
(b) a write down of $7.1 million in the fair value of investments and long-term receivables;
(c) other income of $6.8 million for settlement of a class action lawsuit with laser manufacturers;
(d) a restructuring charge of $11.2 million; and
(e) a reduction of $1.5 million in the carrying value of fixed assets.

(6) In fiscal 2003, the selected financial data of the Company included an adjustment to the fair value of long-term receivables of $0.2 million.

(7) In fiscal 2004, the selected financial data of the Company included:
(a) an adjustment to the fair value of long-term receivables of $1.2 million;
(b) other income of $25.8 million from the gain on sale of OccuLogix stock; and
(c) an executive severance charge of $2.6 million.

(8) In fiscal 2005, the selected financial data of the Company included:
(a) a write-down of $1.1 million in the fair value of intangibles and an adjustment to the fair value of long-term liabilities of $0.2 million;
(b) OccuLogix inventory and accounts receivable write-downs of $1.6 million, after minority interests; and
(c) a $1.2 million correction of an error related to 2004 income taxes as described in footnote 15 to the consolidated financial statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and the related notes thereto, which are included in Item 8 of this Form 10-K. The following discussion is based upon the Company's results under U.S. generally accepted accounting principles. Unless otherwise specified, all dollar amounts are U.S. dollars.

OVERVIEW

TLC Vision Corporation is a diversified eye care services company dedicated to improving lives through better vision by providing eye doctors with the tools and technologies they need to deliver high quality patient care. The majority of the Company's revenues come from laser refractive surgery, which involves using an excimer laser to treat common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company's business models include arrangements ranging from owning and operating fixed site centers to providing access to lasers through fixed site and mobile service relationships. In addition to refractive surgery, the Company is diversified into other eye care businesses. Through its MSS subsidiary, the Company furnishes hospitals and other facilities with mobile or fixed site access to cataract surgery equipment, supplies and technicians. The Company is continuing to expand MSS into other mobile diagnostic services, such as glaucoma screening. Through its ambulatory surgery center (ASC) subsidiaries, TLC*Vision* develops, manages and has equity participation in single- and multi-specialty ASCs. The Company also owns a 51% majority interest in Vision Source, which provides franchise opportunities to independent optometrists. The Company is also a 51% majority owner of OccuLogix, which focuses on the treatment of a specific eye disease known as dry age-related macular degeneration, via rheopheresis, a process for filtering blood. OccuLogix, is also a reporting company with the Commission, and its stock is publicly traded on the Nasdaq National Market and the Toronto Stock Exchange.

The Company recognizes revenues at the time procedures are performed or services are rendered. Revenues include amounts charged to patients for procedures performed at laser centers, amounts charged to physicians for laser access and service fees, and management fees from managing refractive and secondary care practices. Under the terms of management service agreements, the Company provides non-clinical services, which include facilities, staffing, equipment lease and maintenance, marketing and administrative services to refractive and secondary care practices in return for management fees. For third party payor programs and corporations with arrangements with TLC*Vision*, the Company's management fee and the fee charged by the surgeon are both discounted in proportion to the discount afforded to these organizations. While the Company does not direct the manner in which the surgeons practice medicine, the Company does direct the day-to-day non-clinical operations of the centers. The management service agreements typically are for an extended period of time, ranging from five to 15 years. Management fees are equal to the net revenue of the physician practice, less amounts retained by the physician groups.

Included in costs of revenue are the laser fees payable to laser manufacturers for royalties, doctors' compensation, use and maintenance of the lasers, variable expenses for consumables and facility fees, as well as center costs associated with personnel, facilities and depreciation of center assets.

Selling, general and administrative expenses include expenses that are not directly related to the provision of laser correction services or cataract services.

The Company serves surgeons who performed over 279,200 procedures, including refractive and cataract procedures, at the Company's centers or using the Company's equipment during the year ended December 31, 2005. In the twelve months ended December 31, 2005, the Company's refractive procedure volume decreased to 190,900 compared to 196,400 in the twelve months ended December 31, 2004, a decrease of 5,500 procedures or 3%. Being an elective procedure, laser vision correction volumes will fluctuate due to changes in economic and stock market conditions, unemployment rates, consumer confidence and political uncertainty. Demand for laser vision correction also is affected by perceived safety and effectiveness concerns given the lack of long-term follow-up data.

DEVELOPMENTS DURING FISCAL 2005

ACQUISITIONS AND DIVESTITURES

On July 11, 2005, the Company acquired substantially all the assets of Kremer Laser Eye ("Kremer"). Kremer operates three refractive centers and one ambulatory surgery center all of which are located in the northeastern part of the United States. For over 20 years, Kremer has been an integrated eye care company providing refractive, cataract and glaucoma surgery services. The acquisition of Kremer expands the Company's presence in both the refractive and ASC businesses in one of the largest populated markets in the United States. The purchase price for the acquired assets was $29.7 million. In addition, the Company assumed certain liabilities and incurred transaction costs of $1.1 million. Simultaneously with this transaction, the Company sold an 18% interest in Kremer to a group of doctors associated with Kremer for $5.3 million. As a result, the Company maintains an 82% ownership interest in Kremer.

On December 1, 2005, the Company acquired a 49% interest in Liberty Eye Surgical Center, LLC ("Liberty") for $6.2 million in cash. Liberty is an ambulatory surgery center located in Philadelphia, Pennsylvania that primarily provides cataract surgery services.

On November 8, 2005, the Company acquired TruVision, Inc. ("TruVision") for $17.4 million in cash and 3,913 shares of company common stock valued at approximately $24,000 coupled with a three-year earn out. TruVision is a managed care contractor to health plan members and large corporations across 44 states. TruVision's services enable insurance health plans and large corporations to offer LASIK vision surgery to their members at a reduced price.

On July 1, 2005, the Company acquired a 100% interest in Millennium Laser Eye ("Millennium") for $6.1 million in cash plus the assumption of certain liabilities. Millennium provides refractive services in Washington, D.C.

On March 1, 2005, the Company sold its interest in Aspen Healthcare, Inc. ("Aspen") to National Surgical Centers, Inc. and recorded a gain of $0.3 million, which is included in other operating expenses.

CRITICAL ACCOUNTING POLICIES

IMPAIRMENT OF GOODWILL

The Company accounts for its goodwill in accordance with Statement of Financial Accounting Standards ("SFAS") 142, which requires the Company to test goodwill for impairment annually and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. SFAS 142 requires the Company to determine the fair value of its reporting units. Because quoted market prices do not exist for the Company's reporting units, the Company uses the present value of expected future cash flows to estimate fair value. Management must make significant estimates and assumptions about future conditions to estimate future cash flows. If these estimates or their related assumptions change in the future, including general economic and competitive conditions, the Company may be required to record impairment charges related to these assets.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company accounts for its long-lived assets in accordance with SFAS 144, which requires the Company to assess the recoverability of these assets when events or changes in circumstances indicate that the carrying amount of the long-lived asset (group) might not be recoverable. If impairment indicators exist, the Company determines whether the projected undiscounted cash flows will be sufficient to cover the carrying value of such assets. This requires the Company to make significant judgments about the expected future cash flows of the asset group. The future cash flows are dependent on many factors including general and economic conditions and are subject to change. A change in these assumptions could result in material charges to income.

RECOVERABILITY OF DEFERRED TAX ASSETS

The Company has generated deferred tax assets and liabilities due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the income tax bases of such assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets to the amount expected to be realized. In assessing the adequacy of the valuation allowances, the Company considers the scheduled reversal of deferred tax liabilities, future taxable income and prudent and feasible tax planning strategies. At December 31, 2005, the Company had valuation allowances of $75.6 million to fully offset deferred tax assets of $75.6 million. The valuation allowance was based on the uncertainty of the realizability of certain deferred tax assets. In the event the Company determines it is more likely than not it will be able to use a deferred tax asset in the future in excess of its net carrying value, the valuation allowance would be reduced, thereby increasing net income, reducing goodwill or increasing equity in the period such determination was made.

ACCRUAL OF MEDICAL MALPRACTICE CLAIMS

The nature of the Company's business is such that it is subject to medical malpractice lawsuits. To mitigate a portion of this risk, the Company maintains insurance in the United States for individual malpractice claims with a deductible of $250,000 per claim and a total annual aggregate deductible of $15 million. Management and the Company's insurance carrier review malpractice lawsuits for purposes of establishing ultimate loss estimates. The Company has recorded reserves to cover the estimated costs of the deductible for both reported and unreported medical malpractice claims incurred. The estimates are based on the average monthly claims expense and the estimated average time lag between the performance of a procedure and notification of a claim. If the number of claims or the cost of settled claims is higher than the Company's historical experience or if the actual time lag varies from the estimated time lag, the Company may need to record significant additional expense.

RISK FACTORS

See "Item 1A - Risk Factors."

YEAR ENDED DECEMBER 31, 2005 COMPARED TO THE YEAR ENDED DECEMBER 31, 2004

Total revenues for the year ended December 31, 2005 were $260.0 million, an increase of $12.8 million or 5% over revenues of $247.2 million for the year ended December 31, 2004. Approximately 72% of total revenues for the year ended December 31, 2005 were derived from refractive services compared to 74% during the year ended December 31, 2004.

Revenues from the refractive segment for the year ended December 31, 2005 were $186.6 million, an increase of $4.2 million or 2% over revenues of $182.4 million for the year ended December 31, 2004. The increase in refractive revenues was due largely to higher average pricing and procedures from centers that were acquired during 2005 partially offset by lower procedure volume. Refractive procedures for the year ended December 31, 2005 were approximately 190,900, a decrease of 5,500 or 3% from refractive procedures of 196,400 for the year ended December 31, 2004. Procedures for Laser Eye Care of California ("LECC"), a 30% owned subsidiary, were included in both periods, and account for 18,100 procedures for the year ended December 31, 2005, an increase of 1,400 procedures over the year ended December 31, 2004.

Revenues from centers for the year ended December 31, 2005 were $150.2 million, an increase of $8.4 million or 6% over revenues of $141.8 million for the year ended December 31, 2004. The increase in centers revenues was due to a 3,300 or 3% increase in centers procedures and higher average pricing.

Revenues from access services for the year ended December 31, 2005 were $36.5 million, a decrease of $4.2 million or 10% from revenues of $40.7 million for the year ended December 31, 2004. The decrease in access revenues was primarily due to a 8,800 or 11% decrease in access procedures partially offset by higher average pricing.

Revenues from other healthcare services for the year ended December 31, 2005 were $73.4 million, an increase of $8.6 million or 13% over revenues of $64.8 million for the year ended December 31, 2004. The increase in other healthcare services revenue primarily resulted from internal growth of existing businesses and contributions from ASC and mobile cataract businesses acquired within the past year. Approximately 28% of the total revenues for the year ended December 31, 2005 were derived from other healthcare services compared to 26% during the year ended December 31, 2004.

The cost of refractive revenues for the year ended December 31, 2005 was $133.5 million, an increase of $3.2 million or 2% over the cost of refractive revenues of $130.3 million for the year ended December 31, 2004. This increase was primarily attributable to a higher percentage of refractive procedures coming from centers, which have a higher per procedure cost than access procedures. The increase is also due to higher costs associated with higher priced procedures, primarily Custom LASIK and Intralase partially offset by a decrease in total refractive procedures. Gross margins for the refractive business as a whole remained consistent at 29% for the years ended December 31, 2005 and 2004.

The cost of revenues from centers for the year ended December 31, 2005 was $106.5 million, an increase of $5.1 million or 5% over the cost of revenues of $101.4 million for the year ended December 31, 2004. This increase primarily resulted from higher procedure volume and higher costs associated with higher priced procedures. Gross margins from centers were 29% for the year ended December 31, 2005, increasing less than 1% from gross margins for the year ended December 31, 2004.

The cost of revenues from access services for the year ended December 31, 2005 was $27.0 million, a decrease of $1.9 million or 7% over the cost of revenues of $28.9 million for the year ended December 31, 2004. This decrease primarily resulted from lower

procedure volume partially offset by higher costs associated with higher priced procedures. Gross margins from access services decreased to 26% for the year ended December 31, 2005 from 29% during the year ended December 31, 2004. This margin percentage decrease was primarily due to lower procedure volumes and lower margins associated with higher priced procedures.

The cost of revenues from other healthcare services for the year ended December 31, 2005 was $47.3 million, an increase of $6.9 million or 17% over the cost of revenues of $40.4 million for the year ended December 31, 2004. The increase in cost of revenues was primarily related to incremental costs incurred to generate the increased revenue of the other healthcare service business and included an increase of $2.0 million related to a provision for OccuLogix's inventory. Gross margins decreased to 36% from 38% due principally to the $2.0 million provision for OccuLogix's inventory.

General and administrative expenses increased to $36.5 million for the year ended December 31, 2005 from $26.9 million for the year ended December 31, 2004. The $9.6 million or 36% increase included an $8.0 million increase as a result of consolidating the results of operations of OccuLogix for 2005 (began consolidating in December 2004). The remaining $1.6 million increase was primarily due to increased costs associated with acquisitions made during the year.

Marketing and sales expenses increased to $21.7 million for the year ended December 31, 2005 from $18.7 million for the year ended December 31, 2004. The $3.0 million or 16% increase included a $0.5 million increase as a result of consolidating the results of operations of OccuLogix for 2005 (began consolidating in December 2004). The remaining $2.5 million increase was primarily due to higher corporate marketing spending and increased costs associated with acquisitions made during the year.

Research and development, clinical and regulatory expenses increased to $5.3 million for the year ended December 31, 2005 from $1.8 million for the year ended December 31, 2004. The $3.5 million increase was due to increased costs incurred by OccuLogix related to its efforts to complete the MIRA-1 clinical trial.

Amortization expenses decreased to $4.0 million for the year ended December 31, 2005 from $4.1 million for the year ended December 31, 2004. This decrease was due to lower expenses from certain fully amortized intangible assets partially offset by increases from intangibles acquired during the year ended December 31, 2005.

Other operating expenses, net decreased to $0.8 million for the year ended December 31, 2005 from $0.9 million for the year ended December 31, 2004. For the year ended December 31, 2005, other operating expenses, net primarily included $1.0 million of center closing costs and $0.9 million of net write-downs of the fair values of intangibles and long-term liabilities partially offset by $0.4 million of miscellaneous income, a $0.3 million gain on the sale of a subsidiary and a $0.3 million reimbursement received under a previous research and development arrangement. For the year ended December 31, 2004, other operating expenses, net primarily included $2.6 million of severance accruals for two officers under terms of employment contracts and $0.8 million of losses on sales and disposals of fixed assets partially offset by a $1.2 million adjustment to the fair value of a long-term receivable and a $1.1 million gain on the sale of LECC.

During the year ended December 31, 2004, the Company recorded a $25.8 million gain on the sale of 2.3 million shares of OccuLogix's common stock. There was no such sale of OccuLogix's common stock during the year ended December 31, 2005.

Interest income increased to $4.3 million for the year ended December 31, 2005 from $2.0 million for the year ended December 31, 2004. This $2.3 million increase included a $1.5 million increase as a result of consolidating the operations of OccuLogix for 2005 (began consolidating in December 2004). The remaining $0.8 million increase was due to an increase in the Company's cash and cash equivalents and short-term investments balances as well as higher rates of return.

Interest expense decreased to $1.7 million for the year ended December 31, 2005 from $2.6 million for the year ended December 31, 2004. This $0.9 million decrease was due to declining debt and capital lease obligations.

Minority interest expense decreased to $1.3 million for the year ended December 31, 2005 from $7.0 million for the year ended December 31, 2004. This $5.7 million decrease included a $6.6 million decrease due to consolidating the results of operations of OccuLogix for 2005 (began consolidating in December 2004) partially offset by a $0.9 million increase from the Company's other business segments.

Earnings from equity investments increased to $2.5 million for the year ended December 31, 2005 from $2.1 million for the year ended December 31, 2004. This $0.4 million increase was primarily due to a $0.7 million increase in earnings from an ASC that was acquired in December 2004.

Income tax expense increased to $7.9 million for the year ended December 31, 2005 from $0.6 million for the year ended

December 31, 2004. This $7.3 million increase was primarily a result of the nature of the Company's net operating loss carryforwards that were utilized in 2005 compared to those utilized in 2004 and correcting a $1.2 million 2004 income tax expense understatement in 2005, as described in footnote 15 to the consolidated financial statements. During 2005, the Company principally reversed deferred tax valuation allowances to goodwill and equity compared to income tax benefit in 2004. The income tax expense increase of $7.3 million is primarily a non-cash increase.

Net income for the year ended December 31, 2005 was $6.9 million or $0.10 per share compared to net income of $43.7 million or $0.61 per share for the year ended December 31, 2004. This $36.8 million decrease reflected a $31.0 million decrease from the AMD segment, which included a gain of $25.8 million in 2004. Excluding the impact of the AMD segment, net income decreased to $14.7 million or $0.21 per share for the year ended December 31, 2005 from $20.5 million or $0.29 per share for the year ended December 31, 2004. As previously noted, net income for 2005 included a primarily non-cash increase in income tax expense of $7.3 million or $0.10 per share.

YEAR ENDED DECEMBER 31, 2004 COMPARED TO THE YEAR ENDED DECEMBER 31, 2003

As a result of adopting Financial Accounting Standards Board Interpretation 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46), the Company began consolidating the physician practices that are managed but not owned by the Company on January 1, 2004. The consolidation resulted in the Company recording an additional $16.2 million in center revenue and $16.0 million in center cost of revenue during 2004 as the revenue earned and expenses paid (primarily doctors' compensation) by the physician practices are now included in the Company's results. The consolidation had no impact on net income.

Prior to the adoption, doctors' compensation and related revenue were not reflected in the Company's statement of operations for the managed centers, but were reflected in the Company's statement of operations for the owned centers. The Company previously presented the revenues and cost of revenues of managed centers and owned centers separately in the statements of operations due to different profit margins. Beginning with the first quarter of 2004, the Company presents all centers, managed and owned, together because both types of centers now include doctors' compensation and the related revenue.

The increase in center revenue attributed to the adoption of FIN 46 was partially offset by the deconsolidation of LECC in connection with the sale of a portion of the Company's interest in LECC. The results of operations for 2003 included $14.8 million in center revenues related to LECC whereas the results of operations for 2004 include no center revenue for LECC because LECC was accounted for using the equity method of accounting beginning January 1, 2004.

Total revenues for the year ended December 31, 2004 were $247.2 million, an increase of $46.3 million, or 23% over revenues of $200.9 million for the year ended December 31, 2003. Approximately 74% of total revenues for the year ended December 31, 2004 were derived from refractive services compared to 75% during the year ended December 31, 2003.

Revenues from the refractive segment for the year ended December 31, 2004 were $182.4 million, an increase of $31.0 million or 20% over revenues of $151.4 million for the year ended December 31, 2003. The increase in refractive revenues was due largely to an increase in refractive procedures. Refractive procedures for the year ended December 31, 2004 were approximately 196,400, an increase of 20,300 or 12% over refractive procedures of 176,100 for the year ended December 31, 2003. Procedures for LECC were included in both periods, and account for 16,700 procedures for the year ended December 31, 2004, an increase of 3,900 procedures over the year ended December 31, 2003. Refractive revenues also increased as a result of a higher mix of procedures performed at the Company's centers and higher average pricing.

Revenues from centers for the year ended December 31, 2004 were $141.8 million, an increase of $26.5 million or 23% over revenues of $115.3 million for the year ended December 31, 2003. The increase in centers revenues was partially due to a 15,300 or 15% increase in centers procedures. Centers revenues also increased as a result of higher average pricing and additional revenue as a result of adopting FIN 46 partially offset by decreased revenue from deconsolidating LECC.

Revenues from access services for the year ended December 31, 2004 were $40.7 million, an increase of $4.6 million or 13% over revenues of $36.1 million for the year ended December 31, 2003. The increase in access revenues was primarily due to a 5,100 or 7% increase in access procedures and an increase in procedure mix to the higher priced transportable business.

Revenues from other healthcare services for the year ended December 31, 2004 were $64.8 million, an increase of $15.3 million, or 31% over revenues of $49.5 million for the year ended December 31, 2003. The increase in other healthcare services revenue primarily resulted from internal growth of existing businesses and contributions from ASC businesses acquired within the past year. Approximately 27% of the total revenues for the year ended December 31, 2004 were derived from other healthcare services compared to 25% during the year ended December 31, 2003.

The cost of refractive revenues for the year ended December 31, 2004 was $130.3 million, an increase of $13.6 million, or 12%, over the cost of refractive revenues of $116.7 million for the year ended December 31, 2003. This increase was primarily attributable to increased procedure volume and higher costs associated with Custom LASIK. Primarily as a result of higher procedure volumes at centers, gross margins for the refractive business as a whole increased to 29% for the year ended December 31, 2004 from 23% for the year ended December 31, 2003.

The cost of revenues from centers for the year ended December 31, 2004 was $101.4 million, an increase of $10.1 million or 11% over the cost of revenues of $91.3 million for the year ended December 31, 2003. This increase primarily resulted from $5.5 million of additional costs related to increased procedure volume and higher costs associated with Custom LASIK, and $16.0 million of costs resulting from the Company's adoption of FIN 46 effective January 1, 2004. These increases were partially offset by $11.4 million in cost of revenues for LECC during the year ended December 31, 2003 (as compared to none during the year ended December 31, 2004).

Gross margins from centers increased to 28% for the year ended December 31, 2004 from 21% during the year ended December 31, 2003 as higher procedure volumes led to strong incremental variable margin gains. This margin percentage increase was diluted by the consolidation of the physician practices managed by the Company due to the adoption of FIN 46. For comparison purposes, had the Company consolidated the physician practices during 2003, the gross margin percentage would have been 18% for the year ended December 31, 2003.

The cost of revenues from access services for the year ended December 31, 2004 was $28.9 million, up $3.5 million or 14% over the cost of revenues of $25.4 million for the year ended December 31, 2003. This increase primarily resulted from higher procedure volume and higher costs associated with Custom LASIK. Gross margins from access services decreased to 29% for the year ended December 31, 2004 from 30% during the year ended December 31, 2003. This margin percentage decrease was primarily due to pricing pressure from competitors and higher costs associated with Custom LASIK.

The cost of revenues from other healthcare services for the year ended December 31, 2004 was $40.4 million, an increase of $8.6 million or 27% over the cost of revenues of $31.8 million for the year ended December 31, 2003. The increase in cost of revenues was primarily related to incremental costs incurred to generate the increased revenue of the other healthcare service business. Gross margins increased to 38% from 36% due principally to volume growth.

General and administrative expenses decreased to $26.9 million for the year ended December 31, 2004 from $27.0 million for the year ended December 31, 2003. The $0.1 million decrease reflected the Company's success in increasing revenue while controlling general and administrative expenses.

Marketing and sales expenses decreased to $18.7 million for the year ended December 31, 2004 from $18.8 million for the year ended December 31, 2003. The $0.1 million decrease reflected the Company's success in increasing revenue while controlling marketing expenses.

Research and development, clinical and regulatory expenses increased to $1.8 million for the year ended December 31, 2004 from $1.6 million for the year ended December 31, 2003. Prior to consolidation of OccuLogix, the Company incurred research and development expenses in 2004 and 2003 of $1.2 million and $1.6 million, respectively, relating to investments made to fund research and development efforts by OccuLogix to achieve FDA approval for medical treatments related to dry age-related macular degeneration. Since the technology is in the development stage and has not received FDA approval, the Company accounted for this investment as a research and development arrangement whereby investments were expensed as amounts were expended by OccuLogix. For the year ended December 31, 2004, the total expense of $1.8 million also included $0.6 million of costs incurred by OccuLogix (after consolidation began in December, 2004) related to its efforts to achieve FDA approval for medical treatments related to dry age-related macular degeneration.

Amortization expenses decreased to $4.1 million for the year ended December 31, 2004 from $6.7 million for the year ended December 31, 2003. This decrease was largely due to the reduction in intangible assets (Practice Management Agreements) resulting from the deconsolidation of LECC.

Other operating expenses, net decreased to $0.9 million for the year ended December 31, 2004 from $1.2 million for the year ended December 31, 2003. For the year ended December 31, 2004, other operating expenses, net primarily included $2.6 million of severance accruals for two officers under terms of employment contracts and $0.8 million of losses on sales and disposals of fixed assets partially offset by a $1.2 million adjustment to the fair value of a long-term receivable and a $1.1 million gain on the sale of LECC. For the year ended December 31, 2003, other operating expenses, net primarily included $2.0 million of center closing costs

partially offset by $0.5 million of gains on sales of fixed assets and a $0.2 million adjustment to the fair value of a long-term receivable.

During the year ended December 31, 2004, the Company recorded a $25.8 million gain on the sale of 2.3 million shares of OccuLogix's common stock.

Interest income increased to $2.0 million for the year ended December 31, 2004 from $1.4 million for the year ended December 31, 2003. This $0.6 million increase was due to an increase in the Company's cash and cash equivalents and short-term investments balances as well as higher rates of return.

Interest expense decreased to $2.6 million for the year ended December 31, 2004 from $2.7 million for the year ended December 31, 2003. This $0.1 million decrease was due to declining debt and capital lease obligations.

Minority interest expense increased to $7.0 million for the year ended December 31, 2004 from $4.7 million for the year ended December 31, 2003. This $2.3 million increase was a result of higher profits reported by the Company's subsidiaries in which the Company has a shared interest with minority partners.

Earnings from equity investments of $2.1 million for the year ended December 31, 2004 resulted primarily from $1.3 million of earnings related to the Company's minority ownership investment in LECC and $0.7 million of earnings related to the Company's minority ownership investments in two separate secondary care service providers.

Income tax expense increased to $0.6 million for the year ended December 31, 2004 from $0.5 million for the year ended December 31, 2003. The $0.6 million tax expense primarily consisted of state taxes for certain states where the Company expects to pay income taxes. The current year federal income tax expense attributable to the Company and subsidiaries was offset by the partial reversal of valuation allowances as the Company utilized a portion of its net operating loss carryforwards in 2004.

Net income for the year ended December 31, 2004 was $43.7 million, or $0.61 per share, compared to a net loss of $9.4 million, or $0.15 per share, for the year ended December 31, 2003. The significant improvement in net income primarily resulted from significant growth in both the refractive and other healthcare services businesses and a gain on the sale of OccuLogix's common stock. Excluding the impact of the AMD segment, net income increased to $20.5 million or $0.29 per share for the year ended December 31, 2004 from a net loss of $7.3 million or $0.11 per share for the year ended December 31, 2003.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2005, the Company continued to focus its activities primarily on increasing refractive, center and other healthcare revenues and volumes through internal growth and acquisitions, controlling operating costs and developing the infrastructure of OccuLogix. Cash and cash equivalents, short-term investments and restricted cash were $70.9 million at December 31, 2005 compared to $145.4 million at December 31, 2004. Working capital at December 31, 2005 decreased to $66.9 million from $131.2 million at December 31, 2004. Decreases in cash and working capital reflect the Company's cash investments in several acquisitions and the commercialization of OccuLogix's RHEO™ System during 2005.

The Company's principal cash requirements have included normal operating expenses, debt repayment, distributions to minority partners, capital expenditures, share repurchases, acquisitions and investments, expenditures to fund the development of OccuLogix's infrastructure, to complete clinical trials, to accumulate inventory and to undertake other activities to commercialize the RHEO™ System. Normal operating expenses include doctors' compensation, procedure royalty fees, procedure medical supply expenses, travel and entertainment, professional fees, insurance, rent, equipment maintenance, wages, utilities and marketing.

During the year ended December 31, 2005, the Company invested $8.3 million in fixed assets and received vendor financing for $5.7 million of fixed assets, primarily upgrades for excimer lasers and new equipment related to the growth of the mobile cataract business.

As new technologies emerge in the refractive market, the Company may need to upgrade its equipment, including excimer lasers and flap-making technology. The Company has access to vendor financing at fixed interest rates or on a per procedure fee basis and expects to continue to have access to these financing options for at least the next 12 months.

As of December 31, 2005, the Company had contractual obligations relating to long-term debt, capital lease obligations, operating leases for rental of office space and equipment, marketing contracts, royalty obligations and the purchase of additional ownership interest in an ASC requiring future minimum payments aggregating to $60.7 million. Future minimum payments are as follows:

	PAYMENTS DUE BY PERIOD			
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1 TO 3 YEARS	MORE THAN 3 YEARS
Long-term debt	$17,933	$ 5,268	$6,013	$6,652
Capital lease obligations	7,952	3,697	3,632	623
Operating leases	26,973	7,289	10,229	9,455
Marketing contracts	6,000	2,000	4,000	--
Royalty obligations	1,150	100	300	750
Purchase of additional ownership interest	675	675	--	--
Total	$60,683	$ 19,029	$24,174	$17,480

On July 11, 2005, the Company acquired substantially all the assets of Kremer. Kremer operates three refractive centers and one ambulatory surgery center all of which are located in the northeastern part of the United States. For over 20 years, Kremer has been an integrated eye care company providing refractive, cataract and glaucoma surgery services. The acquisition of Kremer expands the Company's presence in both the refractive and ASC businesses in one of the largest populated markets in the United States. The purchase price for the acquired assets was $29.7 million. In addition, the Company assumed certain liabilities and incurred transaction costs of $1.1 million. Simultaneously with this transaction, the Company sold an 18% interest in Kremer to a group of doctors associated with Kremer for $5.3 million. As a result, the Company maintains an 82% ownership interest in Kremer.

On December 1, 2005, the Company acquired a 49% interest in Liberty for $6.2 million in cash. Liberty is an ambulatory surgery center located in Philadelphia, Pennsylvania that primarily provides cataract surgery services.

On November 8, 2005, the Company acquired TruVision for $17.4 million in cash and 3,913 shares of company common stock valued at approximately $24,000 coupled with a three-year earn out. TruVision is a managed care contractor to health plan members and large corporations across 44 states. TruVision's services enable insurance health plans and large corporations to offer LASIK vision surgery to their members at a reduced price.

On July 1, 2005, the Company acquired a 100% interest in Millennium for $6.1 million in cash plus the assumption of certain liabilities. Millennium provides refractive services in Washington, D.C.

On March 1, 2005, the Company sold its interest in Aspen to National Surgical Centers, Inc. and recorded a gain of $0.3 million, which is included in other operating expenses.

During 2005, the Company received $1.9 million in proceeds from the exercise of non-qualified stock options to purchase 0.7 million common shares.

In November 2003, the Company obtained a $15 million line of credit from GE Healthcare Financial Services. This loan is secured by certain accounts receivable and cash accounts in wholly-owned subsidiaries and a general lien on most other U.S. assets. As of December 31, 2005, the Company did not have any borrowings drawn under the line of credit and had an available unused line of $15 million.

The Company estimates that existing cash balances and short-term investments, together with funds expected to be generated from operations and credit facilities, will be sufficient to fund the Company's anticipated level of operations and expansion plans for the next 12 to 18 months.

CASH FROM OPERATING ACTIVITIES

Net cash provided by operating activities was $22.5 million for the year ended December 31, 2005. The cash flows provided by operating activities during the year ended December 31, 2005 were primarily due to net income of $6.9 million plus non-cash items including depreciation and amortization of $16.4 million, deferred taxes of $6.3 million, minority interest expense of $1.3 million and compensation expense of $1.4 million. These cash flows were offset by an increase in net operating assets of $7.6 million and earnings from equity investments of $2.5 million. The increase in net operating assets consisted of a $3.0 million increase in accounts receivable due primarily to higher revenues, a $1.9 million increase in prepaid expenses, inventory and other current assets due primarily to increases in inventory at OccuLogix and a $2.8 million decrease in accounts payable and accrued liabilities. Excluding

the impact of the AMD segment, net cash provided by operating activities would have been $41.6 million for the year ended December 31, 2005.

CASH FROM INVESTING ACTIVITIES

Net cash provided by investing activities was $5.3 million for the year ended December 31, 2005. Cash provided by investing activities during the year ended December 31, 2005 included $129.8 million in proceeds from short-term investments, $3.0 million in cash distributions received from equity investments, $3.4 million in net cash associated with the sale of a subsidiary, $1.8 million from the sale of fixed assets and $0.3 million from reimbursements of investments in research and development arrangements. These cash flows were offset by $57.1 million of purchases of short-term investments, $67.6 million for acquisitions and equity investments and $8.3 million for the acquisition of fixed assets. Excluding the impact of the AMD segment, net cash from investing activities would have decreased by $10.7 million to a net cash used in investing activities of $5.4 million. During the next 12 months, the Company plans to continue to invest in other business acquisitions and capital expenditures deemed advisable to further its business objectives.

CASH FROM FINANCING ACTIVITIES

Net cash used in financing activities was $29.6 million for the year ended December 31, 2005. Net cash used in financing activities during the year ended December 31, 2005 was primarily due to $15.9 million for purchases of treasury stock, $9.5 million for the repayment of certain notes payable and capitalized lease obligations and $8.4 million distributed to minority interests resulting from profits at certain of the Company's business units. These cash outflows were offset by $2.0 million in proceeds from the exercise of stock options and purchases of stock through the employee stock purchase plan and $2.0 million in proceeds from debt financing. Excluding the impact of the AMD segment, net cash used in financing activities would have been $29.9 million for the year ended December 31, 2005. The Company anticipates that the availability to draw upon the unused portion of the Company's $15 million line of credit, if necessary, will be sufficient to fund additional financing needs in 2006.

NEW ACCOUNTING PRONOUNCEMENTS

For a discussion on recent pronouncements, see Note 2, "Summary of Significant Accounting Policies," in the accompanying audited consolidated financial statements and notes thereto set forth in Item 8 of this Report.

RECENT DEVELOPMENTS

On February 3, 2006, OccuLogix announced that it had completed a preliminary analysis of the data from MIRA-1, its recently completed pivotal (phase III) clinical trial using its RHEO™ System. The data indicated that MIRA-1 did not demonstrate a statistically significant mean change of Best Spectacle-Corrected Visual Acuity. As a result of this announcement, the share price of OccuLogix stock as traded on the NASDAQ National Market System decreased from $12.75 on February 2, 2006 to close at $4.10 on February 3, 2006. The 10-day average price of the stock immediately following the announcement was $3.65 and reflected a decrease in the market capitalization of OccuLogix from $536.6 million on February 2, 2006 to $153.6 million based on the 10-day share price average subsequent to the announcement. The resulting decrease in the share price was identified as an indicator of impairment leading to an analysis of OccuLogix's intangible assets and goodwill and resulting in OccuLogix reporting an impairment charge to goodwill of $147.5 million. Because TLC*Vision* accounted for the OccuLogix reorganization at historical cost, it eliminates OccuLogix's goodwill balance in consolidation (see Note 1).

OccuLogix believes that the announcement made it unlikely that it would be able to collect on amounts outstanding from its sole customer, Veris, resulting in a provision for bad debts of $0.5 million related to revenue reported prior to December 2005. OccuLogix did not recognize $0.5 million of revenue related to goods shipped in December 2005, based on collectibility not being reasonably assured. OccuLogix also fully expensed the $0.2 million advance that it had paid to Veris in connection with clinical trial services to be provided by Veris for one of OccuLogix's clinical trials. OccuLogix also evaluated its ending inventory balance as of December 31, 2005 on the basis that Veris may not be able to increase its commercial activities in Canada in line with initial expectations. Accordingly, OccuLogix set up a provision for obsolescence of $2.0 million for filter sets that will unlikely be utilized prior to their expiration dates. As a result of the above entries, TLC*Vision*'s reported pre-tax earnings for the quarter and year ended December 31, 2005 were reduced by $1.6 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, the Company is exposed to interest rate risks and foreign currency risks, which the Company does not currently consider to be material. These interest rate exposures primarily relate to having short-term investments earning short-term interest rates and to having fixed rate debt. The Company views its investment in foreign subsidiaries as long-term commitments and does not hedge any translation exposure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of TLC Vision Corporation have been prepared by management in conformity with accounting principles generally accepted in the United States. The significant accounting policies have been set out in Note 2 to the financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared within reasonable limits of materiality under United States generally accepted accounting principles.

During the year ended December 31, 2005, the Board of Directors had an Audit Committee consisting of four non-management directors. The committee met with management and the auditors to review any significant accounting, internal control and auditing matters and to review and finalize the annual financial statements of the Company along with the report of independent registered public accounting firm prior to the submission of the financial statements to the Board of Directors for final approval.

The financial information throughout the text of this Annual Report is consistent with the information presented in the financial statements.

The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of TLC Vision Corporation

We have audited the accompanying consolidated balance sheets of TLC Vision Corporation as of December 31, 2005 and 2004, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the index at Item 15a. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TLC Vision Corporation at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2004, the Company adopted the provisions of FASB Interpretation No. 46.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of TLC Vision Corporation's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2006, expressed an unqualified opinion thereon.

St. Louis, Missouri
March 10, 2006

/s/ ERNST & YOUNG LLP

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share amounts)

	YEAR ENDED DECEMBER 31,		
	2005	2004	2003
Revenues:			
Refractive:			
Centers	$ 150,168	$ 141,782	$ 115,290
Access	36,453	40,659	36,140
Other healthcare services	73,404	64,806	49,488
Total revenues	260,025	247,247	200,918
Cost of revenues:			
Refractive:			
Centers	106,476	101,440	91,283
Access	26,974	28,863	25,424
Other healthcare services	47,275	40,435	31,836
Total cost of revenues	180,725	170,738	148,543
Gross profit	79,300	76,509	52,375
General and administrative	36,497	26,866	27,001
Marketing and sales	21,714	18,705	18,781
Research and development, clinical and regulatory	5,250	1,825	1,598
Amortization of intangibles	4,039	4,098	6,685
Other expenses, net	769	940	1,165
	68,269	52,434	55,230
Operating income (loss)	11,031	24,075	(2,855)
Gain on sale of OccuLogix, Inc. stock	--	25,792	--
Interest income	4,280	1,954	1,380
Interest expense	(1,737)	(2,617)	(2,744)
Minority interests	(1,343)	(6,953)	(4,672)
Earnings from equity investments	2,545	2,057	--
Income (loss) before income taxes	14,776	44,308	(8,891)
Income tax expense	(7,891)	(600)	(508)
Net income (loss)	$ 6,885	$ 43,708	$ (9,399)
Earnings (loss) per share - basic	$ 0.10	$ 0.64	$ (0.15)
Earnings (loss) per share - diluted	$ 0.10	$ 0.61	$ (0.15)
Weighted-average number of common shares outstanding - basic	69,721	68,490	64,413
Weighted-average number of common shares outstanding - diluted	71,380	71,088	64,413

See notes to consolidated financial statements.

TLC VISION CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	DECEMBER 31, 2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,729	$ 33,435
Short-term investments	38,213	111,015
Accounts receivable	20,583	17,443
Prepaid expenses, inventory and other	17,123	13,821
Total current assets	107,648	175,714
Restricted cash	975	932
Investments and other assets	19,838	10,482
Goodwill	99,402	53,774
Other intangible assets	24,021	18,140
Fixed assets	49,159	46,199
Total assets	$ 301,043	$ 305,241
LIABILITIES		
Current liabilities:		
Accounts payable	$ 11,031	$ 8,716
Accrued liabilities	24,453	27,139
Current maturities of long-term debt	5,268	8,664
Total current liabilities	40,752	44,519
Other long-term liabilities	3,427	2,722
Long-term debt, less current maturities	12,665	9,991
Minority interests	35,794	37,222
Total liabilities	92,638	94,454
STOCKHOLDERS' EQUITY		
Common stock, no par value; unlimited number authorized	450,703	458,959
Option and warrant equity	1,861	2,872
Accumulated deficit	(244,159)	(251,044)
Total stockholders' equity	208,405	210,787
Total liabilities and stockholders' equity	$ 301,043	$ 305,241

See notes to consolidated financial statements.

Approved on behalf of the Board:

/s/ JAMES C. WACHTMAN
James C. Wachtman, Director

/s/ WARREN S. RUSTAND
Warren S. Rustand, Director

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	YEAR ENDED DECEMBER 31, 2005	2004	2003
OPERATING ACTIVITIES			
Net income (loss)	$ 6,885	$ 43,708	$ (9,399)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	16,353	17,681	22,593
Write-offs (reimbursements) of investments in research and development arrangements	(300)	849	1,598
Deferred taxes	6,301	--	--
Minority interests	1,343	6,953	4,672
Gain on sale of OccuLogix, Inc. stock	--	(25,792)	--
Gain on sales of subsidiaries	(319)	(1,143)	--
Earnings from equity investments	(2,545)	(2,057)	--
Loss (gain) on sales and disposals of fixed assets	(92)	839	(484)
Non-cash compensation expense	1,438	484	125
Adjustments to the fair values of intangibles, long-term receivables and long-term liabilities	888	(1,206)	(206)
Other	182	--	677
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable	(2,956)	(1,449)	(489)
Prepaid expenses, inventory and other current assets	(1,891)	(1,801)	(964)
Accounts payable and accrued liabilities	(2,761)	(1,706)	(13,831)
Cash from operating activities	22,526	35,360	4,292
INVESTING ACTIVITIES			
Purchases of fixed assets	(8,321)	(5,191)	(4,433)
Proceeds from sales of fixed assets	1,779	1,565	578
Proceeds from divestitures of investments and subsidiaries, net	3,430	729	221
Proceeds from sale of OccuLogix, Inc. stock, net	--	25,792	--
Distributions and loan payments received from equity investments	3,039	2,518	--
Reimbursements from (investments in) research and development arrangements	300	(849)	(1,598)
Acquisitions and equity investments	(67,573)	(10,067)	(8,015)
Proceeds from sales of short-term investments	129,750	8,353	15,709
Purchases of short-term investments	(57,095)	(111,055)	(21,050)
Other	13	60	(229)
Cash from investing activities	5,322	(88,145)	(18,817)
FINANCING ACTIVITIES			
Restricted cash movement	(43)	444	2,599
Proceeds from debt financing	1,992	--	3,450
Principal payments of debt financing and capital leases	(9,504)	(13,669)	(8,018)
Distributions to minority interests	(8,440)	(7,216)	(4,901)
Purchases of treasury stock	(15,868)	--	--
Proceeds from issuances of OccuLogix, Inc. stock, net and cash acquired upon consolidation	329	59,850	--
Proceeds from issuances of common stock	1,980	25,231	8,744
Cash from financing activities	(29,554)	64,640	1,874
Net increase (decrease) in cash and cash equivalents during the period	(1,706)	11,855	(12,651)
Cash and cash equivalents, beginning of period	33,435	21,580	34,231
Cash and cash equivalents, end of period	$ 31,729	$ 33,435	$ 21,580

See notes to consolidated financial statements.

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	COMMON STOCK		OPTION AND` WARRANT EQUITY	TREASURY STOCK		ACCUMULATED DEFICIT	TOTAL
	SHARES	AMOUNT		SHARES	AMOUNT		
Balance December 31, 2002	64,794	388,769	11,035	(779)	(2,623)	(285,353)	111,828
Shares issued as part of the employee share purchase plan	56	223		196	191		414
Exercise of stock options	2,102	8,330					8,330
Options expired or exercised		2,892	(2,892)				--
Retirement of treasury stock	(583)	(2,432)		583	2,432		--
Shares issued as part of acquisition	100	96					96
Escrow shares returned to the Company	(713)						
Net loss and comprehensive loss						(9,399)	(9,399)
Balance December 31, 2003	65,756	397,878	8,143	--	--	(294,752)	111.269
Shares issued as part of the employee share purchase plan and 401(k) plan	131	532					532
Exercise of stock options	4,199	29,496	(4,797)				24,699
Options expired or forfeited		582	(582)				--
Variable stock option expense			108				108
Value of shares issued upon meeting certain earnings criteria		389					389
Issuance of subsidiary stock		30,082					30,082
Net income						43,708	43,708
Balance December 31, 2004	70,086	$458,959	$ 2,872	--	$ --	$ (251,044)	210,787
Shares issued as part of the employee share purchase plan and 401(k) plan	63	486					486
Exercise of stock options	709	2,935	(1,003)				1,932
Options expired or forfeited		8	(8)				--
Escrow shares returned to the Company	(171)						--
Purchases of treasury stock				(2,000)	(15,868)		(15,868)
Retirement of treasury stock	(2,000)	(15,868)		2,000	15,868		--
Value of shares issued upon meeting certain earnings criteria		181					181
Shares issued as part of acquisition	4	24					24
Reversal of deferred tax asset valuation allowance for excess stock-based compensation tax deductions		3,116					3,116
Stock based compensation		600					600
Changes in OccuLogix, Inc.'s stockholders' equity		262					262
Net income						6,885	6,885
Balance December 31, 2005	68,691	$450,703	$ 1,861	--	$ --	$ (244,159)	$ 208,405

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS

TLC Vision Corporation and its subsidiaries ("TLC*Vision*" or the "Company") is a diversified healthcare service company focused on working with eye doctors to help them provide high quality patient care primarily in the eye care segment. The majority of the Company's revenues come from refractive surgery, which involves using an excimer laser to treat common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company's business models include arrangements ranging from owning and operating fixed site centers to providing access to lasers through fixed site and mobile service relationships. In addition to refractive surgery, the Company is diversified into other eye care businesses. Through its MSS subsidiary, the Company furnishes hospitals and independent surgeons with mobile or fixed site access to cataract surgery equipment and services. Through its OR Partners and Michigan subsidiaries, TLC*Vision* develops, manages and has equity participation in single-specialty eye care ambulatory surgery centers and multi-specialty ambulatory surgery centers. The Company also owns a 51% majority interest in Vision Source, which provides franchise opportunities to independent optometrists. In 2002, the Company formed a joint venture with OccuLogix, Inc. (formerly Vascular Sciences Corporation) to create OccuLogix, L.P., a partnership focused on the treatment of a specific eye disease known as dry age-related macular degeneration ("AMD"), via rheopheresis, a process for filtering blood.

On December 8, 2004, the Company exchanged its 50% interest in OccuLogix L.P. for a 50% interest in OccuLogix, Inc. In connection therewith, the Company converted its Series B preferred stock and convertible grid debentures into common shares of OccuLogix, Inc. After the exchange and conversion, the Company owned 65.8% of the outstanding common shares of OccuLogix, Inc. ("OccuLogix"). As a result of the exchange, OccuLogix L.P. became a wholly-owned subsidiary of OccuLogix. The Company accounted for the exchange at historical cost. Immediately after the exchange, OccuLogix completed an initial public offering ("IPO") whereby OccuLogix sold 5.6 million shares of its common stock at $12 per share. Because the IPO price exceeded the per share carrying amount of the Company's investment in OccuLogix, the Company's equity ownership in OccuLogix after the IPO exceeded its equity ownership before the IPO by $30.1 million. In accordance with Staff Accounting Bulletin No. 84, the Company accounted for the excess as an equity transaction. In connection with the IPO, TLC*Vision* sold 2.3 million shares of its OccuLogix common stock at $12 per share and recorded a gain of $25.8 million. At December 31, 2005, the Company owns 21.5 million shares or 51% of OccuLogix's common stock. The Company has included the results of operations of OccuLogix in its consolidated statement of operations since December 8, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid short-term investments with original maturities of 90 days or less.

Short-Term Investments

As of December 31, 2005 and 2004, short-term investments primarily include auction rate securities, which are available to support the Company's current operations. These investments are classified as available-for-sale securities and are recorded at fair value with unrealized gains or losses reported in other comprehensive income. Due to the short time period between the reset dates of the interest rates, there are no unrealized gains or losses associated with these securities. All of the auction rate securities have contractual maturities of more than five years.

Investments

The Company has certain investments in equity securities. Investments are accounted for using the equity method if the Company has significant influence, but not control, over an investee. All other equity investments, in which the Company does not have the ability to exercise significant influence, are accounted for under the cost method. Under the cost method of accounting, investments that do not have a quoted market price (non marketable equity securities) are carried at cost and are adjusted only for other than

temporary declines in fair value and additional investment activity. For investments in public companies (marketable equity securities), the Company classifies its investments as available-for-sale and, accordingly, records these investments at fair value with unrealized gains and losses included in accumulated other comprehensive loss, unless a decline in fair value is determined to be other than temporary, in which case the unrealized loss is recognized in earnings.

