

**EDWARDS LIFESCIENCES CORPORATION**  
**Unaudited Consolidated Statements of Operations**

(in millions, except per share data)	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2006	2005	2006	2005
Net sales	\$265.6	\$249.7	\$1,037.0	\$997.9
Cost of goods sold	97.4	89.6	373.6	374.6
Gross profit	168.2	160.1	663.4	623.3
Selling, general and administrative expenses	95.1	87.1	376.0	348.7
Research and development expenses	30.0	25.8	114.2	99.0
Purchased in-process research and development expenses	-	-	-	1.2
Special charges (gains)	18.0	1.2	(4.5)	48.2
Interest expense, net	0.4	1.4	2.7	9.7
Other expenses (income), net	1.0	1.1	2.7	(0.2)
Income before provision for income taxes	23.7	43.5	172.3	116.7
Provision for income taxes	3.0	4.9	41.8	37.4
Net income	\$20.7	\$38.6	\$130.5	\$79.3

**Earnings per share:**

Basic earnings per share	\$0.36	\$0.65	\$2.23	\$1.33
Diluted earnings per share	\$0.34	\$0.61	\$2.10	\$1.27

**Weighted average common shares outstanding:**

Basic	57.7	59.5	58.5	59.6
Diluted	60.4	64.9	63.9	62.3

**Operating Statistics**

As a percentage of net sales:

Gross profit	63.3%	64.1%	64.0%	62.5%
Selling, general and administrative expenses	35.8%	34.9%	36.3%	34.9%
Research and development expenses	11.3%	10.3%	11.0%	9.9%
Income before provision for income taxes	8.9%	17.4%	16.6%	11.7%
Net income	7.8%	15.5%	12.6%	7.9%
Effective tax rate	12.7%	11.3%	24.3%	32.0%

**Reconciliation of Diluted Earnings per Share**

Net income	\$20.7	\$38.6	\$130.5	\$79.3
Adjustment for interest expense included in net income	-	1.0	4.0	-
Adjusted net income	\$20.7	\$39.6	\$134.5	\$79.3
Weighted average common shares outstanding used to calculate diluted earnings per share excluding contingent convertible debt	60.4	62.2	61.2	62.3
Weighted average common shares outstanding for the contingent convertible debt	-	2.7	2.7	-
Weighted average common shares outstanding used to calculate diluted earnings per share including the contingent convertible debt	60.4	64.9	63.9	62.3
Diluted earnings per share including the contingent convertible debt	\$0.34	\$0.61	\$2.10	\$1.27

Note: Numbers may not foot due to rounding

**EDWARDS LIFESCIENCES CORPORATION**  
**Unaudited Balance Sheets**  
(in millions)

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$182.8	\$178.6
Accounts and other receivables, net	127.1	118.5
Inventories, net	142.1	131.5
Deferred income taxes	21.8	27.6
Prepaid expenses and other current assets	<u>57.8</u>	<u>58.0</u>
Total current assets	531.6	514.2
Property, plant and equipment, net	213.0	201.9
Goodwill	337.7	337.7
Other intangible assets, net	116.1	137.7
Investments in unconsolidated affiliates	20.2	10.7
Deferred income taxes	14.5	11.5
Other assets	<u>13.7</u>	<u>15.4</u>
Total assets	<u><u>\$1,246.8</u></u>	<u><u>\$1,229.1</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$226.2	\$194.2
Long-term debt	235.9	316.1
Other long-term liabilities	35.3	28.8
<b>Stockholders' equity</b>		
Common stock	67.0	65.6
Additional contributed capital	603.7	536.7
Retained earnings	433.9	303.4
Accumulated other comprehensive loss	(15.8)	(22.2)
Common stock in treasury, at cost	<u>(339.4)</u>	<u>(193.5)</u>
Total stockholders' equity	<u>749.4</u>	<u>690.0</u>
Total liabilities and stockholders' equity	<u><u>\$1,246.8</u></u>	<u><u>\$1,229.1</u></u>

## EDWARDS LIFESCIENCES CORPORATION

### Non-GAAP Financial Information

To supplement the consolidated financial results prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), the Company uses non-GAAP financial measures that exclude certain items, such as in-process research and development expenses, special charges and gains, results of discontinued products, and fluctuations in exchange rates. Management does not consider the excluded items part of day-to-day business or reflective of the core operational activities of the Company as they result from transactions outside the ordinary course of business. Management has also excluded the impact of implementing Financial Accounting Standards Board Statement No. 123(R) ("FAS 123(R)") "Share Based Compensation" for year-over-year comparison purposes.

