



## **GOVERNANCE GUIDELINES AND PRINCIPLES**

### **A. Role of the Board**

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of LCA-Vision Inc. (the "Company"). A director may, in considering the best interests of the Company, consider the effects of any action on stockholders, employees, suppliers, and customers of the Company, and communities in which offices or other facilities of the Company are located, and any other factors the director considers pertinent. The Board believes that day-to-day management of the Company is the responsibility of management and that the role of the Board is to oversee executive management's performance of that function and to lead the CEO and executive management succession process. In discharging their obligation, directors shall be entitled to rely reasonably on the competence and integrity of the Company's executive management and its outside advisors and auditors. The Board reviews the annual operating plan and specific goals of the Company at the start of the fiscal year and reviews financial performance quarterly. The Board expects that long-range strategic and risk management issues will be discussed regularly at Board meetings. The Board believes that the long-term success of the Company depends on maintaining an ethical business environment and expects that management will conduct the operations of the Company in a manner consistent with the Board's philosophy. The Board believes that the management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company, but it is expected that Board members would do this with the knowledge of the management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of the management.

### **B. Composition of the Board**

The Board will be composed of between three to fifteen directors. A substantial majority of the Board must be independent directors. The Chief Executive Officer of the Company may serve as a director, at the discretion of the Board. No more than three current employees of the Company may serve on the Board at any time. Nominees for directorship will be selected by the Nominating and Governance Committee in accordance with the policies and principles in its charter. Any invitation to join the Board should be extended by the Board itself, by the Chairman of the Nominating and Governance Committee and by the Chairman of the Board collectively.

**C. Definition of Independent Director**

The Board of Directors will make an annual affirmative determination of the independent or non-independent status of each director, based on the recommendation of the Nominating and Governance Committee and any applicable listing criteria, the federal securities laws and the rules and regulations of the Securities and Exchange Commission ("SEC"). A director will not qualify as independent unless he has no material relationship with the Company apart from his service as a director. The Board will use the following standards to assist in making this determination. An independent director is one who:

Is not an employee of the Company and has not been an employee of the Company for at least five years;

Is not an employee or affiliate of the Company's present auditing, firm or an auditing firm retained by the Company within the past five years and has not been an employee or affiliate of such a firm for at least five years;

Is not an employee of a company on whose board an executive of the Company presently serves as a director or has served as a director within the past five years and has not been an employee of such a company for at least five years;

Is not an employee of a company that accounts for at least 2% or \$1 million, whichever is greater, of the Company's consolidated gross revenues, and has not been an employee of such a company for at least five years;

Is not an employee of any company for which the Company accounted for at least 2% or \$1 million, whichever is greater, of the company's consolidated gross revenues; and has not been an employee of such a company for at least five years;

Is not an employee or director of any company that makes direct material investments or trades in the Company's stock;

Does not currently receive any direct or material indirect compensation from the Company other than the standard directors' compensation package which shall include fees paid to directors for service as chairs of committees or as non-employee chair of the Board;

Does not have any other relationship with the Company or any other entity, including charitable and civic organizations that in the opinion of the Board could be considered to effect the director's ability to exercise his independent judgment as a director; and

Is not an immediate family member of any individual who would fail to meet the criteria for independence set forth above.

**D. Qualification of Members**

The Nominating and Governance Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of new Board members as well as the composition of the Board as a whole. This assessment will include members' qualification as independent, as well as consideration of age, skills, experience and diversity in the context of the needs of the Board. The Nominating and Governance Committee will oversee the director selection process with input from the CEO and will recommend director candidates to the full Board for approval.

Stockholders may suggest possible director candidates by written request to the attention of the Company's Secretary, who will then forward the suggestions to the Nominating and Governance Committee. The submission must include sufficient information regarding the potential nominee to determine the qualifications of such person. Candidates suggested by stockholders will be considered on the same basis as those suggested to the Nominating and Governance Committee by other individuals.

**E. Board Participation and Professionalism**

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Directors are expected to prepare in advance for Committee and Board meetings by reading Board materials and by giving due consideration to matters that will come before the Board or Committee. Directors are expected to contribute actively to Board and Committee meetings.

