

Edwards Lifesciences Corporation

2006 Annual Report

*It's what's inside
that counts.*



Edwards

For nearly 50 years, Edwards Lifesciences has been dedicated to supporting patients in their fight against advanced cardiovascular disease, the world’s leading cause of death and disability. Through its focused research, development, discovery and commercialization efforts, the company has driven the creation of leading heart valve therapies and hemodynamic monitoring technologies, as well as peripheral vascular and cardiac surgery innovations, to help countless patients resume fuller, happier and more active lives. Unified in their mission, Edwards’ employees truly embody the company’s pledge to help patients each and every day.

Selected Operating Information

Twelve months ended December 31, <i>(in millions)</i>	2 0 0 6	2 0 0 5	2 0 0 4
Net sales	\$ 1,037.0	\$ 997.9	\$ 931.5
Cost of goods sold	373.6	374.6	370.2
Gross profit	663.4	623.3	561.3
Selling, general and administrative expenses	376.0	348.7	319.9
Research and development expenses	114.2	99.0	87.0

Operating Statistics

As a percentage of net sales:

Gross profit	64.0%	62.5%	60.3%
Selling, general and administrative expenses	36.3%	34.9%	34.3%
Research and development expenses	11.0%	9.9%	9.3%
Operating margin ^(a)	16.7%	17.6%	16.6%

(a) Operating margin is calculated by subtracting selling, general and administrative expenses and research and development expenses from gross profit and then dividing by net sales.

The information contained in the table above should be read in conjunction with Edwards Lifesciences’ “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Consolidated Financial Statements” found in the company’s Annual Report on Form 10-K.

Safe Harbor Statement *This Annual Report contains forward-looking statements within the meaning of the federal securities laws. These statements involve substantial risks and uncertainties that could cause the company's future business, financial condition, results of operations or performance to differ materially from that expressed or implied by the forward-looking statements. All statements other than statements of historical fact in this Annual Report or referred to or incorporated by reference into this Annual Report are "forward-looking statements." You are encouraged to refer to the discussion of Risk Factors that may be found in the company's Annual Report on Form 10-K for fiscal year ended December 31, 2006 and other filings with the Securities and Exchange Commission.*

To Our Stockholders,



Michael A. Mussallem
Chairman & Chief Executive Officer

As the cover of this report states, it’s what’s inside that counts. It’s our products inside patients that are helping improve and extend their lives. It’s the physicians inside the hospitals caring for those patients. It’s the dedicated employees inside Edwards Lifesciences who are developing innovative technologies to treat cardiovascular disease. That’s what is important. That’s what sets us apart.

At Edwards, we are committed to helping patients and being a company that physicians can trust. Working with our clinician partners, we focus on developing differentiated technologies that we believe have true leadership potential and may even change the way medicine is practiced.

By following this strategy, Edwards Lifesciences has established an impressive track record over the last six years, and in 2006 we once again delivered solid overall performance. We demonstrated our financial strength by achieving strong gross profit margin growth and generating record free cash flow. In addition, we met our goal for profitability for the year.

We achieved our overall goal for total sales in 2006, although a competitor’s recently introduced valve in the U.S. caused sales of our market-leading heart valve product line to fall short of our growth expectations. One of our top priorities for 2007 is to improve the growth rate of this core franchise. Aided by several expected new product introductions and additional sales resources, we are confident in our ability to do this. Our Critical Care and Vascular product lines continued to transform into faster growing and more profitable businesses, and both were strong contributors to sales growth for the year.

Inside The Results

In 2006, Edwards exceeded the \$1 billion sales threshold for the first time with total sales of \$1.037 billion. In addition, we generated free cash flow of \$150 million. Excluding stock option expense and special items, we improved our gross profit margin 190 basis points, while continuing to grow our R&D investments. We achieved non-GAAP net income growth of 13.2% and finished the year with a very strong balance sheet.

As we have done over the years, we continued to prioritize investments in 2006 and sharpened our strategic focus on opportunities that we believe can provide greater growth potential. During the year, we discontinued our cardiac laser ablation program and divested our remaining perfusion products business. Additionally, we sold our angiogenesis program and a small pharmaceutical product line.

In 2006, the Board approved a new share repurchase program that allows the company to repurchase up to 4 million shares—more than twice as much as any prior plan. During the year, we demonstrated our belief in the attractiveness of investing in Edwards Lifesciences by repurchasing a total of 3.3 million shares for \$146 million.

Our 2006 results also demonstrated continued consistency in financial performance. As part of our commitment to investing in future growth opportunities, over the last five years Edwards Lifesciences has increased R&D spending by an average of 15% annually. And, even with this greater investment, over this same period we have achieved non-GAAP net income growth averaging 14% and generated average free cash flow growth of 17%.

