Edwards Lifesciences Corporation

Edwards

2000 Annual Report

The E is for everything we stand for as a company. As trusted partners in the community fighting cardiovascular disease, we will continue to work to enhance the quality of life for patients around the world.

Edwards Lifesciences Corporation is the global leader in the design, development and marketing of products and services to treat late-stage cardiovascular disease.

Establish

Time spirals. We talk about life cycles. We understand that history repeats itself and marvel at the circular nature of seasons, lives and generations. At Edwards Lifesciences Corporation, we have seen our company come full circle.

Our story begins nearly 45 years ago in the workshop of Miles “Lowell” Edwards, an electrical engineer by training and a lifelong inventor. Driven by an insatiable curiosity, Edwards filed 63 patents in the aviation, pulp and paper and medical industries before he retired with his wife to California in 1957. But even in retirement, Edwards’ curiosity was relentless and within weeks he was contemplating another project – one that would change his life and the lives of countless others forever.

A bout of rheumatic fever at age 13, and a severe recurrence in his teens, had taught Edwards of the illness’ potential to damage the valves of the heart and sparked his interest in fixing the heart’s problems. Only weeks after retiring, the 60-year-old inventor, with a background in hydraulics, was busy theorizing how the human heart – essentially a pump, he thought – could be mechanized. He enlisted the help of Dr. Albert Starr, a young surgeon at Oregon Health Sciences University, who suggested that they focus first on developing an artificial heart valve.

It took the men only two years to design, develop and test the Starr-Edwards Silastic ball valve, which could be used to replace the mitral valve in a human heart. On September 21, 1960, a 52-year-old farmer named Philip Amundson, who in childhood had also suffered from rheumatic fever, became the first patient to receive the Starr-Edwards valve. The next day, newspapers nationwide proclaimed a “miracle heart surgery success.” Amundson continued to enjoy a healthy and productive life until his death from an unrelated cause a decade later.

Less than a year after introducing the world’s first commercially available replacement mitral valve, Edwards and Starr debuted its aortic counterpart. These innovations spawned a company, Edwards Laboratories, which went on to launch a number of additional “firsts” in medical technology. Continuing Edwards’ practice of collaborating with leading clinicians in the medical field, Edwards Laboratories worked with cardiologists Jeremy Swan and William Ganz to develop the first hemodynamic monitoring system for critically ill patients, and with vascular surgeon Thomas Fogarty to launch the first catheter technology to remove blood clots from the limbs. The Swan-Ganz and Fogarty brands of product lines became highly successful and still maintain worldwide leadership positions in their respective areas today.

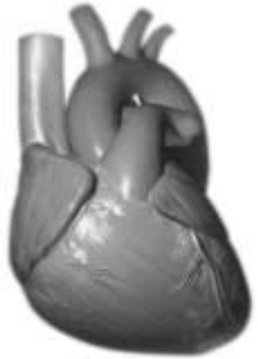
In 1966, Edwards Laboratories was purchased by American Hospital Supply Corporation and continued its pioneering work by developing and introducing its Carpentier-Edwards brand product line of replacement heart valves and heart valve repair products. Today, the Carpentier-Edwards heart valves, made of porcine and pericardial tissue, are the most widely prescribed tissue replacement valves in the world.

In 1985, Baxter International Inc. purchased American Hospital Supply and established the Edwards organization as part of its CardioVascular Group. The CardioVascular Group, eager to transform itself into an even more successful business, became an independent cardiovascular products and services company in 2000. Management and employees considered thousands of options for the name of the new company and at the end of the day, there was one clear choice. The legacy of quality and innovation established years before by Lowell Edwards made Edwards Lifesciences the overwhelming favorite.

Edwards Lifesciences was “reborn” when it was spun off from Baxter and its stock began trading on the New York Stock Exchange in 2000. Every employee became an owner in the company, sharing in the pride and entrepreneurial spirit that Lowell Edwards must have felt when he started his revolutionary heart valve project more than 40 years earlier.

The creation of Edwards Lifesciences marked a significant turning point, and with it, the Edwards life cycle begins anew.

Explain



The Heart

The heart is a fist-sized, four-chambered muscular pump that continuously circulates blood throughout the body. Its two upper chambers, the left and right atria, receive blood returning through the veins. The lower chambers, the left and right ventricles, pump blood into the arteries. Valves between the chambers keep blood flowing in the appropriate direction.

Cardiovascular Disease

Cardiovascular disease is the number-one killer in the world. It is also the most expensive condition to treat and the most serious and resource-intensive chronic condition. A progressive and pervasive disease that worsens as patients age, cardiovascular disease is expected to increase dramatically as the world continues its global aging trend. In addition, as developing nations strengthen their economies and make inroads against infectious diseases, they turn their resources toward more chronic conditions – like cardiovascular disease.

Coronary artery disease, the most commonly diagnosed heart problem, is characterized by blockages in the coronary arteries that reduce blood flow to the heart muscle, depriving it of vital oxygen and nutrients. The disease typically stems from atherosclerosis, an inflammatory condition in which cholesterol and scar tissue build up inside the arteries and cause blockages. Severe coronary artery disease can lead to painful episodes of angina, heart attack or, in the worst case, sudden cardiac death. Coronary artery bypass graft surgery is often performed to treat severe coronary artery disease.

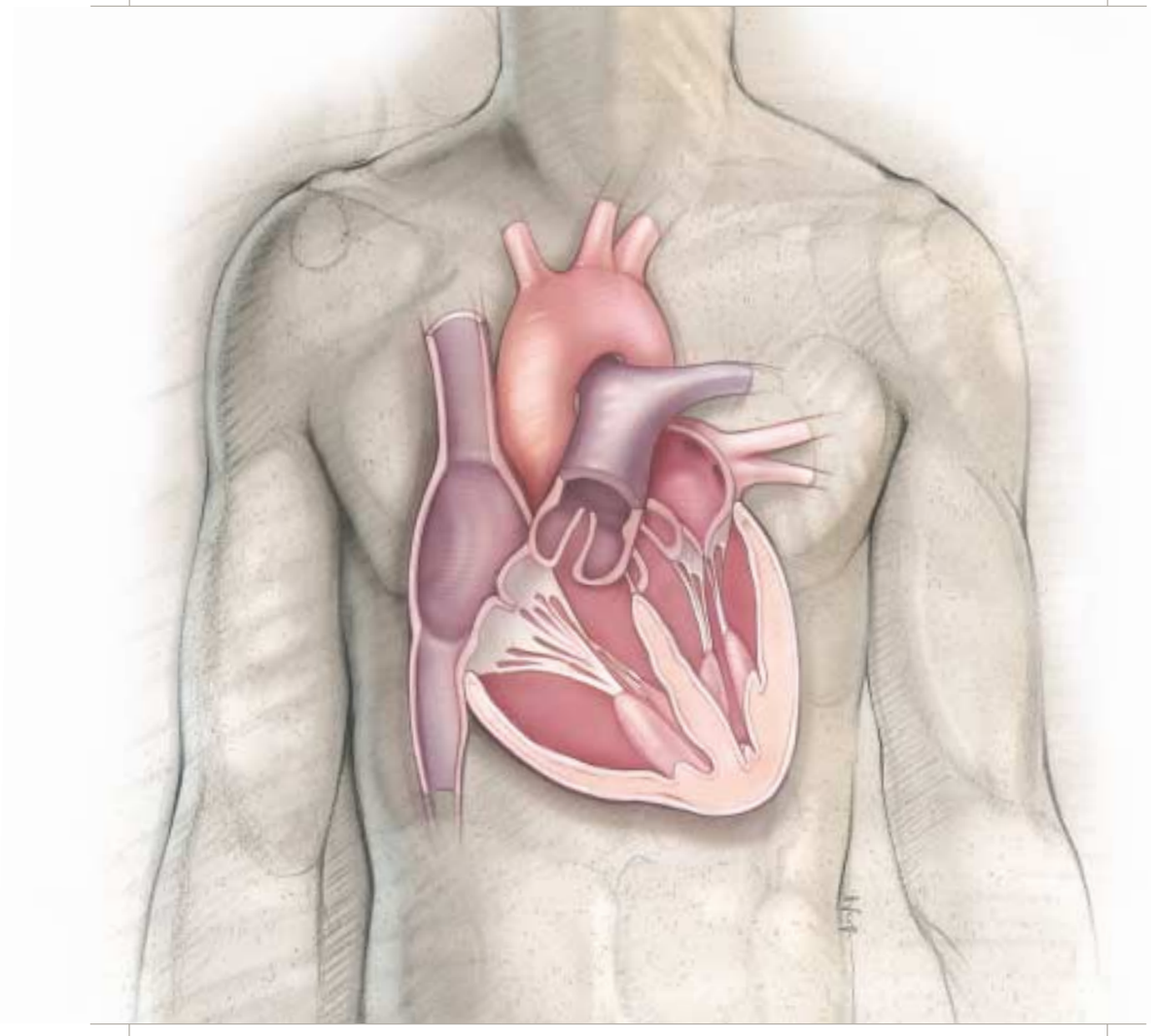
Heart valve disease can strike any of the heart's four valves, but by far the most commonly affected are the aortic and mitral valves. These valves open and close with each heartbeat, directing blood flow from the heart to the major blood vessels of the body. Valves can be damaged by various inflammatory and infectious conditions, rheumatic heart disease or congenital heart disease, among other causes. A defective valve may impede blood flow either by obstructing blood flow to the body or by allowing blood to flow backward within the heart itself. These problems make the heart work harder and less efficiently and, in some cases, contribute to congestive heart failure.

Peripheral vascular disease is a condition in which the arteries that carry blood throughout the body become narrowed or clogged through atherosclerosis, resulting in diminished blood flow. The most common symptoms are debilitating pain or numbness, and amputation of affected limbs is often required if the condition is left untreated.

Congestive heart failure, the most frequent cause of hospitalization for Americans aged 65 and older, typically results from damage to the heart from narrowed arteries, high blood pressure, previous heart attacks or disease, or infection. Because the weakened heart cannot pump as efficiently as it should, blood returning to the heart from the veins backs up, causing congestion in body tissues, shortness of breath, fatigue and swelling of the lower extremities. In severe cases, other organs – such as the lungs and kidneys – also may be damaged.

In the earliest stages of these disease categories, medications and lifestyle changes may enable patients to live nearly normal lives. The prognosis often depends on how well patients' hearts are functioning and how well they respond to treatment. But the progressive nature of cardiovascular disease means that as the condition progresses to the later stages, more serious interventions such as surgery – frequently involving Edwards Lifesciences' technologies and services – become necessary.

Edwards Lifesciences is stepping up to these challenges by focusing efforts in all of these areas, which present the most significant, unmet clinical needs in cardiovascular disease. We are placing the greatest emphasis on heart valve disease, coronary artery disease and peripheral vascular disease.



(Heart enlarged to show detail.)

Cardiovascular disease is the number-one cause of death in the world and among the top three diseases in terms of health care spending in nearly every country. Globally, more than $280 billion is spent each year to treat cardiovascular disease.

Edwards Lifesciences is credited with pioneering porcine and pericardial tissue replacement heart valves. In 2000, we launched in the United States the Carpentier-Edwards mitral PERIMOUNT Pericardial Bioprosthesis – the first biomechanically engineered tissue valve developed specifically for replacement of the human mitral valve. Our aortic and mitral tissue valves are helping drive this fastest-growing segment of surgical heart valve therapy in the U.S.

Each year, an estimated 300,000 people worldwide undergo open-heart surgery to replace or repair their malfunctioning or diseased heart valves. Clinicians and their patients are increasingly choosing tissue valves, which do not typically require the lifestyle-restricting, blood-thinning medications necessary for mechanical valves.

Evolutionary

Expertise

We leverage our design, development and marketing expertise through four cardiovascular product categories.

Critical Care technologies, including our renowned Swan-Ganz brand product line, are used to perform hemodynamic monitoring and measure heart pressure, blood volume and cardiac output during surgical procedures and in intensive care settings. Edwards Lifesciences has been a world leader in this area of medical products for more than 30 years. Other products include disposable pressure transducers, central venous catheters and hemofiltration products.

Cardiac Surgery, our largest and fastest-growing product area, includes the development, marketing and sale of tissue replacement heart valves and heart valve repair products, as well as disposable cannulae and cardioplegia used during cardiopulmonary bypass surgery. Our leading brands in Cardiac Surgery, including Carpentier-Edwards, Cosgrove-Edwards, Starr-Edwards and Research Medical, are recognized and sought-after throughout the world.

In *Vascular,* our Fogarty brand line of catheters is considered the industry standard clot-removal system for treating peripheral vessels. Edwards Lifesciences' portfolio includes balloon-tipped, catheter-based products; surgical clips, clamps and inserts; angioscopy equipment; and artificial implantable grafts used in vascular surgery.

Perfusion encompasses both products and contract services. Our perfusion products include a diverse line of disposable products used during cardiopulmonary bypass procedures, marketed primarily outside of the United States and Europe. Edwards Lifesciences' perfusion services subsidiary is the leading provider of contract perfusion services in the world with approximately 400 clinical perfusionists in the United States performing more than 50,000 perfusion cases for open-heart surgery each year.

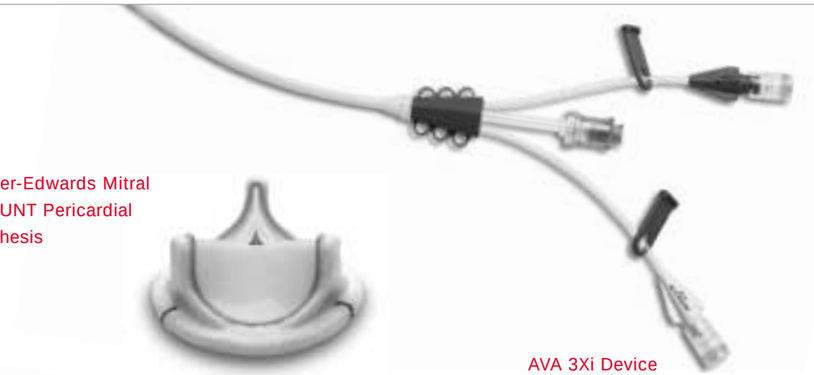
Many of our products enjoy global leadership positions, in part because we collaborate closely with leading clinicians worldwide. This enables Edwards Lifesciences to develop and commercialize clinician-specific, innovative products and novel treatment techniques.

ADVANCED VENOUS ACCESS, AMC THROMBOSHIELD, ANASTAFLO, ANTEPLEGIA, ANTEPLEGIA AORTIC ROOT CATHETER, A-V PACEPORT, AVA 3XI, AVA HF, AVID, CARPENTIER-EDWARDS, CARPENTIER-EDWARDS CLASSIC, CARPENTIER-EDWARDS PHYSIO, CCOMBO, CCOMBO EDV, CCOMBO V, CHANDLER, CLOT MANAGEMENT, COM-1, COM-2, CO-SET, CO-SET+, COSGROVE-EDWARDS, DISPERSION, DURAFLEX, DURAFLO, EDWARDS MIRA, EDWARDS PRIMA PLUS, EVERCLIP, EVERGRIP, EXPLORER, FEM-FLEX II, FLEX-TIP, FOGARTY, FOGARTY HYDRAGRIP, HI-SHORE, INTRAMED, INTRO-FLEX, LIFEPATH AAA, LIFESPAN, MULTI-MED, NORMOPLEGIA, PACEPORT, PERIMAP, PERIMOUNT, PERIMOUNT PLUS, REF/OX, REF-1, RESEARCH MEDICAL, RETRACTAGUARD, RETROPLEGIA, RIMSO-50, S.A.V., SAFEJAW, SAT-1, SAT-2, SIDE BRANCH OCCLUSION SYSTEM, STARR-EDWARDS, SWAN-GANZ, THIN-FLEX, THROMBEX PMT, TRIM FLEX, TRUE-SIZE, TRUWAVE, VAMP, VAMP JR., VAMP PLUS, VANTEX, VIGILANCE, VIP, VIP+, VISUFLO

Vantex Catheter

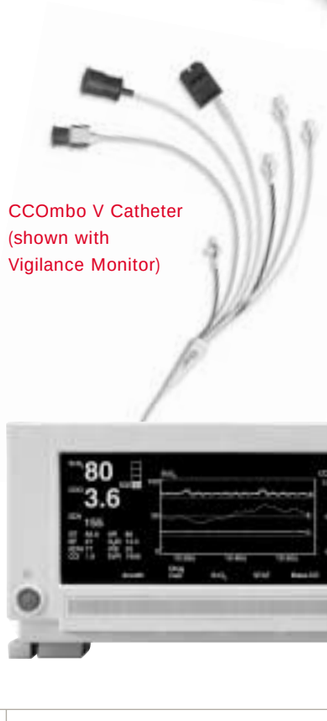
Our elaborate selection of products is engineered and tested to the highest standards. In 2000, we launched several new products that continue the fight against advanced cardiovascular disease.

Expansive

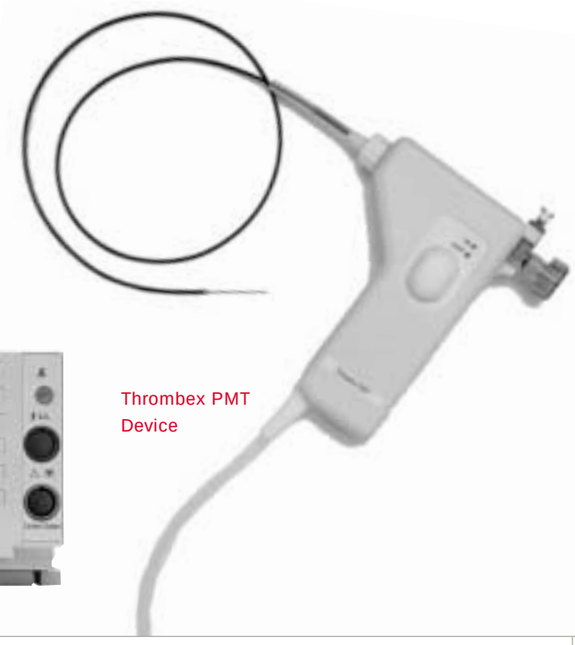


Carpentier-Edwards Mitral PERIMOUNT Pericardial Bioprosthesis

AVA 3Xi Device



CCOmbo V Catheter (shown with Vigilance Monitor)



Thrombex PMT Device

Evaluate

2000 Sales by Product Line

Edwards' well-balanced portfolio includes numerous market-leading products.