**F. Retirement Age and Term Limits**

A director will submit an offer of resignation to be effective at the next annual meeting after the date on which he/she reaches the age of 72. The Nominating and Governance committee will review each director's continuation on the Board annually. This will allow each director the opportunity to confirm his or her desire to continue as a member of the Board. The Nominating and Governance Committee may recommend that an exception to this policy should be made to allow a director to serve for additional terms upon approval of the full Board.

**G. Board and Committee Performance Reviews**

The Board and its various committees will, at least annually, conduct a self-evaluation to assess the effectiveness of the Board and its committees, as well as director performance and Board dynamics. The evaluations should include the Board and Committee's contribution as a whole and specific areas in which improvements could be made.

## **H. CEO Performance Evaluation**

The independent directors will annually review and evaluate the performance of the CEO in accordance with a written process and based upon objective criteria. Such criteria shall include performance of the business and accomplishment of objectives previously established in consultation with the CEO.

The results of the review and evaluation are to be communicated to the Compensation Committee and are to be used in considering the compensation of the CEO. CEO compensation will be approved by the independent directors, unless all are also members of the Compensation Committee.

## **I. Committees of the Board**

The current standing Board committees are the Nominating and Governance, Audit, and Compensation Committees. In addition to the standing committees, the Board may establish, from time to time, such ad hoc committees as may be desirable for specific purposes. The Board will have at all times an Audit Committee, a Compensation Committee, and a Nominating and Governance Committee. All of the members of these committees will be independent directors under the criteria described in these guidelines within the periods mandated by the SEC. Each committee will have a written charter to govern and guide its duties and responsibilities. The charters will also provide that each committee will annually evaluate its performance. The Chairman of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda. At the beginning of the year each committee will establish a schedule of agenda subjects to be discussed during the year (to the degree these can be foreseen). The schedule for each committee will be furnished to all directors. The Board and each committee have the power to hire independent legal, financial or other advisors, as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance. The Board may establish other committees as circumstances warrant. The Chairman of the Board will recommend appointments to committees and committee chair positions, which will be determined by the full Board. It is the sense of the Board that consideration should be given to rotating committee members periodically, but the Board does not feel that rotation should be mandated as a policy.

## **J. Removal and Resignation From The Board**

Directors are expected to offer to resign from the Board when they change employment or the major responsibilities they held when they joined the Board. . The Nominating and Governance Committee shall recommend to the Board the action to be taken with respect to any such resignation.

**K. Voting for Directors**

Any nominee for director who receives a greater number of votes "withheld" from his or her election than votes "for" such election shall tender his or her resignation for consideration by the Nominating and Governance Committee. The Nominating and Governance Committee shall recommend to the Board the action to be taken with respect to such resignation.

**L. Other Service**

The Board believes that directors should limit the number of boards on which they serve to the extent necessary to give proper attention to each board's responsibility. If a director wishes to join the board of another company, it is expected that he will advise the Chairman of the Board. The Chairman will then consult with the Nominating and Governance Committee regarding whether the new commitment will allow the director to continue to fulfill his obligations to the Company.

**M. Meetings of Independent Directors**

The independent directors will meet in separate session at least four times each year. Topics to be considered in independent director sessions shall include, but not be limited to:

Discussing the CEO evaluation and compensation;

Discussing management succession issues;

Assessing the scope, content and frequency of information provided to the Board by management and recommending improvements; and

Developing recommendations for future Board agendas.

If the Chairman of the Board is not an independent director, the Chairmanship of the meetings of the independent directors, meeting in separate session, will be rotated among all of the independent directors on an alphabetical basis. Each independent director will serve in such capacity for a period of one (1) year. (The name of the director who presides at these meetings or the procedure by which such director is selected will be disclosed in the annual proxy statement.)

**N. Meeting Frequency and Attendance**

The number of regularly scheduled meetings per year for the Board of Directors and its committees shall, at a minimum, be as follows:

Board of Directors — four (4)

Audit Committee - six (6)

Nominating and Governance Committee - two (2)

Compensation Committee - two (2)

Members are expected to attend Board and committee meetings in person unless the meeting is scheduled as a telephone meeting.

**O. Meeting Agenda and Materials**

The Chairman of the Board will determine the agenda for Board meetings with input from the full Board. Directors are encouraged to suggest agenda items and the Chairman will periodically solicit suggestions from directors. Agendas and materials related to agenda items will be provided to directors sufficiently in advance of meetings to allow directors to prepare for discussion of those items. Each Board member may raise at any Board meeting subjects that are not on the agenda for that meeting. The Board will review the Company's long-term strategic plans and the principal issues that the Company will face in the future during at least one Board meeting each year.