Management uses non-GAAP financial measures internally for strategic decision making, forecasting future results and evaluating current performance. Certain guidance is provided only on a non-GAAP basis that excludes special items, foreign exchange fluctuations and the impact of option expensing due to the inherent difficulty in forecasting such items. By disclosing non-GAAP financial measures, management intends to provide investors with a more meaningful, consistent comparison of the Company's core operating results and trends for the periods presented.

Non-GAAP financial measures are not prepared in accordance with GAAP; therefore, the information is not necessarily comparable to other companies and should be considered as a supplement to, not a substitute for, nor superior to, the corresponding measures calculated in accordance with GAAP.

#### **The items described below are excluded from the GAAP financial results in the reconciliations that follow:**

**Cost of Goods Sold** - The Company incurred a \$2.0 million charge for the inventory written off as a result of the discontinuance of the Optiwave Laser Ablation System in the fourth quarter 2006. Given the magnitude and unusual nature of this expense relative to the operating results for the period presented, this expense has been excluded in non-GAAP net income.

**Purchased In-Process Research and Development** - The Company incurred purchased in-process research and development expenses related to a technology acquisition for \$1.2 million in the third quarter of 2005. Given the magnitude and unusual nature of this expense relative to the operating results for the periods presented, this expense have been excluded in non-GAAP net income.

**Special Charges (Gains), net** - The Company incurred certain special charges and gains in 2006 and 2005 related to the following:

- 1) *PVT milestone: \$10.0 million charge for achieving a transcatheter clinical milestone with PVT, Inc. in the fourth quarter 2006;*
- 2) *Realignment expenses: \$ 7.3 million for severance expenses resulting from a resource realignment in the fourth quarter of 2006, \$2.1 million charge for primarily severance expenses in the first quarter of 2006 resulting from the planned closing of a manufacturing facility, and \$3.9 million charge in the fourth quarter of 2005 for primarily severance expenses resulting from a resource realignment;*
- 3) *Discontinued products: \$6.8 million charge for discontinuance of the Optiwave Laser Ablation System in the fourth quarter 2006, and \$1.4 million charge for an early contract termination in the fourth quarter of 2005;*
- 4) *Gain on sale of products: \$6.1 million gain from the sale of the angiogenesis program in the fourth quarter 2006, \$4.5 million gain from the sale of a non-strategic product in the second quarter of 2006; \$5.7 million gain from cash received in the first quarter of 2006 as the final earn-out payment in the prior year's sale of the Japan Perfusion product line to Terumo, \$2.0 million net proceeds from the sale of the Japan Perfusion product line to Terumo in the first quarter of 2005, \$1.0 million charge for pension curtailment in the fourth quarter 2005 related to the sale of the Japan Perfusion, \$13.1 million net gain on the sale of the ePTFE vascular graft business in fourth quarter of 2005;*
- 5) *Settlements and litigation gains, net: \$20.2 million gain from a patent settlement with Medtronic in the first quarter 2006, \$5.4 million charge related to two royalty settlements in the fourth quarter of 2005, and a \$2.5 million gain related to intellectual property litigation in the third quarter of 2005;*
- 6) *Impairment of assets held for sale: \$2.6 million impairment charge in the second quarter of 2006 related to the revaluation of the company's remaining international perfusion product assets;*
- 7) *Restructure 3F Therapeutics agreements: \$22.8 million charge for restructuring the 3F Therapeutics agreements in the second quarter of 2005, and a \$2.0 million charge for the final obligation to 3F in the third quarter of 2006;*
- 8) *Litigation reserves: \$1.2 million charge for litigation reserves in the second quarter 2006;*
- 9) *Investment impairments: \$4.8 million, \$8.9 million, and \$2.6 million related to the impairment of certain investments in the second, third and fourth quarters of 2005, respectively;*
- 10) *Charitable Fund Contribution: \$15.0 million contribution to Edwards Lifesciences charitable fund in the third quarter of 2005.*

Given the magnitude and unusual nature of these special charges and gains relative to the operating results for the periods presented, these items have been excluded from non-GAAP net income.

## **EDWARDS LIFESCIENCES CORPORATION**

### **Non-GAAP Financial Information, Continued**

**Provision (Benefit) From Income Taxes** - The Company benefited from \$3.2 million of favorable audit settlements in the fourth quarter of 2006; benefited \$3.7 million in the second quarter of 2006 related to the reversal of a valuation allowance related to a capital loss; benefited \$8.0 million in the fourth quarter of 2005 related to the reversal of a valuation allowance related to a capital loss; and incurred \$15.8 million of tax expense in the third quarter of 2005 related to the repatriation of cash. Given the magnitude and unusual nature of these tax events relative to the periods presented, these items have been excluded from non-GAAP net income.