Fixed Assets

Fixed assets are recorded at cost or the present value of future minimum lease payments for assets under capital lease. The costs of additions, improvements and major replacements are capitalized, while maintenance and repairs are expensed as incurred. Depreciation is provided at rates intended to represent the assets productive lives as follows:

Buildings	- straight-line over 40 years
Computer equipment and software	- straight-line over three to four years
Furniture, fixtures and equipment	- 25% declining balance
Laser equipment	- 25% declining balance
Leasehold improvements	- straight-line over the initial term of the lease
Medical equipment	- 25% declining balance
Vehicles and other	- 25% declining balance

The Company's MSS subsidiary records depreciation on its equipment and vehicles (with a net book value of $6.0 million and $5.3 million at December 31, 2005 and 2004, respectively) on a straight-line basis over the estimated useful lives (three to ten years) of the equipment.

Goodwill

The Company tests for impairment at least annually and more frequently if changes in circumstances or events indicate that it is more likely than not that impairment has occurred. The Company’s annual impairment test date is November 30.

Other Intangible Assets

Other intangible assets consist primarily of practice management agreements ("PMAs"), deferred contract rights, and tradenames. PMAs represent the cost of obtaining the exclusive right to manage eye care centers and secondary care centers in affiliation with the related physician group during the term of the respective agreements. Deferred contract rights represent the value of contracts with affiliated doctors to provide basic access and service. Tradenames represent the value associated with the name of an entity that was acquired by the Company. All identifiable intangibles with a finite life are amortized using the straight-line method over the respective estimated useful lives.

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the asset group may not be recoverable.

Medical Malpractice Accruals

To mitigate a portion of the risk associated with medical malpractice lawsuits, the Company maintains insurance for individual malpractice claims with a deductible of $250,000 per claim and a total annual aggregate deductible of $15 million. The Company and its insurance carrier review malpractice lawsuits for purposes of establishing ultimate loss estimates. The Company records reserves to cover the estimated costs of the deductible for both reported and unreported medical malpractice claims incurred. The estimates are based on the average monthly claims expense and the estimated average time lag between the performance of a procedure and notification of a claim. If the number of claims or the cost of settled claims is higher than the Company’s historical experience or if the actual time lag varies from the estimated time lag, the Company may need to record significant additional expense.

Revenue Recognition

The Company recognizes refractive revenues when the procedure is performed. Revenue from centers represents the amount charged to patients for a laser vision correction procedure, net of discounts, contractual adjustments in certain regions and amounts collected as an agent of co-managing doctors. Revenue from access services represents the amount charged to the customer/surgeon for access to equipment and technical support based on use.

Contractual adjustments arise due to the terms of reimbursement and managed care contracts in certain regions. Such adjustments represent the difference between the charges at established rates and estimated recoverable amounts and are recognized as a reduction of revenue in the period services are rendered. Any differences between estimated contractual adjustments and actual final settlements under reimbursement contracts are recognized as contractual adjustments in the period final settlements are determined.

The Company's other healthcare services revenues principally include cataract equipment access and service fees on a per procedure basis, management fees from cataract and secondary care practices and optometric franchising services. Revenues from other healthcare services are recognized as the service is rendered or when the procedure is performed.

Variable Interest Entities

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying VIEs and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements. In general, a VIE is any legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant individual decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest.

FIN 46 was effective immediately for VIEs created after January 31, 2003. The provisions of FIN 46, as revised, were adopted as of January 1, 2004, for the Company's interests in all VIEs. Prior to the adoption of FIN 46, the Company did not consolidate physician practices that were managed but not owned by the Company. These managed physician practices were determined to be variable interest entities for which the Company is the primary beneficiary. As a result, the physician practices have been consolidated as of January 1, 2004. The adoption of FIN 46 resulted in an increase in revenues and cost of revenues for the managed refractive centers, however the adoption had no material impact on total assets, gross profit or operating income and no impact on net income. Prior periods were not restated. The following pro forma amounts reflect the effect of FIN 46 assuming it was applied retroactively:

	YEAR ENDED DECEMBER 31,			
	2005	2004	2003	
	Actual	Actual	Actual	Pro forma
Revenues:				
Refractive:				
Centers	$150,168	$141,782	$115,290	$131,736
Access	36,453	40,659	36,140	36,140
Other healthcare services	73,404	64,806	49,488	49,488
Total revenues	260,025	247,247	200,918	217,364
Cost of revenues:				
Refractive:				
Centers	106,476	101,440	91,283	107,569
Access	26,974	28,863	25,424	25,424
Other healthcare services	47,275	40,435	31,836	31,836
Total cost of revenues	180,725	170,738	148,543	164,829
Gross profit	$ 79,300	$ 76,509	$ 52,375	$ 52,535
General and administrative	$ 36,506	$ 26,866	$ 27,001	$ 27,161
Net income (loss)	$ 6,885	$ 43,708	$ (9,399)	$ (9,399)
Basic earnings (loss) per share	$ 0.10	$ 0.64	$ (0.15)	$ (0.15)
Diluted earnings (loss) per share	$ 0.10	$ 0.61	$ (0.15)	$ (0.15)

As a result of the elimination of the distinction between owned and managed centers upon the adoption of FIN 46, their revenue and costs are no longer identified separately on the Company's consolidated statements of operations.

Cost of Revenues

Included in cost of revenues are the laser fees payable to laser manufacturers for royalties, use and maintenance of the lasers, variable expenses for consumables, financing costs, facility fees as well as center costs associated with personnel and facilities amortization.

Marketing

Marketing costs are expensed as incurred.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recorded based on the difference between the income tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the applicable enacted statutory tax rates. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, the Company records expense over the vesting period in an amount equal to the intrinsic value of the award on the grant date. In 2004, the Company recorded $0.1 million of variable stock option expense for options repriced in 2002. The following table illustrates the pro forma net income (loss) and earnings (loss) per share as if the fair value-based method as set forth under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," applied to all awards:

	YEAR ENDED DECEMBER 31,		
	2005	2004	2003
Net income (loss), as reported	$ 6,885	$ 43,708	$ (9,399)
Add stock-based employee compensation cost included in reported net income (loss)	--	108	--
Add OccuLogix's stock-based employee compensation cost included in reported net income (loss), net of minority interests	29	--	--
Less stock-based employee compensation cost determined under fair value based method for all awards, net of related tax effects	(3,140)	(1,245)	(1,121)
Less OccuLogix's stock-based employee compensation cost determined under fair value based method for all awards, net of minority interests	(3,348)	--	--
Pro forma net income (loss)	$ 426	$ 42,571	$ (10,520)
Pro forma earnings (loss) per share - basic	$ 0.01	$ 0.62	$ (0.16)
Pro forma earnings (loss) per share - diluted	$ 0.01	$ 0.60	$ (0.16)

In December 2005, the Company's Board of Directors approved the accelerated vesting of all unvested and "out-of-the-money" stock options with an exercise price per share of $8.75 or higher. In accordance with SFAS No. 123, the Company recognized the remaining balance of unrecognized compensation cost for the effected options at the time of modification in the pro forma disclosures.

For purposes of pro forma disclosures, the estimated fair value of stock-based compensation cost is amortized using the attribution method under FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option Award Plans."

Foreign Currency Exchange

The functional currency of the Company's Canadian operations is the U.S. dollar. The assets and liabilities of the Company's Canadian operations are maintained in Canadian dollars and remeasured into U.S. dollars at exchange rates prevailing at the consolidated balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for nonmonetary items. Revenues and expenses are remeasured into U.S. dollars at average exchange rates prevailing during the year with the exception of depreciation and amortization, which are translated at historical exchange rates. Exchange gains and losses are included in net income (loss).

Earnings (Loss) Per Share

Basic earnings (loss) per share is determined by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if options to issue common stock were exercised. In periods in which the inclusion of such instruments is anti-dilutive, the effect of such securities is not given consideration. Average common shares outstanding during 2003 were reduced by 712,500 common shares to exclude the effect of outstanding common shares in escrow related to a previous acquisition.

Contingent Consideration

When the Company enters into agreements that provide for contingent consideration based on the certain predefined targets being met, an analysis is made to determine whether the contingent consideration represents an additional purchase price obligation or is deemed to be compensation expense. The accounting treatment if the consideration is determined to be an additional purchase price payment is to increase the value assigned to the net assets acquired. Where the contingent consideration is deemed to be compensation, the expense is reflected as an operating expense in the periods that the service is rendered.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in income in the period in which they become known.

Reclassifications

Certain amounts in 2004 and 2003 have been reclassified to conform with current period classifications including (a) reclassifying $5.3 million and $4.7 million, respectively, of certain labor costs from "General and administrative" to "Marketing and sales" as these costs relate to the marketing and selling efforts of the Company; and (b) reclassifying $5.1 million and $5.2 million, respectively, of surgeon fees from "Centers revenues" to "Centers cost of revenues."

Recent Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("Statement 123(R)"), which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement 123"). Statement 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Under Statement 123(R), pro forma disclosure is no longer permitted.

On April 14, 2005, the Commission announced that the effective date of Statement 123(R) will be suspended until January 1, 2006, for calendar year companies. Statement 123(R) permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of Statement 123(R) for all share-based payments granted after that date, and based on the requirements of Statement 123 for all unvested awards granted prior to the effective date of Statement 123(R). Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with Statement 123.

The Company currently utilizes the Black-Scholes option pricing model to measure the fair value of stock options granted to employees. While Statement 123(R) permits entities to continue to use such a model, the standard also permits the use of a "lattice" model. The Company will utilize the Black-Scholes option pricing model upon the adoption of Statement 123(R).

The Company will adopt Statement 123(R) effective January 1, 2006 and will use the modified prospective method. In addition, the Company expects that the adoption of Statement 123(R) will have a material impact on its results of operations. However, uncertainties, including future stock-based compensation strategy, stock price volatility, estimated forfeitures and employee stock option exercise behavior, make it difficult to determine whether the stock-based compensation expense that the Company will incur in future periods will be similar to the Statement 123 pro forma expense disclosed elsewhere within Note 2. In addition, the amount of stock-based compensation expense to be incurred in future periods will be reduced by the acceleration of certain unvested stock options in fiscal 2005 as disclosed in Note 14.

3. ACQUISITIONS

On July 11, 2005, the Company acquired substantially all the assets of Kremer Laser Eye ("Kremer"). Kremer operates three refractive centers and one ambulatory surgery center all of which are located in the northeastern part of the United States. For over 20 years, Kremer has been an integrated eye care company providing refractive, cataract and glaucoma surgery services. The acquisition of Kremer expands the Company's presence in both the refractive and ASC businesses in one of the largest populated markets in the United States.

The purchase price for the acquired assets was $29.7 million. In addition, the Company assumed certain liabilities and incurred transaction costs of $1.1 million. Simultaneously with this transaction, the Company sold an 18% interest in Kremer to a group of doctors associated with Kremer for $5.3 million. As a result, the Company maintains an 82% ownership interest in Kremer. The results of operations of Kremer have been included in the Company's consolidated statements of operations since July 11, 2005.

Under the purchase method of accounting, the purchase price is allocated to Kremer's net tangible and intangible assets based upon their estimated fair value as of the date of the acquisition. The following reflects the assets and liabilities acquired by the Company in the Kremer acquisition:

Current assets	$ 978
Investments and other assets	54
Goodwill	24,639
Other intangible assets	5,060
Fixed assets	1,343
Total assets acquired	32,074
Current liabilities	828
Long-term liabilities	405
Total liabilities assumed	1,233
Net assets acquired	$ 30,841

The Company engaged an independent appraiser to assist in the valuation of acquired intangible assets. Intangible assets consist of $4.8 million of a "Tradename" asset which will be amortized over 20 years and $0.2 million of a "Non-Compete Contract" asset which will be amortized over eight years. The Company believes that substantially all of the goodwill will be deductible for tax purposes.

The following table represents the Company's unaudited pro forma consolidated results of operations as if the acquisition of Kremer had occurred at the beginning of each period presented. Such results have been prepared by adjusting the historical TLC*Vision* results to include Kremer results of operations. The pro forma results do not include any cost savings that may result from the combination of TLC*Vision* and Kremer operations. The pro forma results may not necessarily reflect the consolidated operations that would have existed had the acquisition been completed at the beginning of such periods nor are they necessarily indicative of future results.

	YEAR ENDED DECEMBER 31,		
	2005	2004	2003
Total revenues	$ 270,585	$ 266,570	$ 216,023
Net income (loss)	$ 8,581	$ 47,163	$ (6,910)
Earnings (loss) per share - basic	$ 0.12	$ 0.69	$ (0.11)
Earnings (loss) per share - diluted	$ 0.12	$ 0.66	$ (0.11)

On December 1, 2005, the Company acquired a 49% interest in Liberty Eye Surgical Center, LLC ("Liberty") for $6.2 million in cash. Liberty is an ambulatory surgery center located in Philadelphia, Pennsylvania that primarily provides cataract surgery services.

On November 8, 2005, the Company acquired TruVision for $17.4 million in cash and 3,913 shares of company common stock valued at approximately $24,000 coupled with a three-year earn out. TruVision is a managed care contractor to health plan members and large corporations across 44 states. TruVision's services enable insurance health plans and large corporations to offer LASIK vision surgery to their members at a reduced price. The purchase price allocation is preliminary because the Company is in the process of evaluating a purchase adjustment based on total net assets of TruVision as defined in the agreement.

On July 1, 2005, the Company acquired a 100% interest in Millennium Laser Eye ("Millennium") for $6.1 million in cash plus the assumption of certain liabilities. Millennium provides refractive surgery services in the Washington, D.C. area.

On March 1, 2005, the Company sold its interest in Aspen Healthcare, Inc. to National Surgical Centers, Inc. and recorded a gain of $0.3 million, which is included in other operating expenses.

On January 1, 2004, the Company settled a lawsuit brought by Thomas S. Tooma, M.D. and TST Acquisitions, LLC ("TST") in October 2002. Under the terms of the settlement, the Company sold approximately 24% of Laser Eye Care of California ("LECC") and 30% of its California access business to TST for $2.3 million. The Company continues to hold a 30% ownership in LECC, and a 70% ownership in the California access business. The Company recorded a $1.1 million gain on the sale of these business interests which is included in other operating expenses. Effective January 1, 2004, the Company deconsolidated LECC and began reporting its interest in LECC under the equity method of accounting because it no longer owns a controlling interest in the entity.

The Company's strategy includes periodic acquisitions of or investments in entities that operate in the refractive, cataract or eye care markets. During 2005, 2004 and 2003, the Company paid a total of approximately $13 million, $10 million and $8 million, respectively, to acquire or invest in several other entities, none of which were individually greater than $5 million.

4. RESTRICTED CASH

The Company had $1.0 million and $0.9 million of restricted cash as of December 31, 2005 and 2004, respectively, to guarantee outstanding bank letters of credit for leases and litigation.

5. ACCOUNTS RECEIVABLE

Accounts receivable, net of allowances, consist of the following:

	DECEMBER 31,	
	2005	2004
Refractive	$ 9,597	$ 7,031
Other healthcare services	10,986	10,412
	$20,583	$17,443

Other healthcare services accounts receivable primarily represent amounts due from hospitals and other facilities for cataract equipment and service access fees and outstanding fees for network marketing and management services.

The Company is exposed to credit risk on accounts receivable from its customers. In order to reduce its credit risk, the Company has adopted credit policies, which include the review of credit limits. As of December 31, 2005 and 2004 the Company had reserves for doubtful accounts and contractual allowances of $4.2 million and $2.3 million, respectively. The Company does not have a significant exposure to any individual customer.

6. INVESTMENTS AND OTHER ASSETS

Investments and other assets consist of the following:

	DECEMBER 31, 2005	2004
Equity method investments	$ 15,321	$ 7,219
Cost method investment	1,041	--
Marketable equity securities	--	3
Non marketable equity securities	534	534
Long-term receivables and other	2,942	2,726
	$ 19,838	$ 10,482

Equity method investments primarily include the Company's 30% interest in LECC, 49% interest in Liberty, 49% interest in Eastern Oregon Regional Surgery Center, LLC, 25% interest in Summit Ambulatory Surgical Center LLP and 25% interest in TLC Northwest Ohio LLC.

Long-term receivables and other include notes from and advances to service providers and other companies and deposits. Prior to 2003, the Company reserved $1.9 million against a $2.3 million long-term receivable from a secondary care service provider of which the Company owns approximately 25% of the outstanding common shares. The Company determined that the ability of this secondary care service provider to repay this note was in doubt due to the deteriorating financial condition of the investee. During 2003 and 2004, the secondary care provider was profitable, improved its financial strength and consistently made all payments to the Company when due. As a result, the Company reevaluated the collectibility of this note receivable during 2003 and 2004 and recorded adjustments to reverse the reserve of $0.7 and $1.2 million, respectively, which are included in other operating expenses, net. In December 2004, the Company loaned additional funds to the secondary care service provider to fund expansion of the business by retiring the $1.9 million balance of the original loan and replacing it with a $2.8 million loan, payable over 5 years at a 6% interest rate. As of December 31, 2005, the outstanding loan balance was $1.9 million.

Prior to 2003, the Company entered into a joint venture with the predecessor of OccuLogix for the purpose of pursuing commercial applications of technologies owned or licensed by OccuLogix applicable to the evaluation, diagnosis, monitoring and treatment of dry age related macular degeneration. Prior to the reorganization and IPO of OccuLogix (see Note 1), the Company accounted for its investment as a research and development arrangement since the technology is in the development stage and has not received FDA approval. Prior to 2003, the Company purchased $3.0 million in Series B preferred stock and expensed it as a research and development arrangement. During 2003, the Company agreed to advance up to an additional $6.0 million to OccuLogix pursuant to a secured convertible grid debenture. The first $3.5 million advanced pursuant to such debenture was convertible into common shares of OccuLogix. OccuLogix also granted an option to the Company to acquire an amount of common shares equal to the undrawn portion of the debenture at any point in time. In 2003, the Company expensed $1.6 million to research and development related to payments made to OccuLogix during the year. Of this amount, $1.3 million reduced the value of the $6.0 million obligation to OccuLogix, and $0.3 million represented an additional equity investment in Common Stock and therefore did not reduce the amount of the remaining obligation. In 2004, the Company advanced $2.2 million to OccuLogix, satisfying the $3.5 million obligation that was converted into shares of OccuLogix. Of this amount, the Company advanced $1.2 million to OccuLogix in the first three quarters of 2004 and expensed it as research and development. The remaining advance to OccuLogix of $1.0 million in the fourth quarter of 2004 was recorded as an investment because it was not used by OccuLogix for operating purposes, but rather was available at December 31, 2004 for future needs. Due to the IPO of OccuLogix, the Company was not required to fund any additional amounts.

7. GOODWILL

The Company's net goodwill amount by reporting segment is as follows:

	REFRACTIVE	MOBILE CATARACT	OPTOMETRIC FRANCHISING	OTHER	TOTAL
December 31, 2003	$ 24,229	$ 4,153	$ 6,105	$ 14,342	$ 48,829
Deconsolidated due to partial sale of LECC	(467)	--	--	--	(467)
Acquired during the period	181	306	--	4,925	5,412
December 31, 2004	23,943	4,459	6,105	19,267	53,774
Sale of subsidiary	--	--	--	(2,471)	(2,471)
Reversal of deferred tax asset valuation allowance	(3,413)	--	--	--	(3,413)
Acquired during the period	45,250	5,348	--	914	51,512
December 31, 2005	$ 65,780	$ 9,807	$ 6,105	$ 17,710	$ 99,402

The Company tests goodwill for impairment in the fourth quarter after the annual forecasting process. After estimating the fair value of each reporting unit using the present value of expected future cash flows, the Company determined that no goodwill impairment charges should be recorded during the years ended December 31, 2005, 2004 and 2003.

8. OTHER INTANGIBLE ASSETS

The Company's other intangible assets consist of practice management agreements ("PMAs"), deferred contract rights, tradenames and other intangibles. The Company has no indefinite-lived intangible assets. Amortization expense was $4.0 million, $4.1 million and $6.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

The remaining weighted average amortization period for PMAs is 5.3 years, for deferred contract rights is 6.4 years, for tradenames is 19.3 years and for other intangibles is 10.3 years as of December 31, 2005.

Intangible assets subject to amortization consist of the following at December 31:

	2005		2004	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Practice management agreements	$ 23,015	$ 14,861	$ 33,329	$ 23,647
Deferred contract rights	11,081	6,243	13,854	6,024
Tradenames	5,870	210	400	53
Other	5,733	364	386	105
Total	$ 45,699	$ 21,678	$ 47,969	$ 29,829

The estimated amortization expense for the next five years as of December 31, 2005 is as follows:

2006	$3,400
2007	3,400
2008	3,100
2009	2,700
2010	2,700

9. FIXED ASSETS

Fixed assets, including capital leased assets, consist of the following:

	DECEMBER 31,	
	2005	2004
Land and buildings	$ 12,014	$ 11,280
Computer equipment and software	13,336	13,014
Furniture, fixtures and equipment	9,126	9,476
Laser equipment	34,429	32,137
Leasehold improvements	22,365	17,165
Medical equipment	34,247	30,332
Vehicles and other	9,310	8,599
	134,827	122,003
Less accumulated depreciation	85,668	75,804
Net book value	$ 49,159	$ 46,199

For the years ended December 31, 2005, 2004 and 2003, depreciation expense was $12.3 million, $13.6 million and $15.9 million, respectively. Depreciation expense includes depreciation of assets reported under capital leases.

Certain fixed assets are pledged as collateral for certain long-term debt and capital lease obligations.

10. ACCRUED LIABILITIES

Accrued liabilities included $7.6 million and $8.1 million of accrued wages and related expenses as of December 31, 2005 and 2004, respectively.

11. LONG-TERM DEBT

Long-term debt consists of:

	DECEMBER 31, 2005	2004
Interest at 3.11%, payable to vendor, paid off in 2005	$ --	$ 1,264
Interest imputed at 9%, due in four payments from March 2002 through 2005, payable to affiliated doctor relating to practice acquisition, paid off in 2005	--	2,294
Interest imputed at 6.25%, due through October 2016, collateralized by building (C$7.2 million at December 31, 2005)	6,056	6,138
Interest at various rates, due through 2012, collateralized by real estate and equipment	4,061	3,038
Capital lease obligations, payable through 2009, interest at various rates	7,644	5,576
Other	172	345
	17,933	18,655
Less current portion	5,268	8,664
	$ 12,665	$ 9,991

Principal maturities for each of the next five years and thereafter as of December 31, 2005 are as follows:

2006	$ 5,268
2007	3,453
2008	2,560
2009	1,267
2010	733
Thereafter	4,652
Total	$17,933

In November 2003, the Company obtained a $15 million line of credit for five years from GE Healthcare Financial Services (the "Agreement") for a $0.1 million commitment fee and $0.2 million in related legal and out-of-pocket expenses. This loan is secured by certain accounts receivable and cash accounts in wholly-owned subsidiaries and a general lien on most other U.S. assets. As of December 31, 2005, the Company did not have any borrowings drawn under the line of credit and had an available unused line of $15 million.

The Agreement includes a subjective acceleration clause and a requirement to maintain a "springing" lock-box, whereby remittances from the Company's customers are forwarded to the Company's bank account and do not reduce the outstanding debt until and unless the lender exercises the subjective acceleration clause.

Under the Agreement, the Company must maintain (1) consolidated cash of $12.5 million or more, (2) a maximum total debt/EBITDA (Earnings Before Income Taxes, Depreciation and Amortization) ratio no more than 1.5, (3) a fixed charge coverage ratio (including option proceeds and excluding most non-cash charges) of at least 1.1 and (4) obtain GE's approval for certain ineligible acquisitions and unfunded capital additions greater than $2 million per year.

Payments for capital lease obligations for each of the next five years and thereafter as of December 31, 2005 are as follows:

2006	$ 3,697
2007	2,493
2008	1,139
2009	623
2010	--
Thereafter	--
Total	7,952
Less interest portion	308
	$ 7,644

12. OTHER EXPENSES, NET

Other expenses, net includes the following operating items:

	Year Ended December 31,		
Other expenses (income):	2005	2004	2003
Loss (gain) on sales and disposals of fixed assets	$ (92)	$ 839	$ (484)
Adjustments to the fair values of intangibles, long-term receivables and long-term liabilities	888	(1,206)	(206)
Center closing costs	1,012	868	2,040
Gain on sales of subsidiaries	(319)	(1,143)	--
Reimbursements from previous research and development arrangements	(300)	(400)	--
Severance accruals for two officers under terms of employment contracts	--	2,557	--
Miscellaneous income	(420)	(575)	(185)
	$ 769	$ 940	$ 1,165

13. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share were $0.10, $0.64 and $(0.15), in 2005, 2004 and 2003, respectively. The per share amounts have been computed on the basis of the weighted average number of shares outstanding.

Because the Company incurred a net loss for 2003, the respective calculation of diluted loss per share excludes the impact of all stock options and warrants. The calculation of diluted earnings per share for 2005 and 2004 excludes the impact of 1.0 million and 0.9 million stock options and warrants, respectively, because to include them would have been anti-dilutive. Diluted earnings (loss) per share have been computed as follows:

	Year Ended December 31,		
	2005	2004	2003
Net income (loss)	$ 6,885	$ 43,708	$ (9,399)
Weighted-average shares outstanding - basic	69,721	68,490	64,413
Stock options and warrants	1,659	2,598	--
Weighted-average shares outstanding - diluted	71,380	71,088	64,413
Earnings (loss) per share - diluted	$ 0.10	$0.61	$ (0.15)

14. STOCKHOLDERS' EQUITY AND OPTIONS

Options Outstanding

As of December 31, 2005, the Company has issued stock options to employees, directors and certain other individuals. Options granted have terms ranging from five to ten years. Vesting provisions on options granted to date include options that vest immediately, options that vest in equal amounts annually over the first two years or four years of the option term and options that vest entirely on the first anniversary of the grant date.

In December 2005, the Company's Board of Directors approved the accelerated vesting of all unvested and "out-of-the-money" stock options with an exercise price per share of $8.75 or higher. As a result, approximately 662,000 stock options vested immediately. The primary purpose of the modification was to avoid recognizing an expense in future financial statements. This modification to the stock option terms was accounted for under the provisions of APB No. 25 and its related interpretations and did not result in the recognition of any compensation cost.

As of December 31, 2005, the issued and outstanding options denominated in Canadian dollars were at the following prices and terms:

	OUTSTANDING			EXERCISABLE	
PRICE RANGE (CDN $)	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
$ 1.43 - $ 3.87	297	1.4 years	C$ 3.07	179	C$ 3.37
$ 4.04 - $ 6.67	77	1.7 years	4.52	55	4.38
$ 7.58 - $ 9.80	60	3.5 years	7.90	35	7.81
$11.02 - $ 15.49	74	3.9 years	12.72	73	12.72
	508	2.1 years	C$ 5.26	342	C$ 5.98

As of December 31, 2005, the issued and outstanding options denominated in U.S. dollars were at the following prices and terms:

	OUTSTANDING			EXERCISABLE	
PRICE RANGE (U.S.$)	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
$ 0.90 - $ 2.62	888	2.0 years	$ 1.38	519	$ 1.54
$ 3.02 - $ 5.25	719	2.5 years	4.14	711	4.14
$ 6.03 - $ 8.19	541	3.3 years	6.22	302	6.20
$ 8.79 - $ 11.64	880	3.9 years	10.42	878	10.42
	3,028	2.9 years	$ 5.53	2,410	$ 6.13

Approximately 1,031,000 options have been authorized for issuance but were not granted as of December 31, 2005. A summary of option activity during the last three years follows:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
December 31, 2002	8,680	Cdn$7.80	US$5.10
Granted	1,721	3.30	2.82
Exercised	(2,102)	4.38	4.11
Forfeited	(313)	4.79	4.32
Expired	(443)	15.07	7.29
December 31, 2003	7,543	Cdn$4.90	US$4.90
Granted	1,018	12.73	10.38
Exercised	(4,198)	7.49	5.90
Forfeited	(100)	3.89	6.16
Expired	(60)	16.35	10.84
December 31, 2004	4,203	Cdn$5.04	US$5.08
Granted	176	8.53	7.52
Exercised	(709)	3.89	2.71
Forfeited	(112)	11.32	9.69
Expired	(22)	9.39	6.20
December 31, 2005	3,536	Cdn$5.26	US$5.53
Exercisable at December 31, 2005	2,752	Cdn$5.98	US$6.13

In addition to the above stock options, OccuLogix may grant stock options of its common stock to employees, directors and consultants under the terms of the OccuLogix 2002 Stock Option Plan. Up to 4.5 million shares of OccuLogix's common stock may be issued under the OccuLogix plan. OccuLogix has also issued stock options outside of its 2002 Stock Option Plan. As of December 31, 2005, OccuLogix employees, directors, consultants and other outsiders held options to purchase 4.1 million shares of OccuLogix's common stock.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS No. 123 and has been included in Note 2 to the financial statements. The fair value of TLC*Vision*'s options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 3.99%, 2.84% and

2.35% for 2005, 2004 and 2003, respectively; no dividends; volatility factors of the expected market price of TLC*Vision*'s common shares of 0.75 for 2005, 2004 and 2003; and a weighted average expected option life of 2.5 years for 2005, 2004 and 2003. The fair market value of TLC*Vision*'s options granted during 2005 was $0.6 million (2004 - $4.9 million; 2003 - $2.2 million). The fair values of OccuLogix's options granted in 2005 were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 3.88%; dividend rate of 0%; volatility factor of 0.73; and expected life of 2.4 years.

The Black-Scholes option-pricing model was developed for use in estimating fair value of traded options that have no vesting restrictions and are fully transferable. Because the Company's employee stock options have characteristics significantly different from those of traded options (deferred/partial vesting and no trading during four "black-out" periods each year) and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the previous pro forma adjustments for SFAS No. 123 are not necessarily a reliable single measure of the fair value of the Company's employee stock options.

Share Repurchases

During 2005, the Company repurchased and retired 2.0 million common shares for $15.9 million completing its previously announced 2.0 million share repurchase program.

15. INCOME TAXES

During the fourth quarter of 2005, the Company initiated a review of the availability of its U.S. net operating loss carryforwards. It was determined that the availability of a significant portion of the carryforwards will be limited due to Internal Revenue Code ("IRC") Section 382 limitations. The Company intends to engage a tax service provider to perform a comprehensive IRC Section 382 study to determine the specific limitations related to certain of the net operating loss carryforwards, and that study is expected to be completed during the second quarter of 2006. Based on its current analysis, the Company has calculated a range of limitations such that $0 to $3.3 million of net operating loss carryforwards would be available each year during the carryforward period. The Company has determined that the best estimate of the deferred tax asset related to certain acquired U.S. net operating loss carryforwards is zero.

As a result of the Company's determination that the availability of certain of its U.S. net operating loss carryforwards is limited, the Company has determined that it should have recorded $1.2 million of additional income tax expense for the year ended December 31, 2004 due to the nature of the net operating loss carryforwards that were utilized in that year for financial reporting purposes. In 2004, the Company recognized approximately $1.2 million of income tax benefit that should have been recorded as a reduction to goodwill. Due to its immateriality to the operating results of 2004, the Company has corrected the error in 2005. Therefore, income tax expense of $7.9 million for the year ended December 31, 2005 includes $1.2 million of expense related to 2004. All of the $1.2 million expense was recorded in the fourth quarter of 2005 when the error was detected. During the first three quarters of 2005, the Company recognized approximately $5.7 million of income tax benefit that should have been recorded primarily as a reduction to goodwill and as an increase to equity. The Company has restated the operating results of the first three quarters of 2005 to properly reflect income taxes (see Note 22).

Significant components of the Company's deferred tax assets and liabilities are as follows:

	DECEMBER 31, 2005	2004
Deferred tax asset:		
Net operating loss carryforwards	$ 37,264	$ 35,964
Fixed assets	1,685	2,108
Intangibles	11,934	14,163
Investments	11,715	10,689
Accruals and other reserves	5,572	5,889
Stock options	4,192	5,566
Tax credits	228	15
Other	3,017	4,237
Total	75,607	78,631
Valuation allowance	(75,607)	(78,631)
	$ --	$ --

As of December 31, 2005, the Company has net operating losses available for carryforward for income tax purposes of approximately $99.0 million, which may be available to reduce taxable income in future years. The Canadian and United Kingdom carryforward losses can only be utilized by the source company. The United Kingdom carryforward losses of $7.5 million relate to United Kingdom operations that the Company is currently winding down. As such, the Company does not expect to utilize these losses. The Canadian carryforward losses of $36.0 million expire between 2006 and 2014. The U.S. carryforward losses of $55.5 million expire between 2022 and 2024. The U.S. carryforward losses include $41.2 million relating to OccuLogix, which can only be utilized to reduce OccuLogix taxable income and may be subject to IRC Section 382 limitations.

Of the total valuation allowance, approximately $6.1 million ($0.6 million from OccuLogix) will be recorded directly to equity if and when that portion of the deferred tax asset is realized and the associated valuation allowance is reversed. During 2005, the Company reversed $3.1 million of the valuation allowance directly to equity and $3.4 million directly to goodwill.

The differences between the provision for income taxes and the amount computed by applying the statutory Canadian income tax rate to income (loss) before income taxes were as follows:

	YEAR ENDED DECEMBER 31, 2005	2004	2003
Income tax expense (recovery) at the Canadian statutory rate of 36.125% (2004 – 36.125%; 2003 – 35.1%)	$ 5,338	$ 16,006	$ (3,121)
Change in valuation allowance	(267)	(16,337)	1,929
Expenses not deductible for income tax purposes	285	300	150
Change in Canadian tax rates	--	31	1,042
State taxes	506	450	423
Canadian income tax	350	150	85
Rate differential on United States operations	445	--	--
Correction of 2004 federal and state income tax	1,234	--	--
	$ 7,891	$ 600	$ 508

The provision for income taxes is as follows:

	YEAR ENDED DECEMBER 31, 2005	2004	2003
Current:			
Canada	$ 350	$ 150	$ 85
United States - federal	228	--	58
United States - state	475	450	175
Other	537	--	190
	$1,590	$ 600	$ 508
Deferred:			
United States - federal	$5,554	$ --	$ --
United States - state	747	--	--
	$6,301	$ --	$ --

The Company has established accruals for certain tax contingencies for exposures associated with tax deductions and return filing positions which may be challenged. The tax contingency accruals are adjusted quarterly in light of changing facts and circumstances, such as the progress of tax audits, case law and statute of limitations. A number of years may elapse before a particular matter is resolved. The Company believes its tax contingency accruals are adequate to address known tax contingencies. Tax contingency accruals are recorded in accrued liabilities in the balance sheets.

16. COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases certain center facilities under operating leases with terms generally of five to ten years. Certain leases contain rent escalation clauses and free rent periods that are charged to rent expense on a straight-line basis. The leases usually contain renewal clauses at the Company's option at fair market value. As of December 31, 2005, the Company has commitments relating to non-cancellable operating leases for rental of office space and equipment, which require future minimum payments aggregating approximately $27.0 million. Future minimum payments over the next five years and thereafter are as follows:

2006	$ 7,289
2007	5,778
2008	4,451
2009	3,181
2010	2,433
Thereafter	3,841
	$ 26,973

As of December 31, 2005, the Company had commitments related to long-term marketing contracts which require payments totaling $2.0 million in each of the years ending December 31, 2006, 2007 and 2008.

Commitments and Contingencies Related to OccuLogix

OccuLogix entered into agreements to obtain the exclusive license to certain patents. OccuLogix is required to make royalty payments totaling 2.0% of its product sales. In addition, OccuLogix is required to make minimum advance royalty payments of $12,500 quarterly, which will be credited against future royalty payments to be made in accordance with the agreements.

Future minimum royalty payments under the OccuLogix agreements as at December 31, 2005 are approximately as follows:

2006	$ 100
2007	100
2008	100
2009	100
2010 and thereafter	750
	$ 1,150

In 2005, OccuLogix placed a purchase order for inventory representing a total commitment of $1.3 million. As of December 31, 2005, $1.0 million has been purchased against that purchase order.

In addition, OccuLogix has committed to purchase minimum quantities of inventory beginning six months after FDA approval of the RHEO™ System. Minimum purchase orders for the fourth year shall be determined immediately after the term of the first year by mutual consent but shall not be less than that of the previous year. This same method shall be used in subsequent years to determine future minimum purchase quantities such that minimum purchase quantities are always fixed for three years. Future minimum annual commitments after FDA approval are approximately as follows:

Year 1	$ 2,565
Year 2	4,275
Year 3	6,413

Legal Contingencies

The Company is subject to various claims and legal actions in the ordinary course of its business, which may or may not be covered by insurance. These matters include, without limitation, professional liability, employee-related matters and inquiries and investigations by governmental agencies. While the ultimate results of such matters cannot be predicted with certainty, the Company believes that the resolution of these matters will not have a material adverse effect on its consolidated financial position or results of operations.

Regulatory Tax Contingencies

TLC*Vision* operates in 48 states and two Canadian provinces and is subject to various federal, state and local income, payroll, unemployment, property, franchise, capital, sales and use tax on its operations, payroll, assets and services. TLC*Vision* endeavors to comply with all such applicable tax regulations, many of which are subject to different interpretations, and has hired outside tax advisors who assist in the process. Many states and other taxing authorities have been interpreting laws and regulations more aggressively to the detriment of taxpayers such as TLC*Vision* and its customers. TLC*Vision* believes that it has adequate provisions and accruals in its financial statements for tax liabilities, although it cannot predict the outcome of future tax assessments.

Tax authorities in two states have contacted TLC*Vision* and issued proposed sales tax adjustments in the aggregate amount of approximately $0.7 million for various periods through 2005 on the basis that certain of TLC*Vision*'s business arrangements constitute at least a partially taxable transaction rather than an exempt service. TLC*Vision*'s discussions with these two state tax authorities are ongoing. If it is determined that any sales tax is owed, TLC*Vision* believes that, under applicable laws and TLC*Vision*'s contracts with its customers, each customer is ultimately responsible for the payment of any applicable sales and use taxes in respect of TLC*Vision*'s services. However, TLC*Vision* may be unable to collect any such amounts from its customers, and in such event the Company would remain responsible for payment. TLC*Vision* cannot yet predict the outcome of these outstanding assessments or any other assessments or similar actions which may be undertaken by other state tax authorities. TLC*Vision* has evaluated and implemented a comprehensive sales tax reporting system. TLC*Vision* believes that it has adequate provisions in its financial statements with respect to these matters.

17. SEGMENT INFORMATION

The Company has four reportable segments: refractive, mobile cataract, optometric franchising and AMD. The refractive segment provides the majority of the Company's revenue and is in the business of providing corrective laser surgery specifically related to refractive disorders, such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. This segment is comprised of laser centers and the fixed and mobile access business. The mobile cataract segment provides surgery specifically for the treatment of cataracts. The optometric franchising segment provides marketing, practice development and purchasing power to independently-owned and operated optometric practices in the United States. The AMD segment primarily includes the Company's majority interest in OccuLogix. The AMD segment is pursuing commercial applications of treatments of dry age related macular degeneration. Other includes an accumulation of other healthcare business activities including the management of cataract and secondary care centers that provide advanced levels of eye care. None of the businesses in the other segment meet the quantitative criteria to be disclosed separately as a reportable segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on operational components including paid procedures, net revenues, fixed costs and income (loss) before income taxes.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different management and marketing strategies. The Company's reportable segments were as follows:

YEAR ENDED DECEMBER 31, 2005	REFRACTIVE	MOBILE CATARACT	OPTOMETRIC FRANCHISING	AMD	OTHER	TOTAL
Revenues	$ 186,620	$ 31,716	$ 17,471	$ 1,841	$ 22,377	$260,025
Expenses:						
Operating	162,438	25,794	11,032	18,211	15,166	232,641
Depreciation and amortization	12,112	2,649	44	120	1,428	16,353
	174,550	28,443	11,076	18,331	16,594	248,994
Income (loss) from operations	12,070	3,273	6,395	(16,490)	5,783	11,031
Interest income (expense)	2,693	(117)	(447)	1,593	(1,179)	2,543
Minority interests	(2,371)	--	(2,914)	7,058	(3,116)	(1,343)
Earnings from equity investments	1,473	--	--	--	1,072	2,545
Income (loss) before income taxes	$ 13,865	$ 3,156	$ 3,034	$ (7,839)	$ 2,560	14,776
Income taxes						(7,891)
Net income						$ 6,885
Total assets	$ 197,216	$ 19,890	$ 11,921	$ 46,271	$ 25,745	$301,043
Additions to fixed assets and intangibles	$ 67,091	$ 9,734	$ 66	$ 218	$ 2,932	$ 80,041

YEAR ENDED DECEMBER 31, 2004	REFRACTIVE	MOBILE CATARACT	OPTOMETRIC FRANCHISING	AMD	OTHER	TOTAL
Revenues	$ 182,441	$ 27,040	$ 14,145	$ 837	$ 22,784	$247,247
Expenses:						
Operating	155,587	22,325	8,868	3,787	14,924	205,491
Depreciation and amortization	13,695	2,614	41	104	1,227	17,681
	169,282	24,939	8,909	3,891	16,151	223,172
Income (loss) from operations	13,159	2,101	5,236	(3,054)	6,633	24,075
Gain on sale of OccuLogix, Inc. stock	--	--	--	25,792	--	25,792
Interest income (expense)	757	(114)	(492)	51	(865)	(663)
Minority interests	(1,863)	--	(2,323)	411	(3,178)	(6,953)
Earnings from equity investments	1,575	--	--	--	482	2,057
Income before income taxes	$ 13,628	$ 1,987	$ 2,421	$ 23,200	$ 3,072	44,308
Income taxes						(600)
Net income						$ 43,708
Total assets	$ 191,734	$ 15,716	$ 12,049	$ 61,440	$ 24,302	$305,241
Additions to fixed assets and intangibles	$ 4,071	$ 1,497	$ 79	$ 227	$ 7,307	$ 13,181

YEAR ENDED DECEMBER 31, 2003	REFRACTIVE	MOBILE CATARACT	OPTOMETRIC FRANCHISING	AMD	OTHER	TOTAL
Revenues	$ 151,430	$ 24,812	$ 10,301	$ 622	$ 13,753	$200,918
Expenses:						
Operating	142,176	20,515	7,166	2,646	8,677	181,180
Depreciation and amortization	18,794	2,765	99	47	888	22,593
	160,970	23,280	7,265	2,693	9,565	203,773
Income (loss) from operations	(9,540)	1,532	3,036	(2,071)	4,188	(2,855)
Interest income (expense)	(306)	(169)	(490)	--	(399)	(1,364)
Minority interests	(1,709)	--	(1,061)	--	(1,902)	(4,672)
Income (loss) before income taxes	$ (11,555)	$ 1,363	$ 1,485	$ (2,071)	$ 1,887	(8,891)
Income taxes						(508)
Net loss						$ (9,399)
Total assets	$ 140,796	$ 13,972	$ 10,207	$ 490	$ 25,283	$190,748
Additions to fixed assets and intangibles	$ 707	$ 2,587	$ 105	$ 382	$ 4,537	$ 8,318

The Company's geographic segments are as follows:

YEAR ENDED DECEMBER 31, 2005	CANADA	UNITED STATES	TOTAL
Revenues	$ 12,937	$ 247,088	$ 260,025
Total fixed assets and intangibles	$ 8,457	$ 164,125	$ 172,582

YEAR ENDED DECEMBER 31, 2004	CANADA	UNITED STATES	TOTAL
Revenues	$ 12,596	$ 234,651	$ 247,247
Total fixed assets and intangibles	$ 9,825	$ 108,288	$ 118,113

YEAR ENDED DECEMBER 31, 2003	CANADA	UNITED STATES	TOTAL
Revenues	$ 10,109	$ 190,809	$ 200,918
Total fixed assets and intangibles	$ 10,765	$ 117,914	$ 128,679

18. FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the short-term maturities of these instruments.

The fair value of the Company's auction rate securities equals cost due to the short time period between the reset dates for the interest rates. The Company's held-to-maturity short-term investments are bank certificates of deposit for which cost approximates fair market value.

Given the large number of individual long-term debt instruments and capital lease obligations held by the Company, it is not practicable to determine fair value.

19. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash transactions:

	YEAR ENDED DECEMBER 31, 2005	2004	2003
Capital lease obligations relating to equipment purchases	$ 5,667	$ 2,579	$ 8,493
Inventory contributed to OccuLogix	183	--	--
Option and warrant reduction	1,011	5,379	2,892
Value of shares issued upon meeting certain earnings criteria	181	389	--
Retirement of treasury stock	15,868	--	2,432
Treasury stock to employee benefit plan	--	--	191
Value of shares issued for acquisitions	24	--	96

Cash paid for the following:

	YEAR ENDED DECEMBER 31, 2005	2004	2003
Interest	$ 1,426	$ 2,133	$ 2,618
Income taxes	$ 1,187	$ 835	$ 533

20. RELATED PARTY TRANSACTIONS

On March 1, 2001, a limited liability company wholly owned by TLC*Vision* acquired all of the non medical assets relating to the refractive practice of Dr. Mark Whitten prior to Dr. Whitten becoming a director of TLC*Vision*. The cost of this acquisition was $20.0 million, with $10.0 million paid in cash on March 1, 2001 and the remaining $10.0 million payable in four equal non-interest bearing installments on each of the first four anniversary dates of closing. Dr. Whitten was a director of TLC*Vision* from May 2002 to May 2003. At December 31, 2005, this note had been paid in full (See Note 11, "Long-Term Debt"). In addition, TLC*Vision* has entered into service agreements with companies that own Dr. Whitten's refractive satellite operations located in Frederick, Maryland, and Charlottesville, Virginia, under which TLC*Vision* will provide such companies with services in return for a fee. During the years ended December 31, 2005, 2004 and 2003, the Company received revenue from these service agreements of $1.0 million, $0.9 million, and $0.7 million, respectively.

LaserVision, a subsidiary of TLC*Vision*, had a limited partnership agreement with Minnesota Eye Consultants for the operation of one of its Roll-On/Roll-Off mobile systems. Dr. Richard Lindstrom, a director of TLC*Vision*, is founder, partner and attending surgeon of Minnesota Eye Consultants. LaserVision is the general partner and owns 60% of the partnership. Minnesota Eye Consultants, P.A. is a limited partner and owns 40% of the partnership. Under the terms of the partnership agreement, LaserVision received a revenue-based management fee from the partnership until this unit was retired in 2003. Subsequent to the acquisition of LaserVision, the Company received $48,000 in management fees from the partnership for the year ended December 31, 2003. Dr. Lindstrom also receives compensation from TLC*Vision* in his capacity as medical director of TLC*Vision* and as a consultant to MSS.

The Company also has an agreement with Minnesota Eye Consultants to provide laser access. The Company received revenue of $1.0 million, $1.4 million, and $1.2 million as a result of the agreement for the years ended December 31, 2005, 2004, and 2003, respectively.

In September 2004, OccuLogix signed a product purchase agreement with Veris to sell 8,004 treatment sets over the period from October 2004 to December 2005, a transaction valued at $6.0 million, after introductory rebates. However, due to delays in opening its planned number of clinics throughout Canada, Veris will no longer require the contracted number of treatment sets in the period. OccuLogix has agreed to the original pricing for the reduced number of treatment sets required in the period. Dr. Jeffery Machat, who is an investor in and one of the directors of Veris, was a co-founder and former director of TLC*Vision*. As of December 31, 2005, OccuLogix had received a total of $1.8 million from Veris. Included in amounts receivable as of December 31, 2005 is $1.0 million due from Veris for the purchase of additional pumps and treatment sets. Based on discussions with Veris, OccuLogix believes that Veris will not be able to meet its financial obligations by March 31, 2006. Therefore, OccuLogix has recorded an allowance for doubtful accounts of $1.0 million against the amount due from Veris in the year ended December 31, 2005.