Cardiac Surgery	39%
Critical Care	27%
Perfusion Products and Services	26%
Vascular and Other	8%

2000 Sales by Region*

Edwards has a broad global presence, conducting business in more than 80 countries and generating nearly half of its sales from outside the U.S.

* End customer sales, excluding divested product lines

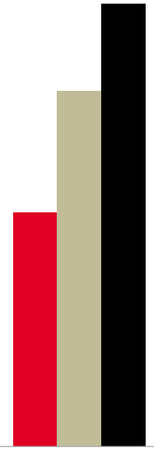
United States	54%
Japan	21%
Europe	17%
Rest of World	8%

Net Income* (in millions)

Recording 23% growth in 2000, Edwards exceeded its 20% net income growth goal.

* Pro forma results, excluding charges and unusual items

2000	$ 51
1999	$ 41
1998	$ 27



R&D as a Percentage of Sales*

One of Edwards' key business strategies is to increase investments in R&D to drive long-term growth.

* Pro forma results, excluding divested product lines

2000	6.3%
1999	5.5%
1998	5.3%

Envision

Michael A. Mussallem
Chairman and
Chief Executive Officer

To Our Shareholders

For Edwards Lifesciences Corporation, 2000 was a milestone year. As we begin our “new” life, the company enjoys the best of two worlds: We have a 40-year heritage and, at the same time, are in many respects a start-up company. We have retained our strong brands, global franchises, patented core technologies and reputation as a market leader. We are determined to improve patients’ lives by identifying and addressing the significant, unmet clinical needs that cardiovascular disease presents. As a public company, we are better positioned to make and act on focused decisions, and are motivated to enhance shareholder value. And, we remain committed to completing our transformation – taking the best of what we have been so far and changing the rest to stimulate innovation and growth for the future.

Perhaps the best way to measure our accomplishments in 2000 is to revisit the reasons for separating Edwards Lifesciences from Baxter International. The first was to create a company focused entirely on cardiovascular products and services. The second was to control our own capital, resources and performance. The third was to extend participation to all of our employees, who were made owners of the company at the time of our spin-off. All three objectives speak to our transformation – to turning our existing technologies and platforms, as well as new ones we plan to develop or acquire, into engines driving our company.

Edwards is focused entirely on products and services to treat advanced cardiovascular disease. We are working more closely than ever with professionals in surgical and critical care teams to serve their patients. We are increasing our investments in research and development, challenging ourselves continuously and staying committed to our plan.

As evidence of our ability to evaluate and streamline our operations, in 2000 we found better fits for two non-strategic parts of our portfolio – the Novacor cardiac assist business and the Bentley line of cardiopulmonary products – in transactions designed to protect those businesses’ customers and futures.

At the time of our debut as a new public company, all of our employees around the world received company stock or options. This new ownership encourages all employees to apply their entrepreneurial skills to running the day-to-day business and enables

them to share in the company's success. Each employee-owner is creating an environment that better fosters ideas, decisiveness and accountability. What each of us does in this organization has significantly more impact than it ever did before. The spin-off afforded Edwards an invaluable opportunity to revitalize our heritage, to elevate our growth and to realize our full potential.

As communicated at the time of our spin, two of our key financial goals for 2000 were to grow net income by 20 percent and to generate earnings before interest, taxes, depreciation and amortization (EBITDA) above $170 million. I am pleased and proud to report that we achieved both of these goals. For the year, we reported 23 percent growth in pro forma net income excluding non-recurring items. We also successfully reached our EBITDA target.

Edwards achieved other notable accomplishments this past year as well. Excluding divested product lines, pro forma research and development spending in 2000 was 12.8 percent higher than last year, which exceeded our objective of 10 percent growth. We were also able to reduce total debt by approximately $100 million by year-end due primarily to our strong operating cash flow. Additionally, we built on the strength of our industry expertise and leading market position, by launching five new life-enhancing products. Most significant was the U.S. FDA approval of the Carpentier-Edwards mitral PERIMOUNT Pericardial Bioprosthesis – the only pericardial tissue valve in the country designed specifically for the mitral position. And, importantly, initial investors in Edwards Lifesciences were rewarded with a gain of nearly 30 percent for the nine months following our spin-off from Baxter.

For 2001, we are again targeting 20 percent net income growth and EBITDA above $170 million. Beyond 2001, there are a number of aspirations that Edwards' management and employees are motivated to achieve. Attaining double-digit sales growth is one of our most important long-term aspirations. To do this, we intend to introduce innovative products and technologies where we can enjoy a strong proprietary position. We expect this to have the added benefit of increasing our gross profit margin – another of our long-term aspirations. Over time, we also desire to increase the number of new product introductions and expect these new products to comprise an increasingly larger percentage of our annual sales. Finally, we aspire to sustain annual growth in profitability of at least 15 percent. These aspirations are ambitious but we believe they are attainable given the company's inherent strengths.

I am excited by the opportunities that are ahead of us. While the Novacor and Bentley divestitures will have the effect of lifting our underlying sales growth rate in future periods, we are also actively implementing our plans to further accelerate top line sales. Edwards plays an important role as a trusted partner within the cardiovascular disease community. Working directly with clinicians, we are constantly evaluating unmet clinical needs and are committed to jointly developing new, enduring products that will fuel top line growth.

Key to our company's growth efforts is creating a more robust product pipeline. Using the flexibility afforded by our strong cash flow, we plan to supplement our product pipeline through a combination of internal research and development efforts, selected acquisitions, and investments in compelling technologies. We intend to build a sustainable and balanced portfolio of products in varying stages of development, giving us new products in the near-, mid- and long-term time frames. We also plan to exploit our core strengths to move into even more technologically advanced areas. Overall, we are committed to increase our R&D spending by 10 percent annually, and aspire to eventually be spending more than 10 percent of total sales on R&D each year.

We have a bright future. On behalf of our Board of Directors and Edwards' employee-owners around the world, I want to thank you, our shareholders, for your support. We are approaching the future with an appreciation of our assets and legacy, as well as an urgency and determination to realize our full potential. Together, we will build Edwards Lifesciences, share in its successes and live the pledge in our Credo – "Helping Patients is Our Life's Work, and Life is Now."

Sincerely,

Michael A. Mussallem
Chairman and Chief Executive Officer

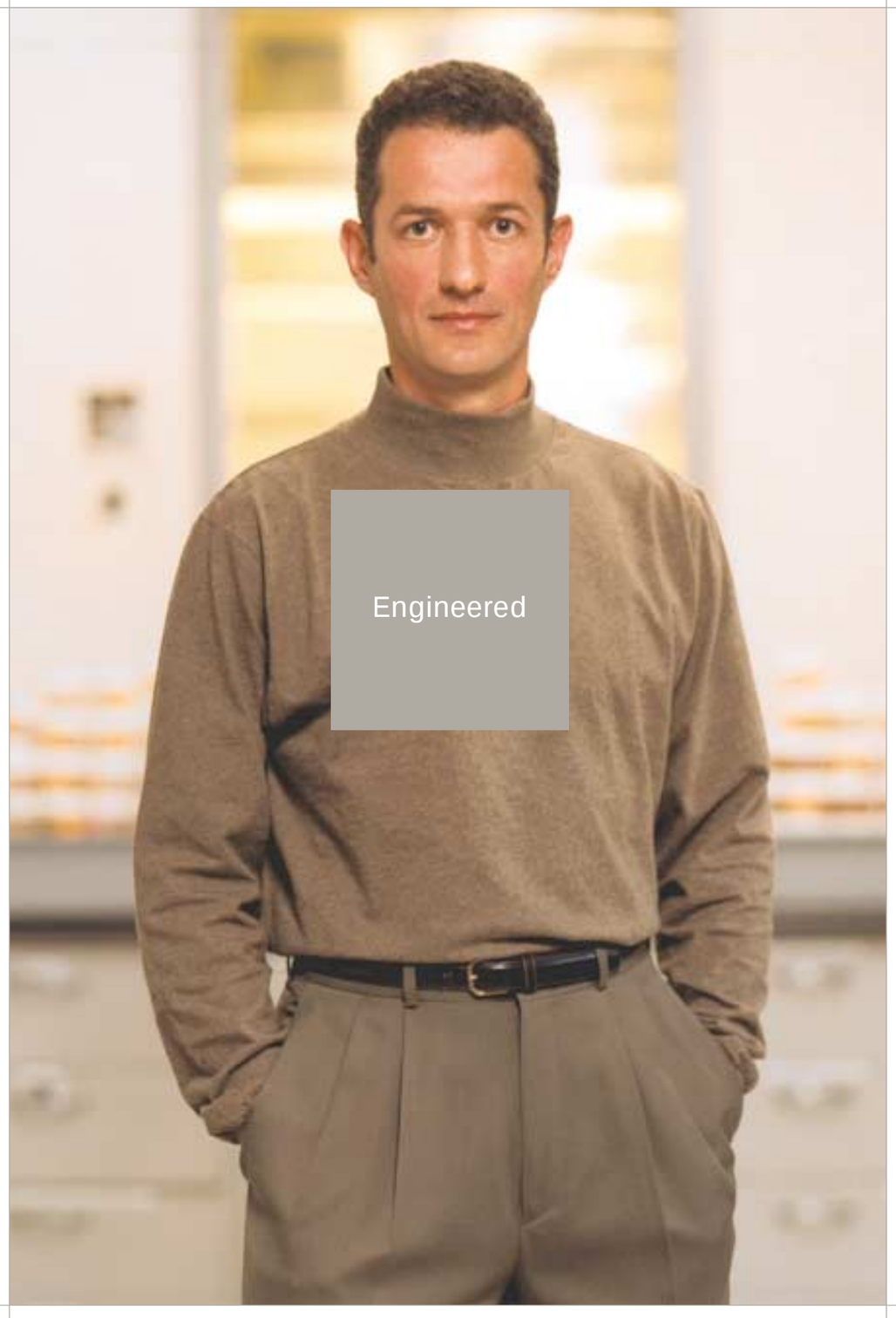
We design and develop our products to meet the most stringent standards. Our employees, clinicians and patients understand that our products can help protect, extend and improve people’s lives. And, we continually strive to exceed our expectations.

ENGINEERED

ENDORSED

EFFECTIVE

ENDURING



STEFAN SCHRECK, PH.D., SENIOR DIRECTOR OF RESEARCH, APPLIES HIS EXPERTISE TO ADVANCE POTENTIAL TECHNOLOGIES FROM IDEA TO PROTOTYPE TO LIFE-IMPROVING PRODUCT. “SERVING AS A MEMBER OF EDWARDS LIFESCIENCES’ TECHNOLOGY & DISCOVERY TEAM IS DEFINITELY EXCITING,” HE SAYS. “OUR TOP PRIORITY IS INNOVATION AND OUR ATTITUDE IS TO PROBE AND PURSUE IMPORTANT NEW PRODUCT IDEAS – AND TO DO IT NOW!” STEFAN EARNED HIS DOCTORATE IN MECHANICAL ENGINEERING WITH A BIOMEDICAL EMPHASIS AND HIS MASTER’S DEGREE IN AEROSPACE ENGINEERING. HE HAS BEEN HELPING TO ADVANCE EDWARDS’ TECHNOLOGIES FOR NEARLY SIX YEARS.

Applying technology to better serve people

Edwards Lifesciences is built on a legacy of innovation. It began with our founder’s dream of using mechanical means to make human hearts work more efficiently and to improve the lives of people with cardiovascular disease. Today our commitment to this aspiration is stronger than ever.

We embrace the ideals of teamwork and collaboration. We continue to strive to be the “partner of choice” within the cardiovascular research and development community. Our products are designed, developed, manufactured and marketed with a strict adherence to quality, reliability and durability. Each product is also tested and validated to ensure its clinical safety and efficacy, and continuously evaluated with an eye toward improvements that can enhance performance. In 2000, we redoubled our development efforts by redefining our product development teams and processes, and creating a new, focused Technology & Discovery function responsible for increasing the company’s product pipeline and technology portfolio to drive growth.

Our workforce includes hundreds of scientific and technical professionals who have dedicated their careers to fighting cardiovascular disease and improving human life. We are proud that Edwards Lifesciences is the company fueling their efforts.

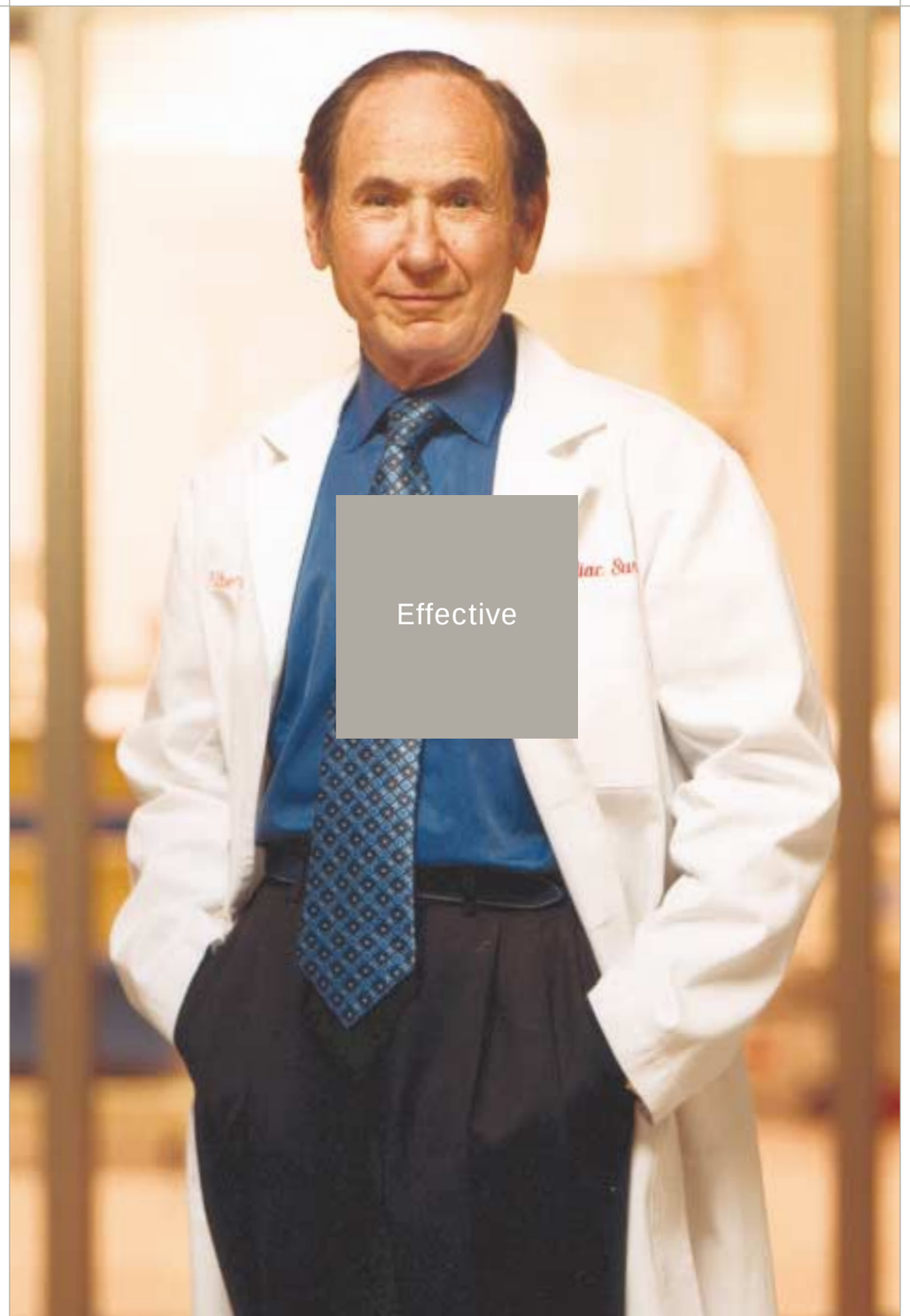
LEENA DANG, SENIOR HEART VALVE ASSEMBLER, IS A TOP PERFORMER ON HER TEAM. SHE ENJOYS THE PRECISION REQUIRED OF HER WORK, WHICH INCLUDES SEWING VALVES AND PREPARING TISSUE AND OTHER COMPONENTS FOR VALVE ASSEMBLY. “WHAT WE DO INVOLVES LIVES – IMPROVES LIVES,” SHE EXPLAINS. THAT’S WHAT MAKES HER JOB SO REWARDING TO HER. LEENA HAS BEEN HELPING PATIENTS THROUGH HER WORK FOR FOUR YEARS.

Standing behind every one of our products

Edwards Lifesciences’ products and services are delivered by teams of employees who embody our reputation for quality, reliability and trust. Throughout our company, all of our employee-owners are accountable for their contributions. Every one of us stands behind our company’s products and promises.

We are frequently reminded that people directly benefit from our work. Each of our replacement heart valves and repair products is assigned a traceable serial number that patients can use to learn which assembler, using optimum design, state-of-the-art materials and surgical-quality stitching, made their product. Many of these patients travel to our headquarters in Irvine, California, to meet and thank their assembly team. These meetings touch our hearts and motivate us further to continue delivering the highest quality possible.

Edwards’ Irvine location is home to the largest and most advanced tissue-valve manufacturing facility in the world. In addition to our California facilities, we operate plants in Brazil, the Dominican Republic, Puerto Rico, Switzerland, Utah and, through a joint venture, in Japan. Our facilities incorporate some of the most sophisticated equipment and manufacturing processes in the medical products industry.