**Stock Option Expensing** - Non-GAAP financial measures exclude the impact of implementing FAS 123(R) in 2006. In the fourth quarter 2006, net stock option and employee stock purchase plan expense of \$4.9 million was allocated as follows: \$0.7 million to cost of goods sold, \$3.3 million to SG&A expenses, \$0.9 million to R&D expenses, with \$1.2 million of tax benefit. For the year ended December 31, 2006, net stock option and employee stock purchase plan expense of \$19.3 million was allocated as follows: \$2.7 million to cost of goods sold, \$12.9 million to SG&A, \$3.7 million to R&D expenses, with \$5.5 million of tax benefit.

**Results of Discontinued Products** – The Company has exited certain products during the periods presented. As discontinued products do not have a continuing contribution to operations, management believes that excluding such items from the Company's sales growth provides investors with a means of evaluating the Company's on-going operations. In light of the significance of the impact these products had on the sales growth of the Company, the sales results of these products have been detailed in the Reconciliation of Sales by Product Line and Region.

**Foreign Exchange** - Fluctuation in exchange rates impacts the comparative results and sales growth rates of the Company's underlying business. Management believes that excluding the impact of foreign exchange rate fluctuations from its sales growth provides investors a more meaningful comparison to historical financial results. The impact of foreign exchange rate fluctuations has been detailed in the Reconciliation of Sales by Product Line and Region.

**EDWARDS LIFESCIENCES CORPORATION**  
**Reconciliation of GAAP to Non-GAAP Financial Information**

(in millions, except per share data)	Three Months Ended		Year Ended	
	December 31, 2006	2005	December 31, 2006	2005
<b>GAAP net income</b>	\$20.7	\$38.6	\$130.5	\$79.3
<b>Reconciling items:</b>				
<b>Cost of goods sold</b>				
Discontinued product	2.0	-	2.0	-
<b>Purchased in-process research and development expenses</b>				
	-	-	-	1.2
<b>Special charges (gains)</b>				
PVT milestone	10.0	-	10.0	-
Realignment expenses	7.3	3.9	9.4	3.9
Discontinued products	6.8	1.4	6.8	1.4
Gain on sale of products	(6.1)	(12.1)	(16.3)	(14.1)
Settlements and litigation gains, net	-	5.4	(20.2)	2.9
Impairment of assets held for sale	-	-	2.6	-
Restructure 3F Therapeutics agreements	-	-	2.0	22.8
Litigation reserve	-	-	1.2	-
Investment impairments	-	2.6	-	16.3
Charitable fund contribution	-	-	-	15.0
Subtotal special charges (gains)	18.0	1.2	(4.5)	48.2
<b>Stock option expense under FAS 123(R)</b>				
	4.9	-	19.3	-
<b>Provision (benefit) for income taxes</b>				
Tax effect on non-GAAP adjustments (1)	(3.8)	1.8	6.6	(11.5)
Tax audit settlements	(3.2)	-	(3.2)	-
Tax benefit from reversal of valuation allowance	-	(8.0)	(3.7)	(8.0)
Repatriation taxes	-	-	-	15.8
Tax effect of stock option expensing under FAS 123(R)	(1.2)	-	(5.5)	-
Subtotal income tax expense (benefit), net	(8.2)	(6.2)	(5.8)	(3.7)
<b>Non-GAAP net income</b>	<b>\$37.4</b>	<b>\$33.6</b>	<b>\$141.5</b>	<b>\$125.0</b>
<b>Non-GAAP earnings per share:</b>				
Basic non-GAAP earnings per share	\$0.65	\$0.56	\$2.42	\$2.10
Diluted non-GAAP earnings per share (2)	\$0.61	\$0.53	\$2.27	\$1.98
<b>Weighted average shares outstanding:</b>				
Basic	57.7	59.5	58.5	59.6
Diluted	63.4	64.9	64.1	65.0
<b>GAAP Gross profit margin</b>				
	63.3%	64.1%	64.0%	62.5%
Discontinued product	0.8%	-	0.2%	-
Stock option expense under FAS 123(R)	0.2%	-	0.2%	-
<b>Non-GAAP Gross profit margin</b>	<b>64.3%</b>	<b>64.1%</b>	<b>64.4%</b>	<b>62.5%</b>

(1) The tax effect on non-GAAP adjustments is calculated using the relevant tax jurisdiction of the transaction applying the local statutory tax rate.