21. SUBSEQUENT EVENTS

On February 3, 2006, OccuLogix announced that it had completed a preliminary analysis of the data from MIRA-1, its recently completed pivotal (phase III) clinical trial using its RHEO™ System. The data indicated that MIRA-1 did not demonstrate a statistically significant mean change of Best Spectacle-Corrected Visual Acuity. As a result of this announcement, the share price of OccuLogix stock as traded on the NASDAQ National Market System decreased from $12.75 on February 2, 2006 to close at $4.10 on February 3, 2006. The 10-day average price of the stock immediately following the announcement was $3.65 and reflected a decrease in the market capitalization of OccuLogix from $536.6 million on February 2, 2006 to $153.6 million based on the 10-day share price average subsequent to the announcement. The resulting decrease in the share price was identified as an indicator of impairment leading to an analysis of OccuLogix's intangible assets and goodwill and resulting in OccuLogix reporting an impairment charge to goodwill of $147.5 million. Because TLC*Vision* accounted for the OccuLogix reorganization at historical cost, it eliminates OccuLogix's goodwill balance in consolidation (see Note 1).

OccuLogix believes that the announcement made it unlikely that it would be able to collect on amounts outstanding from its sole customer, Veris, resulting in a provision for bad debts of $0.5 million related to revenue reported prior to December 2005. OccuLogix did not recognize $0.5 million of revenue related to goods shipped in December 2005, based on collectibility not being reasonably assured. OccuLogix also fully expensed the $0.2 million advance that it had paid to Veris in connection with clinical trial services to be provided by Veris for one of OccuLogix's clinical trials. OccuLogix also evaluated its ending inventory balance as of December 31, 2005 on the basis that Veris may not be able to increase its commercial activities in Canada in line with initial expectations. Accordingly, OccuLogix set up a provision for obsolescence of $2.0 million for filter sets that will unlikely be utilized prior to their expiration dates. As a result of the above entries, TLC*Vision*'s reported pre-tax earnings for the quarter and year ended December 31, 2005 were reduced by $1.6 million.

22. QUARTERLY FINANCIAL DATA (UNAUDITED)

On March 16, 2006, the Company announced that it would restate its consolidated financial statements for the first three quarters of 2005 to correct its accounting for income taxes. During each of the first three quarters of 2005, the Company reversed a portion of its deferred tax asset valuation allowance as a reduction to income tax expense. Due to limitations on the availability of certain portions of the Company's net operating loss carryforwards, the Company has determined that the deferred tax asset valuation allowance reversals in the first three quarters of 2005 should have been recorded primarily to goodwill and equity. The adjustments to income tax expense were $2.9 million, $1.9 million and $0.9 million for the three months ended March 31, 2005, June 30, 2005 and September 30, 2005, respectively. The total adjustment for the first three quarters of $5.7 million is primarily a non-cash item. All data reflected in the 2005 consolidated financial statements, including the related notes, have been restated to properly reflect income taxes. Quarterly financial results (unaudited) for 2005, including the effect of the restatement, are as follows:

	THREE MONTHS ENDED MARCH 31, 2005		THREE MONTHS ENDED JUNE 30, 2005		THREE MONTHS ENDED SEPTEMBER 30, 2005		THREE MONTHS ENDED DECEMBER 31, 2005
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	
Revenues	$ 71,049	$ 71,049	$ 66,820	$ 66,820	$ 61,639	$ 61,639	$ 60,517
Gross profit	24,959	24,959	22,492	22,492	17,521	17,521	14,328
Net income (loss)	9,606	6,727	5,511	3,635	1,699	779	(4,256)
Basic income (loss) per share	0.14	0.10	0.08	0.05	0.02	0.01	(0.06)
Diluted income (loss) per share	0.13	0.09	0.08	0.05	0.02	0.01	(0.06)

For comparison purposes, the quarterly financial results (unaudited) for 2004 are as follows:

	THREE MONTHS ENDED MARCH 31, 2004	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2004	THREE MONTHS ENDED DECEMBER 31, 2004 (1)
Revenues	$ 66,800	$ 65,879	$ 57,692	$ 56,876
Gross profit	21,713	22,307	17,609	14,880
Net income (loss)	8,052	6,239	3,322	26,095
Basic income (loss) per share	0.12	0.09	0.05	0.38
Diluted income (loss) per share	0.12	0.09	0.05	0.36

(1) Net income for the three months ended December 31, 2004 includes a gain on the sale of OccuLogix stock of $25.8 million.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by the report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarter ended December 31, 2005, the Company implemented a control within the reporting of income taxes process to evaluate IRC Section 382 limitations related to the availability of net operating loss carryforwards and the impact on the Company's financial statements. This evaluation resulted in a restatement of the 2005 quarterly financial information as well as a correction in 2005 of 2004 income taxes as described in footnote 15 to the consolidated financial statements and was considered to be a material weakness in internal controls that was properly remediated prior to year-end. Except as described above, there have been no other significant changes in the Company's internal controls over financial reporting that occurred during the quarter ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework.* Based on our assessment, we believe that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria. However, management did not assess the effectiveness of the internal controls of Kremer Laser Eye, which is included in the Company's 2005 consolidated financial statements and constituted $33.0 million and $25.9 million of assets and net assets, respectively, as of December 31, 2005 and $7.5 million and $0.8 million of revenues and net income, respectively, for the period from July 11, 2005 through December 31, 2005. Management did not assess the effectiveness of internal control over financial reporting at this entity because the Company did not have control of the entity until July 11, 2005 and therefore did not have time, in practice, to assess those controls.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, has been audited by Ernst & Young LLP, an independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting is included elsewhere herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of TLC Vision Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that TLC Vision Corporation maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). TLC Vision Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Kremer Laser Eye, which is included in the 2005 consolidated financial statements of TLC Vision Corporation and constituted $33.0 million and $25.9 million of assets and net assets, respectively, as of December 31, 2005 and $7.5 million and $0.8 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of TLC Vision Corporation also did not include an evaluation of the internal control over financial reporting of Kremer Laser Eye.

In our opinion, management's assessment that TLC Vision Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, TLC Vision Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TLC Vision Corporation as of December 31, 2005 and 2004, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2005 of TLC Vision Corporation and our report dated March 10, 2006 expressed an unqualified opinion thereon.

St. Louis Missouri
March 10, 2006

/s/ ERNST & YOUNG LLP

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 is incorporated by reference to the Company's definitive proxy statement to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2005.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference to the Company's definitive proxy statement to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2005.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is hereby incorporated by reference to the Company's definitive proxy statement to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2005.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is hereby incorporated by reference to the Company's definitive proxy statement to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2005.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is hereby incorporated by reference to the Company’s definitive proxy statement to be filed within 120 days after the end of the Company’s fiscal year ended December 31, 2005.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of the report:

(1) Financial statements:

Report of Independent Registered Public Accounting Firm.

Consolidated Statements of Operations – Years Ended December 31, 2005, 2004 and 2003.

Consolidated Balance Sheets as of December 31, 2005 and 2004.

Consolidated Statements of Cash Flows – Years Ended December 31, 2005, 2004 and 2003.

Consolidated Statements of Stockholders' Equity – Years Ended December 31, 2005, 2004 and 2003.

Notes to Consolidated Financial Statements

(2) Financial statement schedules required to be filed by Item 8 and Item 15(d) of Form 10-K.

Schedule II - Valuation and Qualifying Accounts and Reserves

Except as provided below, all schedules for which provision is made in the applicable accounting regulations of the Commission either have been included in the consolidated financial statements or are not required under the related instructions, or are inapplicable and therefore have been omitted.

(3) Exhibits required by Item 601 of Regulation S-K and by Item 14(c).

See Exhibit Index.

(b) Exhibits required by Item 601 of Regulation S-K.

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TLC VISION CORPORATION

By /s/ JAMES C. WACHTMAN
James C. Wachtman, Chief Executive Officer

March 10, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

SIGNATURE	TITLE	DATED
/s/ JAMES C WACHTMAN James C. Wachtman	Chief Executive Officer and Director	March 10, 2006
/s/ STEVEN P. RASCHE Steven P. Rasche	Chief Financial Officer and Treasurer	March 10, 2006
/s/ ELIAS VAMVAKAS Elias Vamvakas	Chairman of the Board of Directors and Director	March 10, 2006
/s/ THOMAS N. DAVIDSON Thomas N. Davidson	Director	March 10, 2006
/s/ WARREN S. RUSTAND Warren S. Rustand	Director	March 10, 2006
/s/ RICHARD L. LINDSTROM, M.D. Richard L. Lindstrom, M.D.	Director	March 10, 2006
/s/ TOBY S. WILT Toby S. Wilt	Director	March 10, 2006
/s/ MICHAEL D. DEPAOLIS Michael D. DePaolis	Director	March 10, 2006

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	BALANCE AT BEGINNING OF PERIOD	PROVISION	OTHER(1)	DEDUCTIONS-UNCOLLECTABLE A MOUNTS	BALANCE AT END OF PERIOD
			(in thousands)		
Fiscal 2003					
Provision for contractual allowances and doubtful accounts receivable	$ 2,428	$ 207	$ --	$ (52)	$ 2,583
Provision against investments and other assets	4,123	46	(651)	--	3,518
Deferred tax asset valuation allowance	120,902	1,929	--	--	122,831
Fiscal 2004					
Provision for contractual allowances and doubtful accounts receivable	$ 2,583	$ 124	$ --	$ (380)	$ 2,327
Provision against investments and other assets	3,518	--	(1,206)	--	2,312
Deferred tax asset valuation allowance	122,831	(16,337)	(27,863)	--	78,631
Fiscal 2005					
Provision for contractual allowances and doubtful accounts receivable	$ 2,327	$ 1,648	$ 530	$ (276)	$ 4,229
Provision against investments and other assets	2,312	2	--	--	2,314
Deferred tax asset valuation allowance	78,631	(267)	(2,757)	--	75,607

Note (1): During fiscal 2003, the Company adjusted a portion of the provision for contractual allowances and doubtful accounts due to improved financial strength of the borrower, a secondary care service provider of which the Company owns approximately 25% of the outstanding shares, and a consistent pattern of timely payments that the borrower has made related to the note receivable held by the Company. The Company reversed the remainder of the reserve in fiscal 2004 due to consistent payment history and continually improving financial strength of the borrower. During 2004, additional deferred tax asset valuation allowance of $16,094 related to the acquisition of deferred tax assets of OccuLogix for which there was a valuation allowance. Additionally, $9,523 was the effect of stock-based compensation and prior year return-to-provision adjustments. Also included is a reduction of the deferred tax asset valuation allowance of $53,480 related to the write-down of deferred tax assets for net operating losses that are not expected to be utilized. During 2005, the reduction of the deferred tax asset valuation allowance of $2,757 related to the effect of stock-based compensation, prior year return-to-provision adjustments and the change in valuation allowance of OccuLogix.

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's 10-K filed with the Commission on August 28, 1998)
3.2	Articles of Amendment (incorporated by reference to Exhibit 3.2 to the Company's 10-K filed with the Commission on August 29, 2000)
3.3	Articles of Continuance (incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form S-4/A filed with the Commission on March 1, 2002 (file no. 333-71532))
3.4	Articles of Amendment (incorporated by reference to Exhibit 4.2 to the Company's Post Effective Amendment No. 1 on Form S-8 to the Company's Registration Statement on Form S-4 filed with the Commission on May 14, 2002 (file no. 333-71532))
3.5	By-Laws of the Company (incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form S-4/A filed with the Commission on March 1, 2002 (file no. 333-71532))
4.1	Shareholder Rights Plan Agreement dated March 4, 2005 between the Company and CIBC Mellon Trust Company (incorporated by reference to Exhibit A to the Company's Registration Statement on Form 8-A filed with the Commission on March 14, 2005 (file no. 000-29302))
10.1*	TLC Vision Corporation Amended and Restated Share Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed with the Commission on June 23, 2004 (file no. 333-116769))
10.2*	TLC Corporation 2004 Employee Share Purchase Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed with the Commission on June 23, 2004 (file no. 333-116769))
10.3*	Employment Agreement with Elias Vamvakas (incorporated by reference to Exhibit 10.1(e) to the Company's 10-K filed with the Commission on August 28, 1998)
10.4	Escrow Agreement with Elias Vamvakas and Jeffery J. Machat (incorporated by reference to Exhibit 10.1(f) to the Company's 10-K filed with the Commission on August 28, 1998)
10.5	Consulting Agreement with Excimer Management Corporation (incorporated by reference to Exhibit 10.1(g) to the Company's 10-K filed with the Commission on August 28, 1998)
10.6	Shareholder Agreement for Vision Corporation (incorporated by reference to Exhibit 10.1(l) to the Company's 10-K filed with the Commission on August 28, 1998)
10.7*	Employment Agreement with William Leonard (incorporated by reference to Exhibit 10.1(n) to the Company's 10-K filed with the Commission on August 29, 2000)
10.8*	Consulting Agreement with Warren Rustand (incorporated by Reference to Exhibit 10.10 to the Company's Amendment No. 2 registration Statement on Form S-4/A filed with the Commission on January 18, 2002 (file no. 333-71532))
10.9*	Employment Agreement with Paul Frederick (incorporated by reference to Exhibit 10.10 to the Company's 10-K for the year ended May 31, 2002)
10.10*	Employment Agreement with James C. Wachtman dated May 15, 2002 (incorporated by reference to Exhibit 10.13 to the Company's 10-K for the year ended May 31, 2002)
10.11*	Employment Agreement with Robert W. May dated May 15, 2002 (incorporated by reference to Exhibit 10.14 to the Company's 10-K for the year ended May 31, 2002)
10.12*	Amendment to Employment Agreement with Robert W. May dated September 30, 2003 (incorporated by reference to Exhibit 10.12 to the Company's 10-K for the year ended December 31, 2003)
10.13*	Employment Agreement with B. Charles Bono dated May 15, 2002 (incorporated by reference to Exhibit 10.15 to the Company's 10-K for the year ended May 31, 2002)
10.14*	Amendment to Employment Agreement with B. Charles Bono dated September 30, 2003 (incorporated by reference to Exhibit 10.14 to the Company's 10-K for the year ended December 31, 2003)
10.15*	Supplemental Employment Agreement with John J. Klobnak dated May 15, 2002 (incorporated by reference to Exhibit 10.16 to the Company's 10-K for the year ended May 31, 2002)
10.16*	Severance Agreement with Elias Vamvakas dated October 25, 2004 (incorporated by reference to Exhibit 10.16 to the Company's 10-K for the year ended December 31, 2004)

EXHIBIT NO.	DESCRIPTION
10.17*	Employment Agreement with Steve Rasche dated July 1, 2004 (incorporated by reference to Exhibit 10.17 to the Company's 10-K for the year ended December 31, 2004)
10.18*	Employment Agreement with Brian Andrew dated December 31, 2004 (incorporated by reference to Exhibit 10.18 to the Company's 10-K for the year ended December 31, 2004)
10.19	Asset Purchase Agreement By and Among TLC Vision (USA) Corporation, Eyes of the Future, P.C., and Frederic B. Kremer, M.D., dated as of July 11, 2005 (incorporated by reference to Exhibit 2.1 to the Company's 10-Q for the three and nine months ended September 30, 2005)
10.20	Asset Purchase Agreement By and Among TLC Vision (USA) Corporation, Frederic B. Kremer, M.D., P.C., and Frederic B. Kremer, M.D., dated as of July 11, 2005 (incorporated by reference to Exhibit 2.2 to the Company's 10-Q for the three and nine months ended September 30, 2005)
10.21	Agreement and Plan of Merger By and Among Truvision, Inc. and TLC Wildcard Corp. and TLC Vision Corporation and TLC Vision (USA) Corporation and Lindsay T. Atwood dated as of October 27, 2005 (incorporated by reference to Exhibit 2.3 to the Company's 10-Q for the three and nine months ended September 30, 2005)
21	List of the Company's Subsidiaries
23	Consent of Independent Registered Public Accounting Firm
31.1	CEO's Certification required by Rule 13A-14(a) of the Securities Exchange Act of 1934.
31.2	CFO's Certification required by Rule 13A-14(a) of the Securities Exchange Act of 1934.
32.1	CEO's Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, U.S.C. Section 1350
32.2	CFO's Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, U.S.C. Section 1350
99	Reconciliation between Canadian and United States Generally Accepted Accounting Principles

* Management contract or compensatory plan arrangement.

Exhibit 21

Listing of the Company's Subsidiaries

Name	State/Province of Incorporation/Organization
ADA Ambulatory Surgery Center LLC	Delaware
American Eye Instruments, Inc.	Oregon
California Refractive LLC	Delaware
Coastal Vision Laser Eye Centers, LLC	California
CUSA 2002 Investments, LLC	Delaware
Dakota Dunes, LLC	Delaware
Del Val ASC, LLC	Delaware
Delaware Valley Vision Assoc. Group Practice, LLC	Pennsylvania
Eastern Oregon Regional Surgery Center, LLC	Oregon
Huntsville Center for Advanced Cataract Surgery LLC	Delaware
Laser Access of Indiana LLC	Indiana
Laser Eye Care of California, LLC	Delaware
Laser Eye Surgery, Inc.	Utah
Laser Vision Center of Edina LLC	Minnesota
Laser Vision Centers, Inc.	Delaware
Laservision (Europe) Limited	United Kingdom
LaserVision Centers Limited	United Kingdom
Laser Vision Limited	United Kingdom
Laservision Harley Street Limited	United Kingdom
Liberty Eye Surgical Center, LLC	Pennsylvania
Long Island Refractive LLC	Delaware
LVCI California, LLC	Delaware
MSS, Inc.	Minnesota
New Mexico Refractive LLC	New Mexico
New Vision Strategies LLC	Kansas
Northwestern Laser Vision LLC	Delaware
OccuLogix Holdings, Inc.	Delaware
OccuLogix, Inc.	Delaware
OccuLogix LLC	Delaware
OccuLogix LP	Delaware
OccuLogix Management Inc.	Delaware
Ogden Refractive LLC	Delaware
Opt, LLC	Utah
OR Partners, Inc.	Delaware
OR Providers, Inc.	Ohio
Oxford Eye Surgery Center, LP	Mississippi
Permian Basin Surgical Care Center Ltd.	Texas
Philadelphia Vision Associates Group Practice, LLC	Pennsylvania
Phoenix Eye Surgical Center	Arizona
Providence Refractive LLC	Delaware
Rockland Surgery Center LP	Delaware
San Jose Refractive LLC	Delaware
Southeast Medical, Inc.	Louisiana
Southern Ophthalmics, Inc.	South Carolina
Summit Ambulatory Surgical Center LLP	Delaware
Surgical Services of Michigan, L.L.C.	Michigan
Texoma Regional Surgery Center LLC	Delaware
TLC Capital Corporation	Delaware
TLC Florida Eye Laser Center LLC	Delaware
TLC Laser Eye Care of La Jolla LLC	Delaware
TLC Laser Eye Care of Torrance LLC	Delaware

TLC Laser Eye Centers (ATAC) LLC	Delaware
TLC Laser Eye Centers (Piedmont/Atlanta) LLC	South Carolina
TLC Laser Eye Centers (Refractive I) Inc.	Delaware
TLC Management (Delaware Valley), LLC	Delaware
TLC Management Services Inc.	Delaware
TLC Michigan L.L.C.	Michigan
TLC Michigan Investments, LLC	Michigan
TLC Midwest Eye Laser Center, Inc.	Illinois
TLC Northwest Ohio LLC	Ohio
TLC Oklahoma Doctors L.L.C.	Oklahoma
TLC Personnel Services LLC	Michigan
TLC The Laser Center (Annapolis) Inc.	Maryland
TLC The Laser Center (Baltimore Management) LLC	Maryland
TLC The Laser Center (Baltimore) Inc.	Maryland
TLC The Laser Center (Boca Raton) Limited Partnership	Florida
TLC The Laser Center (Carolina) Inc.	North Carolina
TLC The Laser Center (Connecticut) L.L.C.	Connecticut
TLC The Laser Center Detroit L.L.C.	Michigan
TLC The Laser Center (Indiana) Inc.	Indiana
TLC The Laser Center (Indiana) LLC	Indiana
TLC The Laser Center (Institute) Inc.	Delaware
TLC The Laser Center Kalamazoo L.L.C.	Michigan
TLC The Laser Center Lansing L.L.C.	Michigan
TLC The Laser Center (Moncton) Inc.	Ontario
TLC The Laser Center (Northeast) Inc.	Maryland
TLC The Laser Center (Northwest) Inc.	Washington
TLC The Laser Center (Pittsburgh) L.L.C.	Pennsylvania
TLC The Laser Center (Tri-Cities) Inc.	Tennessee
TLC The London Laser Center Inc.	Ontario
TLC VC, LLC	Delaware
TLC Vision (USA) Corporation	Delaware
TLC Vision Source, Inc.	Texas
TLC Whitten Laser Eye Associates LLC	Delaware
TruVision, Inc.	Delaware
TruVision Contacts, Inc.	Utah
TruVision Provider Online Services, Inc.	Utah
TruHearing, Inc.	Utah
Valley Laser Eye Center LLC	North Dakota
Vision Corporation	Ontario
Vision Source LP	Texas
Vision Source Management LLC	Texas
Vision Source Marketing, Inc.	Texas
Wisconsin Refractive LLC	Delaware

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8, No. 333-115910, Form S-8, No. 333-116769, Form S-8, No. 333-71532, Form S-8, No. 333-55480, and Form S-8, No. 333-62907) of TLC Vision Corporation of our reports dated March 10, 2006, with respect to the consolidated financial statements and schedule of TLC Vision Corporation, TLC Vision Corporation Management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of TLC Vision Corporation, included in the Annual Report (Form 10-K) for the year ended December 31, 2005.

/s/Ernst & Young LLP

St. Louis, Missouri
March 15, 2006

EXHIBIT 31.1

CERTIFICATION

I, James C. Wachtman, certify that:

1. I have reviewed this annual report on Form 10-K of TLC Vision Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2006

/s/ James C. Wachtman
James C. Wachtman
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Steven P. Rasche, certify that:

1. I have reviewed this annual report on Form 10-K of TLC Vision Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2006

/s/ Steven P. Rasche
Steven P. Rasche
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TLC Vision Corporation (the "Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James C. Wachtman, Chief Executive Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2006

/s/ James C. Wachtman
James C. Wachtman
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TLC Vision Corporation (the "Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven P. Rasche, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2006

/s/ Steven P. Rasche
Steven P. Rasche
Chief Financial Officer

EXHIBIT 99

RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

TLC Vision Corporation (the "Company") prepares its consolidated financial statements in accordance with United States ("U.S.") Generally Accepted Accounting Principles ("GAAP"), which differ in certain respects from Canadian GAAP. This reconciliation between Canadian and U.S. GAAP should be read in conjunction with the consolidated financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 and related management's discussion and analysis prepared in accordance with U.S. GAAP and filed with the Securities Exchange Commission and the Canadian securities regulatory authorities.

a) Reconciliation from U.S. GAAP to Canadian GAAP

Following is a reconciliation of net income (loss) from U.S. GAAP to Canadian GAAP:

	YEAR ENDED DECEMBER 31,		
	2005	2004	2003
Net income (loss) per U.S. GAAP	$ 6,885	$ 43,708	$ (9,399)
Amortization of Practice Management Agreements (1)	(1,512)	(1,512)	(1,512)
Depreciation of fixed assets (2)	(280)	(280)	(280)
Interest income on note receivable related to the sale-leaseback of building (3)	78	78	78
Variable accounting for stock options (4)	29	108	--
Fair value accounting of stock options (4)	(6,488)	(1,245)	--
Net income (loss) per Canadian GAAP	$ (1,288)	$ 40,857	$(11,113)
Net income (loss) per share for Canadian GAAP – basic	$ (0.02)	$ 0.60	$ (0.17)
Net income (loss) per share for Canadian GAAP – diluted	$ (0.02)	$ 0.57	$ (0.17)

The most significant balance sheet differences between U.S. GAAP and Canadian GAAP are as follows:

	DECEMBER 31, 2005	DECEMBER 31, 2004
Investments and Other Assets		
Balance per U.S. GAAP	$ 19,838	$ 10,482
Note receivable related to the sale-leaseback of building (2)	850	913
Balance per Canadian GAAP	$ 20,688	$ 11,395
Intangibles, Net		
Balance per U.S. GAAP	$ 24,021	$ 18,140
Difference in impairment write-off of intangibles (1)	6,334	6,334
Amortization of Practice Management Agreements (1)	(5,418)	(3,906)
Balance per Canadian GAAP	$ 24,937	$ 20,568
Fixed Assets, Net		
Balance per U.S. GAAP	$ 49,159	$ 46,199
Adjustment for the sale-leaseback of building (2)	(829)	(829)
Depreciation of fixed assets (2)	(1,258)	(978)
Balance per Canadian GAAP	$ 47,072	$ 44,392

	DECEMBER 31, 2005	DECEMBER 31, 2004
Long-Term Debt, Less Current Maturities		
Balance per U.S. GAAP	$ 12,665	$ 9,991
Adjustment for note payable related to the sale-leaseback of building (2)	787	850
Cumulative interest payments received on note receivable related to the sale-leaseback of building (3)	(309)	(224)
Balance per Canadian GAAP	$ 13,143	$ 10,617
Contributed Surplus		
Balance per U.S. GAAP	$ --	$ --
Adjustment for change in accounting policy related to the fair value accounting of stock options (4)	13,607	13,607
Adjustment for fair value accounting of stock options (4)	7,733	1,245
Balance per Canadian GAAP	$ 21,340	$ 14,852
Option and Warrant Equity		
Balance per U.S. GAAP	$ 1,861	$ 2,872
Adjustment to compensation expense for warrants and stock options (4)	(359)	(330)
Balance per Canadian GAAP	$ 1,502	$ 2,542
Accumulated Deficit		
Balance per U.S. GAAP	$(244,159)	$(251,044)
Adjustment to the value of intangible Practice Management Agreements (1)	916	2,428
Adjustment for the sale-leaseback of building (2)	(2,087)	(1,807)
Cumulative interest on note receivable related to the sale-leaseback of building (3)	322	244
Adjustment to compensation expense for warrants and stock options (4)	(7,374)	(915)
Adjustment for change in accounting policy related to the fair value of stock options (4)	(13,607)	(13,607)
Balance per Canadian GAAP	$ (265,989)	$ (264,701)

(1) During the year ended May 31, 2002, the Company reviewed its Practice Management Agreements ("PMA's") for impairment based on budgets prepared for future periods. The refractive industry had experienced reduced procedure volumes over the prior two years as a result of increased competition, customer confusion and a weakening North American economy. This reduction in procedures had occurred at practices the Company had purchased, and as a result revenues were lower than anticipated when initial purchase prices and resulting intangible values were determined.

For U.S. GAAP purposes, the Company accounts for its intangible assets subject to amortization in accordance with Statement of Financial Accounting Standard ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 requires the impairment analysis first consider undiscounted cash flows in determining if an impairment exists. If an impairment is evident, a second calculation using a discounted cash flow method is utilized to determine the actual amount of the impairment. For U.S. GAAP purposes, the Company recorded an impairment charge of $31.0 million for the year ended May 31, 2002 related to its PMA's.

For Canadian GAAP purposes, the Company measured the initial impairment charge in accordance with the Canadian Institute of Chartered Accountant's ("CICA") Handbook Section 3060, "Capital Assets", the Canadian GAAP rules in existence during the

year ended May 31, 2002 (“CICA 3060”). CICA 3060 required an impairment charge to be recognized when the expected future undiscounted cash flows do not exceed the carrying value of such assets.

As at May 31, 2002, this resulted in a $6.3 million difference in the write-down of the PMA’s between U.S. and Canadian GAAP ($24.7 million). This difference in the initial measurement of the impairment further resulted in a difference to the amortization expense in subsequent periods, resulting in an additional $5.4 million of amortization expense for Canadian GAAP compared to U.S. GAAP through December 31, 2005.

During 2003, the CICA issued CICA 3061, Property, Plant and Equipment which is consistent with U.S. GAAP, however retroactive adoption of this change was not required.

(2) During the year ended May 31, 2002, the Company completed a sale-leaseback transaction. Total consideration received for the sale of the building and related land was $6.4 million, which was comprised of $5.4 million in cash and a $1.0 million 8.0% note receivable ("Note"). The Note has a seven-year term with the first of four annual payments of $63,000 starting on the third anniversary of the sale and a final payment of $0.7 million due on the seventh anniversary of the sale.

For U.S. GAAP purposes, this transaction was accounted for in accordance with SFAS 98, “Accounting for Leases” (“SFAS 98”). SFAS 98 prohibits sale recognition on a sale-leaseback transaction when the sublease is considered to be minor and the only recourse to any future amounts owing from the other party is the leased asset. A sublease is considered to be minor when the present value of the sublease rent is less than 10% of the total fair market value. The Company accounted for the transaction as a financing transaction which requires sale proceeds to be recorded as a liability and for the Note to not be recognized. In addition, since the sale recognition is not accounted for, the carrying value of the asset is not adjusted for and the asset continues to be depreciated over the original depreciation period of 40 years. Lease payments, exclusive of an interest portion, decrease the liability while payments received on the Note increase the liability.

For Canadian GAAP purposes, the sale-leaseback transaction was accounted for in accordance with Emerging Issues Committee No. 25, “Accounting for Sales with Leasebacks”, which resulted in the Company recognizing a loss on the sale with a corresponding lease asset and lease obligation. The terms of the lease are considered capital in nature and accordingly the land and building are reflected as assets under capital lease with the discounted value of the lease payments recorded as an obligation under capital lease. The fair value of the assets under capital lease was less than its previous carrying value and accordingly a write down of approximately $0.8 million was reflected in the consolidated statement of operations for the year ended May 31, 2002.

For U.S. GAAP purposes, depreciation expense reflects the higher net book value of the building depreciated over a 40-year expected life. For Canadian GAAP purposes, the building is depreciated over the 15-year life of the lease and the Note ($0.9 million as of December 31, 2005) is included in investments and other assets.

As of December 31, 2005, as a result of the difference in the initial accounting treatment of the sale-leaseback transaction and subsequent differences in depreciation expense recorded, the net book value of the building is $2.1 million higher for U.S. GAAP. Investments and other assets is $0.9 million higher and notes payable is $0.5 million higher (of which $0.5 million is classified as long-term) for Canadian GAAP. For each of the years ended December 31, 2005, 2004 and 2003, depreciation expense is higher for U.S. GAAP by $280,000.

(3) For each of the years ended December 31, 2005, 2004 and 2003, the Company reported $78,000 of interest income related to the Note on the sale-leaseback of the building as described above.

As of December 31, 2005, $13,000 of interest income was not yet received, and the associated interest receivable was included in prepaids and other current assts for Canadian GAAP purposes. In the above U.S. GAAP to Canadian GAAP reconciliation, cumulative interest payments received of $309,000 are recorded as reductions to long-term debt in order to adjust the U.S. GAAP treatment of the payments, which increases the debt upon their receipt.

(4) For U.S. GAAP purposes, the Company has adopted the disclosure requirements of SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”) and as permitted under SFAS 123, applies Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) and related interpretations in accounting for its stock option plans. SFAS 123 requires disclosure of pro forma amounts to reflect the impact if the Company had elected to adopt the optional recognition provisions of SFAS 123 for its stock option plans and employee stock purchase plans.

For Canadian GAAP purposes, the Company accounts for its stock options in accordance with the provisions of CICA Section 3870, "Stock-Based Compensation and Other Stock-Based Payments," ("CICA 3870").

CICA 3870, issued in December 2001, established standards for the recognition, measurement and disclosure of stock-based compensation, and other stock-based payments. Under the provisions of CICA 3870, prior to January 1, 2004, companies could either measure the compensation cost of equity instruments issued under employee compensation plans using a fair value-based method or could recognize compensation cost using another method, such as the intrinsic value-based method. However, if another method was applied, pro forma disclosure of net income or loss and earnings or loss per share was required in the financial statements as if the fair value-based method had been applied. Effective January 1, 2004, CICA 3870 requires that all stock-based compensation be measured and expensed using a fair value-based methodology.

Prior to January 1, 2004, the Company recognized employee stock-based compensation under the intrinsic value-based method and provided pro forma disclosure of net income or loss and earnings or loss per share as if the fair value-based method had been applied. Effective January 1, 2004, the Company adopted for Canadian GAAP purposes the fair value-based method for recognizing employee stock-based compensation on a retroactive basis to January 1, 1996, without restatement of prior periods. At January 1, 2004, the cumulative effect of the change in accounting policy on prior periods resulted in a charge to accumulated deficit of $13.6 million which represents the sum of the previously disclosed pro forma fair value adjustments with a corresponding increase to contributed surplus.

For the years ended December 31, 2005 and 2004, the Company recorded for Canadian GAAP purposes stock-based compensation expense, net of minority interests, of $6.5 million and $1.2 million, respectively, which is included in general and administrative expenses. The fair values of TLC*Vision*'s options granted in 2005 and 2004 were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 3.99% and 2.84%, respectively; dividend rate of 0%; volatility factor of 0.75; and expected life of 2.5 years. The fair values of OccuLogix's options granted in 2005 were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 3.88%; dividend rate of 0%; volatility factor of 0.73; and expected life of 2.4 years.

TLC*Vision* issued 0.2 million and 1.0 million stock options during 2005 and 2004, respectively. OccuLogix issued 1.8 million stock options during 2005.

No compensation expense determined under fair value-based method for stock options was included in the determination of net loss for the year ended December 31, 2003. For the year ended December 31, 2003, the following table presents the Company's pro forma net loss and net loss per share as if the fair value-based method of CICA 3870 had been applied for all stock options granted:

	YEAR ENDED DECEMBER 31, 2003
Net loss per Canadian GAAP	$ (11,113)
Total pro forma stock-based compensation expense determined under fair value-based method	(1,121)
Pro forma net loss	$ (12,234)
Basic and diluted net loss per share	
As reported	$ (0.17)
Pro forma	$ (0.19)

The fair value of the options granted in 2003 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.35%; dividend rate of 0%; volatility factor of 0.75; and expected life of 2.5 years.

During the year ended May 31, 2002, the Company allowed the holders of outstanding TLC Vision Corporation stock options with an exercise price greater than $8.688 (C$13.69) to elect to reduce the exercise price of their options to $8.688 (C$13.69), in some cases by surrendering existing options for a greater number of shares than the number of shares issuable on exercise of each repriced option. For U.S. GAAP purposes, such modification which results in a change in the exercise price of the underlying stock options is subject to APB 25's variable method of accounting for stock options. Variable accounting requires that differences between the price of the Company's common shares at the end of each reporting period and the modified exercise price be charged to income as compensation expense over the remaining vesting period of the outstanding options. For the year

ended December 31, 2004, the Company recognized, for U.S. GAAP purposes, additional stock compensation expense of $108,000 related to the modified stock options.

CICA 3870 does not require the application of variable method of accounting for stock options.

b) Management's Discussion and Analysis – Canadian Supplement

Management's Discussion and Analysis – Canadian Supplement ("Canadian Supplement") in this document is based on consolidated financial statements of TLC Vision Corporation prepared in accordance with U.S. GAAP. The Canadian Supplement has been prepared by management to provide an analysis of the impact of material differences that differ from U.S. GAAP on net income and trending analysis of the consolidated statements of operations.

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

Net loss for the year ended December 31, 2005 was $1.3 million or $0.02 per share compared to $40.9 million or $0.57 per share for the year ended December 31, 2004. The decrease in net income was primarily due to an increase in fair value stock option compensation expense, an increase in non-cash income tax expense and a significant decrease in net income from the AMD segment.

Amortization expense was $5.6 million for the years ended December 31, 2005 and 2004. Amortization expense included lower expenses from certain fully amortized intangible assets offset by increases from intangibles acquired during the year ended December 31, 2005.

Net cash provided by operating activities was $22.5 million for the year ended December 31, 2005. The cash flows provided by operating activities during the year ended December 31, 2005 were primarily due to a net loss of $1.3 million plus non-cash items including depreciation and amortization of $18.1 million, deferred taxes of $6.3 million, minority interest expense of $1.3 million and compensation expense of $7.9 million. These cash flows were partially offset by an increase in net operating assets of $7.7 million and earnings from equity investments of $2.5 million. The increase in net operating assets consisted of a $3.0 million increase in accounts receivable due primarily to higher revenues, a $2.0 million increase in prepaid expenses and a $2.8 million decrease in accounts payable and accrued liabilities.

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Net income for the year ended December 31, 2004 was $40.9 million or $0.57 per share compared to a net loss of $11.1 million or $0.17 per share for the year ended December 31, 2003. The significant improvement in net income primarily resulted from significant growth in both the refractive and other healthcare services businesses and a gain on the sale of OccuLogix's common stock.

Amortization expense decreased to $5.6 million for the year ended December 31, 2004 from $8.2 million for the year ended December 31, 2003. The decrease was largely due to the reduction in Practice Management Agreements resulting from the deconsolidation of LECC.

Net cash provided by operating activities was $35.4 million for the year ended December 31, 2004. The cash flows provided by operating activities during the year ended December 31, 2004 were primarily due to net income of $40.9 million plus non-cash items including depreciation and amortization of $19.5 million, minority interest expense of $7.0 million, the write-off of investments related to research and development arrangements of $0.8 million, compensation expense of $1.6 million and the loss on sale of fixed assets of $0.8 million. These cash flows were offset by an increase in net operating assets of $5.0 million, a gain on sale of subsidiary stock of $25.8 million, earnings from equity investments of $2.1 million, an adjustment to the fair value of investments and long-term receivables of $1.2 million and a gain on sale of interest in subsidiary of $1.1 million. The increase in net operating assets consisted of a $1.5 million increase in accounts receivable due primarily to higher revenues, a $1.8 million increase in prepaid expenses and a $1.7 million decrease in accounts payable and accrued liabilities.

c) For comparative purposes, the following tables illustrate previously filed financial statements in accordance with both Canadian GAAP and U.S. GAAP for the year ended December 31, 2003. Differences between Canadian GAAP and U.S. GAAP are described above.

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars except per share amounts)

	YEAR ENDED DECEMBER 31, 2003	
	Canadian GAAP	U.S. GAAP
Revenues:		
Refractive:		
Centers	$ 115,290	$ 115,290
Access	36,140	36,140
Other healthcare services	49,488	49,488
Total revenues	200,918	200,918
Cost of revenues:		
Refractive:		
Centers	91,283	91,283
Access	25,424	25,424
Other healthcare services	31,836	31,836
Total cost of revenues	148,543	148,543
Gross margin	52,375	52,375
General and administrative	27,281	27,001
Marketing	18,781	18,781
Research and development	1,598	1,598
Amortization of intangibles	8,197	6,685
Other expenses, net	1,165	1,165
	57,022	55,230
Operating loss	(4,647)	(2,855)
Interest income	1,458	1,380
Interest expense	(2,744)	(2,744)
Minority interests	(4,672)	(4,672)
Loss before income taxes	(10,605)	(8,891)
Income tax expense	(508)	(508)
Net loss	$ (11,113)	$ (9,399)
Net loss per share – basic and diluted	$ (0.17)	$ (0.15)
Weighted average number of common shares outstanding – basic and diluted	64,413	64,413

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)

	YEAR ENDED DECEMBER 31, 2003	
	Canadian GAAP	**U.S. GAAP**
Net loss	$ (11,113)	$ (9,399)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	24,385	22,593
Write-off of investment in research and development arrangement	1,598	1,598
Minority interests	4,672	4,672
Loss (gain) on sales and disposals of fixed assets	(484)	(484)
Adjustments to the fair values of intangibles, long-term receivables and long-term liabilities	(206)	(206)
Non-cash compensation expense	125	125
Other	677	677
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	(489)	(489)
Prepaid expenses, inventory and other current assets	(1,042)	(964)
Accounts payable and accrued liabilities	(13,831)	(13,831)
Cash from operating activities	4,292	4,292
INVESTING ACTIVITIES		
Purchases of fixed assets	(4,433)	(4,433)
Proceeds from sale of fixed assets	578	578
Proceeds from divestitures of investments and subsidiaries, net	221	221
Investment in research and development arrangements	(1,598)	(1,598)
Acquisitions and equity investments	(8,015)	(8,015)
Proceeds from short-term investments	15,709	15,709
Purchases of short-term investments	(21,050)	(21,050)
Other	(229)	(229)
Cash from investing activities	(18,817)	(18,817)
FINANCING ACTIVITIES		
Restricted cash movement	2,599	2,599
Principal payments of debt financing and capital leases	(8,018)	(8,018)
Proceeds from debt financing	3,450	3,450
Distributions to minority interests	(4,901)	(4,901)
Proceeds from the issuances of common stock	8,744	8,744
Cash from financing activities	1,874	1,874
Net decrease in cash and cash equivalents during the period	(12,651)	(12,651)
Cash and cash equivalents, beginning of period	34,231	34,231
Cash and cash equivalents, end of period	$ 21,580	$ 21,580

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

FORM 10-K/A
(Amendment No. 1)

FOR THE YEAR ENDED DECEMBER 31, 2005

COMMISSION FILE NUMBER: 0-29302

TLC VISION CORPORATION
(Exact name of registrant as specified in its charter)

NEW BRUNSWICK, CANADA (State or jurisdiction of incorporation or organization)	980151150 (I.R.S. Employer Identification No.)
5280 SOLAR DRIVE, SUITE 300 MISSISSAUGA, ONTARIO (Address of principal executive offices)	L4W 5M8 (Zip Code)
Registrant's telephone, including area code:	(905) 602-2020

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Shares, No Par Value, with common share purchase rights

NAME OF EACH EXCHANGE ON WHICH REGISTERED:

Nasdaq National Market
Toronto Stock Exchange

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [X] No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. [ ] Yes [X] No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b(2) of the Exchange Act.
[ ] Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b(2) of the Exchange Act). [ ] Yes [X] No

As of June 30, 2005, the aggregate market value of the registrant's Common Shares held by non-affiliates of the registrant was approximately $548.5 million.

As of March 10, 2006, there were 68,766,000 shares of the registrant's Common Shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Definitive Proxy Statement for the Company's 2006 annual shareholders meeting (incorporated in Part III to the extent provided in Items 10, 11, 12 and 13).

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A is filed by TLC Vision Corporation ("the Company") to amend the Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed March 16, 2006 to restate its consolidated financial statements as of and for the years ended December 31, 2005 and 2004. The Company has also restated and provided additional disclosures for its unaudited quarterly financial data for certain interim periods of 2005 and 2004, as included in Note 23 of the consolidated financial statements. Included in this Form 10-K/A is a correction of an error related to income taxes and certain additional disclosures. As previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2005, the Company determined that it should have recorded $1.2 million of additional income tax expense for the year ended December 31, 2004 due to the nature of the net operating loss carryforwards that were utilized in that year for financial reporting purposes. The Company originally corrected the error in its 2005 Annual Report on Form 10-K by increasing the income tax expense recorded for the year ended December 31, 2005 by $1.2 million. The Company has subsequently determined that the $1.2 million adjustment is material to the Company's operating results of 2005 and, accordingly, that the adjustment should not have been made in the 2005 financial statements. As such, the Company has restated its previously issued financial statements as of and for the years ended December 31, 2005 and 2004. All applicable amounts relating to this restatement have been reflected in the consolidated financial statements and disclosed in the notes to the consolidated financial statements in this Form 10-K/A. The Company has also reconsidered the materiality of certain 2005 acquisitions and has included additional pro forma disclosures for them in Note 4. All other Items of the 2005 Annual Report on Form 10-K are unaffected by the changes described above and have been omitted from this amendment. Information in this 2005 Annual Report on Form 10-K/A is stated as of December 31, 2005 and does not reflect any subsequent information or events.

This Annual Report on Form 10-K (herein, together with all amendments, exhibits and schedules hereto, referred to as the "Form 10-K") contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which statements may be identified by the use of forward looking terminology, such as "may", "will", "expect", "anticipate", "estimate", "plans" or "continue" or the negative thereof or other variations thereon or comparable terminology referring to future events or results. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth elsewhere in this Form 10-K. See "Item 1A. Risk Factors" for cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from results referred to in forward-looking statements. The Company operates in a continually changing business environment and new factors emerge from time to time. The Company cannot predict such factors nor can it assess the impact, if any, of such factors on its financial position or results of operations. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results. The Company disclaims any responsibility to update any forward-looking statement provided in the Form 10-K. Unless the context indicates or requires otherwise, references in this Form 10-K to “we,” “our,” “us,” the "Company" or "TLC*Vision*" shall mean TLC Vision Corporation and its subsidiaries. References to "$" or "dollars" shall mean U.S. dollars unless otherwise indicated. References to "C$" shall mean Canadian dollars. References to the "Commission" shall mean the U.S. Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS

OVERVIEW

TLC Vision Corporation is a diversified eye care services company dedicated to improving lives through better vision by providing eye doctors with the tools and technologies they need to deliver high quality patient care. The majority of the Company's revenues come from laser refractive surgery, which involves using an excimer laser to treat common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company's business models include arrangements ranging from owning and operating fixed site centers to providing access to lasers through fixed site and mobile service relationships. In addition to refractive surgery, the Company is diversified into other eye care businesses. Through its MSS, Inc. (formerly Midwest Surgical Services, Inc.) ("MSS") subsidiary, the Company furnishes hospitals and other facilities with mobile or fixed site access to cataract surgery equipment, supplies and technicians. The Company is continuing to expand MSS into other mobile diagnostic services, such as glaucoma screening. Through its ambulatory surgery center (“ASC”) subsidiaries, TLC*Vision* develops, manages and has equity participation in single- and multi-specialty ASCs. The Company also owns a 51% majority interest in Vision Source, which provides franchise opportunities to independent optometrists. In addition, the Company is a 51% majority owner of OccuLogix, Inc. (“OccuLogix”), which focuses on the treatment of a specific eye disease known as dry age-related macular degeneration, via rheopheresis, a process for filtering blood. OccuLogix is also a reporting company with the Commission, and its stock is publicly traded on the Nasdaq National Market and the Toronto Stock Exchange.

The Company focuses on three main strategic initiatives: (1) continue to grow its core refractive business through same store growth in premium-priced centers, successful roll-out of the Company’s recently introduced value-priced strategy and successful integration of acquisitions, while maintaining its access base; (2) grow its other health care services MSS, ASCs and Vision Source; and (3) expand into new eye care segments. Financial information about the Company’s business segments is contained in Note 18 “Segment Information” to the consolidated financial statements.

REFRACTIVE DISORDERS

The eye is a complex organ composed of many parts, and normal vision requires these parts to work well together. When a person looks at an object, light rays are reflected from the object to the cornea. In response, the cornea and lens refract and focus the light rays directly on the retina. At the retina, the light rays are converted to electrical impulses that are transmitted through the optic nerve to the brain, where the image is translated and perceived.

Any deviation from normal vision is called a refractive error. Myopia, hyperopia, astigmatism and presbyopia are different types of refractive errors.

- Myopia (nearsightedness) means the eye is longer than normal resulting in difficulty seeing distant objects as clearly as near objects.
- Hyperopia (farsightedness) means the eye is shorter than normal resulting in difficulty seeing near objects as clearly as distant objects.
- Astigmatism means the cornea is oval-shaped resulting in blurred vision.

- Presbyopia is the loss of lens and eye muscle flexibility due to the natural aging process, causing difficulty in focusing on near objects and usually corrected by reading glasses. Because vision correction surgery cannot reverse the aging process, presbyopia cannot be corrected surgically. However, there are surgical and non-surgical techniques available that can effectively manage presbyopia.