Effective

"OUR INVENTION WAS NOT ONLY THE FIRST REPLACEMENT HEART VALVE," SAYS ALBERT STARR, M.D., WHO COLLABORATED WITH LOWELL EDWARDS ON THE COMPANY'S FIRST PRODUCT, "IT WAS ONE OF THE FIRST IMPLANTABLE CARDIOVASCULAR DEVICES OF ANY KIND." WHILE MAKING MEDICAL HISTORY, THE STARR-EDWARDS COLLABORATION ALSO INTRODUCED THE FIRST INFORMED CONSENT FORM FOR PATIENTS AND THE FIRST LONG-TERM FOLLOW-UP STUDIES, WHICH ARE REQUIRED OF ALL INVESTIGATIONAL MEDICAL DEVICES AND PHARMACEUTICALS TODAY. DR. STARR IS DIRECTOR OF THE PROVIDENCE HEART INSTITUTE, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE STARR WOOD CARDIAC GROUP, P.C., AND PROFESSOR OF SURGERY AT THE OREGON HEALTH SCIENCES UNIVERSITY. THROUGHOUT HIS CAREER, HE HAS BEEN A PIONEER IN ADULT VALVE AND CORONARY DISEASE SURGERY, AS WELL AS COMPLEX PEDIATRIC HEART SURGERY. HE HAS BEEN TREATING PATIENTS WITH EDWARDS PRODUCTS FOR MORE THAN 40 YEARS.

Delivering products that clinicians and patients trust

From the beginning, Edwards Lifesciences has challenged itself to make the best possible products and to study how those products perform over time. From catheters to hemodynamic monitoring systems to tissue replacement heart valves, our state-of-the-art products are effective and reliable.

We measure our success by our contributions to the cardiovascular disease community. All of us – patients, clinicians, health care payers and technology providers, such as Edwards Lifesciences – are partners in the effort to improve lives. As a global market leader, we continuously study cardiovascular disease patients and the conditions they face. They provide us with insights for improving our current leading-edge products. They also help us identify and develop new ways to address unmet clinical needs.

We intend to continue leading cardiovascular innovation – working together with thought-leaders from around the world and positioning ourselves as the "partner of choice" for those with new ideas to pursue and patients to treat.

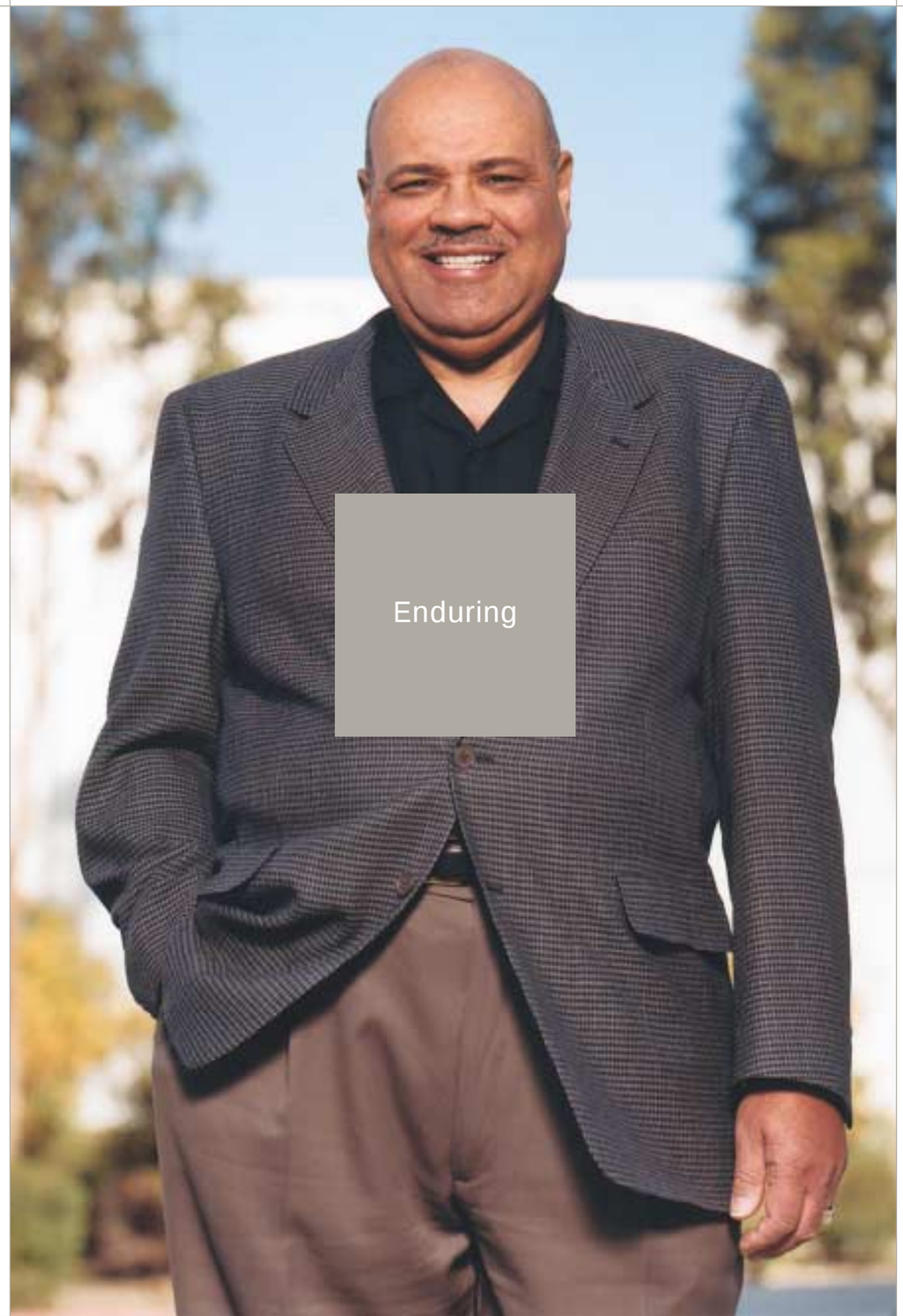
"I'D BEEN SELLING PRODUCTS FOR USE IN OPERATING ROOMS FOR 20 YEARS WHEN, ONE DAY, I WAS TOLD I NEEDED QUADRUPLE BYPASS SURGERY," SAYS MARION T. LEE, JR., EDWARDS LIFESCIENCES' SALES TERRITORY MANAGER IN PITTSBURGH, PENNSYLVANIA. "I INSISTED THAT THEY USE THE SWAN-GANZ CATHETER, BECAUSE IT PROVIDES THE FASTEST DATA TO GUIDE AND DIRECT THE PHYSICIAN IN CONTROLLING CARDIAC OUTPUT." MARION, WHO UNDERWENT SURGERY IN 1995, HAS BEEN FINE EVER SINCE. HE HAS PROUDLY SOLD EDWARDS PRODUCTS FOR 25 YEARS.

Prolonging and improving quality of life

Edwards Lifesciences' products and services enable clinicians to help cardiovascular patients who suffer from serious and life-threatening conditions. We are proud that our range of offerings aid doctors and patients in ways that are ever more enduring.

Endurance can be characterized in many ways. We have increased the reliability of our tissue valves through design, materials and craftsmanship. Because the valves last longer, they can be prescribed for increasingly younger patients. We also continually extend the usefulness of our technologies. For example, the Carpentier-Edwards mitral PERIMOUNT Pericardial Bioprosthesis is considered the next generation in valve technology. And our Swan-Ganz catheters, like the one Marion Lee demanded, have remained the industry standard for 30 years because we have continued to introduce advanced technologies and features that improve clinical decision-making.

Endurance is a key characteristic of products like ours that perform life-saving functions. It is also integral to the strength of the company that stands behind those products. We believe that the business decisions we made in 2000 brought the Edwards Lifesciences story full circle, and put us on track for an entirely new round of innovation, quality, service and success.



FINANCIAL CONTENTS

Equate

The following table sets forth selected financial information with respect to Edwards Lifesciences. The information set forth below should be read in conjunction with "Edwards Lifesciences' Management's Discussion and Analysis of Financial Condition and Results of Operations" and the "Consolidated Financial Statements" found elsewhere in this Annual Report to Shareholders. Historical per share data for net income and dividends have not been presented because Edwards Lifesciences was not incorporated until September 1999. Pro forma net income per share data is presented elsewhere in this Annual Report to Shareholders. See Note 4 to the "Consolidated Financial Statements" and "Edwards Lifesciences' Management's Discussion and Analysis of Financial Condition and Results of Operations" for discussions of the effect of certain asset divestitures on Edwards Lifesciences' operations.

As of or for the years ended December 31	2000	1999[b]	1998[b]	1997[b]	1996[b]
Operating Results (in millions)					
Net sales	$ 804	$ 905	$ 865	$ 879	$ 837
Gross profit	381	439	399	416	395
Income (loss) from continuing operations[a]	(272)	82	62	(52)	87
Balance Sheet Data (in millions)					
Total assets	$ 1,088	$ 1,437	$ 1,483	$ 1,526	$ 1,473
Long-term debt and lease obligations	277	—	—	—	—
Common Stock Information					
Income from continuing operations per common share					
Basic	$ (4.66)	$ —	$ —	$ —	$ —
Diluted	(4.66)	—	—	—	—
Cash dividends declared per common share	—	—	—	—	—

(a) See Note 4 to the "Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information regarding a non-recurring $312 million charge during 2000. Additionally, during 1997 the Company recorded a $132 million in-process research and development charge relating to the acquisition of Research Medical, Inc.

(b) These results present Edwards Lifesciences on a divisional basis as it had historically been operated as part of Baxter. Subsequent to the Distribution, Edwards Lifesciences' Japan operations are presented on an equity basis as opposed to the consolidation method reflected in the historical results. As such, certain of the results reflected here are not comparable to the presentation subsequent to the Distribution. See Note 1 and Note 3 to the "Consolidated Financial Statements."

The following discussion and analysis presents the factors that had a material effect on Edwards Lifesciences' cash flows and results of operations during the three years ended December 31, 2000, and the Company's financial position at that date. This discussion and analysis should be read in conjunction with the historical Consolidated Financial Statements of Edwards Lifesciences and related notes thereto.

Overview

Edwards Lifesciences provides a comprehensive line of products and services to treat late-stage cardiovascular disease. Edwards Lifesciences' sales are categorized in four main product areas: cardiac surgery, critical care, vascular and perfusion products and services. Edwards Lifesciences is headquartered in Irvine, California, and supplies its products and services to customers in more than 80 countries, both through direct sales and distributor relationships. Edwards Lifesciences' products are manufactured in locations throughout the world, including Brazil, the Dominican Republic, Japan (through a contractual joint venture with Baxter), The Netherlands, Puerto Rico, Switzerland and the United States.

Edwards Lifesciences' cardiac surgery portfolio is comprised of products relating to heart valve therapy, and cannulae and cardioplegia products used during open-heart surgery. Edwards Lifesciences is the world leader in, and has been a pioneer in the development and commercialization of, tissue valves and repair products used to replace or repair a patient's diseased or defective heart valve. In the critical care area, Edwards Lifesciences is a world leader in hemodynamic monitoring systems used to measure a patient's heart function, and also provides central venous access products for fluid and drug delivery. Edwards Lifesciences' vascular portfolio includes a line of balloon catheter-based products, surgical clips and inserts, angioscopy equipment, and artificial implantable grafts, as well as an endovascular system that is used to treat life-threatening abdominal aortic aneurysms less invasively. In the perfusion products and services category, Edwards Lifesciences designs, develops, manufactures and markets a diverse line of disposable products used during cardiopulmonary bypass procedures, including oxygenators, blood containers, filters and related devices, as well as bypass equipment (see "Disposition of Assets and Other Non-recurring Charges, net"). Edwards Lifesciences also maintains the world's largest organization of contract perfusionists, employing approximately 400 full- and part-time clinical perfusionists in the United States who perform an aggregate of approximately 50,000 perfusion procedures for open heart surgery per year.

The health care marketplace continues to be competitive. There has been consolidation in Edwards Lifesciences' customer base and among its competitors, which has resulted in pricing and market share pressures. Edwards Lifesciences has experienced increases in its labor and material costs, which are primarily influenced by general inflationary trends. Competitive market conditions have minimized inflation's impact on the selling prices of Edwards Lifesciences' products and services. Management expects these trends to continue.

Results of Operations

Net Sales Trends

The following table is a summary of domestic and international net sales:

(dollars in millions)	Years Ended December 31, 2000	1999	1998	Percent Change 2000	1999
United States	$ 482	$ 504	$ 508	$ (4%)	(1%)
International	322	401	357	(20%)	12%
Total net sales	$ 804	$ 905	$ 865	(11%)	5%

The net sales decrease in the United States during 2000 was due primarily to (a) the Company's partial divestiture of its perfusion products line resulting from the sale of the Bentley product line (see "Disposition of Assets and Other Non-recurring Charges, net") and (b) a one-time $5 million sale of a patent during 1999, partially offset by an increase in 2000 in cardiac surgery sales.

The decrease in international net sales during 2000 resulted primarily from a change in accounting for sales in Japan (see "Joint Venture in Japan"). Subsequent to the spin-off by Baxter International Inc. ("Baxter") of Edwards Lifesciences effective March 31, 2000 (the "Distribution"), Edwards Lifesciences only recognizes as sales its shipments into a joint venture with Baxter, whereas prior to the Distribution, net sales included sales to the ultimate customers in Japan. Excluding this change in accounting in Japan, international net sales for the year 2000 would have increased 2% and total net sales for the year 2000 would have decreased 1%. The adjusted increase in international sales during 2000 resulted primarily from increased sales of cardiac surgery products, critical care products and distributed products in Japan. The increase in international net sales during 1999 resulted primarily from increased sales of cardiac surgery and critical care products.

Net sales were impacted by fluctuations in foreign currency exchange rates, primarily the movement of the United States dollar against the Euro and the Japanese Yen. Excluding the change in accounting in Japan and the impact of changes in foreign currency exchange rates, total net sales for the years ended December 31, 2000 and 1999 would have remained flat and increased 3%, respectively. The impact of foreign currency exchange rate fluctuations on net sales would not necessarily be indicative of the impact on net income due to the corresponding effect of foreign currency exchange rate fluctuations on international manufacturing and operating costs, and Edwards Lifesciences' hedging activities. For more information, see "Quantitative and Qualitative Disclosure About Market Risk."

Joint Venture in Japan Subsequent to the Distribution, the cardiovascular business in Japan is being operated pursuant to a joint venture under which a Japanese subsidiary of Baxter retains ownership of the Japanese business assets, but a subsidiary of Edwards Lifesciences holds a 90% profit interest. Edwards Lifesciences has an option to purchase the Japanese business assets that may be exercised no earlier than 28 months following the Distribution and no later than 60 months following the Distribution. The Japanese operations are included in the Consolidated Statements of Operations for periods prior to the Distribution, consistent with the historical treatment of the Company's operations while a part of Baxter. Subsequent to the Distribution, Edwards Lifesciences recognizes as sales its shipments into the joint venture and utilizes the equity method of accounting to record its interest in the operations of the joint venture.

Net Sales by Product Line The following table is a summary of net sales by product line:

(dollars in millions)	Years Ended December 31, 2000	1999	1998	Percent Change 2000	1999
Cardiac surgery	$ 311	$ 306	$ 273	2%	12%
Critical care	217	242	221	(10%)	10%
Vascular	55	61	60	(10%)	2%
Perfusion products and services	207	244	269	(15%)	(9%)
Other	14	52	42	(73%)	24%
Total net sales	$ 804	$ 905	$ 865	(11%)	5%

Excluding the change in accounting for sales in Japan, net sales by product line would have been as follows:

(dollars in millions)	Years Ended December 31, 2000	1999	1998	Percent Change 2000	1999
Cardiac surgery	$ 318	$ 306	$ 273	4%	12%
Critical care	248	242	221	2%	10%
Vascular	57	61	60	(7%)	2%
Perfusion products and services	222	244	269	(9%)	(9%)
Other	47	52	42	(10%)	24%
Total net sales	$ 892	$ 905	$ 865	(1%)	5%

Excluding the change in accounting for sales in Japan and the impact of foreign currency exchange rate fluctuations, net sales by product line ("Adjusted Net Sales") would have been as follows:

(dollars in millions)	Years Ended December 31, 2000	1999	1998	Percent Change 2000	1999
Cardiac surgery	$ 329	$ 308	$ 276	7%	12%
Critical care	255	246	233	4%	6%
Vascular	59	61	61	(3%)	—
Perfusion products and services	225	246	272	(9%)	(10%)
Other	46	53	48	(13%)	10%
Total net sales	$ 914	$ 914	$ 890	—	3%

Cardiac Surgery Effective June 30, 2000, Edwards Lifesciences divested the mechanical cardiac assist product line (see "Disposition of Assets and Other Non-recurring Charges, net"). Assuming the divestiture occurred on January 1, 1998, Adjusted Net Sales of cardiac surgery products would have increased 8% and 12% for the years ended December 31, 2000 and 1999, respectively.

Sales growth in 2000 and 1999 in cardiac surgery products resulted primarily from double-digit sales growth of pericardial tissue valves and repair products, particularly in Japan. This was partially offset by declines in porcine tissue valve sales as a result of competition and the absence of distributed cardiac assist products subsequent to the Distribution. Management expects that its cardiac surgery products will continue to serve as a key driver of Edwards Lifesciences' sales growth as a result of the continued market shift from mechanical to tissue heart valve use, as well as the September 2000 launch of the Company's Carpentier-Edwards pericardial valve in the United States.

Critical Care The Adjusted Net Sales growth in 2000 and 1999 in critical care products was due primarily to strong sales of advanced hemodynamic catheters, and the newer access and hemofiltration product categories, offset by the decline in base hemodynamic catheters. Critical care products have been, and are expected to continue to be, significant contributors to Edwards Lifesciences' total sales, particularly as the recently FDA approved Vantex central venous catheter becomes more available and hemofiltration products gain more acceptance in new markets. In addition, the Company received FDA 510(k) clearance in October 2000 to begin marketing its catheter for measuring continuous end diastolic volume (CEDV) that provides clinicians a complete picture of blood circulation in a patient's heart. Management believes that future sales growth of critical care products could be negatively impacted by global pricing pressures, including anticipated decreased governmental reimbursement in Japan.