**P. Compensation of Directors**

The form and amount of director compensation will be recommended to the Board by the Nominating and Governance Committee in accordance with the policies and principles set forth in its charter. The Committee should regularly review director compensation and make recommendations to the Board regarding any appropriate modifications. Director compensation should support the Company's goal of attracting and retaining the most qualified persons to the Board. Director compensation should include stock based components to align the interests of the directors with those of the stockholders of the Company.

**Q. Management Development and Succession Planning**

The Chief Executive Officer will report annually to the Board on management development and succession planning. The Nominating and Governance Committee should make an annual report to the Board on succession planning. The entire Board will work with the Nominating and Governance Committee to nominate and evaluate potential successors to the CEO. The CEO should at all times make available his recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

**R. Stock Ownership**

It is the intention of the Company that the interests of the members of the Board and executives be aligned with those of the stockholders. Therefore, in the case of each director and named executive officer, stock ownership in the Company with a cost basis of at least \$100,000 is encouraged through stock ownership guidelines adopted by the Board. This level of investment is expected to be achieved within five years of the individual being appointed a director or named executive officer at a cumulative rate of at least one-fifth, or \$20,000, each year. Equity awards by the Company to the directors and executives shall be included in determining compliance with the stock ownership guidelines and valued at the amount that is included as taxable compensation by the recipient. Vested (but not unvested) stock options shall also be included, valued at the strike price of the options that vest. Upon the request of a director or named executive, the Nominating and Governance Committee may consider a waiver of the guidelines in view of the personal circumstances of the director or executive.

**S. Conflicts of Interest**

Any situation that might be construed as disqualifying a director as "independent" should be brought to the attention of the Nominating and Governance Committee which shall make a recommendation to the Board regarding the director's continued service on Board Committees and his nomination for election to the Board at the next stockholder meeting.

**T. Director Access to Officers and Employees**

Directors will have full and free access to officers and employees of the Company. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO or the Secretary or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and will, to the extent not inappropriate, copy the CEO on any written communications between a director and an officer or employee of the Company. The Board encourages periodic attendance at Board meetings by senior officers of the Company as well as by high potential/high performance employees with which management wishes to familiarize the directors.

**U. Director Orientation and Continuing Education**

All new directors will make themselves available to meet with senior management to familiarize directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Ethics, its principal officers, and its internal and independent auditors. All directors are encouraged to participate in director continuing education programs they deem appropriate. The Company will reimburse a director in accordance with standard practices for attendance at up

to two (2) programs in any eighteen (18) month period. Management will periodically apprise the directors of continuing education programs that become known to it. Additionally, management will monitor significant corporate governance initiatives and will periodically present to the directors those topics which merit updated or refresher education/information as appropriate.

**V. Policy on Poison Pills**

The Company does not have a Rights Agreement or "Poison Pill" currently in place. The Board shall seek and obtain stockholder approval before adopting a Rights Agreement or "Poison Pill"; provided, however, that the Board may determine to act on its own to adopt a Poison Pill, if, under the circumstances, the Board, including the majority of the independent members of the Board, in its exercise of its fiduciary responsibilities, deems it to be in the best interest of the Company's stockholders to adopt a Poison Pill without the delay in adoption that would come from the time reasonably anticipated to seek stockholder approval. If the Board were to adopt a Poison Pill without prior stockholder approval, the Board would either submit the Poison Pill to stockholders for ratification, or would cause the Poison Pill to expire within one year.

The Nominating and Governance Committee will review this Poison Pill statement on an annual basis, including the stipulation which addresses the Board's fiduciary responsibility to act in the best interest of the stockholders without prior stockholder approval and report to the Board any recommendations it may have concerning the policy.

**W. Annual Review of Guidelines**

The Nominating and Governance Committee shall review these guidelines on at least an annual basis and report to the Board with any recommendations it may have in connection therewith.

The foregoing guidelines will be posted on the Company's web site and paper copies will be made available to interested parties upon request. The Company's Annual Report to Stockholders will include a statement to this effect.

As amended effective February 17, 2011