TREATMENT FOR REFRACTIVE DISORDERS

Eyeglasses. Eyeglasses remain the most common method of correcting refractive errors because they are safe and relatively inexpensive. Eyeglasses correct nearsightedness and farsightedness by using appropriate lenses to diverge or converge light rays and focus them directly on the retina. The drawbacks of eyeglasses are possible dissatisfaction with personal appearance, inability to participate in certain sports or work activities and possible distortion in visual images when eyeglasses are used to correct large refractive errors.

Contact Lenses. Contact lenses correct nearsightedness, farsightedness and astigmatism similarly to eyeglasses. If fitted and used as directed, contact lenses are an effective and safe way to correct refractive errors. However, daily use of contact lenses can result in the increased risk of corneal infections, hypersensitivity reactions and other problems.

Surgical Procedures. Vision correction surgery is an elective procedure available that alters the way light rays are focused directly on the retina, thus eliminating or dramatically reducing the need for eyeglasses or contact lenses. Several types of vision correction surgery are available, and prospective patients are encouraged to carefully consider the alternatives, the associated benefits and risks of each procedure, and seek the advice of their eye care professional. Vision correction surgeries available at TLC*Vision* include:

- LASIK (Laser In Situ Keratomileusis). LASIK corrects nearsightedness, farsightedness and astigmatism by using an excimer laser to reshape the cornea. Because LASIK creates a corneal flap to reshape the cornea and does not disrupt the front surface of the cornea, it generally is less painful, has a quicker recovery period and shorter post-operative need for steroid eye drops than other surgical procedures. LASIK is currently the most common vision correction surgery and may be the treatment of choice for patients desiring a more rapid visual recovery.

- CustomLASIK. Widely introduced in 2003, CustomLASIK is a technologically supported advancement to LASIK. CustomLASIK involves increased pre-operative diagnostic capabilities that measure the eye from front to back using "wavefront" technology to create a three dimensional corneal map. The information from that map guides the laser in customizing the laser ablation to an individual's visual irregularities, beyond myopia, hyperopia and astimgatism. CustomLASIK using wavefront technology has the potential to improve not only how much a person can see, in terms of visual acuity measured by the standard 20/20 eye chart, but also how well an individual can see in terms of contrast sensitivity and fine detail. This translates to a reduced occurrence of night vision disturbances post-LASIK.

- PRK (Photorefractive Keratectomy). PRK corrects nearsightedness, farsightedness and astigmatism by using an excimer laser to reshape the cornea without making a flap. PRK removes the protective surface layer of the cornea to reshape the cornea. The risk of pain, infection and corneal scarring is higher with PRK than with LASIK; however, the intra-operative risks are lessened with PRK because no corneal flap is created.

- LASEK (Laser Assisted Sub-Epithelial Keratectomy). LASEK corrects nearsightedness, farsightedness and astigmatism by using an excimer laser to reshape the cornea. Unlike LASIK that creates a corneal flap, LASEK loosens and folds the protective outer layer of the cornea (the epithelium) during the procedure and, as a result, combines the advantages of LASIK with the safety of PRK. The risk of pain, infection and corneal scarring is higher with LASEK than with LASIK; however, the intra-operative risks are lessened with LASEK because the flap which is created is only in the epithelium. The United States Food and Drug Administration has not yet approved use of the excimer laser for LASEK.

- AK (Astigmatic Keratotomy). AK corrects astigmatism by making microscopic incisions in the cornea to relax and change the shape of the cornea.

- INTACS. INTACS corrects very low levels of nearsightedness (–1.00 diopters to –3.00 diopters) by implanting rings in the cornea to reshape it rather than surgically altering the cornea. INTACS may also be used to correct irregularities in the shape of the cornea.

- CK (Conductive Keratoplasty). For patients age 40 and older, CK is designed for the temporary reduction of farsightedness (+.75 to +3.25 diopters) and uses radio frequency instead of a laser to reshape the cornea.

- PTK (Phototherapeutic Keratectomy). PTK treats abrasions, scars or other abnormalities of the cornea caused by injury or surgery. PTK uses an excimer laser to remove superficial opacities and irregularities of the cornea to improve vision or reduce symptoms of pain or discomfort due to an underlying eye condition.

- Refractive IOL Procedures. Intraocular lenses (IOL's) are permanent or semi-permanent, artificial lenses that are implanted to replace or supplement the eye's natural crystalline lens. While not a common procedure for correcting refractive errors, the placement of a refractive IOL can help patients who are not candidates for LASIK. IOL's have been used in the United States since the late 1960's to restore visual function to cataract patients, and more recently are being used in refractive surgery procedures. There are several types of refractive IOL's: phakic IOL's, multi-focal IOL's and accommodating IOL's. Patient suitability and quality of visual outcome for each of these lens options varies.

LASER CORRECTION PROCEDURES

Excimer laser technology was developed by International Business Machines Corporation in 1976 and has been used in the computer industry for many years to etch sophisticated computer chips. Excimer lasers have the desirable qualities of producing very precise ablation (removal of tissue) without affecting the area outside of the target zone. In 1981, it was shown that the excimer laser could ablate corneal tissue. Each pulse of the excimer laser can remove 0.25 microns of tissue in 12 billionths of a second. The first laser experiment on human eyes was performed in 1985 and the first human eye was treated with the excimer laser in the United States in 1988.

Excimer laser procedures are designed to reshape the outer layers of the cornea to treat vision disorders by changing the curvature of the cornea. Prior to the procedure being performed, the doctor develops a treatment plan taking into consideration the exact correction required utilizing the results of each individual patient's eye examination and diagnostic tests performed, such as topography and wavefront analysis. The treatment plan is entered into the laser and the software of the excimer laser then calculates the optimal number of pulses needed to achieve the intended corneal correction using a specially developed algorithm. These procedures are performed on an outpatient basis using only topical anesthetic eye drops that promote patient comfort during the procedure. Patients are reclined in a chair, an eyelid holder is inserted to prevent blinking, and the surgeon positions the patient in direct alignment with the fixation target of the excimer laser. A thin flap of the outermost layer of the cornea is then cut using either a microkeratome blade or a femtosecond laser. The surgeon uses a foot switch to apply the excimer beam that emits a rapid succession of excimer laser pulses, and once complete, the flap is returned to its original position. The typical procedure takes 10 to 15 minutes from set-up to completion, with the length of time of the actual excimer laser treatment lasting between 15 to 90 seconds, depending on the amount of correction required.

In order to market an excimer laser for commercial sale in the United States, the manufacturer must obtain pre-market approval ("PMA") from the United States Food and Drug Administration ("FDA"). An FDA PMA is specific for each laser manufacturer and model and sets out a range of approved indications. However, the FDA is not authorized to regulate the practice of medicine. Therefore, in the same way that doctors often prescribe drugs for "off-label" uses (i.e., uses for which the FDA did not originally approve the drug), a doctor may use a device such as the excimer laser for a procedure or an indication not specifically approved by the FDA, if that doctor determines that it is in the best interest of the patient. The initial FDA PMA approval for the sale of an excimer laser for refractive procedures was granted in 1995 for the laser of Summit Technologies, Inc. (now Alcon Laboratories, Inc., a division of Nestle, S.A.). That first approval was for the treatment of myopia. To date, the FDA has approved for sale excimer lasers from approximately seven different manufacturers for LASIK and from approximately eight different manufacturers for PRK, including VISX, Inc. ("VISX") the market leader and the provider of most of the Company's excimer lasers. In Canada and Europe, the use of excimer lasers to perform refractive surgery is not currently subject to regulatory approval, and excimer lasers have been used to treat myopia since 1990 and to treat hyperopia since 1996. The Health Protection Branch of Health Canada regulates the sale of devices, including excimer lasers used to perform procedures at the Company's Canadian eye care centers.

THE REFRACTIVE MARKET

While estimates of market size should not be taken as projections of revenues or of the Company's ability to penetrate that market, Market Scope's November 2005 Comprehensive Report on the Refractive Market estimates that the 2006 U.S. refractive market potential is 107.1 million eyes. To date, based on Market Scope's estimate of the number of people who have had procedures, only an estimated 8% of this target population has had laser vision correction.

Estimates by Market Scope indicate that 1.1 million laser vision correction procedures were performed in the U.S. in 2003, 1.3 million were performed in 2004 and 2005, and an estimated 1.4 million will be performed in 2006. The Company believes that the profitability and growth of its refractive business will depend upon continued increasing acceptance of laser vision correction in the United States and, to a lesser extent, Canada, and upon consumer confidence and the condition of the U.S. economy.

There can be no assurance that laser vision correction will be more widely accepted by eye care doctors or the general population as an alternative to existing methods of treating refractive disorders. The acceptance of laser vision correction may be affected adversely by its cost (particularly since laser vision correction is typically not covered fully or at all by government insurers or other third party payors and, therefore, must be paid for primarily by the individual receiving treatment), concerns relating to its safety and effectiveness, general resistance to surgery, the effectiveness of alternative methods of correcting refractive vision disorders, the lack of long-term follow-up data and the possibility of unknown side effects. There can be no assurance that long-term follow-up data will not reveal complications that may have a material adverse effect on the acceptance of laser vision correction. Many consumers may choose not to have laser vision correction due to the availability and promotion of effective and less expensive non-surgical methods for vision correction. Any future reported adverse events or other unfavorable publicity involving patient outcomes from laser vision correction procedures also could adversely affect its acceptance whether or not the procedures are performed at TLC*Vision* eye care centers. Market acceptance also could be affected by regulatory developments. The failure of laser vision correction to achieve continued increased market acceptance would have a material adverse effect on the Company's business, financial condition and results of operations.

MARKET FOR CATARACT SURGERY

According to the American Academy of Ophthalmology, cataract surgery currently is the most frequently performed non-elective surgical procedure in the United States, with more than 2.8 million people having cataract surgery each year. Medicare pays approximately $4.4 billion annually for 2.2 million patients having cataract surgery. According to the American Academy of Ophthalmology, individuals between the ages of 52 and 64 have a 50% chance of having a cataract. By age 75, almost everyone has a cataract. Fifty percent of the people between the ages of 75 and 85 with cataracts have lost some vision as a result. The National Eye Institutes of Health Cataracts indicates that cataracts are the leading cause of blindness in the world, and cataracts affect more than 20 million Americans aged 65 and older. U.S. Census Bureau data indicates that there are approximately 35 million Americans who are age 65 or older.

TLC VISION CORPORATION

TLC*Vision* was originally incorporated by articles of incorporation under the Business Corporations Act (Ontario) on May 28, 1993. By articles of amendment dated October 1, 1993, the name of the Company was changed to TLC The Laser Center Inc., and by articles of amendment dated March 22, 1995, certain changes were effected in the issued and authorized capital of the Company with the effect that the authorized capital of the Company became an unlimited number of Common Shares. On September 1, 1998, TLC The Laser Center, Inc. amalgamated under the laws of Ontario with certain wholly owned subsidiaries. By articles of amendment filed November 5, 1999, the Company changed its name to TLC Laser Eye Centers Inc. On May 13, 2002, the Company filed articles of continuance with the province of New Brunswick and changed its name to TLC Vision Corporation. On May 15, 2002, the Company completed its business combination with LaserVision, a leading U.S. provider of access to excimer lasers, microkeratomes, cataract equipment and related support services.

BUSINESS STRATEGY

TLC*Vision*'s business strategy is to be a diversified eye care services company, leveraging its relationships with over 13,000 ophthalmologists and optometrists throughout North America to (1) continue to grow its core refractive business through same store growth in premium-priced centers, successfully roll-out the Company’s recently introduced value-priced strategy and successfully integrate acquisitions, while maintaining its access base; (2) grow its other health care services MSS, ASCs and Vision Source; and (3) expand into new eye care segments.

GROWING THE CORE REFRACTIVE BUSINESS

The Company will focus on growing the core refractive business through increasing surgical volume through existing premium-priced centers, entry into the large, under-penetrated, value-priced consumer segment with introduction of new centers and supporting our access customer base. The primary tactic in increasing surgical volume include the following initiatives:

- direct-to-consumer advertising in new value-priced center markets;
- integration of TruVision, a managed care contractor acquired in 2005, which serves as a patient acquisition channel;
- additional marketing to health plans and health plan members for increased penetration in the managed care market;

- continued commitment to a co-management model, which allows primary care doctors to provide the best clinical outcomes for their patients while retaining them in their practice;

- continuing clinical education to ophthalmologists and optometrists;

- quality patient outcomes support through the TLC*Vision* quality assurance and improvement system;

- practice development education and tools focused on educating the staff of the ophthalmologists and optometrists;

- cooperative marketing/advertising programs to build awareness for the procedure;

- access to emerging technologies; and

- selected expansion into new and existing markets.

DIVERSIFICATION BEYOND REFRACTIVE LASER BUSINESSES

TLC*Vision*'s diversification strategy is to expand into a broader eye care services company through internal business development and complementary acquisitions. The Company believes it can continue to leverage its relationships with a large number of ophthalmologists and optometrists to create new business opportunities. The primary focus of the Company's diversification strategy is in the United States, where the Company continues to position itself to benefit from the growing market for eye care services.

TLC*Vision* plans to further diversify its business in three ways:

- continuing to expand the Company's existing cataract service business, MSS, through focused growth strategies and acquisitions of complementary businesses;

- continuing to develop the Company's optometric practice franchising organization, Vision Source, through increasing the number of affiliated practice franchises; and

- continuing to develop or acquire ophthalmic ambulatory surgery centers through the Company's ASC subsidiary.

DESCRIPTION OF REFRACTIVE LASER CENTERS BUSINESS

The Company currently owns and manages 77 TLC*Vision* refractive centers in the United States and five centers in Canada. Each TLC*Vision* center has a minimum of one excimer laser with many of the centers having two or more lasers. The majority of the Company's excimer lasers are manufactured by VISX.

The Company centers employ different pricing and patient acquisition strategies depending upon the market. Its premium-priced TLC centers feature premier surgeons and is driven by the co-management referral relationship, with a price inclusive of all follow up visits and the TLC Lifetime Commitment. Its value-priced LASIK Select brand, introduced in late 2005, will feature experienced surgeons and is a consumer advertising driven model, with a lower price point and a la carte pricing options.

A typical TLC*Vision* center has between 3,000 and 5,000 square feet of space and is located in a medical or general office building. Although the legal and payment structures can vary from state to state depending upon state and provincial law and market conditions, the Company generally receives revenues in the form of (1) amounts charged patients for procedures performed at laser centers, (2) management and facility fees paid by doctors who use the TLC*Vision* center to perform laser vision correction procedures and (3) administrative fees for billing and collection services from doctors who co-manage patients treated at the centers. Most TLC*Vision* centers have a clinical director, who is an optometrist and oversees the clinical aspects of the center and builds and supports the network of affiliated eye care doctors. Most centers also have a receptionist, ophthalmic technicians and patient consultants. The number of staff depends on the activity level of the center. One senior staff person, who is designated as the executive director of the center, assists in preparation of the annual business plan and supervises the day-to-day operations of the center.

TLC*Vision* has developed proprietary management and administrative software and systems designed to assist eye care professionals in providing high levels of patient care. The software permits TLC*Vision* centers to provide a potential candidate with current information on affiliated doctors throughout North America, to help them locate the closest TLC*Vision* center, to permit

tracking of calls and procedures, to coordinate patient and doctor scheduling and to produce financial and surgical outcome reporting and analysis. The software has been installed in all TLC*Vision* centers. TLC*Vision* also has an online consumer consultation site on its premium-priced website (www.tlcvision.com), as well as its value-priced website (www.lasikselectvision.com). These consumer consultation sites allow consumers to book their consultation with the Company online. TLC*Vision* also maintains two call centers (1-800-CALL TLC VISION and 1-866-393-9870), which are staffed seven days a week.

The Company's "Lifetime Commitment" program, established in 1997 and offered through TLC*Vision* premium-priced centers, entitles patients within a certain range of vision correction to have certain enhancement procedures for further correction at no cost at any time during their lifetime, if necessary. To remain eligible for the program, patients are required to have an annual eye exam, at the patient's expense, with a TLC*Vision* affiliated doctor. The purpose of the program is to respond to a patient's concern that the patient's sight might regress over time, requiring an enhancement procedure. In addition, the program responds to the doctors' concern that patients may not return for their annual eye examination once their eyes are treated. The Company believes that this program has been well received by both patients and doctors.

PRICING

At TLC*Vision* premium-priced centers in the United States, patients are typically charged between $1,500 and $2,500 per eye for LASIK (or on average approximately $2,000 per eye). The Company typically charges an additional $350 to $500 per eye for custom ablation. At TLC*Vision* premium-priced centers in Canada, patients are typically charged approximately C$1,700 per eye for LASIK. The primary care eye doctor also charges patients an average of $400 or 20% of the patient fee for pre- and post-operative care, though the total procedure costs to the patients are often included in a single invoice. In the TLC*Vision* value-priced centers, patients are typically charged between $999 and $1799, with custom ablation and IntraLase flap creation at the higher rates. Although competitors in certain markets continue to charge less for these procedures, the Company believes that important factors affecting competition in the laser vision correction market, other than price, are quality of service, reputation and skill of surgeon, customer service reputation, and relationships with affiliated doctors.

The cost of laser vision correction procedures is not covered by provincial health care plans in Canada or reimbursable under Medicare or Medicaid in the United States. However, the Company believes it has positioned itself well in the private insurance and employer market through its “Corporate Advantage” program, which offers discounts to participants and is now available to more than 100 million individuals.

CO-MANAGEMENT MODEL

The Company has developed and implemented a medical co-management model under which it not only establishes, manages and operates TLC*Vision* premium-priced centers and provides an array of related support services, but also coordinates the activities of primary care doctors (usually optometrists), who co-manage patients, and refractive surgeons (ophthalmologists), who perform laser vision correction procedures in affiliation with the local center. The primary care doctors assess whether patients are candidates for laser vision correction and provide pre- and post-operative care, including an initial eye examination and follow-up visits. The co-management model permits the surgeon to focus on providing laser vision correction surgery while the primary care doctor provides pre- and post-operative care. In addition, most TLC*Vision* premium-priced centers have an optometrist on staff who works to support and expand the local network of affiliated doctors. The staff optometrist provides a range of clinical training and consultation services to affiliated primary care doctors to support these doctors' individual practices and to assist them in providing quality patient care. See "Item 1 - Business - Government Regulation - Regulation of Optometrists and Ophthalmologists."

TLC*Vision* believes that its strong relationships with its affiliated eye care doctors, though non-exclusive, represent an important competitive advantage for its premium-priced centers.

The Company believes that primary care doctors' relationships with TLC*Vision* and the doctors' acceptance of laser vision correction enhances the doctors' practices. The affiliated eye doctors (usually optometrists) charge fees to assess candidates for laser vision correction and provide pre- and post-operative care, including an initial eye examination and follow-up visits. The primary care doctor's potential revenue loss from sales of contact lenses and eyeglasses may be offset by professional fees earned from both laser vision correction pre- and post-operative care and examinations required under the Company's "Lifetime Commitment" program.

SALES AND MARKETING

The Company also seeks to increase its refractive procedure volume and its market penetration through other innovative marketing programs for both the TLC*Vision* premium-priced and value-priced centers.

While TLC*Vision* believes that many myopic and hyperopic people are potential candidates for laser vision correction, these procedures must compete with corrective eyewear and surgical and non-surgical treatments for myopia and hyperopia. The decision to have laser vision correction largely represents a choice dictated by an individual's desire to reduce or eliminate their reliance on eyeglasses or contact lenses.

The Company markets to doctors, corporations and directly to the public. In support of the premium-priced centers, a portion of the Company's marketing resources are devoted to joint marketing programs with affiliated doctors. The Company provides doctors with brochures, videos, posters and other materials that help them educate their patients about laser vision correction. Those doctors who wish to market directly to their patients or the public may receive support from the Company in the development of marketing programs.

The Company believes that the most effective way to market to doctors is to be perceived as a leader in the eye care industry. To this end, the Company strives to be affiliated with clinical leaders, educate doctors on laser vision and refractive correction and remain current with new procedures, technology and techniques. See "Item 1 - Business - Ancillary Businesses and Support Programs." The Company also promotes its services to doctors in Canada and the United States through conferences, advertisements in journals, direct marketing, its web sites and newsletters.

In support of the value-priced centers, a portion of the Company’s marketing resources are devoted to direct to consumer advertising which is the primary vehicle for attracting this market segment.

The Company believes that as market acceptance for laser vision correction increases, competition among surgical providers will continue to grow and many candidates for laser vision correction will increasingly select a provider based on factors other than solely price.

TLC*Vision* has also developed marketing programs directed primarily at large employers and third party providers to provide laser vision correction to their employees and participants through a TLC*Vision* center. Participating employers may partially subsidize the cost of an employee's laser vision correction at a TLC*Vision* center, and the procedure may be provided at a discounted price. The Company has more than 1,500 participating employers. In addition, more than 100 million individuals qualify for the program through arrangements between TLC*Vision* and third party providers. TruVision, acquired by the Company in 2005, is a managed care contractor, with key contracts among leading health plans in the U.S., providing discounted LASIK benefits.

Tiger Woods, world-famous golfer and TLC*Vision* patient, continues to serve as spokesperson for the Company in marketing efforts, including those aimed directly to the public. The Company uses a variety of traditionally accepted advertising, direct marketing and public relations efforts to reach potential patients. The Company maintains a comprehensive Internet strategy with the goal of having a leading refractive presence on the Internet, through TLC*Vision*-owned websites and partnerships and sponsorships with other websites.

CONTRACTS WITH EYE DOCTORS

In each market where the Company operates a premium-priced center, the Company works with a network of eye care doctors (mostly optometrists) who perform the pre-operative and post-operative care for patients who have had laser vision correction. Those doctors then co-manage their patients with affiliated surgeons in that the surgeon performs the laser vision correction procedure itself, while the optometrist performs the pre-operative screening and post-operative care. In most states and provinces, co-management doctors have the option of charging the patient directly for their services or having the Company collect the fees on their behalf.

Most surgeons performing laser vision correction procedures through a TLC*Vision* center owned, managed or operated by the Company do so under one of three types of standard agreements (as modified for use in the various U.S. states as required by state law). Each agreement typically prohibits surgeons from disclosing confidential information relating to the center, soliciting patients or employees of the center, or participating in any other eye care center within a specified area. However, although certain affiliated surgeons performing laser vision correction at the Company's branded laser eye centers have agreed to certain restrictions on competing with, or soliciting patients or employees associated with the Company, there can be no assurance that such agreements will be enforceable.

Surgeons must meet the credentialing requirements of the state or province in which they practice and must receive training approved by the manufacturer of the laser on which they perform procedures. Surgeons are responsible for maintaining appropriate malpractice insurance and most agree to indemnify the Company and its affiliates for any losses incurred as a result of the surgeon's negligence or malpractice.

Most states prohibit the Company from practicing medicine, employing physicians to practice medicine on the Company's behalf or employing optometrists to render optometric services on the Company's behalf. Because the Company does not practice medicine or optometry, its activities are limited to owning and managing eye care centers and affiliating with other health care providers. Affiliated doctors provide a significant source of patients for laser vision correction at the Company's centers. Accordingly, the success of the Company's operations depends upon its ability to enter into agreements on acceptable terms with a sufficient number of health care providers, including institutions and eye care doctors, to render surgical and other professional services at facilities owned or managed by the Company. There can be no assurance that the Company will be able to enter into or maintain agreements with doctors or other health care providers on satisfactory terms or that such agreements will be profitable to the Company. Failure to enter into or maintain such agreements with a sufficient number of qualified doctors will have a material adverse effect on the Company's business, financial condition and results of operations.

DESCRIPTION OF REFRACTIVE LASER ACCESS BUSINESS

OVERVIEW

TLC*Vision*'s access business provides access to excimer laser platforms, microkeratomes, other equipment and value-added support services such as training, technical support and equipment maintenance to eye surgeons for the treatment of nearsightedness, farsightedness and astigmatism primarily in the United States. TLC*Vision*'s access delivery system utilizes both mobile equipment, which is routinely moved from site to site in response to market demand, and fixed site locations. The Company believes that its flexible delivery system enlarges the pool of potential locations, eye surgeons and patients that it can serve, and allows it to effectively respond to changing market demands. The Company also provides a broad range of support services to the eye surgeons who use its equipment, including arranging for training of physicians and staff, technical support and equipment maintenance, industry updates and marketing advice, clinical advisory support, patient financing, partnership opportunities and practice satelliting. As of December 31, 2005, TLC*Vision* was utilizing approximately 74 excimer lasers and 138 microkeratomes in connection with its laser access business.

Eye surgeons pay TLC*Vision* a fee for each procedure the surgeon performs using its equipment and services. The Company typically provides each piece of equipment to many different eye surgeons, which allows it to more efficiently use the equipment and offer it at an affordable price. TLC*Vision* refers to its practice of providing equipment to multiple eye surgeons as shared access.

TLC*Vision*'s shared access and flexible delivery system benefits eye surgeons in a variety of ways, including the ability to:

- avoid a large capital investment;
- reduce the risks associated with buying high technology equipment that may become obsolete;
- obtain technical support provided by the Company's laser engineers and microkeratome technicians;
- use the equipment without responsibility for maintenance or repair;
- cost-effectively serve small to medium-sized markets and remote locations; and
- serve satellite locations even in large markets.

FLEXIBLE DELIVERY SYSTEM

TLC*Vision* seeks to maximize the number of locations, eye surgeons and patients that can utilize its access and related services and respond quickly to changing market demand by utilizing a flexible delivery system that features both mobile and fixed site locations.

TLC*Vision*'s mobile access systems are typically used by eye surgeons who perform fewer than 30 procedures per month or are in markets where they are able to offer consolidated surgery days to patients. A certified laser technician accompanies each excimer laser from location to location. If an eye surgeon uses the microkeratome service, the Company generally supplies one microkeratome, one accessory kit and a second Company employee, who is certified by the microkeratome manufacturer and acts as a surgical technician.

Mobile laser equipment is provided by means of a proprietary "Roll-On/Roll-Off" laser system. The Roll-On/Roll-Off laser system, elements of which have been patented, consists of an excimer laser mounted on a motorized air suspension platform. The Roll-On/Roll-Off laser system is transported between locations in a specifically modified truck and allows an excimer laser to be easily moved upon reaching its destination. Due to the design of the Roll-On/Roll-Off system, the laser usually requires only minor adjustments and minimal set-up time at each destination. As of December 31, 2005, TLC*Vision* had 31 Roll-On/Roll-Off systems in operation, all of which were located in the United States.

TLC*Vision*'s fixed site lasers are dedicated to single locations where eye surgeons typically perform more than 40 cases per month over several surgery days to maintain a competitive offering for patients. As of December 31, 2005, the Company had approximately 41 U.S. fixed sites. Some fixed sites exclusively serve single practice groups and others are located in ambulatory surgery centers where they can be used by a qualified eye surgeon.

VALUE-ADDED SERVICES

TLC*Vision* provides access eye surgeons value-added support services that distinguish it from its competitors, enhance the Company's ability to compete for business and enable it to grow with its customers by offering them various service and support arrangements. The following value-added services help eye surgeon customers to expand their practices, thereby increasing the use of equipment and services:

- Technical Support and Equipment Maintenance - As of December 31, 2005, the Company employed 30 certified laser engineers and 23 microkeratome technicians. The laser engineers perform most required laser maintenance and help ensure rapid response to most laser repair or maintenance needs.

- Staff Training and Development - Through both field and corporate-based practice development support, TLC*Vision* provides its access eye surgeon customers with a comprehensive menu of options to enhance patient education, staff knowledge, and patient recruitment. Start-up services include centralized refractive coordinator training programs and access to patient financing program. These centralized training programs and field-based support provide eye surgeon staff an opportunity to learn best practices with respect to patient conversion, patient flow and marketing programs. Extended services, such as corporate programs, database management and networking techniques, enable eye surgeon customers to experience continued growth in their practice.

- Building Relationships - TLC*Vision* works to form relationships between access eye surgeons and optometrists. These optometric networks are valuable in referring patients to eye surgeons who use the Company’s equipment and services. The Company helps to form these referral networks by training optometrists, who are then able to provide pre-operative screenings as well as post-surgical follow-up to their patients. TLC*Vision* also provides access eye surgeon customers with marketing advice designed to foster these referrals and generate new patients.

- Clinical Advisors - TLC*Vision* maintains a Clinical Advisory Group which conducts regular conference calls with access eye surgeon customers. Our clinical advisors, who are refractive surgeons and optometrists with extensive clinical experience, chair these conference calls. In addition, TLC*Vision* conducts clinical advisory meetings at major industry conferences each year. The clinical advisors also make themselves available to consult with eye surgeon customers in addition to regularly scheduled conference calls and meetings.

- Practice Satelliting - TLC*Vision* assists access eye surgeons with high-volume practices who desire to serve smaller markets through satellite surgical locations. This program allows eye surgeon customers to leverage their time performing eye surgery.

SALES AND MARKETING

TLC*Vision*'s business development personnel develop sales leads, which come from sources such as customer contact through trade shows and professional organizations. After identifying a prospective eye surgeon customer, the regional manager guides the eye surgeon through the contract process. Once an eye surgeon is prepared to initiate surgeries using our services and equipment, the access operations department and business development personnel assume primary responsibility for the ongoing relationship.

MOBILE AND FIXED ACCESS AGREEMENTS

Under standard refractive mobile access agreements with surgeons, TLC*Vision* provides some or all of the following: laser platform and microkeratome equipment, certain related supplies for the equipment (such as laser gases, per procedure cards and microkeratome blades), laser operator, microkeratome technicians, maintenance and certain technology upgrades. In addition, the Company may provide marketing assistance, coordination of surgeon training and other support services. This access is provided on agreed upon dates at either the surgeons' offices or a third party's facility. In return, the surgeons pay a per procedure fee for access services and generally agree to exclusively use TLC*Vision*'s equipment for refractive surgery. The Company does not provide medical services to the patients or any administrative services to the access surgeon customer.

Under standard refractive fixed access agreements with surgeons, TLC*Vision* generally provides the following: a fixed-base laser platform and microkeratome equipment, certain related supplies for the equipment (such as laser gases, per procedure cards and microkeratome blades), periodic maintenance and certain technology upgrades. In return, the surgeons pay either a per procedure fee and guarantee a minimum number of procedures per month, or a flat monthly fee plus the cost of per procedure cards and blades. In addition, the surgeons generally agree to use exclusively TLC*Vision*'s equipment for refractive surgery. The Company does not provide a laser operator, microkeratome technician, medical services or any administrative services to the access surgeon customer.

Under joint venture arrangements, TLC*Vision* directly or indirectly provides either mobile or fixed-base laser access and the following: microkeratome equipment, certain related supplies for the equipment (such as laser gases, per procedure cards and microkeratome blades), laser operator, microkeratome technician, maintenance and certain technology upgrades, the laser facility, management services which include administrative services such as billing and collections, staffing for the refractive practice, marketing assistance and funds and other support services. TLC*Vision* receives an access fee and management services fees in addition to being reimbursed for the direct costs paid by the Company for the laser facility operations. In return, the surgeons generally agree to exclusively use its equipment for refractive surgery and/or not to compete with the Company within a certain area. Neither TLC*Vision* nor the joint ventures provide medical services to the patients.

DESCRIPTION OF MOBILE CATARACT BUSINESS

Through its MSS subsidiary, TLC*Vision* provides mobile and fixed site cataract equipment and related services in 40 states. As of December 31, 2005, MSS employed 58 cataract equipment technicians and operated 55 mobile cataract systems. An MSS certified surgical technician transports the mobile equipment from one surgery location to the next and prepares the equipment at each stop so that the operating room is ready for cataract surgery. Technicians are also certified to scrub for cataract cases as requested by the surgeon and facility. A typical service offering will include cataract equipment (a phaco emulsifier with back-up, a surgical microscope), the IOL, surgical instruments and supplies. Related services, including YAG capsulotomies and SLT lasers treatments, are also offered.

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

The MSS sales staff focuses on identifying small to medium-sized markets, which usually do not have convenient access to the services of a cataract eye surgeon. After identifying such a market, MSS's sales staff will contact the local hospital and local optometrists to develop interest in "close to home" cataract surgery services. When there is sufficient interest, the sales staff brings the hospital and optometrists in contact with an eye surgeon who is willing to provide services to that local market. By bringing these various parties into contact, MSS seeks to increase demand for its mobile cataract services and increase convenience for cataract patients.

DESCRIPTION OF AMBULATORY SURGICAL CENTER BUSINESS

As of December 31, 2005, TLC*Vision* had an ownership position in eight ASCs that are currently operating and three ASCs that are in various stages of development. The Company anticipates that it will acquire or build more ASCs during 2006.

ASCs provide outpatient surgery services in a less institutional, more productive and cost-efficient setting than traditional surgical hospitals. The two primary procedures performed in the ASCs are cataract extraction with IOL implantation and YAG capsulotomies. However, the ASCs have the capability to accommodate additional ophthalmic surgical procedures as well as additional procedures such as podiatry and pain control.

DESCRIPTION OF OPTOMETRIC FRANCHISING BUSINESS

Vision Source is a majority-owned subsidiary that provides marketing, practice development and purchasing power to independently-owned and operated optometric practices in the United States. As of December 31 2005, Vision Source had 1,356 practices under franchise agreements across the United States, and in exchange for providing services to its franchisees, it received franchise fees equal to a predetermined percentage of gross practice billings. This business supports the development of independent practices and complements the Company's co-management model.

SUPPORT PROGRAMS

CLINICAL ADVISORY GROUP

The Company's Clinical Advisory Group is comprised of refractive surgeons and optometrists selected based upon clinical experience and previous involvement with TLC*Vision*. The Clinical Advisory Group acts as both a clinical and business resource to the Company by providing an eye care professional's perspective on market competition, proposed policies and operational strategies. Additionally, the Clinical Advisory Group acts as a resource to the Company's employees and affiliated doctors. The Clinical Advisory Group holds scheduled meetings throughout the year and meets as necessary to consider clinical issues as they arise.

EMERGING TECHNOLOGIES

The Company considers itself a leader in the provision of vision correction technology. The Company's medical directors continually evaluate new vision correction technologies and procedures to seek to ensure that affiliated doctors have access to state-of-the-art technology to provide the highest level of care. TLC*Vision*'s branded eye care centers in Canada are state-of-the-art facilities that are used to examine and evaluate new technologies for TLC*Vision*. The Company's Clinical Advisory Group monitors emerging technologies and procedures being developed by third party equipment and device manufacturers to address whether these technologies may complement or improve our service offerings.

EDUCATION

The Company believes that ophthalmologists, optometrists and other eye care professionals who endorse laser vision correction are a valuable resource in increasing general awareness and acceptance of the procedures among potential candidates and in promoting the Company as a service provider. The Company seeks to be perceived by eye care professionals as the clinical leader in the field of laser vision correction. One way in which it hopes to achieve this objective is by participating in the education and training of eye care doctors in Canada and the United States.

The Company provides educational programs to doctors in all aspects of clinical study, including programs in conjunction with several of the major optometry schools in the United States. In addition, the Company has an education and training relationship with the University of Waterloo, the only English language optometry school in Canada.

WEBSITE AND AVAILABLE INFORMATION

TLC*Vision* has linked its premium-priced branded eye care centers, network doctors and potential patients through its website, www.tlcvision.com, which provides a directory of affiliated eye care providers and contains questions and answers about laser vision correction. Information on TLC*Vision*'s value-priced centers is located at www.lasikselectvision.com. TLC*Vision*'s corporate website, ww.tlcv.com, contains information for shareholders and investors.

TLC*Vision* makes available free of charge on or through its website (http://www.tlcv.com) its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The material is made available through the Company's website as soon as reasonably practicable after the material is electronically filed with or furnished to the Commission. All of TLC*Vision*'s filings may be read or copied at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website (http://www.sec.gov) that contains reports, proxy and information statements regarding issuers that file electronically.

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. This code of ethics and the Company's corporate governance policies are posted on the Company's website. The Company intends to satisfy its disclosure requirements regarding amendments to or waivers from its code of ethics by posting such information on this website. The charters of the committees of the Company's Board of Directors are available on the Company's website and are also available in print free of charge.

EQUIPMENT AND CAPITAL FINANCING

The Company utilizes the VISX, Alcon, Wavelight and Bausch & Lomb excimer lasers for refractive surgery. See "Industry Background - Laser Vision Correction."

Although there can be no assurance, the Company believes that based on the number of existing manufacturers, the current inventory levels of those manufacturers and the number of suitable, previously owned and, in the case of U.S. centers, FDA-approved lasers available for sale in the market, the supply of excimer lasers is more than adequate for the Company's future operations.

A new excimer laser costs up to $300,000. However, the industry trend in the sale of excimer lasers is moving away from a flat purchase price to the alternative of charging the purchaser a per-procedure fee.

As available technology improves and the FDA approves additional procedures, the Company expects to upgrade the capabilities of its lasers. See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

COMPETITION

CONSUMER MARKET FOR VISION CORRECTION

Within the consumer market, excimer laser procedures performed at the Company's centers compete with other surgical and non-surgical treatments for refractive disorders, including eyeglasses, contact lenses, other types of refractive surgery and technologies currently available and under development such as corneal rings, intraocular lenses and surgery with different types of lasers. Although the Company believes that eyeglass and contact lens use will continue to be the most popular form of vision correction in the foreseeable future, as market acceptance for laser vision correction continues to increase, competition within this market will grow. There can be no assurance that the Company's management, operations and marketing plans are or will be successful in meeting this competition. Further, there can be no assurance that the Company's competitors' access to capital, financing or other resources or their market presence will not give these competitors an advantage against the Company. In addition, other surgical and non-surgical techniques to treat vision disorders are currently in use and under development and may prove to be more attractive to consumers than laser vision correction.

MARKET FOR LASER VISION CORRECTION

Within the consumer market for laser vision correction, the Company continues to face increasing competition from other service providers. As market acceptance for laser vision correction continues to increase, competition within this market may grow. Laser vision correction providers are divided into three major segments: corporate-owned centers; independent surgeon-owned centers; and institution-owned centers. According to Market Scope, as of November 2005, independent surgeon-owned centers accounted for the largest percentage of total procedure volume in the industry with a 62% market share. Corporate-owned centers accounted for 27% of total procedures performed. The remaining 11% of laser vision correction procedures were performed at institution-owned centers, such as hospitals or universities.

Although many competitors continue to charge less for laser vision correction than the Company's premium-priced centers and its affiliated doctors, the Company believes that the important factors affecting competition in the laser vision correction market are quality of service, surgeon skill and reputation and price and that its competitiveness is enhanced by a strong network of affiliated doctors. Suppliers of conventional vision correction (eyeglasses and contact lenses), such as optometric chains, also compete with the Company either by marketing alternatives to laser vision correction or by purchasing excimer lasers and offering refractive surgery to their customers. These service providers may have greater marketing and financial resources and experience than the Company and may be able to offer laser vision correction at lower rates. Competition has also increased in part due to the greater availability and lower costs of excimer lasers.

During 2005, the laser vision correction industry experienced modest growth. As an elective procedure, laser vision correction surgery volumes were constrained by economic conditions in North America. Rising oil prices and the impact of hurricanes weakened the financial situation of many consumers, leaving them with less disposable income. In addition, it became evident that the market is segmenting into two distinct groups of patients who have laser vision correction: (1) value-priced segment and (2) premium-priced segment. Industry trends and research indicate that the value-priced segment is larger and growing faster than the premium-priced segment. TLC*Vision* is introducing a new brand to address this consumer segment, while maintaining its successful premium-priced brand.

TLC*Vision* competes in fragmented geographic markets. The Company's principal corporate competitors include LCA-Vision Inc. and Lasik Vision Institute, Inc. See "Item 1 - Business - Overview."

GOVERNMENT REGULATION

EXCIMER LASER REGULATION

UNITED STATES

Medical devices, such as the excimer lasers used in the Company's U.S. centers, are subject to stringent regulation by the FDA and cannot be marketed for commercial use in the United States until the FDA grants pre-market approval ("PMA") for the device. To obtain a PMA for a medical device, excimer laser manufacturers must file a PMA application that includes clinical data and the results of pre-clinical and other testing sufficient to show that there is a reasonable assurance of safety and effectiveness of their excimer lasers. Human clinical trials must be conducted pursuant to Investigational Device Exemptions issued by the FDA in order to generate data necessary to support a PMA. See "Item 1 - Business - Industry Background - Laser Vision Correction."

The FDA is not authorized to regulate the practice of medicine, and ophthalmologists, including those affiliated with TLC*Vision* eye care centers, may perform the LASIK procedure, using lasers with a PMA for PRK only (off-label use) in an exercise of professional judgment in connection with the practice of medicine.

The use of an excimer laser to treat both eyes on the same day (bilateral treatment) has not been approved by the FDA. The FDA has stated that it considers the use of the excimer laser for bilateral treatment to be a practice of medicine decision, which the FDA is not authorized to regulate. Ophthalmologists, including those affiliated with the Company's branded eye care centers, widely perform bilateral treatment in an exercise of professional judgment in connection with the practice of medicine. There can be no assurance that the FDA will not seek to challenge this practice in the future.

Any excimer laser manufacturer which obtains PMA approval for use of its excimer lasers will continue to be subject to regulation by the FDA. Although the FDA does not specifically regulate surgeons' use of excimer lasers, the FDA actively enforces regulations prohibiting marketing of products for non-approved uses and conducts periodic inspections of manufacturers to determine compliance with Quality System Regulations.

Failure to comply with applicable FDA requirements could subject the Company, its affiliated doctors or laser manufacturers to enforcement action, including product seizure, recalls, withdrawal of approvals and civil and criminal penalties, any one or more of which could have a material adverse effect on the Company's business, financial condition and results of operations. Further, failure to comply with regulatory requirements or any adverse regulatory action, including a reversal of the FDA's current position that the "off-label" use of excimer lasers by doctors outside the FDA-approved guidelines is a practice of medicine decision, which the FDA is not authorized to regulate, could result in a limitation on or prohibition of the Company's use of excimer lasers, which in turn could have a material adverse effect on the Company's business, financial condition and results of operations.

The marketing and promotion of laser vision correction in the United States are subject to regulation by the FDA and the Federal Trade Commission ("FTC"). The FDA and FTC have released a joint communiqué on the requirements for marketing laser vision correction in compliance with the laws administered by both agencies. The FTC staff also issued more detailed staff guidance on the marketing and promotion of laser vision correction and has been monitoring marketing activities in this area through a non-public inquiry to identify areas that may require further FTC attention.

CANADA

The use of excimer lasers in Canada to perform refractive surgery is not subject to regulatory approval, and excimer lasers have been used to treat myopia since 1990 and hyperopia since 1996. The Health Protection Branch of Health Canada ("HPB") regulates the sale of devices, including excimer lasers used to perform procedures at the Company's Canadian eye care centers. Pursuant to the regulations prescribed under the Canadian Food and Drugs Act, the HPB may permit manufacturers or importers to sell a certain number of devices to perform procedures provided the devices are used in compliance with specified requirements for investigational testing. Permission to sell the device may be suspended or cancelled where the HPB determines that its use endangers the health of patients or users or where the regulations have been violated. Devices may also be sold for use on a non-investigational basis where evidence available in Canada to the manufacturer or importer substantiates the benefits and performance characteristics claimed for the device. The Company believes that the sale of the excimer lasers to its eye care centers, as well as their use at the centers, complies with HPB requirements. There can be no assurance that Canadian regulatory authorities will not impose restrictions, which could have a material adverse effect on the Company's business, financial condition and results of operations.

REGULATION OF OPTOMETRISTS AND OPHTHALMOLOGISTS

UNITED STATES

The health care industry in the United States is highly regulated. The Company and its operations are subject to extensive federal, state and local laws, rules and regulations, including those prohibiting corporations from practicing medicine and optometry, prohibiting unlawful rebates and division of fees, anti-kickback laws, fee-splitting laws, self-referral laws, laws limiting the manner in which prospective patients may be solicited and professional licensing rules. Approximately 42 states in which the Company currently does business limit or prohibit corporations from practicing medicine and employing or engaging physicians to practice medicine.

The Company has reviewed these laws and regulations with its health care counsel, and although there can be no assurance, the Company believes that its operations currently comply with applicable laws in all material respects. Also, the Company expects that doctors affiliated with TLC*Vision* will comply with such laws in all material respects, although it cannot ensure such compliance by its affiliated doctors.

Federal Law. A federal law (known as the "anti-kickback statute") prohibits the offer, solicitation, payment or receipt of any remuneration which directly or indirectly is intended to induce or is in return for the referral of patients for or the ordering of items or services reimbursable by Medicare or any other federally financed health care program. This statute also prohibits remuneration intended to induce the purchasing of or arranging for or recommending the purchase or order of any item, good, facility or service for which payment may be made under federal health care programs. This statute has been applied to otherwise legitimate investment interests if one purpose of the offer to invest is to induce referrals from the investor. Safe harbor regulations provide absolute protection from prosecution for certain categories of relationships that meet all elements of an applicable safe harbor. However, relationships that do not meet all elements of a safe harbor are not illegal per se, but must be reviewed to determine the risk of fraud and abuse to any federal or state funded health care system.

Subject to certain exceptions, federal law also prohibits referrals for the provision of Medicare or Medicaid-covered “designated health services” from a physician to another entity with which the physician (or an immediate family member) has a financial relationship (which includes ownership and compensation arrangements). This law, known as the "Stark Law," applies only to referrals made by a physician and does not apply outside of the Medicare and Medicaid programs or to items or services that are not one of the 11 designated health services.

Laser vision correction is not reimbursable by Medicare, Medicaid or other federal programs. As a result, neither the anti-kickback statute nor the Stark Law applies to the Company's laser vision correction business, but the Company may be subject to similar state laws that apply regardless of the type of service or the manner of payment.

Doctors affiliated with the Company's ambulatory surgery company, OR Partners, Inc., the Company's mobile cataract services business, MSS, or the Company's secondary care centers provide services that are reimbursable under Medicare and Medicaid. Further, ophthalmologists and optometrists co-manage Medicare and Medicaid patients who receive services at the Company's secondary care centers. The co-management model is based, in part, upon the referral by an optometrist for surgical services performed by an ophthalmologist and the provision of pre- and post-operative services by the referring optometrist. The Office of the Inspector General for the Department of Health and Human Services, the government agency responsible for enforcing the anti-kickback statute, has stated publicly that to the extent there is an agreement between optometrists and ophthalmologists to refer back to each other, such an agreement could constitute a violation of the anti-kickback statute. The Company believes, however, that its co-management program does not violate the anti-kickback statute, as patients are given the choice whether to return to the referring optometrist or to stay with the ophthalmologist for post-operative care. Nevertheless, there can be no guarantee that the Office of the Inspector General will agree with the Company's analysis of the law. If the Company's co-management program were challenged as violating the anti-kickback statute and the Company were unsuccessful in defending against such a challenge, then civil or criminal fines and penalties, including exclusion of the Company, the ophthalmologists and the optometrists from the Medicare and Medicaid programs may be imposed on the Company. The Company could also be required to revise the structure of its co-management program or curtail its activities, any of which could have a material adverse effect upon the Company's business, financial condition and results of operations.