(2) Diluted non-GAAP earnings per share is calculated by adding back \$1.0 million for the quarter in interest expense related to the convertible debt for the quarter, and \$4.0 million for the full year, to net income then dividing by the weighted average diluted shares outstanding.

**EDWARDS LIFESCIENCES CORPORATION**  
**Unaudited Reconciliation of Sales by Product Line and Region**  
(in millions)

Sales by Product Line (Qtr)	4Q 2006	4Q 2005	Change	GAAP Growth Rate	2006 Adjusted		2005 Adjusted			Underlying % Growth*
					Discontinued Product Line Impact	4Q 2006 Underlying Sales	Discontinued Product Line Impact	FX Impact	4Q 2005 Underlying Sales	
Heart Valve Therapy	\$ 120.6	\$ 114.0	\$ 6.6	5.8%	\$ -	\$ 120.6	\$ -	\$ 2.1	\$ 116.1	3.9%
Critical Care	94.2	84.5	9.7	11.5%	-	94.2	-	1.7	86.2	9.2%
Cardiac Surgery Systems	21.9	25.8	(3.9)	(15.1%)	(1.5)	20.4	(3.8)	0.2	22.2	(8.0%)
Vascular	21.0	17.3	3.7	21.4%	-	21.0	-	0.4	17.7	18.4%
Other Distributed Products	7.9	8.1	(0.2)	(2.5%)	-	7.9	(0.6)	0.3	7.8	4.0%
<b>Total Sales</b>	<b>\$ 265.6</b>	<b>\$ 249.7</b>	<b>\$ 15.9</b>	<b>6.4%</b>	<b>\$ (1.5)</b>	<b>\$ 264.1</b>	<b>\$ (4.4)</b>	<b>\$ 4.7</b>	<b>\$ 250.0</b>	<b>5.7%</b>

Sales by Product Line (YTD)	YTD 4Q 2006	YTD 4Q 2005	Change	GAAP Growth Rate	2006 Adjusted		2005 Adjusted			Underlying % Growth*
					Discontinued Product Line Impact	YTD 4Q 2006 Underlying Sales	Discontinued Product Line Impact	FX Impact	2005 Underlying Sales	
Heart Valve Therapy	\$ 490.8	\$ 469.3	\$ 21.5	4.6%	\$ -	\$ 490.8	\$ -	\$ (2.6)	\$ 466.7	5.2%
Critical Care	349.8	324.1	25.7	7.9%	-	349.8	-	(2.2)	321.9	8.6%
Cardiac Surgery Systems	91.0	104.6	(13.6)	(13.0%)	(5.9)	85.1	(19.7)	0.8	85.7	(0.6%)
Vascular	75.9	66.1	9.8	14.8%	-	75.9	-	-	66.1	14.7%
Other Distributed Products	29.5	33.8	(4.3)	(12.7%)	-	29.5	(3.2)	(1.2)	29.4	2.0%
<b>Total Sales</b>	<b>\$ 1,037.0</b>	<b>\$ 997.9</b>	<b>\$ 39.1</b>	<b>3.9%</b>	<b>\$ (5.9)</b>	<b>\$ 1,031.1</b>	<b>\$ (22.9)</b>	<b>\$ (5.2)</b>	<b>\$ 969.8</b>	<b>6.3%</b>

Sales by Region (Qtr)	4Q 2006	4Q 2005	Change	GAAP Growth Rate
United States	\$ 119.3	\$ 112.7	\$ 6.6	5.9%
Europe	69.8	60.5	9.3	15.4%
Japan	44.2	45.2	(1.0)	(2.2%)
Rest of World	32.3	31.3	1.0	3.2%
International	146.3	137.0	9.3	6.8%
<b>Total</b>	<b>\$ 265.6</b>	<b>\$ 249.7</b>	<b>\$ 15.9</b>	<b>6.4%</b>

Sales by Region (YTD)	YTD 4Q 2006	YTD 4Q 2005	Change	GAAP Growth Rate
United States	\$ 477.9	\$ 455.9	\$ 22.0	4.8%
Europe	264.6	241.3	23.3	9.7%
Japan	168.8	186.4	(17.6)	(9.4%)
Rest of World	125.7	114.3	11.4	10.0%
International	559.1	542.0	17.1	3.2%
<b>Total</b>	<b>\$ 1,037.0</b>	<b>\$ 997.9</b>	<b>\$ 39.1</b>	<b>3.9%</b>

\* Numbers may not calculate due to rounding.