Vascular The decline in Adjusted Net Sales for vascular products during 2000 resulted primarily from lower unit sales in several surgery-based product categories. During August 2000, Edwards Lifesciences commenced United States sales of its Thrombex PMT percutaneous mechanical thrombectomy system, a device used for removing blood clots from the access grafts of hemodialysis patients. Management expects that this new product will have a positive impact on future vascular sales.

Perfusion Products and Services Effective August 31, 2000, Edwards Lifesciences divested the majority of its perfusion products line to Jostra AG, which allowed Edwards Lifesciences to exit the perfusion products line in the United States and Western Europe (see "Disposition of Assets and Other Non-recurring Charges, net"). Assuming the divestiture occurred on January 1, 1998, Adjusted Net Sales of Perfusion Products and Services would have remained flat in 2000 and decreased 2% in 1999. Management believes that the decrease in 1999 was due primarily to an increase in the number of "beating heart" coronary artery bypass surgeries, particularly in the United States and Western Europe, and this trend reduced the need for perfusion services.

Other Other sales include a diverse grouping of product lines comprised primarily of select distributed products that are sold in international regions, and miscellaneous pharmaceutical products. The Adjusted Net Sales of this product line declined in 2000 and increased in 1999 primarily from a one-time $5 million sale of a patent during 1999.

Gross Margin

	Years Ended December 31, 2000	1999	1998	Percentage Point Change 2000	1999
Gross margin percentage	47.4%	48.5%	46.1%	(1.1) pts.	2.4 pts.

Reflecting the Japanese operations on the equity method for all periods presented (see "Joint Venture in Japan"), the gross margin percentage ("Adjusted Gross Margin Percentage") would have been 46.9% in 2000, 46.6% in 1999 and 44.8% in 1998. The Adjusted Gross Margin Percentage increase in 2000 resulted primarily from (a) the divestiture of the lower margin mechanical cardiac assist product line, (b) increased sales of higher margin cardiac surgery products and (c) reduced sales of lower margin perfusion services, partially offset by an unfavorable impact of foreign currency exchange rate fluctuations. The Adjusted Gross Margin Percentage increase in 1999 resulted primarily from (a) increased sales of higher margin cardiac surgery products, (b) reduced sales of lower margin perfusion products and services and (c) the favorable impact of foreign currency exchange rate fluctuations.

Selling, General and Administrative ("S, G & A") Expenses

	Years Ended December 31, 2000	1999	1998	Percentage Point Change 2000	1999
S, G & A expenses as a percentage of sales	26.9%	25.7%	25.7%	1.2 pts.	—

Reflecting the Japanese operations on the equity method for all periods presented, S, G & A expenses as a percentage of sales ("Adjusted Percentage") would have been 26.3% in 2000, 23.5% in 1999 and 23.4% in 1998.

The increase in the Adjusted Percentage for the year ended December 31, 2000 is due primarily to additional personnel costs associated with the Company's operation as an independent company commencing April 1, 2000, partially offset by (a) reduced spending associated with the Company's recently divested perfusion products and mechanical cardiac assist product lines and (b) a favorable impact of foreign currency exchange rate fluctuations.

Research and Development Expenses

(dollars in millions)	Years Ended December 31, 2000	1999	1998	Percent Change 2000	1999
Research and development expenses	$ 55	$ 55	$ 56	—	(2%)
Research and development expenses as a percentage of sales	6.8%	6.1%	6.5%		

Reflecting the Japan operations on the equity method for all periods presented, and assuming the divestitures of the mechanical cardiac assist and perfusion product lines occurred on January 1, 1998, research and development expenses as a percentage of sales would have been 6.3% in 2000, 5.5% in 1999 and 5.3% in 1998.

Edwards Lifesciences is engaged in ongoing research and development to introduce new products to maximize the effectiveness, ease of use, safety and reliability of its existing products and to expand the applications of its products as appropriate. Edwards Lifesciences has a strong commitment to bolster its research and development spending in the future with the goal of developing and commercializing new innovative products and therapies that enhance performance and patient quality of life, and address cost-containment issues. In furtherance of this commitment, the Company expects to increase its 2001 research and development expenses by 10% from research and development expenses in 2000.

Goodwill Amortization

The reduction in goodwill amortization expense for the year ended December 31, 2000 resulted from the write-down of goodwill related to the Company's line of perfusion products. For more information, see "Disposition of Assets and Other Non-recurring Charges, net."

Disposition of Assets and Other Non-recurring Charges, net

During the year ended December 31, 2000, Edwards Lifesciences recorded non-recurring charges comprised of the following:

Loss on Sale and Abandonment of Assets

Effective July 15, 2000, the Company entered into a definitive agreement to sell the majority of its United States and Western European assets and rights related to its perfusion products to Jostra AG (the "Sale"). In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges," the Company recorded a pre-tax impairment charge of $291 million in the second quarter of 2000 to reduce the carrying value of these assets to fair value based upon the estimated net proceeds from the Sale. Assets subject to this impairment charge consisted primarily of goodwill ($245 million) and special-use manufacturing and support assets. The goodwill impairment charge was

calculated based upon a pro rata allocation of the goodwill using the relative fair values of the affected long-lived assets and identifiable intangibles acquired at the inception date of the goodwill. On August 31, 2000, Edwards Lifesciences completed the Sale for $24 million (consisting of $10 million in cash and a $14 million note receivable, payable in six equal quarterly installments through March 1, 2002, plus interest at an annual effective rate of 8%).

In conjunction with the Sale, during the third quarter of 2000 the Company recorded charges to establish a $10 million reserve for personnel costs and a $2 million reserve for exit activities. The personnel costs consist primarily of severance, medical plan continuation and outplacement services for the approximately 225 employees impacted by the Sale. The impacted employees are located in Europe, the United States and Puerto Rico, and primarily work in a manufacturing capacity. The exit activities consist primarily of information systems costs, contract termination costs and shutdown expenses.

The following table summarizes the utilization of these reserves through December 31, 2000:

(in millions)	Initial Reserve	Utilized Through Dec. 31, 2000	Remaining Reserve
Personnel Costs	$ 10	$ 2	$ 8
Exit Activities	2	2	—
	$ 12	$ 4	$ 8

Gain on Sale of Assets

On June 30, 2000, Edwards Lifesciences transferred the rights, intellectual property and United States' assets related to the Novacor mechanical cardiac assist product line to World Heart Corporation ("WorldHeart"). In return, the Company received (a) preferred stock of a subsidiary of WorldHeart which, at Edwards' option, can be exchanged for approximately five million shares of WorldHeart's common stock commencing July 2002 and (b) exclusive worldwide distribution rights to the Novacor left ventricular assist system and any ventricular assist technologies developed by WorldHeart. Edwards Lifesciences also will provide components and technical support to WorldHeart for ventricular assist products at agreed upon prices. The Company recorded a pre-tax gain of $35 million during the second quarter of 2000 in connection with this transaction.

As part of the transaction with WorldHeart, the Company invested $20 million in WorldHeart convertible preferred stock. The preferred stock bears a cumulative dividend, is callable at any time by WorldHeart and is convertible by Edwards Lifesciences into WorldHeart common stock commencing July 2006. Edwards Lifesciences reports its investment in WorldHeart as available-for-sale securities.

Pro Forma Data The following unaudited pro forma consolidated condensed statement of income for the year ended December 31, 2000 gives effect to the sales to Jostra AG and WorldHeart by Edwards Lifesciences as if the sales had occurred on the close of business on December 31, 1999. The unaudited pro forma consolidated condensed statement of income does not purport to be indicative of either the results of future operations or the results of operations that would have occurred had the sales been consummated on the close of business on December 31, 1999. The following amounts are in millions, except per share amounts:

Year Ended December 31,	2000
Net sales	$ 772
Net income	8
Net income per share:	
Basic	$ 0.14
Diluted	0.14

Other Non-recurring Charges

As a result of Edwards Lifesciences' continuing efforts to focus the Company's product portfolio and effect the Company's business strategy following the spin-off from Baxter, during the second quarter of 2000 the Company decided to discontinue certain products in its portfolio that did not meet the objectives of its business strategy. The long-lived assets or the investments in these products were evaluated to determine whether any impairment in their recoverability existed at the determination date. As a result, Edwards Lifesciences assessed whether the estimated cash flows of the products over the estimated lives of the related assets were sufficient to recover their costs. Where such cash flows were insufficient, the Company utilized a discounted cash flow model to estimate the fair value of assets or investments and recorded an impairment charge to adjust the carrying values to estimated fair values. As a result of this evaluation, Edwards Lifesciences recorded a non-cash charge of $45 million during the second quarter of 2000 primarily related to the impairment of goodwill unrelated to perfusion products ($37 million), impairment of other intangibles ($5 million) and the write-down of non-productive assets ($3 million).

Non-recurring Spin-off Expenses

In connection with the spin-off of Edwards Lifesciences from Baxter, certain one-time costs totaling $18 million were incurred by Edwards Lifesciences during the year ended December 31, 2000. These costs primarily related to (a) the coordination and implementation of the transaction and (b) the recruitment of personnel to perform new corporate administrative functions.

Other Operating Income

Other operating income represents the Company's 90% profit interest in the cardiovascular business in Japan effective April 1, 2000. For more information, see "Joint Venture in Japan."

Other Expense (Income), net

Refer to Note 12 to the "Consolidated Financial Statements" for a summary of the amounts included in other expense (income). Other income in 1998 principally consisted of $13 million of net insurance proceeds associated with hurricane damage at one of the Company's manufacturing facilities and a $3 million loss associated with the impairment of a minority equity investment.

Income Taxes

The effective income tax rate for the year ended December 31, 2000 was impacted by the non-deductibility of the majority of the charge recorded for the disposition of assets and other non-recurring items (see "Disposition of Assets and Other Non-recurring Charges, net"). Excluding non-recurring charges, the effective income tax rate for the year ended December 31, 2000 was 27%. The effective income tax rate for the years ended December 31, 1999 and 1998 was 27% and 33%, respectively. The reduction in the tax rate for the year ended December 31, 1999 was due primarily to more favorable tax grants in certain jurisdictions.

Net Income (Loss)

Net income (loss), reflecting pro forma adjustments and excluding non-recurring charges, was $51 million in 2000, $41 million in 1999 and $27 million in 1998, as follows:

Years Ended December 31, (in millions)	2000	1999	1998
As Reported	$ (272)	$ 82	$ 62
Pro Forma Adjustments[(a)]	(9)	(41)	(35)
Non-recurring Charges[(b)]	332	—	—
As Adjusted	$ 51	$ 41	$ 27

(a) Assumes that the transactions contemplated by the Distribution had been completed as of January 1, 1998. See Note 3 to the Consolidated Financial Statements.

(b) See "Disposition of Assets and Other Non-recurring Charges, net" and "Non-recurring Spin-off Expenses."

Liquidity and Capital Resources

The Company's sources of cash liquidity include cash and cash equivalents on hand, cash from operations, amounts available under credit facilities and other external sources of funds. The Company believes that these sources are sufficient to fund the current requirements of working capital, capital expenditures and other financial commitments. The Company further believes that it has the financial flexibility to attract long-term capital to fund short-term and long-term growth objectives. However, no assurances can be given that such long-term capital will be available to Edwards Lifesciences on favorable terms, or at all.

Effective as of the Distribution, Edwards Lifesciences entered into two unsecured revolving credit agreements (the "Credit Facilities") providing for up to an aggregate of $650 million in borrowings in multiple currencies. Borrowings currently bear interest at the London interbank offering rate (LIBOR) plus 1.00%, which includes a facility fee. One of the credit agreements provides for long-term borrowings up to an aggregate of $430 million and expires on March 30, 2005. The other credit agreement provides for short-term borrowings up to an aggregate of $220 million and expires on March 29, 2001. As of

December 31, 2000, approximately $277 million and $151 million were outstanding under the $430 million and the $220 million credit agreements, respectively. Edwards Lifesciences pays a facility fee, regardless of available or outstanding borrowings, currently at an annual rate of 0.20% for the $430 million credit agreement and, prior to expiration, 0.175% for the $220 million credit agreement. The Credit Facilities contain various financial and other covenants of Edwards Lifesciences, including a maximum leverage ratio and a minimum interest coverage ratio. The Company incurred approximately $3 million of fees associated with obtaining the Credit Facilities. All amounts outstanding under the $430 million credit agreement have been classified as long-term obligations, as these borrowings will continue to be refinanced pursuant to this credit agreement.

During February 2001, the Company refinanced $90 million of outstanding borrowings under the $220 million credit agreement to borrowings under the $430 million credit agreement. As a result, this $90 million has been classified as long-term debt as of December 31, 2000 in the accompanying Consolidated Balance Sheets. The Company anticipates that it will replace, and make effective as of March 29, 2001, the $220 million credit agreement with a credit agreement for $175 million through March 28, 2002.

The Company entered into a securitization agreement in December 2000 with a financial institution whereby it sells without recourse on a revolving basis an undivided interest in certain eligible trade accounts receivable. The significant benefits of the securitization are lower cost of funds, differentiated sources of liquidity and improved financial ratios due to the off-balance sheet treatment. Funding of $32 million was received by the Company in December 2000 and these proceeds were used to reduce revolving lines of credit. The Company expects to lower its overall cost of funds as a result of the interest rate spreads it will pay on these sales as opposed to borrowings under the current LIBOR based credit facility. Additionally, the Company believes that in diversifying its funding sources, the Company's funding availability in the capital markets is strengthened. The securitization agreement expires in December 2001 and is renewable for one-year periods at the Company's option. Additionally, during 1998 the Company received approximately $22 million in proceeds relating to the sale of certain trade receivables in Japan to an independent financial institution.

Cash flows provided by operating activities for the year 2000 was $137 million as compared to $176 million in 1999 due primarily to (a) reduced accounts receivable collections (included in cash flows for 1999 was approximately $25 million related to insurance proceeds associated with hurricane damage at one of the Company's manufacturing facilities) and (b) lower earnings, partially offset by reduced inventory due to the increased use of distributors. Cash flows for the year 1999 increased $22 million from the year 1998 due primarily to the hurricane insurance proceeds and higher earnings.

Uses of cash for investing activities during the year 2000 included the purchase of two convertible debentures in Sangamo Biosciences, Inc. (totaling $13 million), which were subsequently converted into common stock during the second quarter 2000, and investments in A-Med Systems, Inc. (totaling $8 million) and World Heart Corporation (totaling $20 million). During 2000, the Company received $12 million related to the sale of certain of the Company's perfusion product assets (see "Disposition of Assets and Other Non-recurring Charges, net"). Uses of cash for investing activities during the year 1999 included the purchase of the Century Heart Lung Machine Business of Cobe Cardiovascular Inc. from Sorin Biomedica, and for the year 1998 related principally to the acquisition of Research Medical, Inc., a manufacturer of specialized products used in open-heart surgery.

Capital expenditures increased $4 million from $42 million in 1999 to $46 million in 2000. Capital expenditures during 2000 related primarily to support for manufacturing facilities, information systems, equipment placed at customers and the expansion and renovation of the Company's corporate headquarters in Irvine, California. In 2001, the Company expects capital expenditures to be below $40 million.

Euro Conversion

On January 1, 1999, the European Economic and Monetary Union created and introduced the Euro, the official single currency for the eleven participating member countries. A transition period is currently in effect which began January 1, 1999 and will continue through December 31, 2001, during which time transactions will be executed in both the Euro and the member countries' individual currencies. Effective January 1, 2002, Euro bank notes will be introduced and as of July 1, 2002, the Euro will be the sole legal tender of the European Economic and Monetary Union countries.

Edwards Lifesciences appointed a team of individuals to address all issues associated with the conversion to the Euro and expects to be prepared for such conversion as of the designated dates. At the time Edwards Lifesciences switches to using the Euro as the sole functional currency for the affected countries, certain modifications that are primarily related to information systems are required. The costs associated with preparing for the conversion and continued use of the Euro will be expensed as incurred and are not expected to be material to Edwards Lifesciences' financial position, results of operations or cash flows. The ultimate impact on Edwards Lifesciences' business, including the impact on the competitive environment in which Edwards Lifesciences operates, is currently unknown.

New Accounting and Disclosure Standards Issued

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective for fiscal years beginning after June 15, 1999. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains and losses resulting from changes in the values of those derivatives would be accounted for as either components of earnings or accumulated other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133," which defers the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of FASB Statement No. 133," which amends the accounting and reporting standards of SFAS No. 133. Adoption of these new accounting standards will result in a one-time cumulative after-tax reduction in net income of approximately $1.5 million and in accumulated other comprehensive income of approximately $5.4 million in the first quarter of 2001. The adoption will also impact assets and liabilities recorded on the balance sheet.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement replaces SFAS No. 125 and revises the standards for accounting for securitizations and other transfers of financial assets and collateral. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. This statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

New Accounting and Disclosure Standards Adopted

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements," which was amended by SAB No. 101A in March 2000 and SAB No. 101B in June 2000. SAB No. 101A and No. 101B delayed the implementation date of SAB No. 101. These SABs, which provide guidance on the recognition, presentation and disclosure of revenue in financial statements, were adopted in the fourth quarter of 2000. The adoption did not have a material impact on Edwards Lifesciences' consolidated financial statements.

Quantitative and Qualitative Disclosure About Market Risk

The Company's business and financial results are affected by fluctuations in world financial markets, including currency exchange rates and interest rates. The Company's hedging policy attempts to manage these risks to an acceptable level based on management's judgment of the appropriate trade-off between risk, opportunity and costs.