The provision of services covered by the Medicare and Medicaid programs in the Company's ambulatory surgery business, mobile cataract business and secondary care centers also triggers potential application of the Stark Law. The co-management model could establish a financial relationship, as defined in the Stark Law, between the ophthalmologist and the optometrist. Similarly, to the extent that the Company provides any designated health services, as defined in the statute, the Stark Law could be triggered as a result of any of the several financial relationships between the Company and ophthalmologists. Based on its current interpretation of the Stark Law as set forth in the interim final rule published in 2004, the Company believes that the referrals from ophthalmologists and

optometrists either will be for services which are not designated health care services as defined in the statute or will be covered by an exception to the Stark Law. There can be no assurance, however, that the government will agree with the Company's position or that there will not be changes in the government's interpretation of the Stark Law including an expansion of the services that constitute "designated health services." In such case, the Company may be subject to civil penalties as well as administrative exclusion and would likely be required to revise the structure of its legal arrangements or curtail its activities, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") were enacted to (a) improve the efficiency and effectiveness of the healthcare system by standardizing the exchange of electronic information for certain administrative and financial transactions and (b) protect the confidentiality and security of health information. HIPAA directed the U.S. Department of Health and Human Services to promulgate a set of interlocking regulations to implement the goals of HIPAA. The regulations apply to "covered entities" which include health plans, healthcare clearinghouses and healthcare providers who transmit patient health information ("PHI") in electronic form in connection with certain administrative and billing transactions. These regulations can be divided into the following:

- Privacy Regulations designed to protect and enhance the rights of patients by providing patient access to their PHI and controlling the use of their PHI;

- Security Regulations designed to protect electronic health information by mandating certain physical, technical and administrative safeguards;

- Electronic Transactions and Code Sets Regulations designed to standardize electronic data interchange in the health care industry;

- Standard Unique Employer Identifier Regulations designed to standardize employer identification numbers used in certain electronic transactions; and

- Standard Unique Health Identifier for Health Care Providers Regulations designed to standardize the identification of health care providers used in electronic transactions.

While the regulations are all in final form, the compliance date for each set of regulations varies. Compliance with the Privacy Regulations was required by April 14, 2003 (except for "small" health plans) and compliance with the Electronic Transaction and Code Sets Regulations was required by October 16, 2003. Compliance with the Standard Unique Employer Identifier Regulations was required by July 30, 2004; compliance with the Security Regulations by April 21, 2005; and compliance with the Standard Unique Health Identifier for Health Care Providers Regulations by May 23, 2005.

The Company has instituted policies and procedures designed to comply with the Privacy Regulations at various centers throughout the Company. Because the Company is self-insured and meets the definition of "small" health plan, the Company's health plan had until April 14, 2004 to comply with the Privacy Regulations. The Company's plan sponsor has taken steps to institute new policies and procedures to comply with the Privacy Regulations. The Company has implemented employee training programs explaining how the regulations apply to their job role. The Company has implemented programs to ensure compliance with the other HIPAA regulations by the applicable compliance dates.

State Law. In addition to the requirements described above, the regulatory requirements that the Company must satisfy to conduct its business will vary from state to state, and accordingly, the manner of operation by the Company and the degree of control over the delivery of refractive surgery by the Company may differ among the states.

A number of states have enacted laws which prohibit what is known as the corporate practice of medicine. These laws are designed to prevent interference in the medical decision-making process by anyone who is not a licensed physician. Many states have similar restrictions in connection with the practice of optometry. Application of the corporate practice of medicine prohibition varies from state to state. Therefore, while some states may allow a business corporation to exercise significant management responsibilities over the day-to-day operation of a medical or optometric practice, other states may restrict or prohibit such activities. The Company believes that it has structured its relationship with eye care doctors in connection with the operation of eye care centers as well as in connection with its secondary care centers so that they conform to applicable corporate practice of medicine restrictions in all material respects. Nevertheless, there can be no assurance that, if challenged, those relationships may not be found to violate a particular state corporate practice of medicine prohibition. Such a finding may require the Company to revise the structure of its legal arrangements or

curtail its activities, and this could have a material adverse effect on the Company's business, financial condition, and results of operations.

Many states prohibit a physician from sharing or "splitting" fees with persons or entities not authorized to practice medicine. The Company's co-management model for refractive procedures presumes that a patient will make a single global payment to the laser center, which is a management entity acting on behalf of the ophthalmologist and optometrist to collect fees on their behalf. In turn, the ophthalmologist and optometrist pay facility and management fees to the laser center out of the patient fees collected. While the Company believes that these arrangements do not violate any of the prohibitions in any material respects, there can be no assurance that one or more states will not interpret this structure as violating the state fee-splitting prohibition, thereby requiring the Company to change its procedures in connection with billing and collecting for services. Violation of state fee-splitting prohibitions may subject the ophthalmologists and optometrists to sanctions, and may result in the Company incurring legal fees, as well as being subjected to fines or other costs, and this could have a material adverse effect on the Company's business, financial condition and results of operations.

Just as in the case of the federal anti-kickback statute, while the Company believes that it is conforming to applicable state anti-kickback statutes in all material respects, there can be no assurance that each state will agree with the Company's position and not challenge the Company. If the Company were unsuccessful in defending against such a challenge, the result may be civil or criminal fines or penalties for the Company as well as the ophthalmologists and optometrists. Such a result would require the Company to revise the structure of its legal arrangements or curtail its activities, and this could have a material adverse effect on the Company's business, financial condition and results of operations.

Similarly, just as in the case of the federal Stark Law, while the Company believes that it is operating in compliance with applicable state anti-self-referral laws in all material respects, there can be no assurance that each state will agree with the Company's position or that there will not be a change in the state's interpretation or enforcement of its own law. In such case, the Company may be subject to fines and penalties as well as other administrative sanctions and would likely be required to revise the structure of its legal arrangements or curtail its activities. This could have a material adverse effect on the Company's business, financial condition and results of operations

CANADA

Conflict of interest regulations in certain Canadian provinces prohibit optometrists, ophthalmologists or corporations owned or controlled by them from receiving benefits from suppliers of medical goods or services to whom the optometrist or ophthalmologist refers his or her patients. In certain circumstances, these regulations deem it a conflict of interest for an ophthalmologist to order a diagnostic or therapeutic service to be performed by a facility in which the ophthalmologist has any proprietary interest. This does not include a proprietary interest in a publicly traded company and the company is not owned or controlled by the ophthalmologist or a member of his/her family. Certain of the Company's eye care centers in Canada are owned and managed by a subsidiary in which affiliated doctors own a minority interest. The Company expects that ophthalmologists and optometrists affiliated with TLC*Vision* will comply with the applicable regulations, although it cannot ensure such compliance by doctors.

The laws of certain Canadian provinces prohibit health care professionals from splitting fees with non-health care professionals and prohibit non-licensed entities (such as the Company) from practicing medicine or optometry and, in certain circumstances, from employing physicians or optometrists directly. The Company believes that its operations comply with such laws in all material respects, and expects that doctors affiliated with TLC*Vision* centers will comply with such laws, although it cannot ensure such compliance by doctors.

Optometrists and ophthalmologists are subject to varying degrees and types of provincial regulation governing professional misconduct, including restrictions relating to advertising, and in the case of optometrists, a prohibition against exceeding the lawful scope of practice. In Canada, laser vision correction is not within the permitted scope of practice of optometrists. Accordingly, TLC*Vision* does not allow optometrists to perform the procedure at TLC*Vision* centers in Canada.

FACILITY LICENSURE AND CERTIFICATE OF NEED

The Company believes that it has all licenses necessary to operate its business. The Company may be required to obtain licenses from the state Departments of Health, or a division thereof, in the various states in which it opens eye care centers. There can be no assurance that the Company will be able to obtain facility licenses in all states which may require facility licensure.

Some states require the permission of the Department of Health or a division thereof, such as a Health Planning Commission, in the form of a Certificate of Need ("CON") prior to the construction or modification of an ambulatory care facility, such as a laser

center, or the purchase of certain medical equipment in excess of an amount set by the state. There can be no assurance that the Company will be able to acquire a CON in all states where a CON is required.

The Company is not aware of any Canadian health regulations which impose facility-licensing requirements on the operation of eye care centers.

RISK OF NON-COMPLIANCE

Many of these laws and regulations governing the health care industry are ambiguous in nature and have not been definitively interpreted by courts and regulatory authorities. Moreover, state and local laws vary from jurisdiction to jurisdiction. Accordingly, the Company may not always be able to predict clearly how such laws and regulations will be interpreted or applied by courts and regulatory authorities and some of the Company's activities could be challenged. In addition, there can be no assurance that the regulatory environment in which the Company operates will not change significantly in the future. Numerous legislative proposals have been introduced in Congress and in various state legislatures over the past several years that would, if enacted, effect major reforms of the U.S. health care system. The Company cannot predict whether any of these proposals will be adopted and, if adopted, what impact such legislation would have on the Company's business. The Company has reviewed existing laws and regulations with its health care counsel, and although there can be no assurance, the Company believes that its operations currently comply with applicable laws in all material respects. Also, TLC*Vision* expects that affiliated doctors will comply with such laws in all material respects, although it cannot assure such compliance by doctors. The Company could be required to revise the structure of its legal arrangements or the structure of its fees, incur substantial legal fees, fines or other costs, or curtail certain of its business activities, reducing the potential profit to the Company of some of its legal arrangements, any of which may have a material adverse effect on the Company's business, financial condition and results of operations.

NASDAQ QUORUM EXEMPTION

The exemption that the Company had received from the Nasdaq National Market System with respect to compliance with Rule 4350(f) of the Nasdaq corporate governance rules was no longer available after July, 2005. Therefore, the Company’s shareholders amended the by-laws so that a quorum for any meeting of shareholders shall be not less than 33 1/3% of the outstanding shares of voting common stock.

INTELLECTUAL PROPERTY

The Company and its subsidiaries own over 30 trademarks and service marks that are subjects of U.S. federal and/or Canadian registrations or pending applications for registration. In addition, the Company owns a U.S. patent directed to certain aspects of the Laser Vision Centers Roll-On/Roll-Off system, which will expire in November 2016. It also owns a U.S. patent directed to a treatment of a potential side effect of laser vision correction generally known as "central islands," that will expire in May, 2014. The Company owns two pending patent applications directed to certain methods of administering a member-provider organization. The Company's service marks, patents and other intellectual property may offer the Company a competitive advantage in the marketplace and could be important to the success of the Company. One or all of the patents, trademarks, service marks or registrations therefore may be challenged, invalidated or circumvented in the future. The Company’s pending patent applications are subject to examination by the U.S. Patent and Trademark Office and may not result in an issued patent.

The medical device industry, including the ophthalmic laser sector, has been characterized by substantial litigation in the United States and Canada regarding patents and proprietary rights. There are a number of patents concerning methods and apparatus for performing corneal procedures with excimer lasers. Although the Company currently leases or purchases excimer lasers and other technology from the manufacturers, in the event that the use of an excimer laser or other procedure performed at any of the Company's refractive or secondary care centers is deemed to infringe a patent or other proprietary right, the Company may be prohibited from using the equipment or performing the procedure that is the subject of the patent dispute or may be required to obtain a royalty-bearing license, which may not be available on favorable terms, if at all. The costs associated with any such licensing arrangements may be substantial and could include ongoing royalty payments. In the event that a license is not available, the Company may be required to seek the use of products that do not infringe the patent.

EMPLOYEES

Including part-time employees, the Company had approximately 1,100 employees as of December 31, 2005. The Company's growth has been highly dependent upon the skills of its key technical and management personnel both in its corporate offices and in its eye care centers, some of whom would be difficult to replace. There can be no assurance that the Company can retain such personnel or that it can attract or retain other highly qualified personnel in the future. No employee of the Company is represented by a collective

bargaining agreement, nor has the Company experienced a work stoppage. The Company considers its relations with its employees to be good. See "Item 1 - Business - Risk Factors - Dependence on Key Personnel."

ITEM 1A. RISK FACTORS

The following are certain risk factors that could affect our business, financial results and results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause the actual results and conditions to differ materially from those projected in forward-looking statements. The risks that we have highlighted here are not the only ones that we face. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our stock could decline, and our stockholders may lose all or part of their investment.

WE HAVE REPORTED ACCUMULATED DEFICITS; OUR FUTURE PROFITABILITY IS UNCERTAIN.

We reported a net loss of $9.4 million for the year ended December 31, 2003. As of December 31, 2005, we reported an accumulated deficit of $244.2 million. Even though we reported net income of $8.1 million and $42.5 million for the years ended December 31, 2005 and 2004, respectively, we may not be able to sustain profitability. Our profitability will depend on a number of factors, including:

- demand for our services;
- our ability to control costs;
- our ability to execute our strategy and effectively integrate acquired businesses and assets;
- our ability to obtain adequate insurance against malpractice claims and reduce the number of claims;
- economic conditions in the markets in which we compete, including the availability of discretionary income;
- concerns about the safety and effectiveness of laser vision correction;
- competitive factors;
- regulatory developments;
- our ability to retain and attract qualified personnel; and
- doctors' ability to obtain adequate insurance against malpractice claims at reasonable rates.

In addition, our subsidiary OccuLogix expects to report significant net losses for the next several years. We will be required to report the financial results of OccuLogix on a consolidated basis as long as we have a controlling financial interest.

CHANGES IN GENERAL ECONOMIC CONDITIONS MAY CAUSE FLUCTUATIONS IN OUR REVENUES AND PROFITABILITY.

The cost of laser vision correction procedures is typically not reimbursed by health care insurance companies or other third-party payors. Accordingly, our operating results may vary based upon the impact of changes in economic conditions on the disposable income of consumers interested in laser vision correction. A significant decrease in consumer disposable income in a weakening economy may result in decreased procedure levels and revenues. In addition, weakening economic conditions may result in an increase in the number of our customers, who experience financial distress or declare bankruptcy, which may negatively impact our accounts receivable collection experience.

THE MARKET FOR LASER VISION CORRECTION IS INTENSELY COMPETITIVE AND COMPETITION MAY INCREASE.

Some of our competitors or companies that may choose to enter the industry in the future, including laser manufacturers themselves, may have substantially greater financial, technical, managerial, marketing and/or other resources and experience than us and may compete more effectively than we are able to compete. We compete with hospitals, individual ophthalmologists, other corporate laser centers and manufacturers of excimer laser equipment in offering laser vision correction services and access to excimer lasers. Our principal corporate competitors include LCA-Vision Inc. and Lasik Vision Institute, Inc.

Competition in the market for laser vision correction could increase as excimer laser surgery becomes more commonplace and the number of ophthalmologists performing the procedure increases. In addition, competition would increase if state or provincial laws were amended to permit optometrists, in addition to ophthalmologists, to perform laser vision correction. We will compete on the basis of quality of service, surgeon skill and reputation and price. If more providers offer laser vision correction in a given geographic market, the price charged for such procedures may decrease. Competitors have offered laser vision correction at prices considerably

lower than our prices. The laser vision correction industry has been significantly affected by reductions in the price for laser vision correction, including the failure of many businesses that provided laser vision correction. Market conditions may compel us to lower prices in our centers to remain competitive and any reduction in our prices may not be offset by an increase in our procedure volume or decreases in our costs. A decrease in either the fees or procedures performed at our eye care centers or in the number of procedures performed at our centers could cause our revenues to decline and our business and financial condition to weaken.

Laser vision correction competes with other surgical and non-surgical means of correcting refractive disorders, including eyeglasses, contact lenses, other types of refractive surgery and other technologies currently available and under development, such as intraocular lenses and surgery with different types of lasers. Our management, operations and marketing plans may not be successful in meeting this competition. Certain competitive optometry chains and other suppliers of eyeglasses and contact lenses may have substantially greater financial, technical, managerial, marketing and other resources and experience than we have and may promote alternatives to laser vision correction or purchase laser systems and offer laser vision correction to their customers.

If the price of excimer laser systems decreases, additional competition could develop. The price for excimer laser systems could decrease for a number of reasons, including technological innovation and increased competition among laser manufacturers. Further reductions in the price of excimer lasers could reduce demand for our laser access services by making it economically more attractive for eye surgeons to buy excimer lasers rather than utilize our services.

Most affiliated surgeons performing laser vision correction at our centers and our significant employees have agreed to restrictions on competing with us, or soliciting patients or employees associated with their facilities; however, these non-competition agreements may not be enforceable.

THE MARKET ACCEPTANCE OF LASER VISION CORRECTION IS UNCERTAIN.

We believe that the profitability and growth of our company will depend upon broad acceptance of laser vision correction in the United States and, to a lesser extent, Canada. We may have difficulty generating revenue and growing our business if laser vision correction does not become more widely accepted by the general population as an alternative to existing methods of treating refractive vision disorders. Laser vision correction may not become more widely accepted due to a number of factors, including:

- its cost, particularly since laser vision correction typically is not covered by government or private insurers;
- general resistance to surgery;
- the fact that effective and less expensive alternative methods of correcting refractive vision disorders are widely available;
- the lack of long-term follow-up data;
- the possibility of unknown side effects; and
- reported adverse events or other unfavorable publicity involving patient outcomes from laser vision correction.

CONCERNS ABOUT POTENTIAL SIDE EFFECTS AND LONG-TERM RESULTS OF LASER VISION CORRECTION MAY NEGATIVELY IMPACT MARKET ACCEPTANCE OF LASER VISION CORRECTION AND PREVENT US FROM GROWING OUR BUSINESS.

Concerns have been raised with respect to the predictability and stability of results and potential complications or side effects of laser vision correction. Any complications or side effects of laser vision correction may call into question the safety and effectiveness of laser vision correction, which in turn may damage the likelihood of market acceptance of laser vision correction. Complications or side effects of laser vision correction could lead to product liability, malpractice or other claims against us. Also, complications or side effects could jeopardize the approval by the U.S. Food and Drug Administration of the excimer laser for sale for laser vision correction. Although results of a study showed that the majority of patients experienced no serious side effects seven years after laser vision correction using PRK, complications may be identified in further long-term follow-up studies of PRK. There are no long-term studies on the side effects of LASIK, the procedure more often performed in recent years. However, a study of patients five years after LASIK reported the majority of patients had a high overall satisfaction of the procedure.

There is no independent industry source for data on side effects or complications from laser vision correction. In addition, we do not track side effects. Some of the possible side effects of laser vision correction are:

- foreign body sensation,
- pain or discomfort,
- sensitivity to bright lights,
- blurred vision,

- dryness or tearing,
- fluctuation in vision,
- night glare,
- poor or reduced visual quality,
- overcorrection or undercorrection,
- regression, and
- corneal flap or corneal healing complications.

We believe that the percentage of patients who experience serious side effects as a result of laser vision correction at our centers is likely less than 1%. However, there is no study to support this belief.

Laser vision correction may also involve the removal of "Bowman's membrane," an intermediate layer between the outer corneal layer and the middle corneal layer of the eye. Although several studies have demonstrated no significant adverse reactions to excimer laser removal of Bowman's membrane, the long-term effect of the removal of Bowman's membrane on patients is unclear.

WE MAY BE UNABLE TO ENTER INTO OR MAINTAIN AGREEMENTS WITH DOCTORS OR OTHER HEALTH CARE PROVIDERS ON SATISFACTORY TERMS.

We will have difficulty generating revenue if we are unable to enter into or maintain agreements with doctors or other health care providers on satisfactory terms. Most states prohibit us from practicing medicine, employing doctors to practice medicine on our behalf or employing optometrists to render optometric services on our behalf. In most states we may only own and manage centers and enter into affiliations with doctors and other health care providers. Also, affiliated doctors have provided a significant source of patients for our premium-priced centers and that is expected to continue. Our value-priced centers will rely on direct-to-consumer advertising as a source of patients. Accordingly, the success of our business depends upon our ability to enter into agreements on acceptable terms with a sufficient number of health care providers, including institutions and eye care doctors to render or arrange surgical and other professional services at facilities we own or manage.

QUARTERLY FLUCTUATIONS IN OPERATING RESULTS MAKE FINANCIAL FORECASTING DIFFICULT.

We may experience future quarterly losses, which may exceed prior quarterly losses. Our expense levels will be based, in part, on our expectations as to future revenues. If actual revenue levels were below expectations, our operating results would deteriorate. Historically, our quarterly results of operations have varied, and future results may continue to fluctuate significantly from quarter to quarter. Accordingly, quarter-to-quarter comparisons of our operating results may not be meaningful and should not be relied upon as indications of our future performance or annual operating results. Quarterly results will depend on numerous factors, including economic conditions in our geographic markets, market acceptance of our services, seasonal factors and other factors described in this Form 10-K.

THE MARKET PRICE OF OUR COMMON SHARES MAY BE VOLATILE.

Historically, the market price of our common shares has been volatile. For example, the market price of our common shares decreased from a high of $53.50 to a low of $0.79 between July 1999 and March 2003, then increased to $13.13 by April 2004. As of March 10, 2006, the last sale price of our common shares was $6.84. Our common shares will likely be volatile in the future due to industry developments and business-specific factors such as:

- our ability to effectively penetrate the laser vision correction market;
- the impact of OccuLogix on results of operations;
- perception of the potential for rheopheresis for dry age-related macular degeneration;
- our ability to execute our business strategy;
- new technological innovations and products;
- changes in government regulations;
- adverse regulatory action;
- public concerns about the safety and effectiveness of laser vision correction;
- loss of key management;
- announcements of non-routine events such as acquisitions or litigation;
- variations in our financial results;
- fluctuations in competitors' stock prices;

- the issuance of new or changed stock market analyst reports and recommendations concerning our common shares or competitors' stock;
- changes in earnings estimates by securities analysts;
- our ability to meet analysts' projections;
- changes in the market for medical services; or
- general economic, political and market conditions.

In addition, in recent years the prices and trading volumes of publicly traded shares, particularly those of companies in health care related markets, have been volatile. This volatility has substantially affected the market prices of many companies' securities for reasons frequently unrelated or disproportionate to their operating performance. Following the terrorist attacks in the United States in September 2001, stock markets experienced volatility and stock prices declined, in some cases substantially. Continued volatility may reduce the market price of our common shares.

WE MAY BE UNABLE TO EXECUTE OUR BUSINESS STRATEGY.

Our business strategy is to be a diversified eye care services company, leveraging our relationships with over 13,000 ophthalmologists and optometrists throughout North America to 1) grow the core refractive business while 2) continuing to expand the non-refractive business segment.

If we do not successfully execute this strategy or if the strategy is not effective, we may be unable to maintain or grow our revenues and profitability.

WE MAY MAKE INVESTMENTS THAT MAY NOT BE PROFITABLE.

We make investments that are intended to support our strategic business purposes. These investments are generally made in companies in the laser vision correction business or other eye care services. If we are unable to successfully manage our current and future investments, including ASC investments, or if these investments are not profitable or do not generate the expected returns, then future operating results may be adversely impacted.

OUR GROWTH STRATEGY DEPENDS ON OUR ABILITY TO OPEN NEW CENTERS OR TO MAKE ACQUISITIONS OR ENTER INTO AFFILIATION ARRANGEMENTS.

The success of our growth strategy will be dependent on increasing the number of procedures at our eye care centers and/or increasing the number of eye care centers through internal development or acquisitions and entering into affiliation arrangements with local eye care professionals in markets not large enough to justify a corporate center.

The addition of new centers will present challenges to us, including the integration of new operations, technologies and personnel. The addition of new centers also presents special risks, including:

- unanticipated liabilities and contingencies;
- diversion of management attention; and
- possible adverse effects on operating results resulting from:
  - possible future goodwill impairment;
  - increased interest costs;
  - the issuance of additional securities; and
  - increased costs resulting from difficulties related to the integration of the acquired businesses.

Our ability to achieve growth through acquisitions will depend on a number of factors, including:

- the availability of attractive acquisition opportunities;
- the availability of capital to complete acquisitions;
- the availability of working capital to fund the operations of acquired businesses; and
- the effect of existing and emerging competition on operations.

We may not be able to successfully identify suitable acquisition candidates, complete acquisitions on acceptable terms, if at all, or successfully integrate acquired businesses into our operations. Our past and possible future acquisitions may not achieve adequate levels of revenue, profitability or productivity or may not otherwise perform as expected.

WE MAY BE UNABLE TO SUCCESSFULLY IMPLEMENT AND INTEGRATE NEW OPERATIONS AND FACILITIES.

Our success depends on our ability to manage our existing operations and facilities and to expand our businesses consistent with our business strategy. In the past, we have grown rapidly in the United States. Our future growth and expansion will increase our management's responsibilities and demands on operating information technologies and financial systems and resources. Our business and financial results are dependent upon a number of factors, including our ability to:

- implement upgraded operations, information technologies and financial systems, procedures and controls;
- hire and train new staff and managerial personnel;
- adapt or amend our business structure to comply with present or future legal requirements affecting our arrangements with doctors, including state prohibitions on fee-splitting, corporate practice of optometry and medicine and referrals to facilities in which doctors have a financial interest;
- obtain regulatory approvals, where necessary, and comply with licensing requirements applicable to doctors and facilities operated, and services offered, by doctors;
- successfully integrate acquisitions into our existing business model; and
- successfully develop new LASIK Select centers and achieve growth and profitability goals of those centers.

Our failure or inability to successfully implement these and other factors may adversely affect the quality and profitability of our business operations.

WE DEPEND ON KEY PERSONNEL WHOSE LOSS COULD ADVERSELY AFFECT OUR BUSINESS.

Our success and growth depends in part on the active participation of key medical and management personnel, including Mr. Elias Vamvakas, Chairman of the Board of Directors, and Mr. James Wachtman, Chief Executive Officer. We maintain key person insurance for each of Mr. Vamvakas, Mr. Wachtman and several key ophthalmologists. Despite having this insurance in place, the loss of any one of these key individuals could adversely affect the quality, profitability and growth prospects of our business operations.

We have employment or similar agreements with the above individuals and other key personnel. The terms of these agreements include, in some cases, entitlements to substantial severance payments in the event of termination of employment by either us or the employee.

WE MAY BE SUBJECT TO MALPRACTICE AND OTHER SIMILAR CLAIMS AND MAY BE UNABLE TO OBTAIN OR MAINTAIN ADEQUATE INSURANCE AGAINST THESE CLAIMS.

The provision of medical services at our centers entails an inherent risk of potential malpractice and other similar claims. Beginning October 1, 2002, all of our U.S. professional malpractice insurance had a $250,000 deductible per claim. Patients at our centers execute informed consent statements prior to any procedure performed by doctors at our centers, but these consents may not provide adequate liability protection. Although we do not engage in the practice of medicine or have responsibility for compliance with regulatory and other requirements directly applicable to doctors and doctor groups, claims, suits or complaints relating to services provided at our centers may be asserted against us in the future, and the assertion or outcome of these claims could result in higher administrative and legal expenses, including settlement costs or litigation damages.

We currently maintain malpractice insurance coverage and accruals that we believe is adequate both as to risks and amounts covered. In addition, we require the doctors who provide medical services at our centers to maintain comprehensive professional liability insurance and most of these doctors have agreed to indemnify us against certain malpractice and other claims. Our insurance coverage, however, may not be adequate to satisfy claims, insurance maintained by the doctors may not protect us and such indemnification may not be enforceable or, if enforced, may not be sufficient. Our inability to obtain adequate insurance or an increase in the future cost of insurance to us and the doctors who provide medical services at the centers may have a material adverse effect on our business and financial results.

The excimer laser system uses hazardous gases which if not properly contained could result in injury. We may not have adequate insurance for any liabilities arising from injuries caused by the excimer laser system or hazardous gases. While we believe that any claims alleging defects in our excimer laser systems would usually be covered by the manufacturers' product liability insurance, the manufacturers of our excimer laser systems may not continue to carry adequate product liability insurance.

WE MAY FACE CLAIMS FOR FEDERAL, STATE AND LOCAL TAXES.

We operate in 48 states and two Canadian provinces and are subject to various federal, state and local income, payroll, unemployment, property, franchise, capital, sales and use tax on our operations, payroll, assets and services. We endeavor to comply with all such applicable tax regulations, many of which are subject to different interpretations, and have hired outside tax advisors who assist in the process. Many states and other taxing authorities have been interpreting laws and regulations more aggressively to the detriment of taxpayers. We believe that we have adequate provisions and accruals in our financial statements for tax liabilities, although we cannot predict the outcome of future tax assessments.

Tax authorities in two states have contacted us and issued proposed sales tax adjustments in the aggregate amount of approximately $0.7 million for various periods through 2005 on the basis that certain of our business arrangements constitute at least a partially taxable transaction rather than an exempt service. Our discussions with these two state tax authorities are ongoing. If it is determined that any sales tax is owed, we believe that, under applicable laws and our contracts with our customers, each customer is ultimately responsible for the payment of any applicable sales and use taxes in respect of our services. However, we may be unable to collect any such amounts from our customers, and in such event we would remain responsible for payment. We cannot yet predict the outcome of these outstanding assessments or any other assessments or similar actions which may be undertaken by other state tax authorities. We have evaluated and implemented a comprehensive sales tax reporting system. We believe that we have adequate provisions in our financial statements with respect to these matters.

COMPLIANCE WITH INDUSTRY REGULATIONS IS COSTLY AND BURDENSOME.

Our operations are subject to extensive federal, state and local laws, rules and regulations. Our efforts to comply with these laws, rules and regulations may impose significant costs, and failure to comply with these laws, rules and regulations may result in fines or other charges being imposed on us. We have incurred significant costs, and expect to incur additional costs in connection with compliance with the provisions of the Sarbanes-Oxley Act of 2002. Our failure to comply with the provisions of Sarbanes-Oxley, including provision relating to internal financial controls, could have a material adverse effect on us.

Many state laws limit or prohibit corporations from practicing medicine and optometry, and many federal and state laws extensively regulate the solicitation of prospective patients, the structure of our fees and our contractual arrangements with hospitals, surgery centers, ophthalmologists and optometrists, among others. Some states also impose licensing requirements. Although we have tried to structure our business and contractual relationships in compliance with these laws in all material respects, if any aspect of our operations were found to violate applicable laws, we could be subject to significant fines or other penalties, required to cease operations in a particular jurisdiction, prevented from commencing operations in a particular state or otherwise be required to revise the structure of our business or legal arrangements. Many of these laws and regulations are ambiguous, have not been definitively interpreted by courts or regulatory authorities and vary from jurisdiction to jurisdiction. Accordingly, we may not be able to predict how these laws and regulations will be interpreted or applied by courts and regulatory authorities, and some of our activities could be challenged.

Numerous legislative proposals to reform the U.S. health care system have been introduced in Congress and in various state legislatures over the past several years. We cannot predict whether any of these proposals will be adopted and, if adopted, what impact this legislation would have on our business. To respond to any such changes, we could be required to revise the structure of our legal arrangements or the structure of our fees, incur substantial legal fees, fines or other costs, or curtail some of our business activities, reducing the potential profit of some of our arrangements.

State medical boards and state boards of optometry generally set limits on the activities of ophthalmologists and optometrists. In some instances, issues have been raised as to whether participation in a co-management program violates some of these limits. If a state authority were to find that our co-management program did not comply with state licensing laws, we would be required to revise the structure of our legal arrangements or curtail our operations, and affiliated doctors might terminate their relationships with us.

Federal and state civil and criminal statutes impose penalties, including substantial civil and criminal fines and imprisonment, on health care providers and persons who provide services to health care providers, including management businesses such as ours, for fraudulently or wrongfully billing government or other insurers. In addition, the federal law prohibiting false Medicare/Medicaid billings allows a private person to bring a civil action in the name of the U.S. government for violations of its provisions and obtain a portion of the damages if the action is successful. We believe that we are in material compliance with these billing laws, but our business could be adversely affected if governmental authorities were to scrutinize or challenge our activities or private parties were to assert a false claim or action against us in the name of the U.S. government.

Although we believe that we have obtained the necessary licenses or certificates of need in states where such licenses are required and that we are not required to obtain any licenses in other states, some of the state regulations governing the need for such licenses are unclear, and there is no applicable precedent or regulatory guidance to help resolve these issues. A state regulatory authority could determine that we are operating a center inappropriately without a required license or certificate of need, which could subject us to significant fines or other penalties, result in us being required to cease operations in a state or otherwise jeopardize our business and financial results. If we expand to a new geographic market, we may be unable to obtain any new license required in that jurisdiction.

COMPLIANCE WITH ADDITIONAL HEALTH CARE REGULATIONS IN CANADA IS COSTLY AND BURDENSOME.

Some Canadian provinces have adopted conflict of interest regulations that prohibit optometrists, ophthalmologists or corporations they own or control from receiving benefits from suppliers of medical goods or services to whom they refer patients. The laws of some Canadian provinces also prohibit health care professionals from splitting fees with non-health care professionals and prohibit non-licensed entities such as us from practicing medicine or optometry and from directly employing physicians or optometrists. We believe that we are in material compliance with these requirements, but a review of our operations by Canadian regulators or changes in the interpretation or enforcement of existing Canadian legal requirements or the adoption of new requirements could require us to incur significant costs to comply with laws and regulations in the future or require us to change the structure of our arrangements with doctors.

COMPLIANCE WITH U.S. FOOD AND DRUG ADMINISTRATION REGULATIONS REGARDING THE USE OF EXCIMER LASER SYSTEMS FOR LASER VISION CORRECTION IS COSTLY AND BURDENSOME.

To date, the FDA has approved excimer laser systems manufactured by some manufacturers for sale for the treatment of nearsightedness, farsightedness and astigmatism up to stated levels of correction. Failure to comply with applicable FDA requirements with respect to the use of the excimer laser could subject us, our affiliated doctors or laser manufacturers to enforcement action, including product seizure, recalls, withdrawal of approvals and civil and criminal penalties.

The FDA has adopted guidelines in connection with the approval of excimer laser systems for laser vision correction. The FDA, however, has also stated that decisions by doctors and patients to proceed outside the FDA-approved guidelines are a practice of medicine decision, which the FDA is not authorized to regulate. Failure to comply with FDA requirements or any adverse FDA action, including a reversal of its interpretation with respect to the practice of medicine, could result in a limitation on or prohibition of our use of excimer lasers.

Discovery of problems, violations of current laws or future legislative or administrative action in the United States or elsewhere may adversely affect the laser manufacturers' ability to obtain regulatory approval of laser equipment. Furthermore, the failure of other excimer laser manufacturers to comply with applicable federal, state or foreign regulatory requirements, or any adverse action against or involving such manufacturers, could limit the supply of excimer lasers, substantially increase the cost of excimer lasers, limit the number of patients that can be treated at our centers and limit our ability to use excimer lasers.

Most of our eye care centers and access sites in the United States use VISX and/or Alcon Laboratories Inc. excimer lasers. If VISX, Alcon or other excimer laser manufacturers fail to comply with applicable federal, state or foreign regulatory requirements, or if any adverse regulatory action is taken against or involves such manufacturers, the supply of lasers could be limited and the cost of excimer lasers could increase.

The Roll-On/Roll-Off laser system consists of an excimer laser mounted on a motorized, air suspension platform and transported in a specially modified truck. We believe that use of this transport system does not require FDA approval; the FDA has taken no position in regard to such approval. The FDA could, however, take the position that excimer lasers are not approved for use in this transport system. Such a view by the FDA could lead to an enforcement action against us, which could impede our ability to maintain or increase our volume of excimer laser surgeries. This could have a material adverse effect on our business and financial results. Similarly, we believe that FDA approval is not required for our mobile use of microkeratomes or the cataract equipment transported by our mobile cataract operations. The FDA, however, could take a contrary position that could result in an enforcement action.

DISPUTES WITH RESPECT TO INTELLECTUAL PROPERTY COULD ADVERSELY AFFECT OUR BUSINESS.

There has been substantial litigation in the United States and Canada regarding the patents on ophthalmic lasers. Although we currently lease or purchase excimer lasers and other technology from the manufacturers, if the use of an excimer laser or other procedure performed at any of our centers is deemed to infringe a patent or other proprietary right, we may be prohibited from using the equipment or performing the procedure that is the subject of the patent dispute or may be required to obtain a royalty-bearing

license, which may involve substantial costs, including ongoing royalty payments. If a license is not available on acceptable terms, we may be required to seek the use of products which do not infringe the patent.

We have also secured patents for portions of the equipment we use to transport our mobile lasers. Our patents and other proprietary technology are important to our success. These patents could be challenged, invalidated or circumvented in the future. Litigation regarding intellectual property is common and our patents may not adequately protect our intellectual property. Defending and prosecuting intellectual property proceedings is costly and involves substantial commitments of management time. If we fail to successfully defend our rights with respect to our intellectual property, we may be required to pay damages and cease using our equipment to transport mobile lasers, which may have a material adverse effect on our business.

WE MAY NOT HAVE THE CAPITAL RESOURCES NECESSARY IN ORDER TO KEEP UP WITH RAPID TECHNOLOGICAL CHANGES.

Modern medical technology changes rapidly. New or enhanced technologies and therapies may be developed with better performance or lower costs than the laser vision correction currently provided at our centers. We may not have the capital resources to upgrade our excimer laser equipment, acquire new or enhanced medical devices or adopt new or enhanced procedures at the time that any advanced technology or therapy is introduced.

THE ABILITY OF OUR SHAREHOLDERS TO EFFECT CHANGES IN CONTROL OF OUR COMPANY IS LIMITED.

We have a shareholder rights plan which enables the Board of Directors to delay a change in control of our company. This could discourage a third party from attempting to acquire control of our company, even if an attempt would be beneficial to the interests of the shareholders. In addition, since we are a Canadian corporation, investments in our company may be subject to the provisions of the Investment Canada Act. In general, this act provides a system for the notification to the Investment Canada agency of acquisitions of Canadian businesses by non-Canadian investors and for the review by the Investment Canada agency of acquisitions that meet thresholds specified in the act. To the extent that a non-Canadian person or company attempted to acquire 33% or more of our outstanding common stock, the threshold for a presumption of control, the transaction could be reviewable by the Investment Canada agency. The Investment Canada Act also applies to a change of control effected by a sale of all or substantially all of the assets of our company. These factors and others could have the effect of delaying, deferring or preventing a change of control of our company supported by shareholders but opposed by our Board of Directors.

AS THE MAJORITY OWNER OF OCCULOGIX, IT MAY BE NECESSARY FOR US TO FUND ADDITIONAL CAPITAL REQUIREMENTS.

OccuLogix reported approximately $41.3 million of cash and short-term investments as of December 31, 2005, largely as a result of its initial public offering in December 2004. Although it expects the current cash and short-term investments to be adequate to support its operations for at least the next 12 months, OccuLogix anticipates that the funding requirements for its activities will continue to increase substantially, primarily due to its efforts to achieve FDA approval for and to commercialize the RHEO™ System. OccuLogix may need to seek additional funds in the future, and it may be necessary for us to fund OccuLogix's additional capital requirements as the majority shareholder in order to avoid dilution of the value of our ownership.

THERE IS NO GUARANTEE THAT OCCULOGIX WILL BE SUCCESSFUL IN OBTAINING FDA APPROVAL OR COMMERCIALIZING THE RHEO™ SYSTEM.

On February 3, 2006, OccuLogix announced that, based on a preliminary analysis of the data from MIRA-1 (a pivotal clinical trial), MIRA-1 did not meet its primary efficacy endpoint as it did not demonstrate a statistically significant difference in the mean change of Best Spectacle-Corrected Visual Acuity applying the Early Treatment Diabetic Retinopathy Scale, or ETDRS BCVA, between the treated and placebo groups in MIRA-1 at 12 months post-baseline. As expected, the treated group demonstrated a positive result. An anomalous response of the control group is the principal reason why the primary efficacy endpoint was not met. There were subgroups that did demonstrate statistical significance in their mean change of ETDRS BCVA versus control. OccuLogix is in the process of analyzing further the study data.

The MIRA-1 protocol required OccuLogix to obtain a minimum of 150 complete clinical data sets. To that end, OccuLogix had enrolled a total of 185 patients in MIRA-1 as of December 31, 2004. On November 17, 2005, OccuLogix announced that it had collected complete 12-month post-treatment data sets for 169 of these patients. As of December 31, 2004, OccuLogix had also submitted to the FDA the first three of four modules of the Pre-market Approval Application, or PMA, filing, the non-clinical portion. The non-clinical portion of the PMA consisted of technical data relating to components of the RHEO™ System. Although OccuLogix had intended to submit the fourth module, which consists of the follow-up clinical data, in two components, following discussions

with the FDA, it subsequently elected to file only one PMA clinical module following completion of the 12-month data on at least 150 data sets.

Subsequent to the February 3, 2006 announcement, OccuLogix completed an in-depth analysis of the MIRA-1 study data identifying subjects that were included in the intent-to-treat, or ITT, population but who deviated from the MIRA-1 protocol as well as those patients who had documented losses or gains in vision for reasons not related to retinal disease such as cataracts. Those subjects in the ITT population who met the protocol requirements, and who did not exhibit ophthalmic changes unrelated to retinal disease, comprised the modified per-protocol population.

In the modified per-protocol analysis, eyes treated with RHEO™ Therapy demonstrated a mean vision gain of 0.8 lines of ETDRS BCVA at 12 months post-baseline, compared to a mean vision loss of 0.1 lines of ETDRS BCVA in the eyes of the placebo group. The result was statistically significant (repeated measure p value = 0.0147). The following table presents a summary of the ETDRS BCVA changes observed 12 months post-baseline in the modified per-protocol analysis of MIRA-1:

	Treatment Group (n=69)	Placebo Group (n=46)
Vision improvement greater or equal to:		
1 line	46.4%	19.6%
2 lines	27.5%	8.7%
3 lines	8.7%	2.2%
Vision loss greater or equal to:		
1 line	11.6%	23.9%
2 lines	5.8%	6.5%
3 lines	2.9%	2.2%

Within the modified per-protocol population with pre-treatment vision worse than 20/40, 50.0% of RHEO™ Therapy-treated eyes improved, after treatment, to 20/40 or better and would be able to qualify for a driver's license 12 months post-baseline, compared to 20.0% of placebo eyes.

OccuLogix will be re-evaluating its PMA submission strategy. The per-protocol population analysis comprises 115 complete data sets, while OccuLogix had been required to obtain a minimum of 150 complete data sets. OccuLogix is planning to meet with representatives of the FDA in the second quarter of 2006 in order to discuss the impact on the PMA submission strategy of the MIRA-1 study results and the fact of the per-protocol population being fewer than 150. It is more likely than not that OccuLogix will be required to conduct a follow-up clinical trial of the RHEO™ System. However, until OccuLogix has discussions with the FDA, it will not know if a follow-up clinical trial will be necessary and, if one is necessary, what its nature, size, scope or duration will be.

OccuLogix cannot begin commercialization in the United States until it receives FDA approval. Until OccuLogix has discussions with the FDA, it will not be able to anticipate when, if ever, it will receive FDA approval. Accordingly, at this time, OccuLogix does not know when it can expect to begin to generate revenues in the United States.

Prior to the announcement on February 3, 2006 of the preliminary analysis of the data from MIRA-1, in anticipation of commercialization in the United States, OccuLogix was establishing a plan to educate members of the eye care community about RHEO™ Therapy. It was in the process of identifying multi-facility health care service providers, including hospitals, dialysis clinics and ambulatory surgery centers, as well as private practices, which it believes may be interested in providing RHEO™ Therapy in their facilities. One of these potential providers may be TLC*Vision* due to our relationships with a large number of optometrists and ophthalmologists in the United States. Pending the outcome of its discussions with the FDA and the determination of the parameters of any follow-up clinical trial of the RHEO™ System, OccuLogix has suspended, for the time being, all of its activities that were being conducted in anticipation of commercialization in the United States.

In 2003, OccuLogix received Health Canada approval for the components of the RHEO™ System. The approval allows OccuLogix to market the RHEO™ System in Canada for use in the treatment of patients suffering from dysproteinemia due, for example, to abnormal plasma viscosity and/or macular disease. Upon receiving the approval, OccuLogix began limited commercialization of the RHEO™ System through sales of OctoNova pumps and disposable treatment sets to three clinics in Canada. In September 2004, OccuLogix signed an agreement with a private Canadian company called Rheo Therapeutics Inc. (now Veris Health Services Inc.) ("Veris"), a provider of RHEO™ Therapy, which agreed to purchase approximately 8,000 treatment sets and 20 OctoNova pumps by the end of 2005, with an option to purchase up to an additional 2,000 treatment sets, subject to availability. However, due to delays in its plans to open a number of commercial treatment centers in various Canadian cities where RHEO™

Therapy would be performed, Veris no longer required the contracted-for number of treatment sets for such period. OccuLogix agreed to keep the original pricing for a reduced number of treatment sets. In December 2005, by letter agreement, OccuLogix agreed to the volume and other terms for the purchase and sale of treatment sets and pumps for the period ending February 28, 2006. OccuLogix intends to negotiate with Veris purchase orders for the future. Dr. Jeffery Machat, who is an investor in and one of the directors of Veris, was a co-founder and former director of our Company.

In summary, OccuLogix's primary activities to date have included commercialization of the RHEO™ System in Canada, working to obtain FDA regulatory approval for the RHEO™ System and building an operating infrastructure to support potential U.S. sales following approval by the FDA. Pending the outcome of OccuLogix's discussions with the FDA regarding the full analysis of the MIRA-1 study data, it is reasonably likely that the focus of its primary activities will shift.

OUR STOCK PRICE AND REPORTED RESULTS MAY BE IMPACTED BY THE OPERATING RESULTS OF OCCULOGIX.

As a significant shareholder of OccuLogix, our stock price may be affected by changes in the price of OccuLogix's common stock. We are unable to predict how fluctuations in OccuLogix's stock price will affect our own stock price. Because we have a controlling financial interest in OccuLogix, the results of operations of this entity are consolidated into the operating results of our other businesses. OccuLogix expects to continue to report significant operating losses for the next several years. Because of the numerous risks and uncertainties associated with developing and commercializing new medical therapies, including obtaining FDA approval, OccuLogix is unable to predict the extent of any future losses or when it will become profitable, if ever. Because we are a significant shareholder of OccuLogix, our operating results and stock price may be negatively impacted by the operating results of OccuLogix. In the event that we were to reduce our ownership interest to the level where consolidation was not required, our operating results would still be impacted by OccuLogix to the extent of our ownership, via earnings from equity investments.

As noted previously, on February 3, 2006, OccuLogix announced that the preliminary analysis of the data from MIRA-1 indicated that MIRA-1 did not demonstrate a statistically significant mean change of BCVA. As a result, the share price of OccuLogix's stock as traded on the NASDAQ National Market System decreased from $12.75 on February 2, 2006 to close at $4.10 on February 3, 2006. The 10-day average price of the stock immediately following the announcement was $3.65 and reflected a decrease in the market capitalization of OccuLogix from $536.6 million on February 2, 2006 to $153.6 million based on the 10-day average share price after the announcement. The resulting decrease in the share price was identified as an indicator of impairment leading to an analysis of OccuLogix's intangible assets and goodwill and resulting in OccuLogix reporting an impairment charge to goodwill of $147.5 million. Because we accounted for the OccuLogix reorganization at historical cost, we eliminate OccuLogix's goodwill balance in consolidation (see Note 1).

OccuLogix believes that the announcement made it unlikely that it would be able to collect on amounts outstanding from its sole customer, Veris, resulting in a provision for bad debts of $0.5 million related to revenue reported prior to December 2005. OccuLogix did not recognize $0.5 million of revenue related to goods shipped in December 2005, based on collectibility not being reasonably assured. OccuLogix also fully expensed the $0.2 million advance that it had paid to Veris in connection with clinical trial services to be provided by Veris for one of OccuLogix's clinical trials. OccuLogix also evaluated its ending inventory balance as of December 31, 2005 on the basis that Veris may not be able to increase its commercial activities in Canada in line with initial expectations. Accordingly, OccuLogix set up a provision for obsolescence of $2.0 million for filter sets that will unlikely be utilized prior to their expiration dates. As a result of the above entries, our reported pre-tax earnings for the quarter and year ended December 31, 2005 were reduced by $1.6 million.

Additional adjustments to asset values may be required as OccuLogix continues its evaluation and operations, and those adjustments may be material. Those adjustments could impact our stock price as well as our results to the extent of our ownership percentage in OccuLogix.

PART II

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected historical consolidated financial data of TLC*Vision* for the fiscal years ended December 31, 2005, 2004 and 2003, twelve months ended December 31, 2002, seven-month transitional period ended December 31, 2002 and the fiscal years ended May 31, 2002 and 2001, which have been derived from the consolidated financial statements of the Company included elsewhere in this Form 10-K/A and the consolidated financial statements of the Company included in the Company's December 31, 2002 Transition Report on Form 10-K, May 31, 2002 and 2001 Annual Reports on Form 10-K and the unaudited twelve-month period ended December 31, 2002. The following table should be read in conjunction with the Company's financial statements, the related notes thereto and the information contained in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations."

	YEAR ENDED MAY 31,		SEVEN-MONTH PERIOD ENDED DECEMBER 31,	TWELVE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	2001(2)	2002(3)	2002(4)	2002(5)	2003(6)	2004(7)	2005(8)
				UNAUDITED		AS RESTATED	AS RESTATED
(U.S. dollars, in thousands except per share amounts, shares and operating data)							
STATEMENT OF OPERATIONS DATA							
Net revenues	$ 174,006	$ 134,751	$ 100,154	$ 164,605	$ 200,918	$ 247,247	$ 260,025
Cost of revenues	110,016	97,789	80,825	125,163	148,543	170,738	180,725
Gross profit	63,990	36,962	19,329	39,442	52,375	76,509	79,300
General and administrative	44,464	36,382	25,567	38,158	27,001	26,866	36,497
Income (loss) before cumulative effect of accounting change	(37,773)	(146,675)	(43,343)	(144,731)	(9,399)	42,474	8,119
Income (loss) per share before cumulative effect of accounting change, diluted	$(1.00)	$(3.74)	$(0.68)	$(2.68)	$(0.15)	$0.60	$0.11
Weighted average number of Common Shares outstanding, diluted	37,779	39,215	63,407	54,077	64,413	71,088	71,380

	YEAR ENDED MAY 31,		SEVEN-MONTH PERIOD ENDED DECEMBER 31,	TWELVE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	2001(2)	2002(3)	2002(4)	2002(5)	2003(6)	2004(7)	2005(8)
OPERATING DATA (unaudited)							
Number of eye care centers at end of period	59	80	84	84	76	73	81
Number of access service sites(1)							
Refractive	--	336	304	304	270	327	316
Cataract	--	280	274	274	359	371	563
Number of laser vision correction procedures:							
Centers	122,800	95,000	49,700	95,000	100,500	115,700	119,100
Access	--	--	43,200	47,000	75,600	80,700	71,800
Mobile cataract	--	--	23,300	24,800	40,700	43,700	49,000
Total procedures	122,800	95,000	116,200	166,800	216,800	240,100	239,900

	MAY 31, 2001	MAY 31, 2002	DECEMBER 31, 2002	DECEMBER 31, 2003	DECEMBER 31, 2004	DECEMBER 31, 2005
					AS RESTATED	
BALANCE SHEET DATA						
Cash and cash equivalents	$ 47,987	$ 45,074	$ 34,231	$ 21,580	$ 33,435	$ 31,729
Working capital	42,366	23,378	12,523	10,868	131,195	66,896
Total assets	238,438	245,515	196,056	190,748	304,007	301,043
Long-term debt, excluding current portion	8,313	14,643	15,760	19,242	9,991	12,665
STOCKHOLDERS' EQUITY						
Common stock	276,277	387,701	388,769	397,878	458,959	450,703
Option and warrant equity	532	11,755	11,035	8,143	2,872	1,861
Accumulated deficit	(80,161)	(242,010)	(285,353)	(294,752)	(252,278)	(244,159)
Accumulated other comprehensive loss	(9,542)	--	--	--	--	--
Total stockholders' equity	187,106	155,014	111,828	111,269	209,553	208,405

(1) An access service site has provided services in the preceding 90 days.

(2) In fiscal 2001, the selected financial data of the Company included a restructuring charge of $19.1 million.

(3) In fiscal 2002, the selected financial data of the Company included:
(a) a charge of $81.7 million for impairment of intangibles;
(b) a write down of $26.1 million in the fair value of investments and long-term receivables;
(c) a restructuring charge of $8.8 million; and
(d) a reduction of $2.6 million in the carrying value of fixed assets.

(4) In the seven months ended December 31, 2002, the selected financial data of the Company included:
(a) a charge of $22.1 million for impairment of intangibles;
(b) a write down of $2.1 million in the fair value of investments and long-term receivables;
(c) other income of $6.8 million for settlement of a class action lawsuit with laser manufacturers;
(d) a restructuring charge of $4.7 million; and
(e) a reduction of $1.0 million in the carrying value of fixed assets.

(5) In the twelve-month period ended December 31, 2002, the selected financial data of the Company included:
(a) a charge of $103.9 million for impairment of intangibles;
(b) a write down of $7.1 million in the fair value of investments and long-term receivables;
(c) other income of $6.8 million for settlement of a class action lawsuit with laser manufacturers;
(d) a restructuring charge of $11.2 million; and
(e) a reduction of $1.5 million in the carrying value of fixed assets.

(6) In fiscal 2003, the selected financial data of the Company included an adjustment to the fair value of long-term receivables of $0.2 million.

(7) In fiscal 2004, the selected financial data of the Company included:
(a) an adjustment to the fair value of long-term receivables of $1.2 million;
(b) other income of $25.8 million from the gain on sale of OccuLogix stock; and
(c) an executive severance charge of $2.6 million.

(8) In fiscal 2005, the selected financial data of the Company included:
(a) a write-down of $1.1 million in the fair value of intangibles and an adjustment to the fair value of long-term liabilities of $0.2 million; and
(b) OccuLogix inventory and accounts receivable write-downs of $1.6 million, after minority interests.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and the related notes thereto, which are included in Item 8 of this Form 10-K. The following discussion is based upon the Company's results under U.S. generally accepted accounting principles. Unless otherwise specified, all dollar amounts are U.S. dollars.

OVERVIEW

TLC Vision Corporation is a diversified eye care services company dedicated to improving lives through better vision by providing eye doctors with the tools and technologies they need to deliver high quality patient care. The majority of the Company's revenues come from laser refractive surgery, which involves using an excimer laser to treat common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company's business models include arrangements ranging from owning and operating fixed site centers to providing access to lasers through fixed site and mobile service relationships. In addition to refractive surgery, the Company is diversified into other eye care businesses. Through its MSS subsidiary, the Company furnishes hospitals and other facilities with mobile or fixed site access to cataract surgery equipment, supplies and technicians. The Company is continuing to expand MSS into other mobile diagnostic services, such as glaucoma screening. Through its ambulatory surgery center (ASC) subsidiaries, TLC*Vision* develops, manages and has equity participation in single- and multi-specialty ASCs. The Company also owns a 51% majority interest in Vision Source, which provides franchise opportunities to independent optometrists. The Company is also a 51% majority owner of OccuLogix, which focuses on the treatment of a specific eye disease known as dry age-related macular degeneration, via rheopheresis, a process for filtering blood. OccuLogix, is also a reporting company with the Commission, and its stock is publicly traded on the Nasdaq National Market and the Toronto Stock Exchange.

The Company recognizes revenues at the time procedures are performed or services are rendered. Revenues include amounts charged to patients for procedures performed at laser centers, amounts charged to physicians for laser access and service fees, and management fees from managing refractive and secondary care practices. Under the terms of management service agreements, the Company provides non-clinical services, which include facilities, staffing, equipment lease and maintenance, marketing and administrative services to refractive and secondary care practices in return for management fees. For third party payor programs and corporations with arrangements with TLC*Vision*, the Company's management fee and the fee charged by the surgeon are both discounted in proportion to the discount afforded to these organizations. While the Company does not direct the manner in which the surgeons practice medicine, the Company does direct the day-to-day non-clinical operations of the centers. The management service agreements typically are for an extended period of time, ranging from five to 15 years. Management fees are equal to the net revenue of the physician practice, less amounts retained by the physician groups.

Included in costs of revenue are the laser fees payable to laser manufacturers for royalties, doctors' compensation, use and maintenance of the lasers, variable expenses for consumables and facility fees, as well as center costs associated with personnel, facilities and depreciation of center assets.

Selling, general and administrative expenses include expenses that are not directly related to the provision of laser correction services or cataract services.

The Company serves surgeons who performed over 279,200 procedures, including refractive and cataract procedures, at the Company's centers or using the Company's equipment during the year ended December 31, 2005. In the twelve months ended December 31, 2005, the Company's refractive procedure volume decreased to 190,900 compared to 196,400 in the twelve months ended December 31, 2004, a decrease of 5,500 procedures or 3%. Being an elective procedure, laser vision correction volumes will fluctuate due to changes in economic and stock market conditions, unemployment rates, consumer confidence and political uncertainty. Demand for laser vision correction also is affected by perceived safety and effectiveness concerns given the lack of long-term follow-up data.

RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

During the fourth quarter of 2005, the Company determined that it should have recorded $1.2 million of additional income tax expense for the year ended December 31, 2004 due to the nature of the net operating loss carryforwards that were utilized in that year for financial reporting purposes. The Company originally corrected the error in its 2005 Annual Report on Form 10-K by increasing the income tax expense recorded for the year ended December 31, 2005 by $1.2 million. The Company has subsequently determined that the $1.2 million adjustment is material to the Company's operating results of 2005 and, accordingly, that the adjustment should not have been made in the 2005 financial statements. As such, the Company has restated its previously issued financial statements as of and for the years ended December 31, 2005 and 2004. The impact of the restatement on the previously reported financial statements is as follows:

	YEAR ENDED DECEMBER 31, 2005		YEAR ENDED DECEMBER 31, 2004	
	As previously reported	As restated	As previously reported	As restated
Income tax expense	$ 7,891	$ 6,657	$ 600	$ 1,834
Net income	$ 6,885	$ 8,119	$ 43,708	$ 42,474
Earnings per share - basic	$ 0.10	$ 0.12	$ 0.64	$ 0.62
Earnings per share - diluted	$ 0.10	$ 0.11	$ 0.61	$ 0.60

	DECEMBER 31, 2004	
	As previously reported	As restated
Goodwill	$ 53,774	$ 52,540
Total assets	$ 305,241	$ 304,007
Accumulated deficit	$ (251,044)	$ (252,278)
Total stockholders' equity	$ 210,787	$ 209,553
Total liabilities and stockholders' equity	$ 305,241	$ 304,007

DEVELOPMENTS DURING FISCAL 2005

ACQUISITIONS AND DIVESTITURES

On July 11, 2005, the Company acquired substantially all the assets of Kremer Laser Eye ("Kremer"). Kremer operates three refractive centers and one ambulatory surgery center all of which are located in the northeastern part of the United States. For over 20 years, Kremer has been an integrated eye care company providing refractive, cataract and glaucoma surgery services. The acquisition of Kremer expands the Company's presence in both the refractive and ASC businesses in one of the largest populated markets in the United States. The purchase price for the acquired assets was $29.7 million. In addition, the Company assumed certain liabilities and incurred transaction costs of $1.1 million. Simultaneously with this transaction, the Company sold an 18% interest in Kremer to a group of doctors associated with Kremer for $5.3 million. As a result, the Company maintains an 82% ownership interest in Kremer.

On December 1, 2005, the Company acquired a 49% interest in Liberty Eye Surgical Center, LLC ("Liberty") for $6.2 million in cash. Liberty is an ambulatory surgery center located in Philadelphia, Pennsylvania that primarily provides cataract surgery services.

On November 8, 2005, the Company acquired TruVision, Inc. ("TruVision") for $17.4 million in cash and 3,913 shares of company common stock valued at approximately $24,000 coupled with a three-year earn out. TruVision is a managed care contractor to health plan members and large corporations across 44 states. TruVision's services enable insurance health plans and large corporations to offer LASIK vision surgery to their members at a reduced price.

On July 1, 2005, the Company acquired a 100% interest in Millennium Laser Eye ("Millennium") for $6.1 million in cash plus the assumption of certain liabilities. Millennium provides refractive services in Washington, D.C.

On March 1, 2005, the Company sold its interest in Aspen Healthcare, Inc. ("Aspen") to National Surgical Centers, Inc. and recorded a gain of $0.3 million, which is included in other operating expenses.

CRITICAL ACCOUNTING POLICIES

IMPAIRMENT OF GOODWILL

The Company accounts for its goodwill in accordance with Statement of Financial Accounting Standards ("SFAS") 142, which requires the Company to test goodwill for impairment annually and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. SFAS 142 requires the Company to determine the fair value of its reporting units. Because quoted market prices do not exist for the Company's reporting units, the Company uses the present value of expected future cash flows to estimate fair value. Management must make significant estimates and assumptions about future conditions to estimate future cash flows. If these estimates or their related assumptions change in the future, including general economic and competitive conditions, the Company may be required to record impairment charges related to these assets.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company accounts for its long-lived assets in accordance with SFAS 144, which requires the Company to assess the recoverability of these assets when events or changes in circumstances indicate that the carrying amount of the long-lived asset (group) might not be recoverable. If impairment indicators exist, the Company determines whether the projected undiscounted cash flows will be sufficient to cover the carrying value of such assets. This requires the Company to make significant judgments about the expected future cash flows of the asset group. The future cash flows are dependent on many factors including general and economic conditions and are subject to change. A change in these assumptions could result in material charges to income.

RECOVERABILITY OF DEFERRED TAX ASSETS

The Company has generated deferred tax assets and liabilities due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the income tax bases of such assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets to the amount expected to be realized. In assessing the adequacy of the valuation allowances, the Company considers the scheduled reversal of deferred tax liabilities, future taxable income and prudent and feasible tax planning strategies. At December 31, 2005, the Company had valuation allowances of $75.6 million to fully offset deferred tax assets of $75.6 million. The valuation allowance was based on the uncertainty of the realizability of certain deferred tax assets. In the event the Company determines it is more likely than not it will be able to use a deferred tax asset in the future in excess of its net carrying value,

the valuation allowance would be reduced, thereby increasing net income, reducing goodwill or increasing equity in the period such determination was made.

ACCRUAL OF MEDICAL MALPRACTICE CLAIMS

The nature of the Company's business is such that it is subject to medical malpractice lawsuits. To mitigate a portion of this risk, the Company maintains insurance in the United States for individual malpractice claims with a deductible of $250,000 per claim and a total annual aggregate deductible of $15 million. Management and the Company's insurance carrier review malpractice lawsuits for purposes of establishing ultimate loss estimates. The Company has recorded reserves to cover the estimated costs of the deductible for both reported and unreported medical malpractice claims incurred. The estimates are based on the average monthly claims expense and the estimated average time lag between the performance of a procedure and notification of a claim. If the number of claims or the cost of settled claims is higher than the Company's historical experience or if the actual time lag varies from the estimated time lag, the Company may need to record significant additional expense.

RISK FACTORS

See "Item 1A - Risk Factors."

YEAR ENDED DECEMBER 31, 2005 COMPARED TO THE YEAR ENDED DECEMBER 31, 2004

Total revenues for the year ended December 31, 2005 were $260.0 million, an increase of $12.8 million or 5% over revenues of $247.2 million for the year ended December 31, 2004. Approximately 72% of total revenues for the year ended December 31, 2005 were derived from refractive services compared to 74% during the year ended December 31, 2004.

Revenues from the refractive segment for the year ended December 31, 2005 were $186.6 million, an increase of $4.2 million or 2% over revenues of $182.4 million for the year ended December 31, 2004. The increase in refractive revenues was due largely to higher average pricing and procedures from centers that were acquired during 2005 partially offset by lower procedure volume. Refractive procedures for the year ended December 31, 2005 were approximately 190,900, a decrease of 5,500 or 3% from refractive procedures of 196,400 for the year ended December 31, 2004. Procedures for Laser Eye Care of California ("LECC"), a 30% owned subsidiary, were included in both periods, and account for 18,100 procedures for the year ended December 31, 2005, an increase of 1,400 procedures over the year ended December 31, 2004.

Revenues from centers for the year ended December 31, 2005 were $150.2 million, an increase of $8.4 million or 6% over revenues of $141.8 million for the year ended December 31, 2004. The increase in centers revenues was due to a 3,300 or 3% increase in centers procedures and higher average pricing.

Revenues from access services for the year ended December 31, 2005 were $36.5 million, a decrease of $4.2 million or 10% from revenues of $40.7 million for the year ended December 31, 2004. The decrease in access revenues was primarily due to a 8,800 or 11% decrease in access procedures partially offset by higher average pricing.

Revenues from other healthcare services for the year ended December 31, 2005 were $73.4 million, an increase of $8.6 million or 13% over revenues of $64.8 million for the year ended December 31, 2004. The increase in other healthcare services revenue primarily resulted from internal growth of existing businesses and contributions from ASC and mobile cataract businesses acquired within the past year. Approximately 28% of the total revenues for the year ended December 31, 2005 were derived from other healthcare services compared to 26% during the year ended December 31, 2004.

The cost of refractive revenues for the year ended December 31, 2005 was $133.5 million, an increase of $3.2 million or 2% over the cost of refractive revenues of $130.3 million for the year ended December 31, 2004. This increase was primarily attributable to a higher percentage of refractive procedures coming from centers, which have a higher per procedure cost than access procedures. The increase is also due to higher costs associated with higher priced procedures, primarily Custom LASIK and Intralase partially offset by a decrease in total refractive procedures. Gross margins for the refractive business as a whole remained consistent at 29% for the years ended December 31, 2005 and 2004.

The cost of revenues from centers for the year ended December 31, 2005 was $106.5 million, an increase of $5.1 million or 5% over the cost of revenues of $101.4 million for the year ended December 31, 2004. This increase primarily resulted from higher procedure volume and higher costs associated with higher priced procedures. Gross margins from centers were 29% for the year ended December 31, 2005, increasing less than 1% from gross margins for the year ended December 31, 2004.

The cost of revenues from access services for the year ended December 31, 2005 was $27.0 million, a decrease of $1.9 million or 7% over the cost of revenues of $28.9 million for the year ended December 31, 2004. This decrease primarily resulted from lower procedure volume partially offset by higher costs associated with higher priced procedures. Gross margins from access services decreased to 26% for the year ended December 31, 2005 from 29% during the year ended December 31, 2004. This margin percentage decrease was primarily due to lower procedure volumes and lower margins associated with higher priced procedures.

The cost of revenues from other healthcare services for the year ended December 31, 2005 was $47.3 million, an increase of $6.9 million or 17% over the cost of revenues of $40.4 million for the year ended December 31, 2004. The increase in cost of revenues was primarily related to incremental costs incurred to generate the increased revenue of the other healthcare service business and included an increase of $2.0 million related to a provision for OccuLogix's inventory. Gross margins decreased to 36% from 38% due principally to the $2.0 million provision for OccuLogix's inventory.

General and administrative expenses increased to $36.5 million for the year ended December 31, 2005 from $26.9 million for the year ended December 31, 2004. The $9.6 million or 36% increase included an $8.0 million increase as a result of consolidating the results of operations of OccuLogix for 2005 (began consolidating in December 2004). The remaining $1.6 million increase was primarily due to increased costs associated with acquisitions made during the year.

Marketing and sales expenses increased to $21.7 million for the year ended December 31, 2005 from $18.7 million for the year ended December 31, 2004. The $3.0 million or 16% increase included a $0.5 million increase as a result of consolidating the results of operations of OccuLogix for 2005 (began consolidating in December 2004). The remaining $2.5 million increase was primarily due to higher corporate marketing spending and increased costs associated with acquisitions made during the year.

Research and development, clinical and regulatory expenses increased to $5.3 million for the year ended December 31, 2005 from $1.8 million for the year ended December 31, 2004. The $3.5 million increase was due to increased costs incurred by OccuLogix related to its efforts to complete the MIRA-1 clinical trial.

Amortization expenses decreased to $4.0 million for the year ended December 31, 2005 from $4.1 million for the year ended December 31, 2004. This decrease was due to lower expenses from certain fully amortized intangible assets partially offset by increases from intangibles acquired during the year ended December 31, 2005.

Other operating expenses, net decreased to $0.8 million for the year ended December 31, 2005 from $0.9 million for the year ended December 31, 2004. For the year ended December 31, 2005, other operating expenses, net primarily included $1.0 million of center closing costs and $0.9 million of net write-downs of the fair values of intangibles and long-term liabilities partially offset by $0.4 million of miscellaneous income, a $0.3 million gain on the sale of a subsidiary and a $0.3 million reimbursement received under a previous research and development arrangement. For the year ended December 31, 2004, other operating expenses, net primarily included $2.6 million of severance accruals for two officers under terms of employment contracts and $0.8 million of losses on sales and disposals of fixed assets partially offset by a $1.2 million adjustment to the fair value of a long-term receivable and a $1.1 million gain on the sale of LECC.

During the year ended December 31, 2004, the Company recorded a $25.8 million gain on the sale of 2.3 million shares of OccuLogix's common stock. There was no such sale of OccuLogix's common stock during the year ended December 31, 2005.

Interest income increased to $4.3 million for the year ended December 31, 2005 from $2.0 million for the year ended December 31, 2004. This $2.3 million increase included a $1.5 million increase as a result of consolidating the operations of OccuLogix for 2005 (began consolidating in December 2004). The remaining $0.8 million increase was due to an increase in the Company's cash and cash equivalents and short-term investments balances as well as higher rates of return.

Interest expense decreased to $1.7 million for the year ended December 31, 2005 from $2.6 million for the year ended December 31, 2004. This $0.9 million decrease was due to declining debt and capital lease obligations.

Minority interest expense decreased to $1.3 million for the year ended December 31, 2005 from $7.0 million for the year ended December 31, 2004. This $5.7 million decrease included a $6.6 million decrease due to consolidating the results of operations of OccuLogix for 2005 (began consolidating in December 2004) partially offset by a $0.9 million increase from the Company's other business segments.

Earnings from equity investments increased to $2.5 million for the year ended December 31, 2005 from $2.1 million for the year ended December 31, 2004. This $0.4 million increase was primarily due to a $0.7 million increase in earnings from an ASC that was acquired in December 2004.

Income tax expense increased to $6.7 million for the year ended December 31, 2005 from $1.8 million for the year ended December 31, 2004. This $4.9 million increase was primarily a result of the nature of the Company's net operating loss carryforwards that were utilized in 2005 compared to those utilized in 2004. During 2005, the Company principally reversed deferred tax valuation allowances to goodwill and equity compared to income tax benefit in 2004. The income tax expense increase of $4.9 million is primarily a non-cash increase.

Net income for the year ended December 31, 2005 was $8.1 million or $0.11 per share compared to net income of $42.5 million or $0.60 per share for the year ended December 31, 2004. This $34.4 million decrease reflected a $31.0 million decrease from the AMD segment, which included a gain of $25.8 million in 2004. Excluding the impact of the AMD segment, net income decreased to $16.0 million or $0.22 per share for the year ended December 31, 2005 from $19.3 million or $0.27 per share for the year ended December 31, 2004. As previously noted, net income for 2005 included a primarily non-cash increase in income tax expense of $4.9 million or $0.07 per share.

YEAR ENDED DECEMBER 31, 2004 COMPARED TO THE YEAR ENDED DECEMBER 31, 2003

As a result of adopting Financial Accounting Standards Board Interpretation 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46), the Company began consolidating the physician practices that are managed but not owned by the Company on January 1, 2004. The consolidation resulted in the Company recording an additional $16.2 million in center revenue and $16.0 million in center cost of revenue during 2004 as the revenue earned and expenses paid (primarily doctors' compensation) by the physician practices are now included in the Company's results. The consolidation had no impact on net income.

Prior to the adoption, doctors' compensation and related revenue were not reflected in the Company's statement of operations for the managed centers, but were reflected in the Company's statement of operations for the owned centers. The Company previously presented the revenues and cost of revenues of managed centers and owned centers separately in the statements of operations due to different profit margins. Beginning with the first quarter of 2004, the Company presents all centers, managed and owned, together because both types of centers now include doctors' compensation and the related revenue.

The increase in center revenue attributed to the adoption of FIN 46 was partially offset by the deconsolidation of LECC in connection with the sale of a portion of the Company's interest in LECC. The results of operations for 2003 included $14.8 million in center revenues related to LECC whereas the results of operations for 2004 include no center revenue for LECC because LECC was accounted for using the equity method of accounting beginning January 1, 2004.

Total revenues for the year ended December 31, 2004 were $247.2 million, an increase of $46.3 million, or 23% over revenues of $200.9 million for the year ended December 31, 2003. Approximately 74% of total revenues for the year ended December 31, 2004 were derived from refractive services compared to 75% during the year ended December 31, 2003.

Revenues from the refractive segment for the year ended December 31, 2004 were $182.4 million, an increase of $31.0 million or 20% over revenues of $151.4 million for the year ended December 31, 2003. The increase in refractive revenues was due largely to an increase in refractive procedures. Refractive procedures for the year ended December 31, 2004 were approximately 196,400, an increase of 20,300 or 12% over refractive procedures of 176,100 for the year ended December 31, 2003. Procedures for LECC were included in both periods, and account for 16,700 procedures for the year ended December 31, 2004, an increase of 3,900 procedures over the year ended December 31, 2003. Refractive revenues also increased as a result of a higher mix of procedures performed at the Company's centers and higher average pricing.

Revenues from centers for the year ended December 31, 2004 were $141.8 million, an increase of $26.5 million or 23% over revenues of $115.3 million for the year ended December 31, 2003. The increase in centers revenues was partially due to a 15,300 or 15% increase in centers procedures. Centers revenues also increased as a result of higher average pricing and additional revenue as a result of adopting FIN 46 partially offset by decreased revenue from deconsolidating LECC.

Revenues from access services for the year ended December 31, 2004 were $40.7 million, an increase of $4.6 million or 13% over revenues of $36.1 million for the year ended December 31, 2003. The increase in access revenues was primarily due to a 5,100 or 7% increase in access procedures and an increase in procedure mix to the higher priced transportable business.

Revenues from other healthcare services for the year ended December 31, 2004 were $64.8 million, an increase of $15.3 million, or 31% over revenues of $49.5 million for the year ended December 31, 2003. The increase in other healthcare services revenue primarily resulted from internal growth of existing businesses and contributions from ASC businesses acquired within the past year. Approximately 27% of the total revenues for the year ended December 31, 2004 were derived from other healthcare services

compared to 25% during the year ended December 31, 2003.

The cost of refractive revenues for the year ended December 31, 2004 was $130.3 million, an increase of $13.6 million, or 12%, over the cost of refractive revenues of $116.7 million for the year ended December 31, 2003. This increase was primarily attributable to increased procedure volume and higher costs associated with Custom LASIK. Primarily as a result of higher procedure volumes at centers, gross margins for the refractive business as a whole increased to 29% for the year ended December 31, 2004 from 23% for the year ended December 31, 2003.

The cost of revenues from centers for the year ended December 31, 2004 was $101.4 million, an increase of $10.1 million or 11% over the cost of revenues of $91.3 million for the year ended December 31, 2003. This increase primarily resulted from $5.5 million of additional costs related to increased procedure volume and higher costs associated with Custom LASIK, and $16.0 million of costs resulting from the Company's adoption of FIN 46 effective January 1, 2004. These increases were partially offset by $11.4 million in cost of revenues for LECC during the year ended December 31, 2003 (as compared to none during the year ended December 31, 2004).

Gross margins from centers increased to 28% for the year ended December 31, 2004 from 21% during the year ended December 31, 2003 as higher procedure volumes led to strong incremental variable margin gains. This margin percentage increase was diluted by the consolidation of the physician practices managed by the Company due to the adoption of FIN 46. For comparison purposes, had the Company consolidated the physician practices during 2003, the gross margin percentage would have been 18% for the year ended December 31, 2003.

The cost of revenues from access services for the year ended December 31, 2004 was $28.9 million, up $3.5 million or 14% over the cost of revenues of $25.4 million for the year ended December 31, 2003. This increase primarily resulted from higher procedure volume and higher costs associated with Custom LASIK. Gross margins from access services decreased to 29% for the year ended December 31, 2004 from 30% during the year ended December 31, 2003. This margin percentage decrease was primarily due to pricing pressure from competitors and higher costs associated with Custom LASIK.

The cost of revenues from other healthcare services for the year ended December 31, 2004 was $40.4 million, an increase of $8.6 million or 27% over the cost of revenues of $31.8 million for the year ended December 31, 2003. The increase in cost of revenues was primarily related to incremental costs incurred to generate the increased revenue of the other healthcare service business. Gross margins increased to 38% from 36% due principally to volume growth.

General and administrative expenses decreased to $26.9 million for the year ended December 31, 2004 from $27.0 million for the year ended December 31, 2003. The $0.1 million decrease reflected the Company's success in increasing revenue while controlling general and administrative expenses.

Marketing and sales expenses decreased to $18.7 million for the year ended December 31, 2004 from $18.8 million for the year ended December 31, 2003. The $0.1 million decrease reflected the Company's success in increasing revenue while controlling marketing expenses.

Research and development, clinical and regulatory expenses increased to $1.8 million for the year ended December 31, 2004 from $1.6 million for the year ended December 31, 2003. Prior to consolidation of OccuLogix, the Company incurred research and development expenses in 2004 and 2003 of $1.2 million and $1.6 million, respectively, relating to investments made to fund research and development efforts by OccuLogix to achieve FDA approval for medical treatments related to dry age-related macular degeneration. Since the technology is in the development stage and has not received FDA approval, the Company accounted for this investment as a research and development arrangement whereby investments were expensed as amounts were expended by OccuLogix. For the year ended December 31, 2004, the total expense of $1.8 million also included $0.6 million of costs incurred by OccuLogix (after consolidation began in December, 2004) related to its efforts to achieve FDA approval for medical treatments related to dry age-related macular degeneration.

Amortization expenses decreased to $4.1 million for the year ended December 31, 2004 from $6.7 million for the year ended December 31, 2003. This decrease was largely due to the reduction in intangible assets (Practice Management Agreements) resulting from the deconsolidation of LECC.

Other operating expenses, net decreased to $0.9 million for the year ended December 31, 2004 from $1.2 million for the year ended December 31, 2003. For the year ended December 31, 2004, other operating expenses, net primarily included $2.6 million of severance accruals for two officers under terms of employment contracts and $0.8 million of losses on sales and disposals of fixed assets partially offset by a $1.2 million adjustment to the fair value of a long-term receivable and a $1.1 million gain on the sale of

LECC. For the year ended December 31, 2003, other operating expenses, net primarily included $2.0 million of center closing costs partially offset by $0.5 million of gains on sales of fixed assets and a $0.2 million adjustment to the fair value of a long-term receivable.

During the year ended December 31, 2004, the Company recorded a $25.8 million gain on the sale of 2.3 million shares of OccuLogix's common stock.

Interest income increased to $2.0 million for the year ended December 31, 2004 from $1.4 million for the year ended December 31, 2003. This $0.6 million increase was due to an increase in the Company's cash and cash equivalents and short-term investments balances as well as higher rates of return.

Interest expense decreased to $2.6 million for the year ended December 31, 2004 from $2.7 million for the year ended December 31, 2003. This $0.1 million decrease was due to declining debt and capital lease obligations.

Minority interest expense increased to $7.0 million for the year ended December 31, 2004 from $4.7 million for the year ended December 31, 2003. This $2.3 million increase was a result of higher profits reported by the Company's subsidiaries in which the Company has a shared interest with minority partners.

Earnings from equity investments of $2.1 million for the year ended December 31, 2004 resulted primarily from $1.3 million of earnings related to the Company's minority ownership investment in LECC and $0.7 million of earnings related to the Company's minority ownership investments in two separate secondary care service providers.

Income tax expense increased to $1.8 million for the year ended December 31, 2004 from $0.5 million for the year ended December 31, 2003. This $1.3 million increase was primarily a result of an increase in earnings during 2004 and the nature of the Company's net operating loss carryforwards that were utilized in 2004. During 2004, the Company utilized net operating loss carryforwards of $1.2 million that had originated from acquired entities. The utilization of these net operating loss carryforwards reduces goodwill as opposed to income tax expense. The remaining 2004 income tax expense of $0.6 million and the 2003 income tax expense of $0.5 million primarily consisted of state taxes for certain states where the Company expects to pay income taxes.

Net income for the year ended December 31, 2004 was $42.5 million, or $0.60 per share, compared to a net loss of $9.4 million, or $0.15 per share, for the year ended December 31, 2003. The significant improvement in net income primarily resulted from significant growth in both the refractive and other healthcare services businesses and a gain on the sale of OccuLogix's common stock. Excluding the impact of the AMD segment, net income increased to $19.3 million or $0.27 per share for the year ended December 31, 2004 from a net loss of $7.3 million or $0.11 per share for the year ended December 31, 2003.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2005, the Company continued to focus its activities primarily on increasing refractive, center and other healthcare revenues and volumes through internal growth and acquisitions, controlling operating costs and developing the infrastructure of OccuLogix. Cash and cash equivalents, short-term investments and restricted cash were $70.9 million at December 31, 2005 compared to $145.4 million at December 31, 2004. Working capital at December 31, 2005 decreased to $66.9 million from $131.2 million at December 31, 2004. Decreases in cash and working capital reflect the Company's cash investments in several acquisitions and the commercialization of OccuLogix's RHEO™ System during 2005.

The Company's principal cash requirements have included normal operating expenses, debt repayment, distributions to minority partners, capital expenditures, share repurchases, acquisitions and investments, expenditures to fund the development of OccuLogix's infrastructure, to complete clinical trials, to accumulate inventory and to undertake other activities to commercialize the RHEO™ System. Normal operating expenses include doctors' compensation, procedure royalty fees, procedure medical supply expenses, travel and entertainment, professional fees, insurance, rent, equipment maintenance, wages, utilities and marketing.

During the year ended December 31, 2005, the Company invested $8.3 million in fixed assets and received vendor financing for $5.7 million of fixed assets, primarily upgrades for excimer lasers and new equipment related to the growth of the mobile cataract business.

As new technologies emerge in the refractive market, the Company may need to upgrade its equipment, including excimer lasers and flap-making technology. The Company has access to vendor financing at fixed interest rates or on a per procedure fee basis and expects to continue to have access to these financing options for at least the next 12 months.

As of December 31, 2005, the Company had contractual obligations relating to long-term debt, capital lease obligations, operating leases for rental of office space and equipment, marketing contracts, royalty obligations and the purchase of additional ownership interest in an ASC requiring future minimum payments aggregating to $60.7 million. Future minimum payments are as follows:

	PAYMENTS DUE BY PERIOD			
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1 TO 3 YEARS	MORE THAN 3 YEARS
Long-term debt	$17,933	$ 5,268	$6,013	$ 6,652
Capital lease obligations	7,952	3,697	3,632	623
Operating leases	26,973	7,289	10,229	9,455
Marketing contracts	6,000	2,000	4,000	--
Royalty obligations	1,150	100	300	750
Purchase of additional ownership interest	675	675	--	--
Total	$60,683	$ 19,029	$24,174	$17,480

On July 11, 2005, the Company acquired substantially all the assets of Kremer. Kremer operates three refractive centers and one ambulatory surgery center all of which are located in the northeastern part of the United States. For over 20 years, Kremer has been an integrated eye care company providing refractive, cataract and glaucoma surgery services. The acquisition of Kremer expands the Company's presence in both the refractive and ASC businesses in one of the largest populated markets in the United States. The purchase price for the acquired assets was $29.7 million. In addition, the Company assumed certain liabilities and incurred transaction costs of $1.1 million. Simultaneously with this transaction, the Company sold an 18% interest in Kremer to a group of doctors associated with Kremer for $5.3 million. As a result, the Company maintains an 82% ownership interest in Kremer.

On December 1, 2005, the Company acquired a 49% interest in Liberty for $6.2 million in cash. Liberty is an ambulatory surgery center located in Philadelphia, Pennsylvania that primarily provides cataract surgery services.

On November 8, 2005, the Company acquired TruVision for $17.4 million in cash and 3,913 shares of company common stock valued at approximately $24,000 coupled with a three-year earn out. TruVision is a managed care contractor to health plan members and large corporations across 44 states. TruVision's services enable insurance health plans and large corporations to offer LASIK vision surgery to their members at a reduced price.

On July 1, 2005, the Company acquired a 100% interest in Millennium for $6.1 million in cash plus the assumption of certain liabilities. Millennium provides refractive services in Washington, D.C.

On March 1, 2005, the Company sold its interest in Aspen to National Surgical Centers, Inc. and recorded a gain of $0.3 million, which is included in other operating expenses.

During 2005, the Company received $1.9 million in proceeds from the exercise of non-qualified stock options to purchase 0.7 million common shares.

In November 2003, the Company obtained a $15 million line of credit from GE Healthcare Financial Services. This loan is secured by certain accounts receivable and cash accounts in wholly-owned subsidiaries and a general lien on most other U.S. assets. As of December 31, 2005, the Company did not have any borrowings drawn under the line of credit and had an available unused line of $15 million.

The Company estimates that existing cash balances and short-term investments, together with funds expected to be generated from operations and credit facilities, will be sufficient to fund the Company's anticipated level of operations and expansion plans for the next 12 to 18 months.

CASH FROM OPERATING ACTIVITIES

Net cash provided by operating activities was $22.5 million for the year ended December 31, 2005. The cash flows provided by operating activities during the year ended December 31, 2005 were primarily due to net income of $8.1 million plus non-cash items including depreciation and amortization of $16.4 million, deferred taxes of $5.1 million, minority interest expense of $1.3 million and compensation expense of $1.4 million. These cash flows were offset by an increase in net operating assets of $7.6 million and earnings

from equity investments of $2.5 million. The increase in net operating assets consisted of a $3.0 million increase in accounts receivable due primarily to higher revenues, a $1.9 million increase in prepaid expenses, inventory and other current assets due primarily to increases in inventory at OccuLogix and a $2.8 million decrease in accounts payable and accrued liabilities. Excluding the impact of the AMD segment, net cash provided by operating activities would have been $41.6 million for the year ended December 31, 2005.

CASH FROM INVESTING ACTIVITIES

Net cash provided by investing activities was $5.3 million for the year ended December 31, 2005. Cash provided by investing activities during the year ended December 31, 2005 included $129.8 million in proceeds from short-term investments, $3.0 million in cash distributions received from equity investments, $3.4 million in net cash associated with the sale of a subsidiary, $1.8 million from the sale of fixed assets and $0.3 million from reimbursements of investments in research and development arrangements. These cash flows were offset by $57.1 million of purchases of short-term investments, $67.6 million for acquisitions and equity investments and $8.3 million for the acquisition of fixed assets. Excluding the impact of the AMD segment, net cash from investing activities would have decreased by $10.7 million to a net cash used in investing activities of $5.4 million. During the next 12 months, the Company plans to continue to invest in other business acquisitions and capital expenditures deemed advisable to further its business objectives.

CASH FROM FINANCING ACTIVITIES

Net cash used in financing activities was $29.6 million for the year ended December 31, 2005. Net cash used in financing activities during the year ended December 31, 2005 was primarily due to $15.9 million for purchases of treasury stock, $9.5 million for the repayment of certain notes payable and capitalized lease obligations and $8.4 million distributed to minority interests resulting from profits at certain of the Company's business units. These cash outflows were offset by $2.0 million in proceeds from the exercise of stock options and purchases of stock through the employee stock purchase plan and $2.0 million in proceeds from debt financing. Excluding the impact of the AMD segment, net cash used in financing activities would have been $29.9 million for the year ended December 31, 2005. The Company anticipates that the availability to draw upon the unused portion of the Company's $15 million line of credit, if necessary, will be sufficient to fund additional financing needs in 2006.

NEW ACCOUNTING PRONOUNCEMENTS

For a discussion on recent pronouncements, see Note 2, "Summary of Significant Accounting Policies," in the accompanying audited consolidated financial statements and notes thereto set forth in Item 8 of this Report.

RECENT DEVELOPMENTS

On February 3, 2006, OccuLogix announced that it had completed a preliminary analysis of the data from MIRA-1, its recently completed pivotal (phase III) clinical trial using its RHEO™ System. The data indicated that MIRA-1 did not demonstrate a statistically significant mean change of Best Spectacle-Corrected Visual Acuity. As a result of this announcement, the share price of OccuLogix stock as traded on the NASDAQ National Market System decreased from $12.75 on February 2, 2006 to close at $4.10 on February 3, 2006. The 10-day average price of the stock immediately following the announcement was $3.65 and reflected a decrease in the market capitalization of OccuLogix from $536.6 million on February 2, 2006 to $153.6 million based on the 10-day share price average subsequent to the announcement. The resulting decrease in the share price was identified as an indicator of impairment leading to an analysis of OccuLogix's intangible assets and goodwill and resulting in OccuLogix reporting an impairment charge to goodwill of $147.5 million. Because TLC*Vision* accounted for the OccuLogix reorganization at historical cost, it eliminates OccuLogix's goodwill balance in consolidation (see Note 1).

OccuLogix believes that the announcement made it unlikely that it would be able to collect on amounts outstanding from its sole customer, Veris, resulting in a provision for bad debts of $0.5 million related to revenue reported prior to December 2005. OccuLogix did not recognize $0.5 million of revenue related to goods shipped in December 2005, based on collectibility not being reasonably assured. OccuLogix also fully expensed the $0.2 million advance that it had paid to Veris in connection with clinical trial services to be provided by Veris for one of OccuLogix's clinical trials. OccuLogix also evaluated its ending inventory balance as of December 31, 2005 on the basis that Veris may not be able to increase its commercial activities in Canada in line with initial expectations. Accordingly, OccuLogix set up a provision for obsolescence of $2.0 million for filter sets that will unlikely be utilized prior to their expiration dates. As a result of the above entries, TLC*Vision*'s reported pre-tax earnings for the quarter and year ended December 31, 2005 were reduced by $1.6 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of TLC Vision Corporation have been prepared by management in conformity with accounting principles generally accepted in the United States. The significant accounting policies have been set out in Note 2 to the financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared within reasonable limits of materiality under United States generally accepted accounting principles.

During the year ended December 31, 2005, the Board of Directors had an Audit Committee consisting of four non-management directors. The committee met with management and the auditors to review any significant accounting, internal control and auditing matters and to review and finalize the annual financial statements of the Company along with the report of independent registered public accounting firm prior to the submission of the financial statements to the Board of Directors for final approval.

The financial information throughout the text of this Annual Report is consistent with the information presented in the financial statements.

The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of TLC Vision Corporation

We have audited the accompanying consolidated balance sheets of TLC Vision Corporation as of December 31, 2005 and 2004, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the index at Item 15a. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TLC Vision Corporation at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2004, the Company adopted the provisions of FASB Interpretation No. 46.

As discussed in Notes 3 and 16 to the consolidated financial statements, the 2005 and 2004 consolidated financial statements have been restated to correct the accounting for income taxes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of TLC Vision Corporation's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2006, expressed an unqualified opinion thereon.

St. Louis, Missouri
March 10, 2006, except for Notes 3 and 16,
as to which the date is August 22, 2006

/s/ ERNST & YOUNG LLP

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share amounts)

	YEAR ENDED DECEMBER 31,		
	2005 AS RESTATED	2004 AS RESTATED	2003
Revenues:			
Refractive:			
Centers	$ 150,168	$ 141,782	$ 115,290
Access	36,453	40,659	36,140
Other healthcare services	73,404	64,806	49,488
Total revenues	260,025	247,247	200,918
Cost of revenues:			
Refractive:			
Centers	106,476	101,440	91,283
Access	26,974	28,863	25,424
Other healthcare services	47,275	40,435	31,836
Total cost of revenues	180,725	170,738	148,543
Gross profit	79,300	76,509	52,375
General and administrative	36,497	26,866	27,001
Marketing and sales	21,714	18,705	18,781
Research and development, clinical and regulatory	5,250	1,825	1,598
Amortization of intangibles	4,039	4,098	6,685
Other expenses, net	769	940	1,165
	68,269	52,434	55,230
Operating income (loss)	11,031	24,075	(2,855)
Gain on sale of OccuLogix, Inc. stock	--	25,792	--
Interest income	4,280	1,954	1,380
Interest expense	(1,737)	(2,617)	(2,744)
Minority interests	(1,343)	(6,953)	(4,672)
Earnings from equity investments	2,545	2,057	--
Income (loss) before income taxes	14,776	44,308	(8,891)
Income tax expense	(6,657)	(1,834)	(508)
Net income (loss)	$ 8,119	$ 42,474	$ (9,399)
Earnings (loss) per share - basic	$ 0.12	$ 0.62	$ (0.15)
Earnings (loss) per share - diluted	$ 0.11	$ 0.60	$ (0.15)
Weighted-average number of common shares outstanding - basic	69,721	68,490	64,413
Weighted-average number of common shares outstanding - diluted	71,380	71,088	64,413

See notes to consolidated financial statements.

TLC VISION CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	DECEMBER 31, 2005	2004 AS RESTATED
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,729	$ 33,435
Short-term investments	38,213	111,015
Accounts receivable	20,583	17,443
Prepaid expenses, inventory and other	17,123	13,821
Total current assets	107,648	175,714
Restricted cash	975	932
Investments and other assets	19,838	10,482
Goodwill	99,402	52,540
Other intangible assets	24,021	18,140
Fixed assets	49,159	46,199
Total assets	$ 301,043	$ 304,007
LIABILITIES		
Current liabilities:		
Accounts payable	$ 11,031	$ 8,716
Accrued liabilities	24,453	27,139
Current maturities of long-term debt	5,268	8,664
Total current liabilities	40,752	44,519
Other long-term liabilities	3,427	2,722
Long-term debt, less current maturities	12,665	9,991
Minority interests	35,794	37,222
Total liabilities	92,638	94,454
STOCKHOLDERS' EQUITY		
Common stock, no par value; unlimited number authorized	450,703	458,959
Option and warrant equity	1,861	2,872
Accumulated deficit	(244,159)	(252,278)
Total stockholders' equity	208,405	209,553
Total liabilities and stockholders' equity	$ 301,043	$ 304,007

See notes to consolidated financial statements.

Approved on behalf of the Board:

/s/ JAMES C. WACHTMAN
James C. Wachtman, Director

/s/ WARREN S. RUSTAND
Warren S. Rustand, Director

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	YEAR ENDED DECEMBER 31,		
	2005 AS RESTATED	2004 AS RESTATED	2003
OPERATING ACTIVITIES			
Net income (loss)	$ 8,119	$ 42,474	$ (9,399)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	16,353	17,681	22,593
Write-offs (reimbursements) of investments in research and development arrangements	(300)	849	1,598
Deferred taxes	5,067	1,234	--
Minority interests	1,343	6,953	4,672
Gain on sale of OccuLogix, Inc. stock	--	(25,792)	--
Gain on sales of subsidiaries	(319)	(1,143)	--
Earnings from equity investments	(2,545)	(2,057)	--
Loss (gain) on sales and disposals of fixed assets	(92)	839	(484)
Non-cash compensation expense	1,438	484	125
Adjustments to the fair values of intangibles, long-term receivables and long-term liabilities	888	(1,206)	(206)
Other	182	--	677
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable	(2,956)	(1,449)	(489)
Prepaid expenses, inventory and other current assets	(1,891)	(1,801)	(964)
Accounts payable and accrued liabilities	(2,761)	(1,706)	(13,831)
Cash from operating activities	22,526	35,360	4,292
INVESTING ACTIVITIES			
Purchases of fixed assets	(8,321)	(5,191)	(4,433)
Proceeds from sales of fixed assets	1,779	1,565	578
Proceeds from divestitures of investments and subsidiaries, net	3,430	729	221
Proceeds from sale of OccuLogix, Inc. stock, net	--	25,792	--
Distributions and loan payments received from equity investments	3,039	2,518	--
Reimbursements from (investments in) research and development arrangements	300	(849)	(1,598)
Acquisitions and equity investments	(67,573)	(10,067)	(8,015)
Proceeds from sales of short-term investments	129,750	8,353	15,709
Purchases of short-term investments	(57,095)	(111,055)	(21,050)
Other	13	60	(229)
Cash from investing activities	5,322	(88,145)	(18,817)
FINANCING ACTIVITIES			
Restricted cash movement	(43)	444	2,599
Proceeds from debt financing	1,992	--	3,450
Principal payments of debt financing and capital leases	(9,504)	(13,669)	(8,018)
Distributions to minority interests	(8,440)	(7,216)	(4,901)
Purchases of treasury stock	(15,868)	--	--
Proceeds from issuances of OccuLogix, Inc. stock, net and cash acquired upon consolidation	329	59,850	--
Proceeds from issuances of common stock	1,980	25,231	8,744
Cash from financing activities	(29,554)	64,640	1,874
Net increase (decrease) in cash and cash equivalents during the period	(1,706)	11,855	(12,651)
Cash and cash equivalents, beginning of period	33,435	21,580	34,231
Cash and cash equivalents, end of period	$ 31,729	$ 33,435	$ 21,580

See notes to consolidated financial statements.