Edwards Lifesciences maintains an overall risk management strategy that utilizes a variety of interest rate and currency derivative financial instruments to mitigate its exposure to fluctuations in interest rate and currency exchange exposures. The derivative instruments used include interest rate swaps, option-based products and forward currency contracts. The Company does not use any of these instruments for trading or speculative purposes. The total notional amounts of the Company's derivative financial instruments at December 31, 2000 and 1999 were $415 million and $302 million, respectively. The notional amounts of interest rate swap agreements, option-based products, and forward currency contracts do not represent amounts exchanged by the parties and, are not a measure of the Company's exposure through its use of derivatives.

Interest Rate Risk

The Company utilizes interest rate swap agreements in managing its exposure to interest rate fluctuations. Interest rate swap agreements are executed as an integral part of specific debt transactions or on a portfolio basis. The Company's interest rate swap agreements involve agreements to pay fixed and receive a floating rate at specified intervals, calculated on an agreed-upon notional amount.

As part of its overall risk-management program the Company performs sensitivity analyses to assess potential gains and losses in earnings and changes in fair values to hypothetical movements in interest rates. A 55 basis-point increase in interest rates (approximately 10 percent of the Company's weighted average interest rate) affecting the Company's financial instruments, including debt obligations and related derivatives, and investments, would have a $0.9 million effect on the Company's annual interest expense.

Currency Risk

The Company is primarily exposed to currency exchange-rate risk with respect to its transactions and net assets denominated in Japanese Yen, the Euro and Swiss Franc. Business activities in various currencies expose the Company to the risk that the eventual net dollar cash inflows resulting from transactions with foreign customers and suppliers denominated in foreign currencies may be adversely affected by changes in currency exchange rates. The Company manages these risks utilizing various types of foreign exchange contracts. The Company also enters into foreign exchange contracts to hedge anticipated, but not yet committed, sales expected to be denominated in foreign currencies. In addition, the Company hedges certain of its net investments in international affiliates. Such contracts hedge the United States dollar value of foreign currency denominated net assets from the effects of volatility in currency exchange rates by creating debt denominated in the respective currencies of the underlying net assets. Any changes in the carrying value of these net investments that are a result of fluctuations in currency exchange rates are offset by changes in the carrying value of the foreign currency denominated debt that are a result of the same fluctuations in currency exchange rates.

As part of the strategy to manage risk while minimizing hedging costs, the Company utilizes option-based products in managing its exposure to currency rate fluctuations. Option-based products consist primarily of purchased put options in conjunction with written (sold) call options to create collars. Option-based products are agreements that either grant the Company the right to receive, or require the Company to make payments at, specified currency rate levels.

As part of its risk-management process, the Company uses a value-at-risk ("VAR") methodology in connection with other management tools to assess and manage its foreign currency financial instruments and measure any potential loss in earnings as a result of adverse movements in currency exchange rates. The Company utilizes a Monte Carlo simulation, with a 95 percent confidence level, using spot and three-month implied volatilities as stochastic variables and correlations (as of the measurement date) to estimate this potential loss. The Company's calculated VAR at December 31, 2000, assuming a one-year holding period, is $2.1 million. This amount excludes the potential effects of any changes in the value of the underlying transactions or balances. The Company's calculated VAR exposure represents an estimate of reasonably possible net losses that would be recognized on its portfolio of financial instruments assuming hypothetical movements in future market rates and is not necessarily indicative of actual results which may occur. It does not represent the maximum possible loss or any expected loss that may occur. Actual future gains or losses may differ from (and could be significantly greater than) these estimates based upon actual fluctuations in market rates, operating exposures and the timing thereof, and changes in the Company's portfolio of derivatives during the measured periods. In addition, the assumption within the VAR model is that changes in currency exchange rates are adverse, which may not be the case. Any loss incurred on the financial instruments is expected to be offset by the effects of currency movements on the hedging of all exposures; there may be currency exchange-rate gains or losses in the future.

Credit Risk

Derivative financial instruments used by the Company involve, to varying degrees, elements of credit risk in the event a counter party should default and market risk as the instruments are subject to rate and price fluctuations. Credit risk is managed through the use of credit standard guidelines, counter party diversification, monitoring of counter party financial condition and master netting agreements in place with all derivative counter parties. Credit exposure of derivative financial instruments is represented by the fair value effects of contracts with a positive fair value at December 31, 2000 reduced by the effects of master netting agreements. Additionally, at December 31, 2000, all derivative financial instruments, based on notional amounts, were with commercial banks and investment banking firms assigned investment grade ratings of "AA" or better by national rating agencies. The Company does not anticipate non-performance by its counter parties and has no reserves related to non-performance as of December 31, 2000; the Company has not experienced any counter party default during the three years ended December 31, 2000.

Concentrations of Credit Risk

In the normal course of business, Edwards Lifesciences provides credit to customers in the health care industry, performs credit evaluations of these customers and maintains reserves for potential credit losses which, when realized, have been within the range of management's allowance for doubtful accounts during all periods presented.

Other Risks

With respect to the Company's unconsolidated investments, management believes any reasonably possible near-term losses in earnings, cash flows and fair values would not be material to Edwards Lifesciences' operations.

Report of Management

The management of Edwards Lifesciences is responsible for the integrity of the financial information presented in this Annual Report to Shareholders. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles. Where necessary, they reflect estimates based on management's judgment.

Management relies upon established accounting procedures and related systems of internal control for meeting its responsibilities to maintain reliable financial records. These systems are designed to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's intentions. Internal auditors periodically review the accounting and control systems, and these systems are revised if and when weaknesses or deficiencies are found.

The Audit and Public Policy Committee of the Board of Directors, composed of directors from outside the Company, meets regularly with management, the Company's internal auditors and its independent accountants to discuss audit scope and results, internal control evaluations, and other accounting, reporting and financial matters. The independent accountants and internal auditors have access to the Audit and Public Policy Committee without management's presence.

Michael A. Mussallem
Chairman and Chief Executive Officer

Bruce J. Bentcover
Corporate Vice President, Chief Financial Officer and Treasurer

Report of Independent Accountants

To the Board of Directors and Shareholders of Edwards Lifesciences Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and comprehensive income (loss) and of cash flows present fairly, in all material respects, the financial position of Edwards Lifesciences Corporation and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Orange County, California
February 6, 2001

CONSOLIDATED BALANCE SHEETS

December 31, (in millions, except share data)	2000	1999
Assets		
Current assets		
Cash and cash equivalents	$ 28	$ —
Accounts receivable, net of allowances of $5 and $8	107	133
Other receivables	22	22
Inventories	73	169
Deferred income taxes	23	9
Prepaid expenses	14	4
Other current assets	15	19
Total current assets	282	356
Property, plant and equipment, net	183	226
Goodwill and other intangibles, net	511	839
Investments in unconsolidated affiliates	98	1
Other assets	14	15
Total assets	$ 1,088	$ 1,437
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 158	$ 156
Short-term debt	61	—
Total current liabilities	219	156
Long-term debt	367	—
Other liabilities	62	57
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock, $.01 par value, authorized 50,000,000 shares, no shares outstanding	—	—
Common stock, $1.00 par value, authorized 350,000,000 shares, 58,668,393 shares outstanding	59	—
Additional contributed capital	277	—
Retained earnings	103	418
Investment by Baxter International Inc., net	—	833
Accumulated other comprehensive income (loss)	1	(27)
Total stockholders' equity	440	1,224
Total liabilities and stockholders' equity	$ 1,088	$ 1,437

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, (in millions)	2000	1999	1998
Net sales	$ 804	$ 905	$ 865
Cost of goods sold	423	466	466
Gross profit	381	439	399
Selling, general and administrative expenses	216	233	222
Research and development expenses	55	55	56
Goodwill amortization	29	34	34
Disposition of assets and other non-recurring charges, net	312	—	—
Non-recurring spin-off expenses	18	—	—
Other operating income	(14)	—	—
	616	322	312
Operating income (loss)	(235)	117	87
Interest expense, net	20	—	—
Other expense (income), net	4	4	(6)
Income (loss) before provision for income taxes	(259)	113	93
Provision for income taxes	13	31	31
Net income (loss)	$ (272)	$ 82	$ 62
Share information (Note 1)			

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, (in millions, brackets denote cash outflows)	2000	1999	1998
Cash flows provided by operating activities			
Net income (loss)	$ (272)	$ 82	$ 62
Adjustments			
Dispositions and write-downs of assets and other non-recurring charges, net	333	—	—
Depreciation and amortization	74	84	82
Other	14	12	14
Changes in operating assets and liabilities, net of effect from de-consolidation of Japan business (Note 1)			
Accounts and other receivables	(8)	14	(13)
Inventories	15	(14)	(1)
Accounts payable and accrued liabilities	(8)	(1)	6
Other	(11)	(1)	4
Net cash provided by operating activities	137	176	154
Cash flows from investing activities			
Capital expenditures	(46)	(42)	(40)
Purchase of convertible debentures	(13)	—	—
Investments in unconsolidated affiliates	(28)	—	—
Proceeds from asset dispositions	12	—	—
Asset acquisitions	—	(7)	(12)
Net cash used in investing activities	(75)	(49)	(52)
Cash flows from financing activities			
Proceeds from issuance of short-term debt	220	—	—
Proceeds from issuance of long-term debt	449	—	—
Payments on short-term debt	(69)	—	—
Payments on long-term debt	(159)	—	—
Proceeds from accounts receivable securitization	32	—	22
Stock issues under employee benefit plans	4	—	—
Debt issuance costs	(3)	—	—
Payments to Baxter International Inc., net	(511)	(127)	(124)
Net cash used in financing activities	(37)	(127)	(102)
Effect of currency exchange rate changes on cash	3	—	—
Net increase in cash and cash equivalents	28	—	—
Cash and cash equivalents at beginning of period	—	—	—
Cash and cash equivalents at end of period	$ 28	$ —	$ —
Supplemental disclosures:			
Cash paid during the year for:			
Interest	$ 17	$ —	$ —
Income taxes	6	—	—
Non-cash transactions:			
De-consolidation of Japan business (Note 1)	$ 43	$ —	$ —
Sale of inventory in exchange for note receivable (Note 4)	14	—	—
Net assets sold in consideration for convertible preferred stock (Note 4)	13	—	—

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Years Ended December 31, (in millions)	2000	1999	1998
Common Stock			
Beginning of year	$ —	$ —	$ —
Common stock issued in connection with the Distribution	58	—	
Common stock issued under employee benefit plans	1	—	
End of year	$ 59	$ —	$ —
Additional Contributed Capital			
Beginning of year	$ —	$ —	$ —
Common stock issued in connection with the Distribution	270	—	
Stock options issued to non-employees	2	—	
Common stock issued under employee benefit plans	5	—	
End of year	$ 277	$ —	$ —
Retained Earnings			
Beginning of year	$ 418	$ 336	$ 274
De-consolidation of Japan	(43)	—	—
Net income (loss)	(272)	82	62
End of year	$ 103	$ 418	$ 336
Investment by Baxter International Inc., net			
Beginning of year	$ 833	$ 960	$ 1,084
Investments by and advances from (payments to) Baxter International Inc., net	(833)	(127)	(124)
End of year	$ —	$ 833	$ 960
Accumulated Other Comprehensive Income (loss)			
Beginning of year	$ (27)	$ (25)	$ (27)
Other comprehensive income (loss)	28	(2)	2
End of year	$ 1	$ (27)	$ (25)
Total stockholders' equity	$ 440	$ 1,224	$ 1,271
Comprehensive Income			
Unrealized net gain (loss) on marketable equity securities, net of tax of $1, $(1) and $1	$ 2	$ (1)	$ 2
Currency translation adjustments	(1)	(1)	—
Currency translation adjustment in connection with the Distribution	27	—	—
Other comprehensive income (loss)	28	(2)	2
Net income (loss)	(272)	82	62
Total comprehensive income (loss)	$ (244)	$ 80	$ 64

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 Description of Business

Edwards Lifesciences Corporation was incorporated under the original name of CVG Controlled Inc., in Delaware on September 10, 1999, as a subsidiary of Baxter International Inc. ("Baxter"). On March 31, 2000 (the "Distribution Date"), Baxter transferred its cardiovascular business (the "Edwards Lifesciences Business") to Edwards Lifesciences in connection with a tax-free spin-off by Baxter of the Edwards Lifesciences Business. The spin-off was effected on the Distribution Date through a distribution of 58.1 million shares of Edwards Lifesciences common stock (the "Distribution") to Baxter stockholders of record on March 29, 2000, resulting in Edwards Lifesciences operating as an independent entity commencing April 1, 2000 with publicly traded common stock. Unless the context indicates otherwise, references to the "Company" and "Edwards Lifesciences" refer to Baxter's cardiovascular business for periods prior to April 1, 2000 and to Edwards Lifesciences Corporation and its subsidiaries for the periods on or after such date. No annual earnings per share data is presented as the Edwards Lifesciences earnings were part of Baxter's earnings through the close of business on March 31, 2000.

Baxter has no ownership interest in Edwards Lifesciences after March 31, 2000, but performs certain services for Edwards Lifesciences pursuant to various agreements that are outlined in Note 11. However, unless released by third parties, Baxter may remain liable for certain lease and other obligations and liabilities that were transferred to and assumed by Edwards Lifesciences. Edwards Lifesciences is obligated to indemnify Baxter for liabilities related to those transferred obligations and liabilities.

Subsequent to the Distribution, the cardiovascular business in Japan is being operated pursuant to a joint venture under which a Japanese subsidiary of Baxter retains ownership of the Japanese business assets, but a subsidiary of Edwards Lifesciences holds a 90% profit interest. Edwards Lifesciences has an option to purchase the Japanese business assets that may be exercised no earlier than 28 months following the Distribution Date and no later than 60 months following the Distribution Date. The Japanese operations are consolidated in the accompanying Consolidated Statements of Operations for periods prior to the Distribution, consistent with the treatment of the Company's operations while a part of Baxter. Subsequent to the Distribution, Edwards Lifesciences recognizes as sales its shipments into the joint venture and utilizes the equity method of accounting to record its interest in the operations of the joint venture in Other Operating Income in the Consolidated Statements of Operations.

Edwards Lifesciences is a global leader in providing the manufacturing, marketing and selling of a comprehensive line of products and services to treat late-stage cardiovascular disease. Edwards Lifesciences' sales are categorized in four main product areas: (a) cardiac surgery, (b) critical care, (c) vascular and (d) perfusion products and services. Edwards Lifesciences' cardiac surgery portfolio is comprised of products relating to heart valve therapy, and cannulae and cardioplegia products used during open-heart surgery. Edwards Lifesciences is the world's leader in, and has been a pioneer in the development and commercialization of, tissue valves and repair products used to replace or repair a patient's diseased or defective heart valve. In the critical care area, Edwards Lifesciences is a world leader in hemodynamic monitoring systems that are used to measure a patient's heart function, and also provides central venous access products for fluid and drug delivery. Edwards Lifesciences' vascular portfolio includes a line of balloon catheter-based products, surgical clips and inserts, angioscopy equipment, and artificial implantable grafts, as well as an endovascular system under development to be used to treat life-threatening abdominal aortic aneurysms less invasively. In the perfusion products and services category, Edwards Lifesciences designs, develops, manufactures and markets a diverse line of disposable products used during cardiopulmonary bypass procedures, including oxygenators, blood containers, filters and related devices, as well as bypass equipment (see Note 4). Edwards Lifesciences also maintains the world's largest organization of perfusionists, employing approximately 400 full- and part-time perfusionists in the United States who perform an aggregate of approximately 50,000 perfusion procedures for open heart surgery per year.

Note 2 Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist the reader in understanding and evaluating the consolidated financial statements. These policies are in conformity with Generally Accepted Accounting Principles in the United States ("GAAP") and have been applied consistently in all material respects. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and related disclosures. Actual results could differ from those estimates.

Basis of presentation

The consolidated financial statements have been prepared using Baxter's historical bases in the assets and liabilities and the historical results of operations of the Edwards Lifesciences Business prior to the Distribution, operated primarily as a division of Baxter, and continuing as a separate legal entity, Edwards Lifesciences Corporation and its subsidiaries, subsequent to the Distribution. All material intercompany balances have been eliminated. Prior to the Distribution, the combined financial statements included allocations of certain Baxter corporate assets, liabilities and expenses to the Edwards Lifesciences Business, which were allocated on the basis that was considered by Baxter management to reflect most fairly or reasonably the utilization of the services provided to or the benefit obtained by the Edwards Lifesciences Business (see Note 11). Typical measures and activity indicators used for allocation purposes included headcount, sales, payroll expense, or the specific level of activity related to the allocated item. Management believes the methods used to allocate amounts were reasonable. However, the financial information included herein does not necessarily reflect what the financial position, results of operations and cash flows of the Company would have been had it operated as a stand-alone public entity during the periods prior to the Distribution, and may not be indicative of future operations, cash flows or financial position. The consolidated financial statements do not include an allocation of Baxter's consolidated debt and interest expense prior to the Distribution. Certain reclassifications of previously reported amounts have been made to conform to classifications used in the current year.

Fiscal year of international operations

Certain operations outside the United States and its territories are included in the consolidated financial statements on the basis of fiscal years ending November 30 in order to facilitate timely consolidation.

Foreign currency translation

The Company follows the principles of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation." Accordingly, when the local currency of its foreign entities is the functional currency, all assets and liabilities, other than those located in highly inflationary countries, are translated into United States dollars at the rate of exchange in effect at the balance sheet date. Income and expense items are translated at the weighted average exchange rate prevailing during the period. The effects of foreign currency translation adjustments for these entities are deferred and included as a component of stockholders' equity. When foreign affiliates operate in highly inflationary countries, non-monetary amounts are remeasured at historical exchange rates while monetary assets and liabilities are remeasured at the current rate with the related adjustments reflected in Other Expense (Income). The effects of foreign currency transactions denominated in a currency other than the Company's functional currency are included in Other Expense (Income).

Revenue recognition

The Company recognizes revenue from product sales when title transfers and for services as performed. For product sales into the Company's Japan joint venture (see Note 1), the Company recognizes revenue when title transfers from the joint venture to the customer. For certain products, the Company maintains consigned inventory at customer locations. For these products, revenue is recognized at the time the Company is notified that the customer has used the inventory. The Company reduces revenue with reserves for estimated price concessions and sales returns, and allowances are provided at the time revenue is recognized in accordance with SFAS No. 48, "Revenue Recognition When Right of Return Exists."

Cash equivalents

The Company considers highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. These investments are valued at cost, which approximates fair value.

Accounts receivable securitization

The Company accounts for the securitization of accounts receivable in accordance with SFAS No. 125, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.” When the Company sells accounts receivable in securitizations, a subordinated retained interest in the securitized portfolio is retained. Gain or loss on sale of the accounts receivable depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Because quoted market prices are generally not available to determine the Company’s fair value of the retained interest, the Company estimates the fair value of the retained interest by estimating future expected credit losses to determine the future expected cash flows, which, generally, approximate fair value given the securitized portfolio’s short-term weighted average life. At the time the receivables are sold, the balances are removed from the Consolidated Balance Sheets. Costs associated with the sale of receivables, primarily related to the discount and loss on sale, are included in Other Expense (Income). The Company has adopted SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities” provisions relating to the recognition and reclassification of collateral and disclosures relating to securitization accounting.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market value. Market value for raw materials is based on replacement costs, and for other inventory classifications is based on net realizable value.

December 31, (in millions)	2000	1999
Raw materials	$ 19	$ 29
Work in process	19	28
Finished products	35	112
	$ 73	$ 169

Reserves for excess and obsolete inventory were approximately $8 million and $12 million at December 31, 2000 and 1999, respectively. During the years ended December 31, 2000, 1999 and 1998, the Company allocated $5 million, $4 million and $4 million, respectively, of general and administrative costs to inventory. General and administrative costs included in both the December 31, 2000 and 1999 inventory balances were $1 million.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are principally calculated for financial reporting purposes on the straight-line method over the estimated useful lives of the related assets, which range from 20 to 50 years for buildings and improvements and from three to 15 years for machinery and equipment. Leasehold improvements are amortized over the life of the related facility leases or the asset, whichever is shorter. Straight-line and accelerated methods of depreciation are used for income tax purposes.

December 31, (in millions)	2000	1999
Land	$ 24	$ 27
Buildings and leasehold improvements	61	79
Machinery and equipment	188	281
Equipment with customers	35	96
Construction in progress	19	13
	327	496
Accumulated depreciation and amortization	(144)	(270)
	$ 183	$ 226

Depreciation expense was $36 million, $37 million and $35 million for the years ended December 31, 2000, 1999 and 1998, respectively. Repairs and maintenance expense was $11 million, $8 million and $10 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Goodwill and other intangible assets

Goodwill represents the excess of cost over the fair value of net assets acquired and is amortized on a straight-line basis over estimated useful lives ranging from 15 to 40 years.

Other intangible assets include purchased patents, trademarks and other identified rights and are amortized on a straight-line basis over their legal or estimated useful lives, whichever is shorter (generally not exceeding 20 years).

December 31, (in millions)	2000	1999
Goodwill	$ 703	$ 1,144
Accumulated amortization	(271)	(400)
	432	744
Other intangible assets	181	186
Accumulated amortization	(102)	(91)
	79	95
Total goodwill and other intangible assets	$ 511	$ 839

Management reviews the carrying amounts of goodwill and other intangibles whenever events and circumstances indicate that the carrying amounts of an asset may not be recoverable. Impairment indicators include, among other conditions, cash flow deficits, historic or anticipated declines in revenue or operating profit and adverse legal or regulatory developments. If it is determined that such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair market value. Estimated fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. For the purpose of identifying and measuring impairment, assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of the cash flows generated by other asset groups. Based upon management’s assessment of the future undiscounted operating cash flows of acquired businesses, the carrying values of goodwill and other intangible assets at December 31, 2000 have not been impaired.

Investments in unconsolidated affiliates

Investments in unconsolidated affiliates are accounted for under the cost method and have been designated as available-for-sale in accordance with the provisions of SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” These investments are carried at fair market value, with unrealized gains and losses reported in stockholders’ equity as a component of Other Comprehensive Income (Loss). Gains or losses on investments sold are based on the specific identification method. The fair values of certain investments are estimated based on quoted market prices. For other investments, various methods are used to estimate fair value, including external valuations and discounted cash flows.

Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes.” Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Edwards Lifesciences’ operations were included in Baxter’s consolidated United States federal and state income tax returns and in the tax returns of certain Baxter foreign subsidiaries prior to the Distribution. The provision for income taxes prior to the Distribution has been determined as if Edwards Lifesciences had filed separate tax returns under its existing structure for the periods presented. Accordingly, the effective tax rate of Edwards Lifesciences in future years could vary from its historical effective rates depending upon Edwards Lifesciences’ legal structure and tax elections. Prior to the Distribution, all income taxes were settled with Baxter on a current basis through the “Investment by Baxter International Inc., net” account.

Investment by Baxter International Inc., net

Investment by Baxter International Inc., net includes common stock, additional paid-in capital and net intercompany balances with Edwards Lifesciences that were contributed at the time of the spin-off. Baxter did not manage the activity in this account on the basis of separate legal entities. There is no distinction in this account between net investments in and net advances to Edwards Lifesciences as there was no term associated with the cash infusions and no intent or expectation that the infusions would be remitted to Baxter.

Research and development expenses

Research and development costs are charged to expense when incurred.

Earnings per share

Earnings per share are calculated in accordance with SFAS No. 128, “Earnings per Share,” which requires the Company to report both basic earnings per share, based on the weighted-average number of common shares outstanding, and diluted earnings per share, based on the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options. No earnings per share data is presented in the Consolidated Statements of Operations as the Edwards Lifesciences earnings were part of Baxter’s earnings through the close of business on March 31, 2000.

Derivatives

For periods presented prior to the Distribution, Edwards Lifesciences was considered in Baxter’s overall risk management strategy. Gains and losses and option premiums relating to qualifying foreign currency hedges of anticipated transactions were deferred and recognized in income as offsets of gains and losses resulting from the underlying hedged transactions. Gains relating to terminations of qualifying hedges were deferred and recognized in income at the same time as the underlying hedged transactions. In circumstances where the underlying anticipated transaction was no longer expected to occur, any remaining deferred amounts were recognized immediately in income. Foreign currency contracts not qualifying for hedge treatment were marked to market at each balance sheet date with resulting gains and losses recognized in earnings. Cash flows from derivatives were classified in the same category as the cash flows from the related hedged activity. Foreign currency financial instruments were used to hedge economic risks and were not used for trading purposes.

For periods presented subsequent to the Distribution, Edwards Lifesciences’ derivative policy is to manage its exposure to foreign currency and interest rate fluctuations, based upon cost-benefit considerations, to minimize earnings and cash flow volatility associated with foreign exchange rate and interest changes. In order to reduce the risk of foreign currency exchange rate fluctuations, Edwards Lifesciences established the policy of hedging a portion of its expected foreign currency denominated cash flow from operations. The instruments that Edwards Lifesciences uses for hedging are readily marketable traded forward contracts and options with financial institutions. Edwards Lifesciences expects that the changes in fair value of such contracts will have a high correlation to the price changes in the related hedged cash flow. Edwards Lifesciences does not expect that the risk of transaction gains or losses from changes in the fair value of its foreign exchange position will be material because most transactions will occur in either the functional currency or in a currency that has a high correlation to the functional currency. The principal currencies that Edwards Lifesciences hedges are the Japanese Yen and the Euro, which present the primary risk of loss. Any gains and losses on these hedge contracts are expected to offset changes in the value of the related exposures. Edwards Lifesciences will enter into foreign currency transactions only to the extent that foreign currency exposure exists; it will not enter into foreign currency transactions for speculative purposes.

Comprehensive income

Comprehensive income encompasses all changes in equity other than those arising from transactions with stockholders, and consists of net income, currency translation adjustments and unrealized net gains and losses on marketable equity securities. The Company does not provide for United States income taxes on foreign currency translation adjustments since it does not provide for such taxes on undistributed earnings of foreign subsidiaries.

New accounting and disclosure standards adopted

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (“SAB”) No. 101, “Revenue Recognition in Financial Statements,” which was amended by SAB No. 101A in March 2000 and SAB No. 101B in June 2000. SAB 101A and 101B delayed the implementation date of SAB No. 101. These SABs, which provide guidance on the recognition, presentation and disclosure of revenue in financial statements were adopted in the fourth quarter of 2000. The adoption did not have a material impact on Edwards Lifesciences’ consolidated financial statements.

New accounting and disclosure standards issued

In June 1998, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” effective for fiscal years beginning after June 15, 1999. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains and losses resulting from changes in the values of those derivatives would be accounted for as either components of earnings or accumulated other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. In June 1999, the FASB issued SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133,” which defers the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB Statement No. 133,” which amends the accounting and reporting standards of SFAS No. 133. Adoption of these new accounting standards will result in a one-time cumulative after-tax reduction in net income of approximately $1.5 million and in accumulated other comprehensive income of approximately $5.4 million in the first quarter of 2001. The adoption will also impact assets and liabilities recorded on the balance sheet.

In September 2000, the FASB issued SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” This statement replaces SFAS No. 125 and revises the standards for accounting for securitizations and other transfers of financial assets and collateral. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. This statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

Note 3 | Pro Forma Information

The following unaudited pro forma consolidated statement of operations for the twelve months ended December 31, 2000 presents the consolidated results of Edwards Lifesciences assuming that the transactions contemplated by the Distribution had been completed as of January 1, 2000. The unaudited pro forma information has been prepared utilizing the historical combined financial statements of Edwards Lifesciences.

	Twelve Months Ended December 31, 2000			
		Pro Forma Adjustments		
(unaudited, in millions, except per share data)	Historical	Japan on an Equity Basis	Others	Pro Forma
Net sales	$ 804	$ (29)[a]	$ —	$ 775
Cost of goods sold	(423)	12[a]	—	(411)
Gross profit	381	(17)	—	364
Selling, general and administrative expenses	216	(12)[a]	5[b]	209
Research and development expenses	55	(1)[a]	—	54
Goodwill amortization	29	—	—	29
Disposition of assets and other non-recurring charges, net	312	—	—	312
Non-recurring spin-off expenses	18	—	—	18
Other operating income	(14)	(4)[a]	—	(18)
	616	(17)	5	604
Operating loss	(235)	—	(5)	(240)
Interest expense, net	20	—	7[c]	27
Other expense, net	4	—	—	4
Loss before provision for income taxes	(259)	—	(12)	(271)
Provision (benefit) for income taxes	13	—	(3)[d]	10
Net loss	$ (272)	$ —	$ (9)	$ (281)
Share information:				
Pro forma net loss per share				
Basic				$ (4.81)
Diluted				$ (4.81)
Weighted average number of common shares outstanding				
Basic				58.4
Diluted				58.4

Pro Forma Adjustments

(a) To reflect the Edwards Lifesciences Japanese operations on an equity basis for the three months ended March 31, 2000 (Note 1).

(b) To reflect estimated incremental costs associated with being an independent public company, for the three months ended March 31, 2000, including costs associated with corporate administrative services such as accounting, tax, treasury, risk management, insurance, legal, investor relations and human resources. The Company's historical combined financial statements for the three months ended March 31, 2000 include all costs incurred by Baxter on behalf of the Company.

However, there are incremental and continuing costs directly attributable to the spin-off, as there is a loss of certain synergies and benefits of economies of scale that existed while Edwards Lifesciences was part of Baxter. Management estimated such incremental costs utilizing Baxter's historical headcount and cost analysis, and the Company's organization chart. The following table is a summary of the estimated incremental costs by significant function for the three months ended March 31, 2000:

(in millions)	
Accounting, tax and legal	$ 2
Insurance and risk management	1
Human resources	1
Treasury, investor relations and other costs	1
	$ 5

(c) To reflect the estimated interest expense that would have been incurred by Edwards Lifesciences for the three months ended March 31, 2000 based on the incurrence of $529 million of debt at a weighted-average interest rate of approximately 5.5%. An increase or decrease of 0.189 points in the weighted-average interest rate would result in a per annum increase or decrease in interest expense of $1 million.

(d) To reflect the estimated tax impact at statutory rates for pro forma adjustments (b) and (c), as well as the estimated impact of different tax rates available to Edwards Lifesciences as a stand-alone company for the three months ended March 31, 2000.

Note 4 Disposition of Assets and Other Non-Recurring Charges, Net

During the year ended December 31, 2000, Edwards Lifesciences recorded non-recurring charges comprised of the following:

Loss on Sale and Abandonment of Assets

Effective July 15, 2000, the Company entered into a definitive agreement to sell the majority of its United States and Western European assets and rights related to its perfusion products to Jostra AG (the "Sale"). In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges," the Company recorded a pre-tax impairment charge of $291 million in the second quarter of 2000 to reduce the carrying value of these assets to fair value based upon the estimated net proceeds from the sale. Assets subject to this impairment charge consist primarily of goodwill ($245 million) and special-use manufacturing and support assets. The goodwill impairment charge was calculated based upon a pro rata allocation of the goodwill using the relative fair values of the affected long-lived assets and identifiable intangibles acquired at the inception date of the goodwill. On August 31, 2000, Edwards Lifesciences completed the Sale for $24 million (consisting of $10 million in cash and a $14 million note receivable, payable in six equal quarterly installments through March 1, 2002, plus interest at an annual effective rate of 8%).

In conjunction with the Sale, during the third quarter of 2000 the Company recorded charges to establish a $10 million reserve for personnel costs and a $2 million reserve for exit activities. The personnel costs consist primarily of severance, medical plan continuation and outplacement services for the approximately 225 employees impacted by the Sale. The impacted employees are located in Europe, the United States and Puerto Rico, and primarily work in a manufacturing capacity. The exit activities consist primarily of information systems costs, contract termination costs and shutdown expenses.

The following table is a summary of the utilization of these reserves through December 31, 2000:

(in millions)	Initial Reserve	Utilized Through Dec. 31, 2000	Remaining Reserve
Personnel Costs	$ 10	$ 2	$ 8
Exit Activities	2	2	—
	$ 12	$ 4	$ 8

Gain on Sale of Assets

On June 30, 2000, Edwards Lifesciences transferred the rights, intellectual property and United States' assets and mechanical cardiac assist product line to World Heart Corporation ("WorldHeart"). In return, the Company received (a) preferred stock of a subsidiary of WorldHeart which, at Edwards' option, can be exchanged for approximately five million shares of WorldHeart's common stock commencing July 2002 and (b) exclusive worldwide distribution rights to the Novacor left ventricular assist system and any ventricular assist technologies developed by WorldHeart. Edwards Lifesciences also will provide components and technical support to WorldHeart for ventricular assist products at agreed upon prices. The Company recorded a pre-tax gain of $35 million during the second quarter of 2000 in connection with this transaction.

As part of the transaction with WorldHeart, the Company invested $20 million in WorldHeart convertible preferred stock. The preferred stock bears a cumulative dividend, is callable at any time by WorldHeart and is convertible by Edwards Lifesciences into WorldHeart common stock commencing July 2006. Edwards Lifesciences reports its investment in WorldHeart as available-for-sale securities.

Pro Forma Data

The following unaudited pro forma consolidated condensed statement of income for the year ended December 31, 2000 gives effect to the sales to Jostra AG and WorldHeart by Edwards Lifesciences as if the sales had occurred on the close of business on December 31, 1999. The unaudited pro forma consolidated condensed statement of income does not purport to be indicative of either the results of future operations or the results of operations that would have occurred had the sales been consummated on the close of business on December 31, 1999. The following amounts are in millions, except per share amounts:

Year Ended December 31,	2000
Net sales	$ 772
Net income	8
Net income per share:	
Basic	$ 0.14
Diluted	0.14

Other Non-recurring Charges

As a result of Edwards Lifesciences' continuing efforts to focus the Company's product portfolio and effect the Company's business strategy following the spin-off from Baxter, during the second quarter of 2000 the Company decided to discontinue certain products in its portfolio that did not meet the objectives of its business strategy. The long-lived assets or the investments in these products were evaluated to determine whether any impairment in their recoverability existed at the determination date. As a result, Edwards Lifesciences assessed whether the estimated cash flows of the products over the estimated lives of the related assets were sufficient to recover their costs. Where such cash flows were insufficient, the Company utilized a discounted cash flow model to estimate the fair value of assets or investments and recorded an impairment charge to adjust the carrying values to estimated fair values. As a result of this evaluation, Edwards Lifesciences recorded a non-cash charge of $45 million during the second quarter of 2000 primarily related to the impairment of goodwill unrelated to perfusion products ($37 million), impairment of other intangibles ($5 million) and the write-down of non-productive assets ($3 million).

Note 5 Accounts Receivable Securitization

Edwards Lifesciences entered into an agreement (the "Receivables Facility") in December 2000 with a financial institution whereby it sells on a continuous basis an undivided interest in certain eligible trade accounts receivable. Pursuant to the Receivables Facility, the Company formed Edwards Lifesciences Financing LLC ("ELF"), a wholly owned, special purpose, bankruptcy-remote subsidiary for the sole purpose of buying and selling receivables generated by the Company. Under the Receivables Facility, Edwards Lifesciences, irrevocably and without recourse, transfers certain of its accounts receivables to ELF. ELF has sold and, subject to certain conditions, may from time to time sell an undivided interest in these receivables and is permitted to receive advances for the sale of such undivided interest. The Company retained servicing responsibilities and subordinated interests. The Company receives annual servicing fees approximating one percent of the outstanding balance and rights to future cash flows arising after the investors in the securitization trust have received their contractual return. The investors and the securitization trust have no recourse to the Company's other assets for failure of debtors to pay when due. The Company's retained interests are subordinate to the investor's interests. The value of the accounts receivable is subject primarily to credit risks on the transferred accounts receivable.