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	COMMON STOCK		OPTION AND` WARRANT EQUITY	TREASURY STOCK		ACCUMULATED DEFICIT AS RESTATED	TOTAL AS RESTATED
	SHARES	AMOUNT		SHARES	AMOUNT		
Balance December 31, 2002	64,794	388,769	11,035	(779)	(2,623)	(285,353)	111,828
Shares issued as part of the employee share purchase plan	56	223		196	191		414
Exercise of stock options	2,102	8,330					8,330
Options expired or exercised		2,892	(2,892)				--
Retirement of treasury stock	(583)	(2,432)		583	2,432		--
Shares issued as part of acquisition	100	96					96
Escrow shares returned to the Company	(713)						
Net loss and comprehensive loss						(9,399)	(9,399)
Balance December 31, 2003	65,756	397,878	8,143	--	--	(294,752)	111,269
Shares issued as part of the employee share purchase plan and 401(k) plan	131	532					532
Exercise of stock options	4,199	29,496	(4,797)				24,699
Options expired or forfeited		582	(582)				--
Variable stock option expense			108				108
Value of shares issued upon meeting certain earnings criteria		389					389
Issuance of subsidiary stock		30,082					30,082
Net income						42,474	42,474
Balance December 31, 2004	70,086	$458,959	$ 2,872	--	$ --	$ (252,278)	209,553
Shares issued as part of the employee share purchase plan and 401(k) plan	63	486					486
Exercise of stock options	709	2,935	(1,003)				1,932
Options expired or forfeited		8	(8)				--
Escrow shares returned to the Company	(171)						--
Purchases of treasury stock				(2,000)	(15,868)		(15,868)
Retirement of treasury stock	(2,000)	(15,868)		2,000	15,868		--
Value of shares issued upon meeting certain earnings criteria		181					181
Shares issued as part of acquisition	4	24					24
Reversal of deferred tax asset valuation allowance for excess stock-based compensation tax deductions		3,116					3,116
Stock based compensation		600					600
Changes in OccuLogix, Inc.'s stockholders' equity		262					262
Net income						8,119	8,119
Balance December 31, 2005	68,691	$450,703	$ 1,861	--	$ --	$ (244,159)	$ 208,405

See notes to consolidated financial statements.

TLC VISION CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(tabular amounts in thousands, except per share amounts)

1. NATURE OF OPERATIONS

TLC Vision Corporation and its subsidiaries ("TLC*Vision*" or the "Company") is a diversified healthcare service company focused on working with eye doctors to help them provide high quality patient care primarily in the eye care segment. The majority of the Company's revenues come from refractive surgery, which involves using an excimer laser to treat common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company's business models include arrangements ranging from owning and operating fixed site centers to providing access to lasers through fixed site and mobile service relationships. In addition to refractive surgery, the Company is diversified into other eye care businesses. Through its MSS subsidiary, the Company furnishes hospitals and independent surgeons with mobile or fixed site access to cataract surgery equipment and services. Through its OR Partners and Michigan subsidiaries, TLC*Vision* develops, manages and has equity participation in single-specialty eye care ambulatory surgery centers and multi-specialty ambulatory surgery centers. The Company also owns a 51% majority interest in Vision Source, which provides franchise opportunities to independent optometrists. In 2002, the Company formed a joint venture with OccuLogix, Inc. (formerly Vascular Sciences Corporation) to create OccuLogix, L.P., a partnership focused on the treatment of a specific eye disease known as dry age-related macular degeneration (“AMD”), via rheopheresis, a process for filtering blood.

On December 8, 2004, the Company exchanged its 50% interest in OccuLogix L.P. for a 50% interest in OccuLogix, Inc. In connection therewith, the Company converted its Series B preferred stock and convertible grid debentures into common shares of OccuLogix, Inc. After the exchange and conversion, the Company owned 65.8% of the outstanding common shares of OccuLogix, Inc. (“OccuLogix”). As a result of the exchange, OccuLogix L.P. became a wholly-owned subsidiary of OccuLogix. The Company accounted for the exchange at historical cost. Immediately after the exchange, OccuLogix completed an initial public offering (“IPO”) whereby OccuLogix sold 5.6 million shares of its common stock at $12 per share. Because the IPO price exceeded the per share carrying amount of the Company’s investment in OccuLogix, the Company’s equity ownership in OccuLogix after the IPO exceeded its equity ownership before the IPO by $30.1 million. In accordance with Staff Accounting Bulletin No. 84, the Company accounted for the excess as an equity transaction. In connection with the IPO, TLC*Vision* sold 2.3 million shares of its OccuLogix common stock at $12 per share and recorded a gain of $25.8 million. At December 31, 2005, the Company owns 21.5 million shares or 51% of OccuLogix’s common stock. The Company has included the results of operations of OccuLogix in its consolidated statement of operations since December 8, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid short-term investments with original maturities of 90 days or less.

Short-Term Investments

As of December 31, 2005 and 2004, short-term investments primarily include auction rate securities, which are available to support the Company’s current operations. These investments are classified as available-for-sale securities and are recorded at fair value with unrealized gains or losses reported in other comprehensive income. Due to the short time period between the reset dates of the interest rates, there are no unrealized gains or losses associated with these securities. All of the auction rate securities have contractual maturities of more than five years.

Investments

The Company has certain investments in equity securities. Investments are accounted for using the equity method if the Company has significant influence, but not control, over an investee. All other equity investments, in which the Company does not have the ability to exercise significant influence, are accounted for under the cost method. Under the cost method of accounting, investments that do not have a quoted market price (non marketable equity securities) are carried at cost and are adjusted only for other than

temporary declines in fair value and additional investment activity. For investments in public companies (marketable equity securities), the Company classifies its investments as available-for-sale and, accordingly, records these investments at fair value with unrealized gains and losses included in accumulated other comprehensive loss, unless a decline in fair value is determined to be other than temporary, in which case the unrealized loss is recognized in earnings.

Fixed Assets

Fixed assets are recorded at cost or the present value of future minimum lease payments for assets under capital lease. The costs of additions, improvements and major replacements are capitalized, while maintenance and repairs are expensed as incurred. Depreciation is provided at rates intended to represent the assets productive lives as follows:

Buildings	- straight-line over 40 years
Computer equipment and software	- straight-line over three to four years
Furniture, fixtures and equipment	- 25% declining balance
Laser equipment	- 25% declining balance
Leasehold improvements	- straight-line over the initial term of the lease
Medical equipment	- 25% declining balance
Vehicles and other	- 25% declining balance

The Company's MSS subsidiary records depreciation on its equipment and vehicles (with a net book value of $6.0 million and $5.3 million at December 31, 2005 and 2004, respectively) on a straight-line basis over the estimated useful lives (three to ten years) of the equipment.

Goodwill

The Company tests for impairment at least annually and more frequently if changes in circumstances or events indicate that it is more likely than not that impairment has occurred. The Company’s annual impairment test date is November 30.

Other Intangible Assets

Other intangible assets consist primarily of practice management agreements ("PMAs"), deferred contract rights, and tradenames. PMAs represent the cost of obtaining the exclusive right to manage eye care centers and secondary care centers in affiliation with the related physician group during the term of the respective agreements. Deferred contract rights represent the value of contracts with affiliated doctors to provide basic access and service. Tradenames represent the value associated with the name of an entity that was acquired by the Company. All identifiable intangibles with a finite life are amortized using the straight-line method over the respective estimated useful lives.

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the asset group may not be recoverable.

Medical Malpractice Accruals

To mitigate a portion of the risk associated with medical malpractice lawsuits, the Company maintains insurance for individual malpractice claims with a deductible of $250,000 per claim and a total annual aggregate deductible of $15 million. The Company and its insurance carrier review malpractice lawsuits for purposes of establishing ultimate loss estimates. The Company records reserves to cover the estimated costs of the deductible for both reported and unreported medical malpractice claims incurred. The estimates are based on the average monthly claims expense and the estimated average time lag between the performance of a procedure and notification of a claim. If the number of claims or the cost of settled claims is higher than the Company’s historical experience or if the actual time lag varies from the estimated time lag, the Company may need to record significant additional expense.

Revenue Recognition

The Company recognizes refractive revenues when the procedure is performed. Revenue from centers represents the amount charged to patients for a laser vision correction procedure, net of discounts, contractual adjustments in certain regions and amounts collected as an agent of co-managing doctors. Revenue from access services represents the amount charged to the customer/surgeon for access to equipment and technical support based on use.

Contractual adjustments arise due to the terms of reimbursement and managed care contracts in certain regions. Such adjustments represent the difference between the charges at established rates and estimated recoverable amounts and are recognized as a reduction of revenue in the period services are rendered. Any differences between estimated contractual adjustments and actual final settlements under reimbursement contracts are recognized as contractual adjustments in the period final settlements are determined.

The Company's other healthcare services revenues principally include cataract equipment access and service fees on a per procedure basis, management fees from cataract and secondary care practices and optometric franchising services. Revenues from other healthcare services are recognized as the service is rendered or when the procedure is performed.

Variable Interest Entities

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51” (FIN 46). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying VIEs and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements. In general, a VIE is any legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant individual decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE’s activities, is entitled to receive a majority of the VIE’s residual returns (if no party absorbs a majority of the VIE’s losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE’s assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest.

FIN 46 was effective immediately for VIEs created after January 31, 2003. The provisions of FIN 46, as revised, were adopted as of January 1, 2004, for the Company’s interests in all VIEs. Prior to the adoption of FIN 46, the Company did not consolidate physician practices that were managed but not owned by the Company. These managed physician practices were determined to be variable interest entities for which the Company is the primary beneficiary. As a result, the physician practices have been consolidated as of January 1, 2004. The adoption of FIN 46 resulted in an increase in revenues and cost of revenues for the managed refractive centers, however the adoption had no material impact on total assets, gross profit or operating income and no impact on net income. Prior periods were not restated. The following pro forma amounts reflect the effect of FIN 46 assuming it was applied retroactively:

	YEAR ENDED DECEMBER 31,			
	2005	2004	2003	
	Actual	Actual	Actual	Pro forma
	AS RESTATED	AS RESTATED		
Revenues:				
Refractive:				
Centers	$150,168	$141,782	$115,290	$131,736
Access	36,453	40,659	36,140	36,140
Other healthcare services	73,404	64,806	49,488	49,488
Total revenues	260,025	247,247	200,918	217,364
Cost of revenues:				
Refractive:				
Centers	106,476	101,440	91,283	107,569
Access	26,974	28,863	25,424	25,424
Other healthcare services	47,275	40,435	31,836	31,836
Total cost of revenues	180,725	170,738	148,543	164,829
Gross profit	$ 79,300	$ 76,509	$ 52,375	$ 52,535
General and administrative	$ 36,506	$ 26,866	$ 27,001	$ 27,161
Net income (loss)	$ 8,119	$ 42,474	$ (9,399)	$ (9,399)
Basic earnings (loss) per share	$ 0.12	$ 0.62	$ (0.15)	$ (0.15)
Diluted earnings (loss) per share	$ 0.11	$ 0.60	$ (0.15)	$ (0.15)

As a result of the elimination of the distinction between owned and managed centers upon the adoption of FIN 46, their revenue and costs are no longer identified separately on the Company's consolidated statements of operations.

Cost of Revenues

Included in cost of revenues are the laser fees payable to laser manufacturers for royalties, use and maintenance of the lasers, variable expenses for consumables, financing costs, facility fees as well as center costs associated with personnel and facilities amortization.

Marketing

Marketing costs are expensed as incurred.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recorded based on the difference between the income tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the applicable enacted statutory tax rates. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, the Company records expense over the vesting period in an amount equal to the intrinsic value of the award on the grant date. In 2004, the Company recorded $0.1 million of variable stock option expense for options repriced in 2002. The following table illustrates the pro forma net income (loss) and earnings (loss) per share as if the fair value-based method as set forth under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," applied to all awards:

	YEAR ENDED DECEMBER 31,		
	2005	2004	2003
	AS RESTATED	AS RESTATED	
Net income (loss), as reported	$ 8,119	$ 42,474	$ (9,399)
Add stock-based employee compensation cost included in reported net income (loss)	--	108	--
Add OccuLogix's stock-based employee compensation cost included in reported net income (loss), net of minority interests	29	--	--
Less stock-based employee compensation cost determined under fair value based method for all awards, net of related tax effects	(3,140)	(1,245)	(1,121)
Less OccuLogix's stock-based employee compensation cost determined under fair value based method for all awards, net of minority interests	(3,348)	--	--
Pro forma net income (loss)	$ 1,660	$ 41,337	$ (10,520)
Pro forma earnings (loss) per share - basic	$ 0.02	$ 0.60	$ (0.16)
Pro forma earnings (loss) per share - diluted	$ 0.02	$ 0.58	$ (0.16)

In December 2005, the Company's Board of Directors approved the accelerated vesting of all unvested and "out-of-the-money" stock options with an exercise price per share of $8.75 or higher. In accordance with SFAS No. 123, the Company recognized the remaining balance of unrecognized compensation cost for the effected options at the time of modification in the pro forma disclosures.

For purposes of pro forma disclosures, the estimated fair value of stock-based compensation cost is amortized using the attribution method under FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option Award Plans."

Foreign Currency Exchange

The functional currency of the Company's Canadian operations is the U.S. dollar. The assets and liabilities of the Company's Canadian operations are maintained in Canadian dollars and remeasured into U.S. dollars at exchange rates prevailing at the consolidated balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for nonmonetary items. Revenues and expenses are remeasured into U.S. dollars at average exchange rates prevailing during the year with the exception of depreciation and amortization, which are translated at historical exchange rates. Exchange gains and losses are included in net income (loss).

Earnings (Loss) Per Share

Basic earnings (loss) per share is determined by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if options to issue common stock were exercised. In periods in which the inclusion of such instruments is anti-dilutive, the effect of such securities is not given consideration. Average common shares outstanding during 2003 were reduced by 712,500 common shares to exclude the effect of outstanding common shares in escrow related to a previous acquisition.

Contingent Consideration

When the Company enters into agreements that provide for contingent consideration based on the certain predefined targets being met, an analysis is made to determine whether the contingent consideration represents an additional purchase price obligation or is deemed to be compensation expense. The accounting treatment if the consideration is determined to be an additional purchase price payment is to increase the value assigned to the net assets acquired. Where the contingent consideration is deemed to be compensation, the expense is reflected as an operating expense in the periods that the service is rendered.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting

periods. Actual results could differ from these estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in income in the period in which they become known.

Reclassifications

Certain amounts in 2004 and 2003 have been reclassified to conform with current period classifications including (a) reclassifying $5.3 million and $4.7 million, respectively, of certain labor costs from "General and administrative" to "Marketing and sales" as these costs relate to the marketing and selling efforts of the Company; and (b) reclassifying $5.1 million and $5.2 million, respectively, of surgeon fees from "Centers revenues" to "Centers cost of revenues."

Recent Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("Statement 123(R)"), which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement 123"). Statement 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Under Statement 123(R), pro forma disclosure is no longer permitted.

On April 14, 2005, the Commission announced that the effective date of Statement 123(R) will be suspended until January 1, 2006, for calendar year companies. Statement 123(R) permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of Statement 123(R) for all share-based payments granted after that date, and based on the requirements of Statement 123 for all unvested awards granted prior to the effective date of Statement 123(R). Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with Statement 123.

The Company currently utilizes the Black-Scholes option pricing model to measure the fair value of stock options granted to employees. While Statement 123(R) permits entities to continue to use such a model, the standard also permits the use of a "lattice" model. The Company will utilize the Black-Scholes option pricing model upon the adoption of Statement 123(R).

The Company will adopt Statement 123(R) effective January 1, 2006 and will use the modified prospective method. In addition, the Company expects that the adoption of Statement 123(R) will have a material impact on its results of operations. However, uncertainties, including future stock-based compensation strategy, stock price volatility, estimated forfeitures and employee stock option exercise behavior, make it difficult to determine whether the stock-based compensation expense that the Company will incur in future periods will be similar to the Statement 123 pro forma expense disclosed elsewhere within Note 2. In addition, the amount of stock-based compensation expense to be incurred in future periods will be reduced by the acceleration of certain unvested stock options in fiscal 2005 as disclosed in Note 15.

3. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

During the fourth quarter of 2005, the Company determined that it should have recorded $1.2 million of additional income tax expense for the year ended December 31, 2004 due to the nature of the net operating loss carryforwards that were utilized in that year for financial reporting purposes. The Company originally corrected the error in its 2005 Annual Report on Form 10-K by increasing the income tax expense recorded for the year ended December 31, 2005 by $1.2 million. The Company has subsequently determined that the $1.2 million adjustment is material to the Company's operating results of 2005 and, accordingly, that the adjustment should not have been made in the 2005 financial statements. As such, the Company has restated its previously issued financial statements as of and for the years ended December 31, 2005 and 2004. The impact of the restatement on the previously reported financial statements is as follows:

	YEAR ENDED DECEMBER 31, 2005		YEAR ENDED DECEMBER 31, 2004	
	As previously reported	As restated	As previously reported	As restated
Income tax expense	$ 7,891	$ 6,657	$ 600	$ 1,834
Net income	$ 6,885	$ 8,119	$ 43,708	$ 42,474
Earnings per share - basic	$ 0.10	$ 0.12	$ 0.64	$ 0.62
Earnings per share - diluted	$ 0.10	$ 0.11	$ 0.61	$ 0.60

	DECEMBER 31, 2004	
	As previously reported	As restated
Goodwill	$ 53,774	$ 52,540
Total assets	$ 305,241	$ 304,007
Accumulated deficit	$ (251,044)	$ (252,278)
Total stockholders' equity	$ 210,787	$ 209,553
Total liabilities and stockholders' equity	$ 305,241	$ 304,007

4. ACQUISITIONS

On December 1, 2005, the Company acquired a 49% interest in Liberty Eye Surgical Center, LLC ("Liberty") for $6.2 million in cash. Liberty is an ambulatory surgery center located in Philadelphia, Pennsylvania that primarily provides cataract surgery services.

On November 8, 2005, the Company acquired TruVision for $17.4 million in cash and 3,913 shares of company common stock valued at approximately $24,000, coupled with a three-year earn out. In addition, the Company assumed certain liabilities and incurred transaction costs of $0.2 million. TruVision is a managed care contractor to health plan members and large corporations across 44 states. TruVision's services enable insurance health plans and large corporations to offer LASIK vision surgery to their members at a reduced price. The purchase price allocation is preliminary because the Company is in the process of evaluating a purchase adjustment based on total net assets of TruVision as defined in the agreement. The following reflects the assets and liabilities acquired by the Company in the TruVision acquisition:

Current assets	$ 1,030
Investments and other assets	20
Goodwill	12,871
Other intangible assets	3,370
Fixed assets	1,046
Total assets acquired	$ 18,337
Current liabilities	727
Long-term liabilities	9
Total liabilities assumed	736
Net assets acquired	$ 17,601

The Company engaged an independent appraiser to assist in the valuation of acquired intangible assets. Intangible assets consist of a $3.3 million "Customer Relationship" asset which will be amortized over 12 years and a $30,000 "Non-Compete Contract" asset which will be amortized over three years.

On July 11, 2005, the Company acquired substantially all the assets of Kremer Laser Eye ("Kremer"). Kremer operates three refractive centers and one ambulatory surgery center all of which are located in the northeastern part of the United States. For over 20 years, Kremer has been an integrated eye care company providing refractive, cataract and glaucoma surgery services. The acquisition of Kremer expands the Company's presence in both the refractive and ASC businesses in one of the largest populated markets in the United States.

The purchase price for the acquired assets was $29.7 million. In addition, the Company assumed certain liabilities and incurred transaction costs of $1.1 million. Simultaneously with this transaction, the Company sold an 18% interest in Kremer to a group of doctors associated with Kremer for $5.3 million. As a result, the Company maintains an 82% ownership interest in Kremer. The results of operations of Kremer have been included in the Company's consolidated statements of operations since July 11, 2005.

Under the purchase method of accounting, the purchase price is allocated to Kremer's net tangible and intangible assets based upon their estimated fair value as of the date of the acquisition. The following reflects the assets and liabilities acquired by the Company in the Kremer acquisition:

Current assets	$ 978
Investments and other assets	54
Goodwill	24,639
Other intangible assets	5,060
Fixed assets	1,343
Total assets acquired	32,074
Current liabilities	828
Long-term liabilities	405
Total liabilities assumed	1,233
Net assets acquired	$ 30,841

The Company engaged an independent appraiser to assist in the valuation of acquired intangible assets. Intangible assets consist of $4.8 million of a "Tradename" asset which will be amortized over 20 years and $0.2 million of a "Non-Compete Contract" asset which will be amortized over eight years. The Company believes that substantially all of the goodwill will be deductible for tax purposes.

On July 1, 2005, the Company acquired a 100% interest in Millennium Laser Eye ("Millennium") for $6.1 million in cash plus the assumption of certain liabilities. Millennium provides refractive surgery services in the Washington, D.C. area. The following reflects the assets and liabilities acquired by the Company in the Millennium acquisition:

Current assets	$ 40
Goodwill	5,721
Other intangible assets	710
Fixed assets	445
Total assets acquired	$ 6,916
Current liabilities	846
Net assets acquired	$ 6,070

The Company engaged an independent appraiser to assist in the valuation of acquired intangible assets. Intangible assets consist of a $0.6 million "Tradename" asset which will be amortized over 20 years and a $0.1 million "Non-Compete Contract" asset which will be amortized over 18 months.

The following table represents the Company's unaudited pro forma consolidated results of operations as if the acquisitions of Kremer, TruVision and Millennium had occurred at the beginning of each period presented. Such results have been prepared by adjusting the historical TLC*Vision* results to include the results of operations of the acquired entities. The pro forma results do not include any cost savings that may result from the combination of TLC*Vision* and the operations of the acquired entities. The pro forma results may not necessarily reflect the consolidated operations that would have existed had the acquisitions been completed at the beginning of such periods nor are they necessarily indicative of future results.

	YEAR ENDED DECEMBER 31,		
	2005	2004	2003
Total revenues	$ 277,772	$ 274,989	$ 221,606
Net income (loss)	$ 10,496	$ 46,425	$ (6,951)
Earnings (loss) per share - basic	$ 0.15	$ 0.68	$ (0.11)
Earnings (loss) per share - diluted	$ 0.15	$ 0.65	$ (0.11)

On March 1, 2005, the Company sold its interest in Aspen Healthcare, Inc. to National Surgical Centers, Inc. and recorded a gain of $0.3 million, which is included in other operating expenses.

On January 1, 2004, the Company settled a lawsuit brought by Thomas S. Tooma, M.D. and TST Acquisitions, LLC ("TST") in October 2002. Under the terms of the settlement, the Company sold approximately 24% of Laser Eye Care of California ("LECC") and 30% of its California access business to TST for $2.3 million. The Company continues to hold a 30% ownership in LECC, and a 70% ownership in the California access business. The Company recorded a $1.1 million gain on the sale of these business interests which is included in other operating expenses. Effective January 1, 2004, the Company deconsolidated LECC and began reporting its interest in LECC under the equity method of accounting because it no longer owns a controlling interest in the entity.

The Company's strategy includes periodic acquisitions of or investments in entities that operate in the refractive, cataract or eye care markets. During 2005, 2004 and 2003, the Company paid a total of approximately $13 million, $10 million and $8 million, respectively, to acquire or invest in several other entities, none of which were individually greater than $5 million.

5. RESTRICTED CASH

The Company had $1.0 million and $0.9 million of restricted cash as of December 31, 2005 and 2004, respectively, to guarantee outstanding bank letters of credit for leases and litigation.

6. ACCOUNTS RECEIVABLE

Accounts receivable, net of allowances, consist of the following:

	DECEMBER 31,	
	2005	2004
Refractive	$ 9,597	$ 7,031
Other healthcare services	10,986	10,412
	$20,583	$17,443

Other healthcare services accounts receivable primarily represent amounts due from hospitals and other facilities for cataract equipment and service access fees and outstanding fees for network marketing and management services.

The Company is exposed to credit risk on accounts receivable from its customers. In order to reduce its credit risk, the Company has adopted credit policies, which include the review of credit limits. As of December 31, 2005 and 2004 the Company had reserves for doubtful accounts and contractual allowances of $4.2 million and $2.3 million, respectively. The Company does not have a significant exposure to any individual customer.

7. INVESTMENTS AND OTHER ASSETS

Investments and other assets consist of the following:

	DECEMBER 31,	
	2005	2004
Equity method investments	$ 15,321	$ 7,219
Cost method investment	1,041	--
Marketable equity securities	--	3
Non marketable equity securities	534	534
Long-term receivables and other	2,942	2,726
	$ 19,838	$ 10,482

Equity method investments primarily include the Company's 30% interest in LECC, 49% interest in Liberty, 49% interest in Eastern Oregon Regional Surgery Center, LLC, 25% interest in Summit Ambulatory Surgical Center LLP and 25% interest in TLC Northwest Ohio LLC.

Long-term receivables and other include notes from and advances to service providers and other companies and deposits. Prior to 2003, the Company reserved $1.9 million against a $2.3 million long-term receivable from a secondary care service provider of which the Company owns approximately 25% of the outstanding common shares. The Company determined that the ability of this secondary care service provider to repay this note was in doubt due to the deteriorating financial condition of the investee. During 2003 and 2004, the secondary care provider was profitable, improved its financial strength and consistently made all payments to the Company when due. As a result, the Company reevaluated the collectibility of this note receivable during 2003 and 2004 and recorded adjustments to reverse the reserve of $0.7 and $1.2 million, respectively, which are included in other operating expenses, net. In December 2004, the Company loaned additional funds to the secondary care service provider to fund expansion of the business by

retiring the $1.9 million balance of the original loan and replacing it with a $2.8 million loan, payable over 5 years at a 6% interest rate. As of December 31, 2005, the outstanding loan balance was $1.9 million.

Prior to 2003, the Company entered into a joint venture with the predecessor of OccuLogix for the purpose of pursuing commercial applications of technologies owned or licensed by OccuLogix applicable to the evaluation, diagnosis, monitoring and treatment of dry age related macular degeneration. Prior to the reorganization and IPO of OccuLogix (see Note 1), the Company accounted for its investment as a research and development arrangement since the technology is in the development stage and has not received FDA approval. Prior to 2003, the Company purchased $3.0 million in Series B preferred stock and expensed it as a research and development arrangement. During 2003, the Company agreed to advance up to an additional $6.0 million to OccuLogix pursuant to a secured convertible grid debenture. The first $3.5 million advanced pursuant to such debenture was convertible into common shares of OccuLogix. OccuLogix also granted an option to the Company to acquire an amount of common shares equal to the undrawn portion of the debenture at any point in time. In 2003, the Company expensed $1.6 million to research and development related to payments made to OccuLogix during the year. Of this amount, $1.3 million reduced the value of the $6.0 million obligation to OccuLogix, and $0.3 million represented an additional equity investment in Common Stock and therefore did not reduce the amount of the remaining obligation. In 2004, the Company advanced $2.2 million to OccuLogix, satisfying the $3.5 million obligation that was converted into shares of OccuLogix. Of this amount, the Company advanced $1.2 million to OccuLogix in the first three quarters of 2004 and expensed it as research and development. The remaining advance to OccuLogix of $1.0 million in the fourth quarter of 2004 was recorded as an investment because it was not used by OccuLogix for operating purposes, but rather was available at December 31, 2004 for future needs. Due to the IPO of OccuLogix, the Company was not required to fund any additional amounts.

8. GOODWILL

The Company's net goodwill amount by reporting segment is as follows:

	REFRACTIVE AS RESTATED	MOBILE CATARACT	OPTOMETRIC FRANCHISING	OTHER	TOTAL AS RESTATED
December 31, 2003	$ 24,229	$ 4,153	$ 6,105	$ 14,342	$ 48,829
Deconsolidated due to partial sale of LECC	(467)	--	--	--	(467)
Reversal of deferred tax asset valuation allowance	(1,234)	--	--	--	(1,234)
Acquired during the period	181	306	--	4,925	5,412
December 31, 2004	22,709	4,459	6,105	19,267	52,540
Sale of subsidiary	--	--	--	(2,471)	(2,471)
Reversal of deferred tax asset valuation allowance	(2,179)	--	--	--	(2,179)
Acquired during the period	45,250	5,348	--	914	51,512
December 31, 2005	$ 65,780	$ 9,807	$ 6,105	$ 17,710	$ 99,402

The Company tests goodwill for impairment in the fourth quarter after the annual forecasting process. After estimating the fair value of each reporting unit using the present value of expected future cash flows, the Company determined that no goodwill impairment charges should be recorded during the years ended December 31, 2005, 2004 and 2003.

9. OTHER INTANGIBLE ASSETS

The Company's other intangible assets consist of practice management agreements (“PMAs”), deferred contract rights, tradenames and other intangibles. The Company has no indefinite-lived intangible assets. Amortization expense was $4.0 million, $4.1 million and $6.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

The remaining weighted average amortization period for PMAs is 5.3 years, for deferred contract rights is 6.4 years, for tradenames is 19.3 years and for other intangibles is 10.3 years as of December 31, 2005.

Intangible assets subject to amortization consist of the following at December 31:

	2005		2004	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Practice management agreements	$ 23,015	$ 14,861	$ 33,329	$ 23,647
Deferred contract rights	11,081	6,243	13,854	6,024
Tradenames	5,870	210	400	53
Other	5,733	364	386	105
Total	$ 45,699	$ 21,678	$ 47,969	$ 29,829

The estimated amortization expense for the next five years as of December 31, 2005 is as follows:

2006	$ 3,400
2007	3,400
2008	3,100
2009	2,700
2010	2,700

10. FIXED ASSETS

Fixed assets, including capital leased assets, consist of the following:

	DECEMBER 31, 2005	2004
Land and buildings	$ 12,014	$ 11,280
Computer equipment and software	13,336	13,014
Furniture, fixtures and equipment	9,126	9,476
Laser equipment	34,429	32,137
Leasehold improvements	22,365	17,165
Medical equipment	34,247	30,332
Vehicles and other	9,310	8,599
	134,827	122,003
Less accumulated depreciation	85,668	75,804
Net book value	$ 49,159	$ 46,199

For the years ended December 31, 2005, 2004 and 2003, depreciation expense was $12.3 million, $13.6 million and $15.9 million, respectively. Depreciation expense includes depreciation of assets reported under capital leases.

Certain fixed assets are pledged as collateral for certain long-term debt and capital lease obligations.

11. ACCRUED LIABILITIES

Accrued liabilities included $7.6 million and $8.1 million of accrued wages and related expenses as of December 31, 2005 and 2004, respectively.

12. LONG-TERM DEBT

Long-term debt consists of:

	DECEMBER 31, 2005	2004
Interest at 3.11%, payable to vendor, paid off in 2005	$ --	$ 1,264
Interest imputed at 9%, due in four payments from March 2002 through 2005, payable to affiliated doctor relating to practice acquisition, paid off in 2005	--	2,294
Interest imputed at 6.25%, due through October 2016, collateralized by building (C$7.2 million at December 31, 2005)	6,056	6,138
Interest at various rates, due through 2012, collateralized by real estate and equipment	4,061	3,038
Capital lease obligations, payable through 2009, interest at various rates	7,644	5,576
Other	172	345
	17,933	18,655
Less current portion	5,268	8,664
	$ 12,665	$ 9,991

Principal maturities for each of the next five years and thereafter as of December 31, 2005 are as follows:

2006	$ 5,268
2007	3,453
2008	2,560
2009	1,267
2010	733
Thereafter	4,652
Total	$17,933

In November 2003, the Company obtained a $15 million line of credit for five years from GE Healthcare Financial Services (the "Agreement") for a $0.1 million commitment fee and $0.2 million in related legal and out-of-pocket expenses. This loan is secured by certain accounts receivable and cash accounts in wholly-owned subsidiaries and a general lien on most other U.S. assets. As of December 31, 2005, the Company did not have any borrowings drawn under the line of credit and had an available unused line of $15 million.

The Agreement includes a subjective acceleration clause and a requirement to maintain a "springing" lock-box, whereby remittances from the Company's customers are forwarded to the Company's bank account and do not reduce the outstanding debt until and unless the lender exercises the subjective acceleration clause.

Under the Agreement, the Company must maintain (1) consolidated cash of $12.5 million or more, (2) a maximum total debt/EBITDA (Earnings Before Income Taxes, Depreciation and Amortization) ratio no more than 1.5, (3) a fixed charge coverage ratio (including option proceeds and excluding most non-cash charges) of at least 1.1 and (4) obtain GE's approval for certain ineligible acquisitions and unfunded capital additions greater than $2 million per year.

Payments for capital lease obligations for each of the next five years and thereafter as of December 31, 2005 are as follows:

2006	$ 3,697
2007	2,493
2008	1,139
2009	623
2010	--
Thereafter	--
Total	7,952
Less interest portion	308
	$ 7,644

13. OTHER EXPENSES, NET

Other expenses, net includes the following operating items:

	Year Ended December 31,		
Other expenses (income):	2005	2004	2003
Loss (gain) on sales and disposals of fixed assets	$ (92)	$ 839	$ (484)
Adjustments to the fair values of intangibles, long-term receivables and long-term liabilities	888	(1,206)	(206)
Center closing costs	1,012	868	2,040
Gain on sales of subsidiaries	(319)	(1,143)	--
Reimbursements from previous research and development arrangements	(300)	(400)	--
Severance accruals for two officers under terms of employment contracts	--	2,557	--
Miscellaneous income	(420)	(575)	(185)
	$ 769	$ 940	$ 1,165

14. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share were $0.12 (as restated), $0.62 (as restated) and $(0.15), in 2005, 2004 and 2003, respectively. The per share amounts have been computed on the basis of the weighted average number of shares outstanding.

Because the Company incurred a net loss for 2003, the respective calculation of diluted loss per share excludes the impact of all stock options and warrants. The calculation of diluted earnings per share for 2005 and 2004 excludes the impact of 1.0 million and 0.9 million stock options and warrants, respectively, because to include them would have been anti-dilutive. Diluted earnings (loss) per share have been computed as follows:

	Year Ended December 31,		
	2005	2004	2003
	AS RESTATED	AS RESTATED	
Net income (loss)	$ 8,119	$ 42,474	$ (9,399)
Weighted-average shares outstanding - basic	69,721	68,490	64,413
Stock options and warrants	1,659	2,598	--
Weighted-average shares outstanding - diluted	71,380	71,088	64,413
Earnings (loss) per share - diluted	$ 0.11	$ 0.60	$ (0.15)

15. STOCKHOLDERS' EQUITY AND OPTIONS

Options Outstanding

As of December 31, 2005, the Company has issued stock options to employees, directors and certain other individuals. Options granted have terms ranging from five to ten years. Vesting provisions on options granted to date include options that vest immediately, options that vest in equal amounts annually over the first two years or four years of the option term and options that vest entirely on the first anniversary of the grant date.

In December 2005, the Company's Board of Directors approved the accelerated vesting of all unvested and "out-of-the-money" stock options with an exercise price per share of $8.75 or higher. As a result, approximately 662,000 stock options vested immediately. The primary purpose of the modification was to avoid recognizing an expense in future financial statements. This modification to the stock option terms was accounted for under the provisions of APB No. 25 and its related interpretations and did not result in the recognition of any compensation cost.

As of December 31, 2005, the issued and outstanding options denominated in Canadian dollars were at the following prices and terms:

	OUTSTANDING			EXERCISABLE	
PRICE RANGE (CDN $)	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
$ 1.43 - $ 3.87	297	1.4 years	C$ 3.07	179	C$ 3.37
$ 4.04 - $ 6.67	77	1.7 years	4.52	55	4.38
$ 7.58 - $ 9.80	60	3.5 years	7.90	35	7.81
$11.02 - $15.49	74	3.9 years	12.72	73	12.72
	508	2.1 years	C$ 5.26	342	C$ 5.98

As of December 31, 2005, the issued and outstanding options denominated in U.S. dollars were at the following prices and terms:

	OUTSTANDING			EXERCISABLE	
PRICE RANGE (U.S.$)	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
$ 0.90 - $ 2.62	888	2.0 years	$ 1.38	519	$ 1.54
$ 3.02 - $ 5.25	719	2.5 years	4.14	711	4.14
$ 6.03 - $ 8.19	541	3.3 years	6.22	302	6.20
$ 8.79 - $11.64	880	3.9 years	10.42	878	10.42
	3,028	2.9 years	$ 5.53	2,410	$ 6.13

Approximately 1,031,000 options have been authorized for issuance but were not granted as of December 31, 2005. A summary of option activity during the last three years follows:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
December 31, 2002	8,680	Cdn$7.80	US$5.10
Granted	1,721	3.30	2.82
Exercised	(2,102)	4.38	4.11
Forfeited	(313)	4.79	4.32
Expired	(443)	15.07	7.29
December 31, 2003	7,543	Cdn$4.90	US$4.90
Granted	1,018	12.73	10.38
Exercised	(4,198)	7.49	5.90
Forfeited	(100)	3.89	6.16
Expired	(60)	16.35	10.84
December 31, 2004	4,203	Cdn$5.04	US$5.08
Granted	176	8.53	7.52
Exercised	(709)	3.89	2.71
Forfeited	(112)	11.32	9.69
Expired	(22)	9.39	6.20
December 31, 2005	3,536	Cdn$5.26	US$5.53
Exercisable at December 31, 2005	2,752	Cdn$5.98	US$6.13

In addition to the above stock options, OccuLogix may grant stock options of its common stock to employees, directors and consultants under the terms of the OccuLogix 2002 Stock Option Plan. Up to 4.5 million shares of OccuLogix's common stock may be issued under the OccuLogix plan. OccuLogix has also issued stock options outside of its 2002 Stock Option Plan. As of December 31, 2005, OccuLogix employees, directors, consultants and other outsiders held options to purchase 4.1 million shares of OccuLogix's common stock.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS No. 123 and has been included in Note 2 to the financial statements. The fair value of TLC*Vision*'s options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 3.99%, 2.84% and 2.35% for 2005, 2004 and 2003, respectively; no dividends; volatility factors of the expected market price of TLC*Vision*'s common shares of 0.75 for 2005, 2004 and 2003; and a weighted average expected option life of 2.5 years for 2005, 2004 and 2003. The fair market value of TLC*Vision*'s options granted during 2005 was $0.6 million (2004 - $4.9 million; 2003 - $2.2 million). The fair values of OccuLogix's options granted in 2005 were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 3.88%; dividend rate of 0%; volatility factor of 0.73; and expected life of 2.4 years.

The Black-Scholes option-pricing model was developed for use in estimating fair value of traded options that have no vesting restrictions and are fully transferable. Because the Company's employee stock options have characteristics significantly different from those of traded options (deferred/partial vesting and no trading during four "black-out" periods each year) and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the previous pro forma adjustments for SFAS No. 123 are not necessarily a reliable single measure of the fair value of the Company's employee stock options.

Share Repurchases

During 2005, the Company repurchased and retired 2.0 million common shares for $15.9 million completing its previously announced 2.0 million share repurchase program.

16. INCOME TAXES

During the fourth quarter of 2005, the Company initiated a review of the availability of its U.S. net operating loss carryforwards. It was determined that the availability of a significant portion of the carryforwards will be limited due to Internal Revenue Code ("IRC") Section 382 limitations. The Company intends to engage a tax service provider to perform a comprehensive IRC Section 382 study to determine the specific limitations related to certain of the net operating loss carryforwards, and that study is expected to be completed during the second quarter of 2006. Based on its current analysis, the Company has calculated a range of limitations such that $0 to

$3.3 million of net operating loss carryforwards would be available each year during the carryforward period. The Company has determined that the best estimate of the deferred tax asset related to certain acquired U.S. net operating loss carryforwards is zero.

In addition, the Company determined that it should have recorded $1.2 million of additional income tax expense for the year ended December 31, 2004 due to the nature of the net operating loss carryforwards that were utilized in that year for financial reporting purposes. The Company originally corrected the error in its 2005 Annual Report on Form 10-K by increasing the income tax expense recorded for the year ended December 31, 2005 by $1.2 million. The Company has subsequently determined that the $1.2 million adjustment is material to the Company's operating results of 2005 and, accordingly, that the adjustment should not have been made in the 2005 financial statements. As such, the Company has restated its previously issued financial statements as of and for the years ended December 31, 2005 and 2004 (see Note 3). Furthermore, the Company recognized approximately $5.7 million of income tax benefit during the first three quarters of 2005 that should have been recorded primarily as a reduction to goodwill and as an increase to equity. The Company has restated the operating results of the first three quarters of 2005 to properly reflect income taxes (see Note 23).

Significant components of the Company's deferred tax assets and liabilities are as follows:

	DECEMBER 31,	
	2005	2004
Deferred tax asset:		
Net operating loss carryforwards	$ 37,264	$ 35,964
Fixed assets	1,685	2,108
Intangibles	11,934	14,163
Investments	11,715	10,689
Accruals and other reserves	5,572	5,889
Stock options	4,192	5,566
Tax credits	228	15
Other	3,017	4,237
Total	75,607	78,631
Valuation allowance	(75,607)	(78,631)
	$ --	$ --

As of December 31, 2005, the Company has net operating losses available for carryforward for income tax purposes of approximately $99.0 million, which may be available to reduce taxable income in future years. The Canadian and United Kingdom carryforward losses can only be utilized by the source company. The United Kingdom carryforward losses of $7.5 million relate to United Kingdom operations that the Company is currently winding down. As such, the Company does not expect to utilize these losses. The Canadian carryforward losses of $36.0 million expire between 2006 and 2014. The U.S. carryforward losses of $55.5 million expire between 2022 and 2024. The U.S. carryforward losses include $41.2 million relating to OccuLogix, which can only be utilized to reduce OccuLogix taxable income and may be subject to IRC Section 382 limitations.

Of the total valuation allowance, approximately $6.1 million ($0.6 million from OccuLogix) will be recorded directly to equity if and when that portion of the deferred tax asset is realized and the associated valuation allowance is reversed. During 2005, the Company reversed $3.1 million of the valuation allowance directly to equity and $2.2 million directly to goodwill. During 2004, the Company reversed $1.2 million of the valuation allowance directly to goodwill.

The differences between the provision for income taxes and the amount computed by applying the statutory Canadian income tax rate to income (loss) before income taxes were as follows:

	YEAR ENDED DECEMBER 31,		
	2005	2004	2003
	AS RESTATED	AS RESTATED	
Income tax expense (recovery) at the Canadian statutory rate of 36.125% (2004 – 36.125%; 2003 – 35.1%)	$ 5,338	$ 16,006	$ (3,121)
Change in valuation allowance	(267)	(15,103)	1,929
Expenses not deductible for income tax purposes	285	300	150
Change in Canadian tax rates	--	31	1,042
State taxes	506	450	423
Canadian income tax	350	150	85
Rate differential on United States operations	445	--	--
	$ 6,657	$ 1,834	$ 508

The provision for income taxes is as follows:

	YEAR ENDED DECEMBER 31,		
	2005 AS RESTATED	2004 AS RESTATED	2003
Current:			
Canada	$ 350	$ 150	$ 85
United States - federal	228	--	58
United States - state	475	450	175
Other	537	--	190
	$1,590	$ 600	$ 508
Deferred:			
United States - federal	$4,320	$1,234	$ --
United States - state	747	--	--
	$5,067	$1,234	$ --
Total income taxes	$6,657	$1,834	$ 508

The Company has established accruals for certain tax contingencies for exposures associated with tax deductions and return filing positions which may be challenged. The tax contingency accruals are adjusted quarterly in light of changing facts and circumstances, such as the progress of tax audits, case law and statute of limitations. A number of years may elapse before a particular matter is resolved. The Company believes its tax contingency accruals are adequate to address known tax contingencies. Tax contingency accruals are recorded in accrued liabilities in the balance sheets.

17. COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases certain center facilities under operating leases with terms generally of five to ten years. Certain leases contain rent escalation clauses and free rent periods that are charged to rent expense on a straight-line basis. The leases usually contain renewal clauses at the Company's option at fair market value. As of December 31, 2005, the Company has commitments relating to non-cancellable operating leases for rental of office space and equipment, which require future minimum payments aggregating approximately $27.0 million. Future minimum payments over the next five years and thereafter are as follows:

2006	$ 7,289
2007	5,778
2008	4,451
2009	3,181
2010	2,433
Thereafter	3,841
	$ 26,973

As of December 31, 2005, the Company had commitments related to long-term marketing contracts which require payments totaling $2.0 million in each of the years ending December 31, 2006, 2007 and 2008.

Commitments and Contingencies Related to OccuLogix

OccuLogix entered into agreements to obtain the exclusive license to certain patents. OccuLogix is required to make royalty payments totaling 2.0% of its product sales. In addition, OccuLogix is required to make minimum advance royalty payments of $12,500 quarterly, which will be credited against future royalty payments to be made in accordance with the agreements.

Future minimum royalty payments under the OccuLogix agreements as at December 31, 2005 are approximately as follows:

2006	$ 100
2007	100
2008	100
2009	100
2010 and thereafter	750
	$ 1,150

In 2005, OccuLogix placed a purchase order for inventory representing a total commitment of $1.3 million. As of December 31, 2005, $1.0 million has been purchased against that purchase order.

In addition, OccuLogix has committed to purchase minimum quantities of inventory beginning six months after FDA approval of the RHEO™ System. Minimum purchase orders for the fourth year shall be determined immediately after the term of the first year by mutual consent but shall not be less than that of the previous year. This same method shall be used in subsequent years to determine future minimum purchase quantities such that minimum purchase quantities are always fixed for three years. Future minimum annual commitments after FDA approval are approximately as follows:

Year 1	$ 2,565
Year 2	4,275
Year 3	6,413

Legal Contingencies

The Company is subject to various claims and legal actions in the ordinary course of its business, which may or may not be covered by insurance. These matters include, without limitation, professional liability, employee-related matters and inquiries and investigations by governmental agencies. While the ultimate results of such matters cannot be predicted with certainty, the Company believes that the resolution of these matters will not have a material adverse effect on its consolidated financial position or results of operations.

Regulatory Tax Contingencies

TLC*Vision* operates in 48 states and two Canadian provinces and is subject to various federal, state and local income, payroll, unemployment, property, franchise, capital, sales and use tax on its operations, payroll, assets and services. TLC*Vision* endeavors to comply with all such applicable tax regulations, many of which are subject to different interpretations, and has hired outside tax advisors who assist in the process. Many states and other taxing authorities have been interpreting laws and regulations more aggressively to the detriment of taxpayers such as TLC*Vision* and its customers. TLC*Vision* believes that it has adequate provisions and accruals in its financial statements for tax liabilities, although it cannot predict the outcome of future tax assessments.