This two-step transaction is accounted for as a sale of receivables under the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." Sales of receivables under this program result in a reduction of total accounts receivable on the Company's consolidated balance sheet. Retained interests are carried at their fair value estimated as the net realizable value, which considers the relatively short liquidation period and includes an estimated provision for credit losses. Pursuant to the terms of the Receivables Facility, the Company had sold approximately $37 million of trade accounts receivable in the aggregate at December 31, 2000 resulting in a reduction of trade accounts receivable on the Company's consolidated balance sheet. Costs associated with the sale of receivables, primarily related to the discount and loss on sale, were $0.4 million in 2000 and are included in Other Expense (Income). There was $32 million funded under the Receivables Facility at December 31, 2000.

At December 31, 2000, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions are as follows:

(dollars in millions)	
Carrying amount/fair value of retained interests	$ 4.8
Weighted average life (in days)	42
Expected credit losses (annual rate)	14.43%
Impact on fair value of 10% adverse change	$ 0.1
Impact on fair value of 20% adverse change	$ 0.1

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 or 20 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear.

Note 6 Accounts Payable and Accrued Liabilities

December 31, (in millions)	2000	1999
Accounts payable	$ 49	$ 42
Employee compensation and withholdings	41	52
Property, payroll and other taxes	17	9
Other accrued liabilities	51	53
	$ 158	$ 156

Note 7 Long-term Debt, Credit Facilities and Lease Obligations

Edwards Lifesciences entered into two unsecured revolving credit agreements ("the Credit Facilities") as of the Distribution, providing for up to an aggregate of $650 million in borrowings in multiple currencies. Borrowings currently bear interest at the London interbank offering rate (LIBOR) plus 1.00%, which includes a facility fee. One of the credit agreements provides for long-term borrowings up to an aggregate of $430 million and expires on March 30, 2005. The other credit agreement provided for short-term borrowings up to an aggregate of $220 million and expires on March 29, 2001. As of December 31, 2000, approximately $277 million and $151 million were outstanding under the $430 million and the $220 million credit agreements, respectively. Edwards Lifesciences pays a facility fee, regardless of available or outstanding borrowings, currently at an annual rate of 0.20% for the $430 million credit agreement and, prior to expiration, 0.175% for the $220 million credit agreement. The Credit Facilities contain various financial and other covenants of Edwards Lifesciences, including a maximum leverage ratio and a minimum interest coverage ratio. The Company incurred approximately $3 million of fees associated with obtaining the Credit Facilities. The Company capitalized these financing costs and is amortizing them under a method that approximates the effective interest method. All amounts outstanding under the $430 million credit agreement have been classified as long-term obligations, as these borrowings will continue to be refinanced pursuant to this credit agreement.

During February 2001, the Company refinanced $90 million of outstanding borrowings under the $220 million credit agreement to borrowings under the $430 million credit agreement. As a result, this $90 million has been classified as long-term debt as of December 31, 2000. The Company anticipates that it will replace, and make effective as of March 29, 2001, the $220 million credit agreement with a credit agreement in the amount of $175 million through March 28, 2002.

The weighted average interest rate under the Credit Facilities was 5.48% at December 31, 2000, including the effect of interest rate swap agreements. The rates have been calculated using rates in effect at December 31, 2000, some of which are floating rates that reset periodically. The Company manages interest rate risk using interest rate swap agreements to balance the mix of fixed to floating rate debt.

Future minimum lease payments (including interest) under noncancelable operating leases and aggregate debt maturities at December 31, 2000 were as follows:

(in millions)	Operating Leases	Aggregate Debt Maturities
2001	$ 4	$ 61
2002	4	—
2003	2	—
2004	1	—
2005	1	367
Thereafter	—	—
Total obligations and commitments	$ 12	$ 428

Included in debt at December 31, 2000 were unsecured notes denominated in various foreign currencies as follows:

December 31, (in millions)	2000
Japanese Yen	25,854
Swiss Franc	30

Certain facilities and equipment are leased under operating leases expiring at various dates. Most of the operating leases contain renewal options. Total expense for all operating leases was $5 million, $9 million and $8 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Note 8 Financial Instruments and Risk Management

Fair values of financial instruments

The consolidated financial statements include financial instruments whereby the fair market value of such instruments may differ from amounts reflected on a historical basis. Financial instruments of the Company consist of cash deposits, accounts and other receivables, investments in unconsolidated affiliates, accounts payable, certain accrued liabilities and debt. The fair values of certain investments in unconsolidated affiliates are estimated based on quoted market prices. For other investments, various methods are used to estimate fair value, including external valuations and discounted cash flows. The carrying amount of the Company's long-term debt approximates fair market value based on prevailing market rates. The Company's other financial instruments generally approximate their fair values based on the short-term nature of these instruments.

Derivative financial instruments

The Company utilizes a variety of derivative financial instruments to manage its currency exchange rate and interest rate risk as summarized below. The Company does not enter into these arrangements for trading or speculation purposes.

	2000		1999	
(in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swap agreements	$ 257	$ (12)	$ —	$ —
Option-based products	157	1	302	1
Forward currency agreements	1	—	—	—

The fair value of financial instruments at December 31, 2000 was estimated using the valuation methodologies described below. Considerable judgment was employed in interpreting market data to develop estimates of fair value; accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions or valuation methodologies could have a material effect on the estimated fair value amounts. The methods and assumptions used to estimate the fair value of financial instruments are summarized as follows:

Interest Rate Swap Agreements The estimated fair value of the Company's outstanding interest rate swap agreements was derived by discounting expected cash flows using quoted market interest rates as of December 31, 2000 and 1999.

Option-Based Products The estimated fair value of the Company's outstanding option-based products was derived by discounting expected cash flows using market exchange rates and market interest rates as of December 31, 2000 and 1999.

A roll-forward of the activity of the Company's derivative financial instruments for the year ended December 31, 2000 is as follows:

(in millions)	Interest Rate Swap Agreements	Option-Based Products	Forward Currency Contracts
December 31, 1999 notional amount	$ —	$ 302	$ —
New agreements	257	11	1
Expired agreements	—	(156)	—
December 31, 2000 notional amount	$ 257	$ 157	$ 1

Foreign currency and interest rate risk management

For periods presented prior to the Distribution, Edwards Lifesciences was considered in Baxter's overall risk management strategy. As part of this strategy, Baxter used certain financial instruments to reduce its exposure to adverse movements in foreign exchange rates. These financial instruments were not used for trading purposes. The financial instruments contained credit risk in that the banking counterparty may be unable to meet the terms of the agreements. Such risk was minimized by limiting counterparties to major financial institutions and by management's monitoring of credit risk. In addition, where appropriate, Baxter arranged collateralization and master-netting agreements to minimize the risk of loss.

As part of this risk management strategy, Baxter entered into foreign exchange contracts, principally options, with terms generally less than two years, which hedged anticipated but not yet committed sales expected to be denominated in foreign currencies. Baxter allocated to Edwards Lifesciences the net income associated with certain of such contracts in the amounts of $1 million in 1999 and $3 million in 1998. The approximate notional amounts associated with the allocated portion of these foreign exchange contracts was $157 million, $302 million and $177 million at December 31, 2000, 1999 and 1998, respectively. The allocations were determined based on Edwards Lifesciences' hedged sales relative to Baxter's total hedged sales, by applicable currency. With respect to Edwards Lifesciences' foreign currency exposures, Baxter principally hedged the Japanese Yen and the Euro.

As a stand-alone company, Edwards Lifesciences manages its exposure to foreign currency and interest rate fluctuations, based upon cost benefit considerations, to minimize earnings and cash flow volatility associated with foreign exchange rate changes. In order to reduce the risk of foreign currency exchange rate fluctuations, Edwards Lifesciences has established a policy of hedging a substantial portion of its expected foreign currency denominated cash flow from operations. The instruments that Edwards Lifesciences uses for hedging are readily marketable traded forward contracts and options with financial institutions. Edwards Lifesciences expects that the changes in fair value of such contracts will have a high correlation to the price changes in the related hedged cash flow. Edwards Lifesciences does not expect that the risk of transaction gains or losses from changes in the fair value of its foreign exchange position will be material because most transactions will occur in either the functional currency or in a currency that has a high correlation to the functional currency. The principal currencies that Edwards Lifesciences hedges are the Japanese Yen and the Euro, which present the primary risk of loss. Any gains and losses on these hedge contracts are expected to offset changes in the value of the related exposures. Edwards Lifesciences will enter into foreign currency transactions only to the extent that foreign currency exposure exists; it will not enter into foreign currency transactions for speculative purposes.

Edwards Lifesciences utilizes interest rate swap agreements in managing its exposure to interest rate fluctuations. Interest rate swap agreements are executed as an integral part of specific debt transactions. The differential paid or received on interest rate swap agreements is recorded on an accrual basis as an adjustment to interest expense over the term of the agreements. Edwards Lifesciences' interest rate swap agreements involve agreements to receive a floating rate and pay a fixed rate, at specified intervals, calculated on an agreed-upon notional amount. As of December 31, 2000, Edwards Lifesciences had in place four interest rate swaps with a total notional amount of $257 million to swap floating rate United States dollar and Yen denominated debt obtained under the Company's revolving credit facilities for fixed rates. The original maturities of the interest rate swap agreements are between three and five years.

Note 9 Common Stock

The Edwards Lifesciences Corporation Long-Term Stock Incentive Program (the "Program"), which became effective April 1, 2000, provides for the grant of incentive and non-qualified stock options, restricted stock and other stock-based incentive awards for employees and contractors of the Company. Under the Program, these grants are generally awarded at a price equal to the fair market value at the date of grant based upon the closing price on the date immediately preceding the grant date. Options to purchase shares of the Company's common stock granted under the Program generally vest over predetermined periods and expire ten years after the date of grant. As of December 31, 2000, an aggregate of 12,500,000 shares of the Company's common stock was reserved for issuance under the Program.

On April 3, 2000, the Company granted options to purchase shares of Edwards Lifesciences' common stock under the Program. The grants include two types of stock options: Founders Options and Conversion Options. The Founders Options were awarded to all salaried employees of the Company, and permit the purchase of approximately 5.7 million shares at an exercise price of $13.875, the fair market value at the date of grant. The Founders Options vest 30% after two years, and the balance vests after three years. The Founders Options include approximately 634,000 options granted to non-employees of the Company in Japan (employees of Baxter dedicated to the joint venture as described in Note 1). In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the $4.2 million value of these options is being amortized over the three-year vesting period on a straight-line basis. The Conversion Options permitted the purchase of approximately 2.2 million shares at an exercise price based upon an equitable conversion of the exercise price under the Baxter stock option plan, with reference to the when-issued price of the Company's stock and the closing price of Baxter's common stock on March 31, 2000. The Conversion Options retained the vesting periods under the Baxter stock option plan, resulting in various vesting periods through September 2002.

The Company also maintains the Nonemployee Directors and Consultants Stock Incentive Program (the "Nonemployee Program"), which became effective April 1, 2000. Under the Nonemployee Program, each non-employee director may elect to receive all or a portion of the cash retainer to which the director is otherwise entitled through the issuance of stock options. As of December 31, 2000, 16,200 shares of common stock were reserved for the future issuance of these options.

Stock option activity during 2000 under the Program and the Nonemployee Program was as follows:

(in thousands, except option price data)	Number of Options	Weighted Average Exercise Price
Outstanding, April 1, 2000	—	$ —
Options issued with the Distribution	7,852	13.37
Options granted during period	424	16.87
Options exercised	—	—
Options cancelled	(590)	13.14
Outstanding, end of year	7,686	$ 13.59
Exercisable, end of year	523	$ 10.20

The following table summarizes stock options outstanding at December 31, 2000 (shares in thousands):

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$13.88 (Founders Options)	5,250	9.3	$ 13.88	—	$ —
$10.20 - $15.71 (Conversion Options)	2,012	7.3	12.14	523	10.20
$15.44 - $22.25 (Other options)	424	9.9	16.87	—	—
	7,686	8.8	$ 13.59	523	$ 10.20

The Company applies the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for stock-based compensation; therefore, no compensation expense has been recognized for its fixed stock option plans as options generally are granted at fair market value based upon the closing price on the date immediately preceding the grant date. The Company has adopted the disclosure requirements for SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, if compensation expense for the Company's stock options had been recognized based upon the fair value of awards granted, the Company's net income would have been reduced by approximately $7 million, resulting in a net loss of approximately $279 million for fiscal 2000, or $(4.79) per share for both pro forma basic and diluted net loss per share. The fair value of each option granted during fiscal 2000 is estimated based on the date of grant using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years, expected volatility of 45%, risk-free interest rate of 5.8%, and no dividend yield. The weighted-average fair value for options granted during 2000 was $6.39. The Company expects to grant additional awards in future years.

Restricted Stock

On April 1, 2000, a one-time grant of 5,000 shares of restricted stock was made to each of the five non-employee directors pursuant to the Nonemployee Program. These grants vest 50% after one year and the balance vests after two years from the date of grant. An aggregate of 300,000 shares of the Company's common stock has been authorized for issuance pursuant to the non-employee program. Grants of restricted stock to non-employees are charged to Unearned Compensation in Stockholders' Equity at their intrinsic value and recognized as expense over the vesting period. Compensation expense recognized for such grants during fiscal year 2000 was approximately $0.2 million for the Nonemployee Program restricted stock grants.

Employee Stock Purchase Plan

The Company implemented two employee stock purchase plans ("ESPP") for eligible employees to purchase shares of the Company's common stock at 85% of the lower of the fair market value of Edwards Lifesciences' common stock on the (a) effective date of subscription or (b) date of purchase. Under the ESPP, employees could authorize the Company to withhold up to 12% of their compensation during any offering periods for common stock purchases, subject to certain limitations. The ESPP was implemented on April 3, 2000 and was available to all active employees of the Company paid from the United States payroll and to eligible employees of the Company outside the United States to the extent permitted by local law. The ESPP for United States employees was qualified under Section 423 of the Internal Revenue Code. The Board of Directors authorized an aggregate of 375,000 shares of the Company's common stock for issuance under the ESPP. Effective September 30, 2000, the Company terminated the ESPP due to an insufficient number of shares remaining within the plans. As of December 31, 2000, approximately 355,000 shares have been issued within the plans.

Special Ownership Stock Option Plan

Prior to the Distribution, certain employees of Edwards Lifesciences participated in stock-based compensation plans sponsored by Baxter. Such plans principally included fixed stock option plans and employee stock purchase plans. Baxter applied APB Opinion No. 25, and related interpretations in accounting for such plans. Accordingly, no compensation cost was recognized for the fixed stock option plans and the employee stock purchase plans. These plans remain the sole responsibility of Baxter.

Employees who transferred to Edwards Lifesciences were required to exercise any vested options within 90 days from the spin-off date from Baxter unless an employee qualified for certain retirement, disability or other special provisions, and all unvested Baxter options were cancelled by Baxter on June 30, 2000.

Stockholder Rights Plan

In connection with the Distribution, the Company adopted a Stockholder Rights Plan to protect stockholders' rights in the event of a proposed or actual acquisition of 15% or more of the outstanding shares of the Company's common stock. As part of this plan, each share of the Company's common stock carries a right to purchase one one-hundredth (1/100) of a share of Series A Junior Participating Preferred Stock (the "Rights"), par value $0.01 per share, subject to adjustment, which becomes exercisable only upon the occurrence of certain events. The Rights are subject to redemption at the option of the Board of Directors at a price of $0.01 per right until the occurrence of certain events. The Rights expire on March 31, 2010, unless earlier redeemed or exchanged by the Company.

Other

During 2000, Edwards Lifesciences issued to certain hourly employees approximately 125,000 shares of the Company's common stock valued at $1.7 million.

Note 10 Employee Benefit Plans

Defined Benefit Plans

Prior to the Distribution, Edwards Lifesciences employees participated in Baxter-sponsored defined benefit pension plans covering substantially all employees in the United States and Puerto Rico and employees in certain European countries. The benefits were based on years of service and the employees' compensation during five of the last 10 years of employment as defined by the plans. Effective as of the Distribution, Edwards Lifesciences' employees ceased to be eligible to accrue any additional benefits under the Baxter plan for United States employees. Edwards Lifesciences did not adopt a pension plan for United States employees to replace the Baxter plan in the United States The pension liability related to Edwards Lifesciences' United States employees' service prior to the Distribution remains with Baxter. With respect to the Puerto Rico and certain European plans, Baxter transferred the assets and liabilities relating to Edwards Lifesciences' employees to Edwards Lifesciences as of the Distribution. Edwards Lifesciences has adopted a defined benefit pension plan in Puerto Rico and in certain European countries.

Pension expense for the Baxter-sponsored plans relating to Edwards Lifesciences' employees was $0.4 million for the three months ended March 31, 2000 and $5 million and $4 million for the years ended December 31, 1999 and 1998, respectively.

In addition to pension benefits, Edwards Lifesciences participated in Baxter-sponsored contributory health care and life insurance benefits for substantially all domestic retired employees through the Distribution. Baxter and Edwards Lifesciences froze benefits under these plans as of the Distribution for Edwards Lifesciences employees. Edwards Lifesciences has not established new health care and life insurance plans for employees retiring subsequent to the Distribution. Expense associated with these benefits relating to Edwards Lifesciences employees was less than $1 million in each of the years 2000, 1999 and 1998.

Subsequent to the Distribution, Edwards Lifesciences began sponsoring defined benefit pension plans in Puerto Rico and certain European countries. Information about these plans is presented below.

Reconciliation of the plans' benefit obligations, assets and funded status are as follows:

(in millions)	As of or for the Period Ended December 31, 2000
Benefit Obligation	
April 1, 2000	$ 22.2
Service cost	1.1
Interest cost	1.1
Participant contributions	0.1
Actuarial loss	0.6
Curtailment gains	(1.1)
Currency exchange rate changes and other	(1.0)
December 31, 2000	$ 23.0
Fair value of plan assets	
April 1, 2000	$ 18.4
Actual return on plan assets	(0.5)
Employer contributions	0.4
Participant contributions	0.1
Currency exchange rate changes and other	(0.8)
December 31, 2000	$ 17.6
Funded status	
Funded status at December 31, 2000	$ (5.4)
Unrecognized net losses	2.0
Unrecognized prior-service cost	2.8
Net amount recognized	$ (0.6)
Prepaid benefit cost	$ 1.0
Accrued benefit liability	(1.6)
Net amount recognized	$ (0.6)

For certain of the Company's European pension plans, the accumulated benefit obligation is in excess of plan assets. The projected benefit obligation and accumulated benefit obligation for these plans were $0.8 million and $0.7 million, respectively, at December 31, 2000. There were no assets held in these plans.