Tax authorities in two states have contacted TLC*Vision* and issued proposed sales tax adjustments in the aggregate amount of approximately $0.7 million for various periods through 2005 on the basis that certain of TLC*Vision*'s business arrangements constitute at least a partially taxable transaction rather than an exempt service. TLC*Vision*'s discussions with these two state tax authorities are ongoing. If it is determined that any sales tax is owed, TLC*Vision* believes that, under applicable laws and TLC*Vision*'s contracts with its customers, each customer is ultimately responsible for the payment of any applicable sales and use taxes in respect of TLC*Vision*'s services. However, TLC*Vision* may be unable to collect any such amounts from its customers, and in such event the Company would remain responsible for payment. TLC*Vision* cannot yet predict the outcome of these outstanding assessments or any other assessments or similar actions which may be undertaken by other state tax authorities. TLC*Vision* has evaluated and implemented a comprehensive sales tax reporting system. TLC*Vision* believes that it has adequate provisions in its financial statements with respect to these matters.

18. SEGMENT INFORMATION

The Company has four reportable segments: refractive, mobile cataract, optometric franchising and AMD. The refractive segment provides the majority of the Company's revenue and is in the business of providing corrective laser surgery specifically related to refractive disorders, such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. This segment is comprised of laser centers and the fixed and mobile access business. The mobile cataract segment provides surgery specifically for the treatment of cataracts. The optometric franchising segment provides marketing, practice development and purchasing power to independently-owned and operated optometric practices in the United States. The AMD segment primarily includes the Company's majority interest in OccuLogix. The AMD segment is pursuing commercial applications of treatments of dry age related macular degeneration. Other

includes an accumulation of other healthcare business activities including the management of cataract and secondary care centers that provide advanced levels of eye care. None of the businesses in the other segment meet the quantitative criteria to be disclosed separately as a reportable segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on operational components including paid procedures, net revenues, fixed costs and income (loss) before income taxes.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different management and marketing strategies. The Company's reportable segments were as follows:

YEAR ENDED DECEMBER 31, 2005	REFRACTIVE	MOBILE CATARACT	OPTOMETRIC FRANCHISING	AMD	OTHER	TOTAL AS RESTATED
Revenues	$ 186,620	$ 31,716	$ 17,471	$ 1,841	$ 22,377	$260,025
Expenses:						
Operating	162,438	25,794	11,032	18,211	15,166	232,641
Depreciation and amortization	12,112	2,649	44	120	1,428	16,353
	174,550	28,443	11,076	18,331	16,594	248,994
Income (loss) from operations	12,070	3,273	6,395	(16,490)	5,783	11,031
Interest income (expense)	2,693	(117)	(447)	1,593	(1,179)	2,543
Minority interests	(2,371)	--	(2,914)	7,058	(3,116)	(1,343)
Earnings from equity investments	1,473	--	--	--	1,072	2,545
Income (loss) before income taxes	$ 13,865	$ 3,156	$ 3,034	$ (7,839)	$ 2,560	14,776
Income taxes						(6,657)
Net income						$ 8,119
Total assets	$ 197,216	$ 19,890	$ 11,921	$ 46,271	$ 25,745	$301,043
Additions to fixed assets and intangibles	$ 67,091	$ 9,734	$ 66	$ 218	$ 2,932	$ 80,041

YEAR ENDED DECEMBER 31, 2004	REFRACTIVE AS RESTATED	MOBILE CATARACT	OPTOMETRIC FRANCHISING	AMD	OTHER	TOTAL AS RESTATED
Revenues	$ 182,441	$ 27,040	$ 14,145	$ 837	$ 22,784	$247,247
Expenses:						
Operating	155,587	22,325	8,868	3,787	14,924	205,491
Depreciation and amortization	13,695	2,614	41	104	1,227	17,681
	169,282	24,939	8,909	3,891	16,151	223,172
Income (loss) from operations	13,159	2,101	5,236	(3,054)	6,633	24,075
Gain on sale of OccuLogix, Inc. stock	--	--	--	25,792	--	25,792
Interest income (expense)	757	(114)	(492)	51	(865)	(663)
Minority interests	(1,863)	--	(2,323)	411	(3,178)	(6,953)
Earnings from equity investments	1,575	--	--	--	482	2,057
Income before income taxes	$ 13,628	$ 1,987	$ 2,421	$ 23,200	$ 3,072	44,308
Income taxes						(1,834)
Net income						$ 42,474
Total assets	$ 190,500	$ 15,716	$ 12,049	$ 61,440	$ 24,302	$304,007
Additions to fixed assets and intangibles	$ 4,071	$ 1,497	$ 79	$ 227	$ 7,307	$ 13,181

YEAR ENDED DECEMBER 31, 2003	REFRACTIVE	MOBILE CATARACT	OPTOMETRIC FRANCHISING	AMD	OTHER	TOTAL
Revenues	$ 151,430	$ 24,812	$ 10,301	$ 622	$ 13,753	$200,918
Expenses:						
Operating	142,176	20,515	7,166	2,646	8,677	181,180
Depreciation and amortization	18,794	2,765	99	47	888	22,593
	160,970	23,280	7,265	2,693	9,565	203,773
Income (loss) from operations	(9,540)	1,532	3,036	(2,071)	4,188	(2,855)
Interest income (expense)	(306)	(169)	(490)	--	(399)	(1,364)
Minority interests	(1,709)	--	(1,061)	--	(1,902)	(4,672)
Income (loss) before income taxes	$ (11,555)	$ 1,363	$ 1,485	$ (2,071)	$ 1,887	(8,891)
Income taxes						(508)
Net loss						$ (9,399)
Total assets	$ 140,796	$ 13,972	$ 10,207	$ 490	$ 25,283	$190,748
Additions to fixed assets and intangibles	$ 707	$ 2,587	$ 105	$ 382	$ 4,537	$ 8,318

The Company's geographic segments are as follows:

YEAR ENDED DECEMBER 31, 2005	CANADA	UNITED STATES	TOTAL
Revenues	$ 12,937	$ 247,088	$ 260,025
Total fixed assets and intangibles	$ 8,457	$ 164,125	$ 172,582

YEAR ENDED DECEMBER 31, 2004	CANADA	UNITED STATES AS RESTATED	TOTAL AS RESTATED
Revenues	$ 12,596	$ 234,651	$ 247,247
Total fixed assets and intangibles	$ 9,825	$ 107,054	$ 116,879

YEAR ENDED DECEMBER 31, 2003	CANADA	UNITED STATES	TOTAL
Revenues	$ 10,109	$ 190,809	$ 200,918
Total fixed assets and intangibles	$ 10,765	$ 117,914	$ 128,679

19. FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the short-term maturities of these instruments.

The fair value of the Company's auction rate securities equals cost due to the short time period between the reset dates for the interest rates. The Company's held-to-maturity short-term investments are bank certificates of deposit for which cost approximates fair market value.

As of December 31, 2005, the carrying value and fair value of the Company's long-term debt, excluding capital lease obligations, was $10.3 million and $9.5 million, respectively. As of December 31, 2004, the carrying value and fair value of the Company's long-term debt, excluding capital lease obligations, was $13.1 million and $12.7 million, respectively. The fair value of the Company's long-term debt was estimated by discounting the amount of future cash flows associated with the respective debt instruments using the Company's current incremental rate of borrowing for similar debt instruments.

20. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash transactions:

	YEAR ENDED DECEMBER 31, 2005	2004	2003
Capital lease obligations relating to equipment purchases	$ 5,667	$ 2,579	$ 8,493
Inventory contributed to OccuLogix	183	--	--
Option and warrant reduction	1,011	5,379	2,892
Value of shares issued upon meeting certain earnings criteria	181	389	--
Retirement of treasury stock	15,868	--	2,432
Treasury stock to employee benefit plan	--	--	191
Value of shares issued for acquisitions	24	--	96

Cash paid for the following:

	YEAR ENDED DECEMBER 31,		
	2005	2004	2003
Interest.....	$ 1,426	$ 2,133	$ 2,618
Income taxes	$ 1,187	$ 835	$ 533

21. RELATED PARTY TRANSACTIONS

On March 1, 2001, a limited liability company wholly owned by TLC*Vision* acquired all of the non medical assets relating to the refractive practice of Dr. Mark Whitten prior to Dr. Whitten becoming a director of TLC*Vision*. The cost of this acquisition was $20.0 million, with $10.0 million paid in cash on March 1, 2001 and the remaining $10.0 million payable in four equal non-interest bearing installments on each of the first four anniversary dates of closing. Dr. Whitten was a director of TLC*Vision* from May 2002 to May 2003. At December 31, 2005, this note had been paid in full (see Note 12). In addition, TLC*Vision* has entered into service agreements with companies that own Dr. Whitten's refractive satellite operations located in Frederick, Maryland, and Charlottesville, Virginia, under which TLC*Vision* will provide such companies with services in return for a fee. During the years ended December 31, 2005, 2004 and 2003, the Company received revenue from these service agreements of $1.0 million, $0.9 million, and $0.7 million, respectively.

LaserVision, a subsidiary of TLC*Vision*, had a limited partnership agreement with Minnesota Eye Consultants for the operation of one of its Roll-On/Roll-Off mobile systems. Dr. Richard Lindstrom, a director of TLC*Vision*, is founder, partner and attending surgeon of Minnesota Eye Consultants. LaserVision is the general partner and owns 60% of the partnership. Minnesota Eye Consultants, P.A. is a limited partner and owns 40% of the partnership. Under the terms of the partnership agreement, LaserVision received a revenue-based management fee from the partnership until this unit was retired in 2003. Subsequent to the acquisition of LaserVision, the Company received $48,000 in management fees from the partnership for the year ended December 31, 2003. Dr. Lindstrom also receives compensation from TLC*Vision* in his capacity as medical director of TLC*Vision* and as a consultant to MSS.

The Company also has an agreement with Minnesota Eye Consultants to provide laser access. The Company received revenue of $1.0 million, $1.4 million, and $1.2 million as a result of the agreement for the years ended December 31, 2005, 2004, and 2003, respectively.

In September 2004, OccuLogix signed a product purchase agreement with Veris to sell 8,004 treatment sets over the period from October 2004 to December 2005, a transaction valued at $6.0 million, after introductory rebates. However, due to delays in opening its planned number of clinics throughout Canada, Veris will no longer require the contracted number of treatment sets in the period. OccuLogix has agreed to the original pricing for the reduced number of treatment sets required in the period. Dr. Jeffery Machat, who is an investor in and one of the directors of Veris, was a co-founder and former director of TLC*Vision*. As of December 31, 2005, OccuLogix had received a total of $1.8 million from Veris. Included in amounts receivable as of December 31, 2005 is $1.0 million due from Veris for the purchase of additional pumps and treatment sets. Based on discussions with Veris, OccuLogix believes that Veris will not be able to meet its financial obligations by March 31, 2006. Therefore, OccuLogix has recorded an allowance for doubtful accounts of $1.0 million against the amount due from Veris in the year ended December 31, 2005.

22. SUBSEQUENT EVENTS

On February 3, 2006, OccuLogix announced that it had completed a preliminary analysis of the data from MIRA-1, its recently completed pivotal (phase III) clinical trial using its RHEO™ System. The data indicated that MIRA-1 did not demonstrate a statistically significant mean change of Best Spectacle-Corrected Visual Acuity. As a result of this announcement, the share price of OccuLogix stock as traded on the NASDAQ National Market System decreased from $12.75 on February 2, 2006 to close at $4.10 on February 3, 2006. The 10-day average price of the stock immediately following the announcement was $3.65 and reflected a decrease in the market capitalization of OccuLogix from $536.6 million on February 2, 2006 to $153.6 million based on the 10-day share price average subsequent to the announcement. The resulting decrease in the share price was identified as an indicator of impairment leading to an analysis of OccuLogix’s intangible assets and goodwill and resulting in OccuLogix reporting an impairment charge to goodwill of $147.5 million. Because TLC*Vision* accounted for the OccuLogix reorganization at historical cost, it eliminates OccuLogix’s goodwill balance in consolidation (see Note 1).

OccuLogix believes that the announcement made it unlikely that it would be able to collect on amounts outstanding from its sole customer, Veris, resulting in a provision for bad debts of $0.5 million related to revenue reported prior to December 2005. OccuLogix did not recognize $0.5 million of revenue related to goods shipped in December 2005, based on collectibility not being

reasonably assured. OccuLogix also fully expensed the $0.2 million advance that it had paid to Veris in connection with clinical trial services to be provided by Veris for one of OccuLogix's clinical trials. OccuLogix also evaluated its ending inventory balance as of December 31, 2005 on the basis that Veris may not be able to increase its commercial activities in Canada in line with initial expectations. Accordingly, OccuLogix set up a provision for obsolescence of $2.0 million for filter sets that will unlikely be utilized prior to their expiration dates. As a result of the above entries, TLC*Vision*'s reported pre-tax earnings for the quarter and year ended December 31, 2005 were reduced by $1.6 million.

23. QUARTERLY FINANCIAL DATA (UNAUDITED)

On March 16, 2006, the Company announced that it would restate its consolidated financial statements for the first three quarters of 2005 to correct its accounting for income taxes. During each of the first three quarters of 2005, the Company reversed a portion of its deferred tax asset valuation allowance as a reduction to income tax expense. Due to limitations on the availability of certain portions of the Company's net operating loss carryforwards, the Company has determined that the deferred tax asset valuation allowance reversals in the first three quarters of 2005 should have been recorded primarily to goodwill and equity. The adjustments to income tax expense were $2.9 million, $1.9 million and $0.9 million for the three months ended March 31, 2005, June 30, 2005 and September 30, 2005, respectively. The total adjustment for the first three quarters of $5.7 million is primarily a non-cash item. In addition, the Company determined that it should have recorded $1.2 million of additional income tax expense for the year ended December 31, 2004 due to the nature of the net operating loss carryforwards that were utilized in that year for financial reporting purposes. The Company originally corrected the error in its 2005 Annual Report on Form 10-K by increasing the income tax expense recorded for the three months ended December 31, 2005 by $1.2 million. The Company has subsequently determined that the $1.2 million adjustment is material to the Company's operating results of 2005 and, accordingly, that the adjustment should not have been made in the 2005 financial statements. As such, the Company has restated its previously issued financial statements as of and for the years ended December 31, 2005 and 2004 (see Note 3). The adjustments to income tax expense consisted of a $1.2 million decrease for the three months ended December 31, 2005 and increases of $0.5 million, $0.4 million, $0.2 million and $0.1 million for the three months ended March 31, 2004, June 30, 2004, September 30, 2004 and December 31, 2004, respectively. All data reflected in the 2005 consolidated financial statements, including the related notes, have been restated to properly reflect income taxes. Quarterly financial results (unaudited) for 2005, including the effect of the restatements, are as follows:

	THREE MONTHS ENDED MARCH 31, 2005		THREE MONTHS ENDED JUNE 30, 2005		THREE MONTHS ENDED SEPTEMBER 30, 2005		THREE MONTHS ENDED DECEMBER 31, 2005 (1)	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
Revenues	$ 71,049	$ 71,049	$ 66,820	$ 66,820	$ 61,639	$ 61,639	$ 60,517	$ 60,517
Gross profit	24,959	24,959	22,492	22,492	17,521	17,521	14,328	14,328
Net income (loss)	9,606	6,727	5,511	3,635	1,699	779	(4,256)	(3,022)
Basic income (loss) per share	0.14	0.10	0.08	0.05	0.02	0.01	(0.06)	(0.04)
Diluted income (loss) per share	0.13	0.09	0.08	0.05	0.02	0.01	(0.06)	(0.04)

For comparison purposes, the quarterly financial results (unaudited) for 2004, including the effect of the restatement, are as follows:

	THREE MONTHS ENDED MARCH 31, 2004		THREE MONTHS ENDED JUNE 30, 2004		THREE MONTHS ENDED SEPTEMBER 30, 2004		THREE MONTHS ENDED DECEMBER 31, 2004 (2)	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
Revenues	$ 66,800	$ 66,800	$ 65,879	$ 65,879	$ 57,692	$ 57,692	$ 56,876	$ 56,876
Gross profit	21,713	21,713	22,307	22,307	17,609	17,609	14,880	14,880
Net income (loss)	8,052	7,543	6,239	5,835	3,322	3,078	26,095	26,018
Basic income (loss) per share	0.12	0.11	0.09	0.09	0.05	0.04	0.38	0.37
Diluted income (loss) per share	0.12	0.11	0.09	0.08	0.05	0.04	0.36	0.36

(1) In the three months ended December 31, 2005, the net loss includes:
(a) a charge of $1.6 million related to OccuLogix's preliminary analysis of the data from its clinical trial (see Note 22); and
(b) a net write down of $0.9 million in the fair value of intangibles and long-term receivables.

(2) Net income for the three months ended December 31, 2004 includes a gain on the sale of OccuLogix stock of $25.8 million.

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by the report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarter ended December 31, 2005, the Company implemented a control within the reporting of income taxes process to evaluate IRC Section 382 limitations related to the availability of net operating loss carryforwards and the impact on the Company's financial statements. This evaluation resulted in a restatement of the 2005 quarterly financial information and 2004 income taxes as described in footnote 16 to the consolidated financial statements and was considered to be a material weakness in internal controls that was properly remediated prior to year-end. Except as described above, there have been no other significant changes in the Company's internal controls over financial reporting that occurred during the quarter ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework.* Based on our assessment, we believe that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria. However, management did not assess the effectiveness of the internal controls of Kremer Laser Eye, which is included in the Company's 2005 consolidated financial statements and constituted $33.0 million and $25.9 million of assets and net assets, respectively, as of December 31, 2005 and $7.5 million and $0.8 million of revenues and net income, respectively, for the period from July 11, 2005 through December 31, 2005. Management did not assess the effectiveness of internal control over financial reporting at this entity because the Company did not have control of the entity until July 11, 2005 and therefore did not have time, in practice, to assess those controls.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, has been audited by Ernst & Young LLP, an independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting is included elsewhere herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of TLC Vision Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that TLC Vision Corporation maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). TLC Vision Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Kremer Laser Eye, which is included in the 2005 consolidated financial statements of TLC Vision Corporation and constituted $33.0 million and $25.9 million of assets and net assets, respectively, as of December 31, 2005 and $7.5 million and $0.8 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of TLC Vision Corporation also did not include an evaluation of the internal control over financial reporting of Kremer Laser Eye.

In our opinion, management's assessment that TLC Vision Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, TLC Vision Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TLC Vision Corporation as of December 31, 2005 and 2004, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2005 of TLC Vision Corporation and our report dated March 10, 2006 expressed an unqualified opinion thereon.

St. Louis Missouri
March 10, 2006

/s/ ERNST & YOUNG LLP

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

TLC VISION CORPORATION

By /s/ JAMES C. WACHTMAN
James C. Wachtman, Chief Executive Officer

August 22, 2006

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	BALANCE AT BEGINNING OF PERIOD	PROVISION	OTHER(1)	DEDUCTIONS-UNCOLLECTABLE A MOUNTS	BALANCE AT END OF PERIOD
			(in thousands)		
Fiscal 2003					
Provision for contractual allowances and doubtful accounts receivable	$ 2,428	$ 207	$ --	$ (52)	$ 2,583
Provision against investments and other assets	4,123	46	(651)	--	3,518
Deferred tax asset valuation allowance	120,902	1,929	--	--	122,831
Fiscal 2004					
Provision for contractual allowances and doubtful accounts receivable	$ 2,583	$ 124	$ --	$ (380)	$ 2,327
Provision against investments and other assets	3,518	--	(1,206)	--	2,312
Deferred tax asset valuation allowance	122,831	(15,103)	(29,097)	--	78,631
Fiscal 2005					
Provision for contractual allowances and doubtful accounts receivable	$ 2,327	$ 1,648	$ 530	$ (276)	$ 4,229
Provision against investments and other assets	2,312	2	--	--	2,314
Deferred tax asset valuation allowance	78,631	(267)	(2,757)	--	75,607

Note (1): During fiscal 2003, the Company adjusted a portion of the provision for contractual allowances and doubtful accounts due to improved financial strength of the borrower, a secondary care service provider of which the Company owns approximately 25% of the outstanding shares, and a consistent pattern of timely payments that the borrower has made related to the note receivable held by the Company. The Company reversed the remainder of the reserve in fiscal 2004 due to consistent payment history and continually improving financial strength of the borrower. During 2004, the reduction of the deferred tax asset valuation allowance of $29,097 included a $53,480 write-down of deferred tax assets for net operating losses that are not expected to be utilized. This reduction was partially offset by an increase in deferred tax asset valuation allowance of $16,094 related to the acquisition of deferred tax assets of OccuLogix for which there was a valuation allowance and a net increase of $8,289 primarily related to stock-based compensation and other adjustments. During 2005, the reduction of the deferred tax asset valuation allowance of $2,757 related to the effect of stock-based compensation, prior year return-to-provision adjustments and the change in valuation allowance of OccuLogix.

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's 10-K filed with the Commission on August 28, 1998)
3.2	Articles of Amendment (incorporated by reference to Exhibit 3.2 to the Company's 10-K filed with the Commission on August 29, 2000)
3.3	Articles of Continuance (incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form S-4/A filed with the Commission on March 1, 2002 (file no. 333-71532))
3.4	Articles of Amendment (incorporated by reference to Exhibit 4.2 to the Company's Post Effective Amendment No. 1 on Form S-8 to the Company's Registration Statement on Form S-4 filed with the Commission on May 14, 2002 (file no. 333-71532))
3.5	By-Laws of the Company (incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form S-4/A filed with the Commission on March 1, 2002 (file no. 333-71532))
4.1	Shareholder Rights Plan Agreement dated March 4, 2005 between the Company and CIBC Mellon Trust Company (incorporated by reference to Exhibit A to the Company's Registration Statement on Form 8-A filed with the Commission on March 14, 2005 (file no. 000-29302))
10.1*	TLC Vision Corporation Amended and Restated Share Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed with the Commission on June 23, 2004 (file no. 333-116769))
10.2*	TLC Corporation 2004 Employee Share Purchase Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed with the Commission on June 23, 2004 (file no. 333-116769))
10.3*	Employment Agreement with Elias Vamvakas (incorporated by reference to Exhibit 10.1(e) to the Company's 10-K filed with the Commission on August 28, 1998)
10.4	Escrow Agreement with Elias Vamvakas and Jeffery J. Machat (incorporated by reference to Exhibit 10.1(f) to the Company's 10-K filed with the Commission on August 28, 1998)
10.5	Consulting Agreement with Excimer Management Corporation (incorporated by reference to Exhibit 10.1(g) to the Company's 10-K filed with the Commission on August 28, 1998)
10.6	Shareholder Agreement for Vision Corporation (incorporated by reference to Exhibit 10.1(l) to the Company's 10-K filed with the Commission on August 28, 1998)
10.7*	Employment Agreement with William Leonard (incorporated by reference to Exhibit 10.1(n) to the Company's 10-K filed with the Commission on August 29, 2000)
10.8*	Consulting Agreement with Warren Rustand (incorporated by Reference to Exhibit 10.10 to the Company's Amendment No. 2 registration Statement on Form S-4/A filed with the Commission on January 18, 2002 (file no. 333-71532))
10.9*	Employment Agreement with Paul Frederick (incorporated by reference to Exhibit 10.10 to the Company's 10-K for the year ended May 31, 2002)
10.10*	Employment Agreement with James C. Wachtman dated May 15, 2002 (incorporated by reference to Exhibit 10.13 to the Company's 10-K for the year ended May 31, 2002)
10.11*	Employment Agreement with Robert W. May dated May 15, 2002 (incorporated by reference to Exhibit 10.14 to the Company's 10-K for the year ended May 31, 2002)
10.12*	Amendment to Employment Agreement with Robert W. May dated September 30, 2003 (incorporated by reference to Exhibit 10.12 to the Company's 10-K for the year ended December 31, 2003)
10.13*	Employment Agreement with B. Charles Bono dated May 15, 2002 (incorporated by reference to Exhibit 10.15 to the Company's 10-K for the year ended May 31, 2002)
10.14*	Amendment to Employment Agreement with B. Charles Bono dated September 30, 2003 (incorporated by reference to Exhibit 10.14 to the Company's 10-K for the year ended December 31, 2003)
10.15*	Supplemental Employment Agreement with John J. Klobnak dated May 15, 2002 (incorporated by reference to Exhibit 10.16 to the Company's 10-K for the year ended May 31, 2002)
10.16*	Severance Agreement with Elias Vamvakas dated October 25, 2004 (incorporated by reference to Exhibit 10.16 to the Company's 10-K for the year ended December 31, 2004)

EXHIBIT NO.	DESCRIPTION
10.17*	Employment Agreement with Steve Rasche dated July 1, 2004 (incorporated by reference to Exhibit 10.17 to the Company's 10-K for the year ended December 31, 2004)
10.18*	Employment Agreement with Brian Andrew dated December 31, 2004 (incorporated by reference to Exhibit 10.18 to the Company's 10-K for the year ended December 31, 2004)
10.19	Asset Purchase Agreement By and Among TLC Vision (USA) Corporation, Eyes of the Future, P.C., and Frederic B. Kremer, M.D., dated as of July 11, 2005 (incorporated by reference to Exhibit 2.1 to the Company's 10-Q for the three and nine months ended September 30, 2005)
10.20	Asset Purchase Agreement By and Among TLC Vision (USA) Corporation, Frederic B. Kremer, M.D., P.C., and Frederic B. Kremer, M.D., dated as of July 11, 2005 (incorporated by reference to Exhibit 2.2 to the Company's 10-Q for the three and nine months ended September 30, 2005)
10.21	Agreement and Plan of Merger By and Among Truvision, Inc. and TLC Wildcard Corp. and TLC Vision Corporation and TLC Vision (USA) Corporation and Lindsay T. Atwood dated as of October 27, 2005 (incorporated by reference to Exhibit 2.3 to the Company's 10-Q for the three and nine months ended September 30, 2005)
21	List of the Company's Subsidiaries (1)
23	Consent of Independent Registered Public Accounting Firm
31.1	CEO's Certification required by Rule 13A-14(a) of the Securities Exchange Act of 1934.
31.2	CFO's Certification required by Rule 13A-14(a) of the Securities Exchange Act of 1934.
32.1	CEO's Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, U.S.C. Section 1350
32.2	CFO's Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, U.S.C. Section 1350
99	Reconciliation between Canadian and United States Generally Accepted Accounting Principles

(1) Previously filed March 16, 2006.

* Management contract or compensatory plan arrangement.

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements (Form S-8, No. 333-115910, Form S-8, No. 333-116769, Form S-8, No. 333-71532, Form S-8, No. 333-55480, and Form S-8, No. 333-62907) of TLC Vision Corporation of our report dated March 10, 2006, except Notes 3 and 16, as to which the date is August 22, 2006, with respect to the consolidated financial statements and schedule of TLC Vision Corporation, and our report dated March 10, 2006 with respect to TLC Vision Corporation Management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of TLC Vision Corporation, included in the Annual Report (Form 10-K/A) for the year ended December 31, 2005.

/s/Ernst & Young LLP

St. Louis, Missouri
August 22, 2006

EXHIBIT 31.1

CERTIFICATION

I, James C. Wachtman, certify that:

1. I have reviewed this Amendment No. 1 on Form 10-K/A of TLC Vision Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 22, 2006

/s/ James C. Wachtman
James C. Wachtman
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Steven P. Rasche, certify that:

1. I have reviewed this Amendment No. 1 on Form 10-K/A of TLC Vision Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 22, 2006

/s/ Steven P. Rasche
Steven P. Rasche
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Amendment No. 1 of TLC Vision Corporation (the "Company") on Form 10-K/A for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James C. Wachtman, Chief Executive Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 22, 2006

/s/ James C. Wachtman
James C. Wachtman
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Amendment No. 1 of TLC Vision Corporation (the "Company") on Form 10-K/A for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven P. Rasche, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 22, 2006

/s/ Steven P. Rasche
Steven P. Rasche
Chief Financial Officer

EXHIBIT 99

RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

TLC Vision Corporation (the "Company") prepares its consolidated financial statements in accordance with United States ("U.S.") Generally Accepted Accounting Principles ("GAAP"), which differ in certain respects from Canadian GAAP. This reconciliation between Canadian and U.S. GAAP should be read in conjunction with the consolidated financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 and related management's discussion and analysis prepared in accordance with U.S. GAAP and filed with the Securities Exchange Commission and the Canadian securities regulatory authorities.

a) Reconciliation from U.S. GAAP to Canadian GAAP

Following is a reconciliation of net income (loss) from U.S. GAAP to Canadian GAAP:

	YEAR ENDED DECEMBER 31,		
	2005	2004	2003
	AS RESTATED	AS RESTATED	
Net income (loss) per U.S. GAAP	$ 8,119	$ 42,474	$ (9,399)
Amortization of Practice Management Agreements (1)	(1,512)	(1,512)	(1,512)
Depreciation of fixed assets (2)	(280)	(280)	(280)
Interest income on note receivable related to the sale-leaseback of building (3)	78	78	78
Variable accounting for stock options (4)	29	108	--
Fair value accounting of stock options (4)	(6,488)	(1,245)	--
Net income (loss) per Canadian GAAP	$ (54)	$ 39,623	$(11,113)
Net income (loss) per share for Canadian GAAP – basic	$ (0.00)	$ 0.58	$ (0.17)
Net income (loss) per share for Canadian GAAP – diluted	$ (0.00)	$ 0.56	$ (0.17)

The most significant balance sheet differences between U.S. GAAP and Canadian GAAP are as follows:

	DECEMBER 31, 2005	DECEMBER 31, 2004
Investments and Other Assets		
Balance per U.S. GAAP	$ 19,838	$ 10,482
Note receivable related to the sale-leaseback of building (2)	850	913
Balance per Canadian GAAP	$ 20,688	$ 11,395
Intangibles, Net		
Balance per U.S. GAAP	$ 24,021	$ 18,140
Difference in impairment write-off of intangibles (1)	6,334	6,334
Amortization of Practice Management Agreements (1)	(5,418)	(3,906)
Balance per Canadian GAAP	$ 24,937	$ 20,568
Fixed Assets, Net		
Balance per U.S. GAAP	$ 49,159	$ 46,199
Adjustment for the sale-leaseback of building (2)	(829)	(829)
Depreciation of fixed assets (2)	(1,258)	(978)
Balance per Canadian GAAP	$ 47,072	$ 44,392

	DECEMBER 31, 2005	DECEMBER 31, 2004 AS RESTATED
Long-Term Debt, Less Current Maturities		
Balance per U.S. GAAP	$ 12,665	$ 9,991
Adjustment for note payable related to the sale-leaseback of building (2)	787	850
Cumulative interest payments received on note receivable related to the sale-leaseback of building (3)	(309)	(224)
Balance per Canadian GAAP	$ 13,143	$ 10,617
Contributed Surplus		
Balance per U.S. GAAP	$ --	$ --
Adjustment for change in accounting policy related to the fair value accounting of stock options (4)	13,607	13,607
Adjustment for fair value accounting of stock options (4)	7,733	1,245
Balance per Canadian GAAP	$ 21,340	$ 14,852
Option and Warrant Equity		
Balance per U.S. GAAP	$ 1,861	$ 2,872
Adjustment to compensation expense for warrants and stock options (4)	(359)	(330)
Balance per Canadian GAAP	$ 1,502	$ 2,542
Accumulated Deficit		
Balance per U.S. GAAP	$(244,159)	$ (252,278)
Adjustment to the value of intangible Practice Management Agreements (1)	916	2,428
Adjustment for the sale-leaseback of building (2)	(2,087)	(1,807)
Cumulative interest on note receivable related to the sale-leaseback of building (3)	322	244
Adjustment to compensation expense for warrants and stock options (4)	(7,374)	(915)
Adjustment for change in accounting policy related to the fair value of stock options (4)	(13,607)	(13,607)
Balance per Canadian GAAP	$ (265,989)	$ (265,935)

(1) During the year ended May 31, 2002, the Company reviewed its Practice Management Agreements ("PMA's") for impairment based on budgets prepared for future periods. The refractive industry had experienced reduced procedure volumes over the prior two years as a result of increased competition, customer confusion and a weakening North American economy. This reduction in procedures had occurred at practices the Company had purchased, and as a result revenues were lower than anticipated when initial purchase prices and resulting intangible values were determined.

For U.S. GAAP purposes, the Company accounts for its intangible assets subject to amortization in accordance with Statement of Financial Accounting Standard ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 requires the impairment analysis first consider undiscounted cash flows in determining if an impairment exists. If an impairment is evident, a second calculation using a discounted cash flow method is utilized to determine the actual amount of the impairment. For U.S. GAAP purposes, the Company recorded an impairment charge of $31.0 million for the year ended May 31, 2002 related to its PMA's.

For Canadian GAAP purposes, the Company measured the initial impairment charge in accordance with the Canadian Institute of Chartered Accountant's ("CICA") Handbook Section 3060, "Capital Assets", the Canadian GAAP rules in existence during the

year ended May 31, 2002 (“CICA 3060”). CICA 3060 required an impairment charge to be recognized when the expected future undiscounted cash flows do not exceed the carrying value of such assets.

As at May 31, 2002, this resulted in a $6.3 million difference in the write-down of the PMA’s between U.S. and Canadian GAAP ($24.7 million). This difference in the initial measurement of the impairment further resulted in a difference to the amortization expense in subsequent periods, resulting in an additional $5.4 million of amortization expense for Canadian GAAP compared to U.S. GAAP through December 31, 2005.

During 2003, the CICA issued CICA 3061, Property, Plant and Equipment which is consistent with U.S. GAAP, however retroactive adoption of this change was not required.

(2) During the year ended May 31, 2002, the Company completed a sale-leaseback transaction. Total consideration received for the sale of the building and related land was $6.4 million, which was comprised of $5.4 million in cash and a $1.0 million 8.0% note receivable ("Note"). The Note has a seven-year term with the first of four annual payments of $63,000 starting on the third anniversary of the sale and a final payment of $0.7 million due on the seventh anniversary of the sale.

For U.S. GAAP purposes, this transaction was accounted for in accordance with SFAS 98, “Accounting for Leases” (“SFAS 98”). SFAS 98 prohibits sale recognition on a sale-leaseback transaction when the sublease is considered to be minor and the only recourse to any future amounts owing from the other party is the leased asset. A sublease is considered to be minor when the present value of the sublease rent is less than 10% of the total fair market value. The Company accounted for the transaction as a financing transaction which requires sale proceeds to be recorded as a liability and for the Note to not be recognized. In addition, since the sale recognition is not accounted for, the carrying value of the asset is not adjusted for and the asset continues to be depreciated over the original depreciation period of 40 years. Lease payments, exclusive of an interest portion, decrease the liability while payments received on the Note increase the liability.

For Canadian GAAP purposes, the sale-leaseback transaction was accounted for in accordance with Emerging Issues Committee No. 25, “Accounting for Sales with Leasebacks”, which resulted in the Company recognizing a loss on the sale with a corresponding lease asset and lease obligation. The terms of the lease are considered capital in nature and accordingly the land and building are reflected as assets under capital lease with the discounted value of the lease payments recorded as an obligation under capital lease. The fair value of the assets under capital lease was less than its previous carrying value and accordingly a write down of approximately $0.8 million was reflected in the consolidated statement of operations for the year ended May 31, 2002.

For U.S. GAAP purposes, depreciation expense reflects the higher net book value of the building depreciated over a 40-year expected life. For Canadian GAAP purposes, the building is depreciated over the 15-year life of the lease and the Note ($0.9 million as of December 31, 2005) is included in investments and other assets.

As of December 31, 2005, as a result of the difference in the initial accounting treatment of the sale-leaseback transaction and subsequent differences in depreciation expense recorded, the net book value of the building is $2.1 million higher for U.S. GAAP. Investments and other assets is $0.9 million higher and notes payable is $0.5 million higher (of which $0.5 million is classified as long-term) for Canadian GAAP. For each of the years ended December 31, 2005, 2004 and 2003, depreciation expense is higher for U.S. GAAP by $280,000.

(3) For each of the years ended December 31, 2005, 2004 and 2003, the Company reported $78,000 of interest income related to the Note on the sale-leaseback of the building as described above.

As of December 31, 2005, $13,000 of interest income was not yet received, and the associated interest receivable was included in prepaids and other current assts for Canadian GAAP purposes. In the above U.S. GAAP to Canadian GAAP reconciliation, cumulative interest payments received of $309,000 are recorded as reductions to long-term debt in order to adjust the U.S. GAAP treatment of the payments, which increases the debt upon their receipt.

(4) For U.S. GAAP purposes, the Company has adopted the disclosure requirements of SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”) and as permitted under SFAS 123, applies Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) and related interpretations in accounting for its stock option plans. SFAS 123 requires disclosure of pro forma amounts to reflect the impact if the Company had elected to adopt the optional recognition provisions of SFAS 123 for its stock option plans and employee stock purchase plans.

For Canadian GAAP purposes, the Company accounts for its stock options in accordance with the provisions of CICA Section 3870, "Stock-Based Compensation and Other Stock-Based Payments," ("CICA 3870").

CICA 3870, issued in December 2001, established standards for the recognition, measurement and disclosure of stock-based compensation, and other stock-based payments. Under the provisions of CICA 3870, prior to January 1, 2004, companies could either measure the compensation cost of equity instruments issued under employee compensation plans using a fair value-based method or could recognize compensation cost using another method, such as the intrinsic value-based method. However, if another method was applied, pro forma disclosure of net income or loss and earnings or loss per share was required in the financial statements as if the fair value-based method had been applied. Effective January 1, 2004, CICA 3870 requires that all stock-based compensation be measured and expensed using a fair value-based methodology.

Prior to January 1, 2004, the Company recognized employee stock-based compensation under the intrinsic value-based method and provided pro forma disclosure of net income or loss and earnings or loss per share as if the fair value-based method had been applied. Effective January 1, 2004, the Company adopted for Canadian GAAP purposes the fair value-based method for recognizing employee stock-based compensation on a retroactive basis to January 1, 1996, without restatement of prior periods. At January 1, 2004, the cumulative effect of the change in accounting policy on prior periods resulted in a charge to accumulated deficit of $13.6 million which represents the sum of the previously disclosed pro forma fair value adjustments with a corresponding increase to contributed surplus.

For the years ended December 31, 2005 and 2004, the Company recorded for Canadian GAAP purposes stock-based compensation expense, net of minority interests, of $6.5 million and $1.2 million, respectively, which is included in general and administrative expenses. The fair values of TLC*Vision*'s options granted in 2005 and 2004 were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 3.99% and 2.84%, respectively; dividend rate of 0%; volatility factor of 0.75; and expected life of 2.5 years. The fair values of OccuLogix's options granted in 2005 were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 3.88%; dividend rate of 0%; volatility factor of 0.73; and expected life of 2.4 years.

TLC*Vision* issued 0.2 million and 1.0 million stock options during 2005 and 2004, respectively. OccuLogix issued 1.8 million stock options during 2005.

No compensation expense determined under fair value-based method for stock options was included in the determination of net loss for the year ended December 31, 2003. For the year ended December 31, 2003, the following table presents the Company's pro forma net loss and net loss per share as if the fair value-based method of CICA 3870 had been applied for all stock options granted:

	YEAR ENDED DECEMBER 31, 2003
Net loss per Canadian GAAP	$ (11,113)
Total pro forma stock-based compensation expense determined under fair value-based method	(1,121)
Pro forma net loss	$ (12,234)
Basic and diluted net loss per share	
As reported	$ (0.17)
Pro forma	$ (0.19)

The fair value of the options granted in 2003 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.35%; dividend rate of 0%; volatility factor of 0.75; and expected life of 2.5 years.

During the year ended May 31, 2002, the Company allowed the holders of outstanding TLC Vision Corporation stock options with an exercise price greater than $8.688 (C$13.69) to elect to reduce the exercise price of their options to $8.688 (C$13.69), in some cases by surrendering existing options for a greater number of shares than the number of shares issuable on exercise of each repriced option. For U.S. GAAP purposes, such modification which results in a change in the exercise price of the underlying stock options is subject to APB 25's variable method of accounting for stock options. Variable accounting requires that differences between the price of the Company's common shares at the end of each reporting period and the modified exercise price be charged to income as compensation expense over the remaining vesting period of the outstanding options. For the year

ended December 31, 2004, the Company recognized, for U.S. GAAP purposes, additional stock compensation expense of $108,000 related to the modified stock options.

CICA 3870 does not require the application of variable method of accounting for stock options.

b) Management's Discussion and Analysis – Canadian Supplement

Management's Discussion and Analysis – Canadian Supplement ("Canadian Supplement") in this document is based on consolidated financial statements of TLC Vision Corporation prepared in accordance with U.S. GAAP. The Canadian Supplement has been prepared by management to provide an analysis of the impact of material differences that differ from U.S. GAAP on net income and trending analysis of the consolidated statements of operations.

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

Net loss for the year ended December 31, 2005 was $0.1 million or $0.00 per share compared to income of $39.6 million or $0.56 per share for the year ended December 31, 2004. The decrease in net income was primarily due to an increase in fair value stock option compensation expense, an increase in non-cash income tax expense and a significant decrease in net income from the AMD segment.

Amortization expense was $5.6 million for the years ended December 31, 2005 and 2004. Amortization expense included lower expenses from certain fully amortized intangible assets offset by increases from intangibles acquired during the year ended December 31, 2005.

Net cash provided by operating activities was $22.5 million for the year ended December 31, 2005. The cash flows provided by operating activities during the year ended December 31, 2005 were primarily due to a net loss of $0.1 million plus non-cash items including depreciation and amortization of $18.1 million, deferred taxes of $5.1 million, minority interest expense of $1.3 million and compensation expense of $7.9 million. These cash flows were partially offset by an increase in net operating assets of $7.7 million and earnings from equity investments of $2.5 million. The increase in net operating assets consisted of a $3.0 million increase in accounts receivable due primarily to higher revenues, a $2.0 million increase in prepaid expenses and a $2.8 million decrease in accounts payable and accrued liabilities.

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Net income for the year ended December 31, 2004 was $39.6 million or $0.56 per share compared to a net loss of $11.1 million or $0.17 per share for the year ended December 31, 2003. The significant improvement in net income primarily resulted from significant growth in both the refractive and other healthcare services businesses and a gain on the sale of OccuLogix's common stock.

Amortization expense decreased to $5.6 million for the year ended December 31, 2004 from $8.2 million for the year ended December 31, 2003. The decrease was largely due to the reduction in Practice Management Agreements resulting from the deconsolidation of LECC.

Net cash provided by operating activities was $35.4 million for the year ended December 31, 2004. The cash flows provided by operating activities during the year ended December 31, 2004 were primarily due to net income of $39.6 million plus non-cash items including depreciation and amortization of $19.5 million, minority interest expense of $7.0 million, the write-off of investments related to research and development arrangements of $0.8 million, deferred taxes of $1.2 million, compensation expense of $1.6 million and the loss on sale of fixed assets of $0.8 million. These cash flows were offset by an increase in net operating assets of $5.0 million, a gain on sale of subsidiary stock of $25.8 million, earnings from equity investments of $2.1 million, an adjustment to the fair value of investments and long-term receivables of $1.2 million and a gain on sale of interest in subsidiary of $1.1 million. The increase in net operating assets consisted of a $1.5 million increase in accounts receivable due primarily to higher revenues, a $1.8 million increase in prepaid expenses and a $1.7 million decrease in accounts payable and accrued liabilities.

c) For comparative purposes, the following tables illustrate previously filed financial statements in accordance with both Canadian GAAP and U.S. GAAP for the year ended December 31, 2003. Differences between Canadian GAAP and U.S. GAAP are described above.

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars except per share amounts)

	YEAR ENDED DECEMBER 31, 2003	
	Canadian GAAP	U.S. GAAP
Revenues:		
Refractive:		
Centers	$ 115,290	$ 115,290
Access	36,140	36,140
Other healthcare services	49,488	49,488
Total revenues	200,918	200,918
Cost of revenues:		
Refractive:		
Centers	91,283	91,283
Access	25,424	25,424
Other healthcare services	31,836	31,836
Total cost of revenues	148,543	148,543
Gross margin	52,375	52,375
General and administrative	27,281	27,001
Marketing	18,781	18,781
Research and development	1,598	1,598
Amortization of intangibles	8,197	6,685
Other expenses, net	1,165	1,165
	57,022	55,230
Operating loss	(4,647)	(2,855)
Interest income	1,458	1,380
Interest expense	(2,744)	(2,744)
Minority interests	(4,672)	(4,672)
Loss before income taxes	(10,605)	(8,891)
Income tax expense	(508)	(508)
Net loss	$ (11,113)	$ (9,399)
Net loss per share – basic and diluted	$ (0.17)	$ (0.15)
Weighted average number of common shares outstanding – basic and diluted	64,413	64,413

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)

	YEAR ENDED DECEMBER 31, 2003	
	Canadian GAAP	**U.S. GAAP**
Net loss	$ (11,113)	$ (9,399)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	24,385	22,593
Write-off of investment in research and development arrangement	1,598	1,598
Minority interests	4,672	4,672
Loss (gain) on sales and disposals of fixed assets	(484)	(484)
Adjustments to the fair values of intangibles, long-term receivables and long-term liabilities	(206)	(206)
Non-cash compensation expense	125	125
Other	677	677
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	(489)	(489)
Prepaid expenses, inventory and other current assets	(1,042)	(964)
Accounts payable and accrued liabilities	(13,831)	(13,831)
Cash from operating activities	4,292	4,292
INVESTING ACTIVITIES		
Purchases of fixed assets	(4,433)	(4,433)
Proceeds from sale of fixed assets	578	578
Proceeds from divestitures of investments and subsidiaries, net	221	221
Investment in research and development arrangements	(1,598)	(1,598)
Acquisitions and equity investments	(8,015)	(8,015)
Proceeds from short-term investments	15,709	15,709
Purchases of short-term investments	(21,050)	(21,050)
Other	(229)	(229)
Cash from investing activities	(18,817)	(18,817)
FINANCING ACTIVITIES		
Restricted cash movement	2,599	2,599
Principal payments of debt financing and capital leases	(8,018)	(8,018)
Proceeds from debt financing	3,450	3,450
Distributions to minority interests	(4,901)	(4,901)
Proceeds from the issuances of common stock	8,744	8,744
Cash from financing activities	1,874	1,874
Net decrease in cash and cash equivalents during the period	(12,651)	(12,651)
Cash and cash equivalents, beginning of period	34,231	34,231
Cash and cash equivalents, end of period	$ 21,580	$ 21,580

SHAREHOLDER INFORMATION

U.S. Corporate Office

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16305 Swingley Ridge Road
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F: (636) 534-2301

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5280 Solar Drive, Suite 100
Mississauga, Ontario L4W 5M8
T: (905) 602-2020
T: 1-800-852-1033
F: (905) 602-2025

Transfer Agent and Shareholder Records

Shareholders requiring information or assistance regarding individual stock records or stock certificates should contact the Transfer Agent:

The CIBC Mellon Trust Company
T: 1-800-387-0825

Independent Auditors

Ernst & Young LLP

Stock Exchange Listing

Shares of the Corporation are listed on the NASDAQ National Market and the Toronto Stock Exchange.

Trading Symbols

NASDAQ – TLCV
TSX – TLC

On the Internet

Interested investors may browse TLC*Vision*'s Website at www.tlcv.com to obtain regularly updated information including press releases, Webcasts, share trading data, quarterly reports and financial statements.

Investor Relations

Shareholders, analysts, investment professionals, members of the media and potential investors who would like information about TLC*Vision*'s activities should contact:

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Executive Vice President
of Corporate Communications
T: (636) 534-2271
T: 1-888-289-5824
F: (636) 534-2301
E-mail: investor.relations@tlcvision.com

Form 10-K

Additional copies of the Company's Annual Report on Form 10-K (without exhibits) are available from the Company at no charge. Requests should be directed to Cindy Stahl, Communications Specialist, at the Company's U.S. Corporate Office.

Annual and Special Meeting

The Company's annual and special meeting of shareholders is scheduled for June 22, 2006, at 9:00 a.m. Eastern Time at the Dominion Club, 1 King Street West, Toronto, Ontario.

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TLC Vision®

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