Net periodic benefit cost

(in millions)	Period Ended December 31, 2000
Service cost	$ 1.1
Interest cost	1.1
Expected return on plan assets	(1.0)
Amortization of prior service cost	0.2
Net periodic pension benefits cost	$ 1.4

Assumptions used in determining benefit obligations are as follows:

Discount Rate	
Puerto Rico plan	7.25%
International plans (average)	5.55%
Expected return on plan assets	
Puerto Rico plan	9.50%
International plans (average)	5.00%
Rate of compensation increase	
Puerto Rico plan	4.00%
International plans (average)	3.71%

Defined Contribution Plans

The Company's employees in the United States and Puerto Rico are eligible to participate in a qualified 401(k) and 1165(e) plan, respectively. Participants may contribute up to 15% of their annual compensation (subject to tax code limitation) to the plans. Edwards Lifesciences matches the first three percent of the participant's annual eligible compensation contributed to the plan on a dollar for dollar basis. Edwards Lifesciences matches the next two percent of the participant's annual eligible compensation to the plan on a 50% basis. Matching contributions relating to Edwards Lifesciences employees were approximately $4 million in 2000 and approximately $3 million in each of 1999 and 1998.

The Company has a nonqualified deferred compensation plan for a select group of management that provides the opportunity to defer a specified percentage of their cash compensation. Participants may elect to defer up to 100% of bonus and 15% of total annual compensation. The Company's obligations under this plan are unfunded. The amount accrued under this plan was approximately $2 million at December 31, 2000 and is recorded in Other Liabilities.

Note 11 | Related Party Transactions

Prior to the Distribution, Baxter provided to the Edwards Lifesciences Business certain legal, treasury, employee benefit, insurance and administrative services. Charges for these services were based on actual costs incurred by Baxter. The amounts charged to Edwards Lifesciences varied depending on the nature of the service, but generally were determined using headcount, sales, payroll, square footage or other appropriate data, or were determined on actual utilization of services. Management believes that the allocation of service charges are reasonable. However, the terms of these transactions may differ from those that would result from transactions with unrelated third parties or had Edwards Lifesciences performed these functions on its own.

Prior to the Distribution, Edwards Lifesciences participated in a centralized cash management program administered by Baxter. Short-term advances from Baxter or excess cash sent to Baxter have been treated as an adjustment to the "Investment by Baxter International Inc., net" account as of and through March 31, 2000. No interest was allocated to Edwards Lifesciences on this balance.

Effective on the Distribution, Baxter and Edwards Lifesciences entered into a series of administrative services agreements pursuant to which Baxter and Edwards Lifesciences will continue to provide, for a specified period of time, certain administrative services (primarily information systems support, payroll, accounting and warehousing and logistics support) that each entity historically has provided to the other. These agreements require the parties to pay each other a fee that approximates the actual costs of these services. Additionally, subsequent to March 31, 2000, Edwards Lifesciences has continuing relationships with Baxter as a customer and supplier for certain products, and uses Baxter as a distributor of the Company's products in certain regions of the world.

The following table summarizes the charges from Baxter for the above-mentioned services, as recorded in Edwards Lifesciences' Consolidated Statements of Operations:

Years Ended December 31, (in millions)	2000	1999	1998
Cost of goods sold	$ 5	$ —	$ 4
Selling, general and administrative expenses	19	44	34
Research and development expenses	1	2	4

Sales to Baxter, acting in the capacity of the Company's distributor, represented 12% of the Company's total net sales subsequent to the distribution.

Note 12 Other Expense (Income), Net

Years Ended December 31, (in millions)	2000	1999	1998
Foreign exchange	$ 2	$ 2	$ 1
Insurance and legal settlements	—	(1)	(13)
Asset dispositions and write downs, net	1	1	6
Other	1	2	—
	$ 4	$ 4	$ (6)

Note 13 Income Taxes

Edwards Lifesciences' operations prior to the Distribution were included in the consolidated income tax returns of Baxter. The following income tax information was calculated as if Edwards Lifesciences were a stand-alone affiliated group for all periods presented.

Income (loss) before tax expense by category is as follows:

Years Ended December 31, (in millions)	2000	1999	1998
United States	$ (321)	$ 92	$ 66
International	62	21	27
	$ (259)	$ 113	$ 93

Income tax expense by category and by income statement classification is as follows:

Years Ended December 31, (in millions)	2000	1999	1998
Current			
United States			
Federal	$ —	$ 13	$ 16
State and local, including Puerto Rico	2	8	11
International	12	8	4
Current income tax expense	14	29	31
Deferred			
United States			
Federal	—	2	—
State and local, including Puerto Rico	(1)	—	—
International	—	—	—
Deferred income tax expense (benefit)	(1)	2	—
Total income tax expense	$ 13	$ 31	$ 31

The components of deferred tax assets and liabilities are as follows:

December 31, (in millions)	2000	1999
Deferred tax assets		
Compensation and benefits	$ 7	$ 5
Accrued liabilities	5	—
Allowance for doubtful accounts	4	2
Inventories	3	1
Other	4	1
Total deferred tax assets	23	9
Deferred tax liabilities		
Intangible assets	(27)	(34)
Property, plant and equipment	(14)	(17)
Deferred gain on sale of assets	(13)	—
Net operating loss carryforwards	4	2
Valuation allowance	(3)	(1)
Tax credit carryforwards	1	—
Other	(5)	7
Total deferred tax liabilities	(57)	(43)
Net deferred tax liabilities	$ (34)	$ (34)

Deferred income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries of approximately $16 million as of December 31, 2000 since these amounts are intended to be permanently reinvested in foreign operations. It is not practicable to calculate the deferred taxes associated with these earnings; however, foreign tax credits would likely be available to reduce federal income taxes in the event of distribution.

Income tax expense differs from income tax expense (benefit) calculated by using the United States federal income tax rate for the following reasons:

Years Ended December 31, (in millions)	2000	1999	1998
Income tax expense (benefit) at statutory rate	$ (90)	$ 40	$ 33
Nondeductible charges (Note 4)	100	—	—
Nondeductible goodwill	10	12	12
Foreign income tax at different rates	(9)	(24)	(18)
State and local taxes	—	3	4
Other	2	—	—
Income tax expense	$ 13	$ 31	$ 31

The Company has manufacturing operations outside the United States, primarily in Puerto Rico and Switzerland, which benefit from reductions in local tax rates under various tax incentives.

As of December 31, 2000, the Company has a United States federal net operating loss carryforward of approximately $3 million which expires in 2020, and approximately $1 million in aggregate state net operating loss carryforwards which expire in 2010. The Company also has a state research and development income tax credit carryforward of approximately $1 million. The state credit has no expiration date. The Company has foreign net operating loss carryforwards of approximately $9 million as of December 31, 2000, of which approximately 10% expires in 2008; the remainder is non-expiring and has been fully offset by a valuation allowance.

Note 14 Legal Proceedings

Upon the Distribution, Edwards Lifesciences assumed the defense of certain Baxter litigation involving cases and claims related to the Edwards Lifesciences Business. Edwards Lifesciences has not been named as a defendant in such matters but is defending and indemnifying Baxter for all related expenses and potential liabilities. It is possible that Edwards Lifesciences may be added as a defendant in these cases and claims.

Edwards Lifesciences is also subject to various environmental laws and regulations both within and outside of the United States. The operations of Edwards Lifesciences, like those of other medical device companies, involve the use of substances regulated under environmental laws, primarily in manufacturing and sterilization processes. While it is difficult to quantify the potential impact of compliance with environmental protection laws, management believes that such compliance will not have a material impact on Edwards Lifesciences' financial position, results of operations or liquidity.

As previously reported, on June 29, 2000 Edwards Lifesciences filed a lawsuit for patent infringement against Medtronic, Inc. alleging infringement of two of Edwards Lifesciences' United States patents, and filed a lawsuit against St. Jude Medical, Inc. alleging infringement of three patents. The Medtronic lawsuit was filed in the United States District Court for the District of Delaware and the St. Jude lawsuit in the United States District Court for the Central District of California. Both lawsuits seek monetary damages and injunctive relief. Each of Medtronic and St. Jude has answered, and asserted various affirmative defenses and counterclaims. Discovery is proceeding in both lawsuits. On March 1, 2001 Edwards Lifesciences moved to amend its lawsuit against Medtronic alleging infringement of one other of Edwards Lifesciences' United States patents. This motion is pending.

Edwards Lifesciences is, or may be, a party to pending or threatened lawsuits, related primarily to products and services currently or formerly manufactured or performed, as applicable, by Edwards Lifesciences. Such cases and claims raise difficult and complex factual and legal issues and are subject to many uncertainties and complexities, including, but not limited to, the facts and circumstances of each particular case or claim, the jurisdiction in which each suit is brought, and differences in applicable law. Upon resolution of any pending legal matters, Edwards Lifesciences may incur charges in excess of presently established reserves. While such a charge could have a material adverse impact on Edwards Lifesciences' net income or net cash flows in the period in which it is recorded or paid, management believes that no such charge would have a material adverse effect on Edwards Lifesciences' consolidated financial position.

Note 15 Segment Information

Edwards Lifesciences manages its business on the basis of one reportable segment. Refer to Note 1 for a description of the Company's business. The Company's products and services share similar distribution channels and customers and are sold principally to hospitals and physicians. Management evaluates its various global product portfolios on a revenue basis, which is presented below, and profitability is generally evaluated on an enterprise-wide basis due to shared infrastructures. Edwards Lifesciences' principal markets are the United States, Europe and Japan.

Geographic area data includes net sales based on product shipment destination and long-lived asset data is presented based on physical location.

As of or for the year ended December 31, (in millions)	2000	1999	1998
Net Sales by Geographic Area			
United States	$ 482	$ 504	$ 508
Japan	94	166	138
Other countries	228	235	219
	$ 804	$ 905	$ 865
Net Sales by Major Product and Service Area			
Cardiac Surgery	$ 311	$ 306	$ 273
Critical Care	217	242	221
Vascular	55	61	60
Perfusion Products and Services	207	244	269
Other	14	52	42
	$ 804	$ 905	$ 865
Long-Lived Assets by Geographic Area			
United States	$ 780	$ 1,035	$ 1,082
Other countries	26	46	47
	$ 806	$ 1,081	$ 1,129

Note 16 Quarterly Financial Results and Market for the Company's Stock (Unaudited)

Years Ended December 31 (in millions, except per share data)	First quarter	Second quarter	Third quarter	Fourth quarter	Total year
2000					
Net sales	$ 226	$ 205	$ 186	$ 187	$ 804
Gross profit	108	90	90	93	381
Net income (loss)[a][b]	17	(309)	4	16	(272)
Pro forma per common share[c]					
Basic	0.29	(5.31)	0.08	0.27	(4.66)
Diluted	0.29	(5.31)	0.07	0.26	(4.66)
Dividends	—	—	—	—	—
Market price					
High	n/a	20.44	26.25	24.19	26.25
Low	n/a	13.75	19.69	13.00	13.00
1999					
Net sales	$ 221	$ 233	$ 217	$ 234	$ 905
Gross profit	108	118	102	111	439
Net income	22	24	17	19	82

n/a - not applicable

(a) The second quarter includes (1) a $291 million pretax charge related to the sale of the Bentley line of cardiopulmonary products (perfusion products) to Jostra AG, (2) a $54 million pretax charge consisting of the write-down of selected goodwill and intangible assets, and other miscellaneous expenses, (3) a $35 million pretax gain on the sale of the United States assets of the Company's mechanical cardiac assist product line to WorldHeart and (4) a $17 million pretax charge consisting of nonrecurring expenses related to the Company's spin-off from Baxter International Inc.

(b) The third quarter includes a $12 million pretax charge related primarily to severance costs associated with the sale of the Company's Bentley line of cardiopulmonary products.

(c) For first quarter and total year, computed as if 58.2 million common shares of Edwards Lifesciences had been outstanding as of January 1, 2000 (comprised of 58.1 million common shares of Edwards Lifesciences distributed to Baxter shareholders to effect the Distribution and approximately 0.1 million common shares of Edwards Lifesciences distributed to Edwards Lifesciences' hourly employees subsequent to the Distribution). Due to the net loss for the year ended December 31, 2000, the basic and diluted net loss per share for the second quarter and for total year are the same amounts since the impact of the common stock equivalents (of approximately 1.1 million and 1.2 million shares, respectively) would be anti-dilutive.

Number of Shareholders

On March 20, 2001, there were approximately 46,000 shareholders of record of Edwards Lifesciences' common stock.

Dividends

Edwards Lifesciences has never paid any cash dividends on its capital stock and does not plan to pay any cash dividends in the foreseeable future. The current policy of Edwards Lifesciences is to retain any future earnings for use in the business of the Company.

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Edwards Lifesciences Corporation
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Annual Meeting
The Annual Meeting of Shareholders will be held on May 10, 2001 at 10:00 a.m. Pacific time at the offices of Edwards Lifesciences Corporation, One Edwards Way, Irvine, CA 92614

Information on the Internet
Edwards Lifesciences' website at www.edwards.com provides access to a wide range of information for our customers, patients and shareholders. Persons interested in investing in Edwards Lifesciences are invited to visit the "For Investors" section of our website to access our press releases, SEC filings and other company information.

Investor Information
Shareholders, securities analysts and investors seeking additional information about Edwards Lifesciences should contact:
David K. Erickson
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Corporate Public Relations
Members of the news media should call:
(949) 250-5070

Transfer Agent
Correspondence about share ownership, account status, the transfer or exchange of shares, lost stock certificates, duplicate mailings or change of address may be directed to:
First Chicago Trust Company
(a division of EquiServe)
P.O. Box 2500
Jersey City, NJ 07303-2500
(201) 324-0014
(800) 756-8200
Hearing impaired # (TDD):
(201) 222-4955
www.equiserve.com

SEC Form 10-K
A copy of Edwards Lifesciences' annual report to the Securities and Exchange Commission on Form 10-K is available without charge upon request to our Investor Relations department. It is also available on our website at www.edwards.com.

Stock Symbol
EW LISTED NYSE®
Edwards Lifesciences' stock is traded on The New York Stock Exchange (NYSE) under the symbol EW.

Independent Accountants
PricewaterhouseCoopers LLP
Orange County, CA

Firms Following and/or Regularly Reporting on Edwards Lifesciences
ABN AMRO
A.G. Edwards & Sons, Inc.
Bear, Stearns & Co. Inc.
Credit Suisse First Boston
First Union Securities, Inc.
J.P. Morgan Chase & Co.
Merrill Lynch
U.S. Bancorp Piper Jaffray
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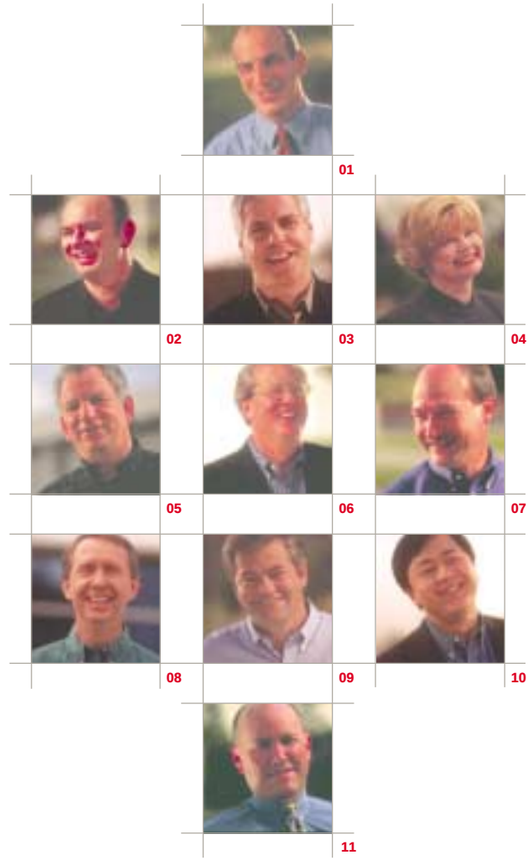
Edwards Lifesciences is an affirmative action, equal opportunity employer.



Corporate Officers **01** *Michael A. Mussallem,* Chairman and Chief Executive Officer **02** *Andre-Michel Ballester,* Corporate Vice President and President, Europe and Intercontinental **03** *Bruce J. Bentcover,* Corporate Vice President, Chief Financial Officer and Treasurer **04** *Anita B. Bessler,* Corporate Vice President, Global Franchise Management **05** *Stuart L. Foster,* Corporate Vice President, Technology & Discovery **06** *Bruce P. Garren,* Corporate Vice President, General Counsel & Secretary **07** *John H. Kehl, Jr.,* Corporate Vice President, Corporate Strategy & Business Development **08** *Richard L. Miller,* Corporate Vice President and President, North American Region **09** *Robert C. Reindl,* Corporate Vice President, Human Resources **10** *Huimin Wang, M.D.,* Corporate Vice President and President, Japan **11** *Randel W. Woodgrift,* Corporate Vice President, Manufacturing

Illustration Bonnie Hofkin (page 7) Eric Tucker (pages 20,26,29,30,33) **Writing** Christi Whittemore

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Printing George Rice & Sons

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Our Credo

At Edwards Lifesciences, we are dedicated to providing innovative solutions for people fighting cardiovascular disease.

Through our actions, we will become trusted partners with customers, colleagues and patients – creating a community unified in its mission to improve the quality of life around the world. Our results will benefit customers, patients, employees and shareholders.

We will celebrate our successes, thrive on discovery and continually expand our boundaries. We will act boldly, decisively and with determination on behalf of people fighting cardiovascular disease.

Helping Patients is Our Life's Work, and Life is Now.

Embark

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