Inside Our Products

Edwards Lifesciences continues to enjoy the leadership position in the growing heart valve replacement and repair market. Our premium Magna aortic valve sales continue to increase and this valve remains the number one heart valve worldwide, and the addition of our proprietary ThermaFix tissue treatment process further enhances our clinically superior product portfolio. Extending our leadership position is largely dependent upon a robust product development pipeline and regularly introducing new products—and we are committed to doing both. Additionally, research we conducted during 2006 confirms that many patients with aortic stenosis who should receive surgery do not, and we believe this will expand the market for our products for years to come.

U.S. and European adoption of our FloTrac minimally invasive cardiac output sensor continued to increase during 2006. Also during the year, we introduced the FloTrac system in Japan, where the product’s minimally invasive and ease-of-use characteristics are highly valued. We believe our FloTrac system’s unique features and benefits will lift the long-term growth rate of our robust Critical Care franchise.

2006 was a year of important progress in Edwards’ LifeStent line of stents. We launched our new LifeStent FlexStar biliary stent delivery system, which optimizes the deployment of our uniquely flexible nitinol self-expanding stents. We also expanded our product offering with the introduction of longer LifeStent FlexStar XL stents. Importantly, we completed enrollment of our groundbreaking RESILIENT clinical trial. This study’s very encouraging interim results reinforce our belief that our LifeStent product line can play an increasingly greater role in the treatment of the large and growing patient group who suffer from peripheral vascular disease.

Edwards Lifesciences continues to lead the development of innovative, catheter-based heart valve technologies that represent a new therapeutic option for a large population of patients who today go untreated. In 2006, we made significant progress in our transcatheter aortic valve program from both a clinical and product development standpoint.

We completed enrollment of our 55-patient U.S. feasibility study, which generated very promising results. We also pioneered the Ascendra transapical delivery system and completed more than 80 cases using this new delivery option. And, we began clinical studies of our next generation Edwards SAPIEN transcatheter heart valve, which incorporates all of our core tissue valve manufacturing capabilities. These developments position us very favorably as we move closer to commercialization of this important technology.

Inside Our Outlook

Although 2006 was a solid year, Edwards is poised to do even better in 2007 and our financial and operational goals should result in another year of strong growth and profitability. Our 2007 financial goals include generating total sales between \$1.075 and \$1.125 billion, increasing our gross profit margin by 100 to 150 basis points, delivering non-GAAP net income growth of 12% to 14%, and generating free cash flow of \$160 to \$170 million.

With our focus on advanced cardiovascular disease treatments, Edwards remains committed to further extending our growth and profitability. Together with an unwavering focus on the quality of our work, we are confident we can continue to build upon our reputation as an industry leader and create exceptional shareholder value for Edwards’ stockholders.

One of Edwards’ aspirations is to be recognized as a company that transforms patient care through innovative technology. I am proud that our employees—more than 5,500 globally—all share this commitment and come to work every day knowing they are making a positive difference in the lives of cardiovascular patients around the world. We thank you for your continuing support of Edwards Lifesciences as we continue these efforts.

Sincerely,



Michael A. Mussallem
Chairman and Chief Executive Officer

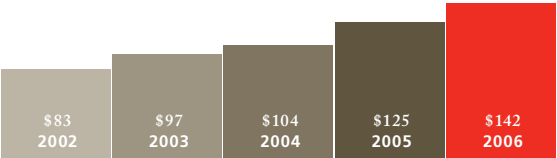
This letter to stockholders contains figures that are not prepared in conformity with Generally Accepted Accounting Principles (“GAAP”). Management has determined that inclusion of these non-GAAP figures provides a more meaningful comparison of the company’s ongoing operations. For a reconciliation of GAAP to non-GAAP figures, refer to pages 28 and 29 of this report.

Selected Consolidated Data

For a reconciliation of GAAP to non-GAAP figures, refer to pages 28 and 29 of this report.

Non-GAAP Net Income (in millions)

Edwards has consistently grown net income while investing in new growth opportunities.



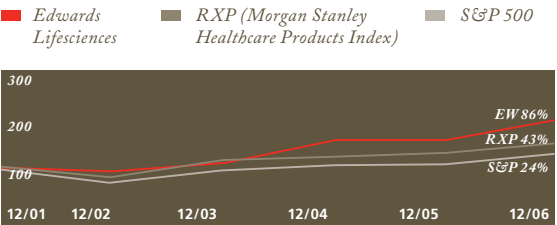
Non-GAAP Free Cash Flow (in millions)

Edwards’ generates strong free cash flow, reflecting solid operating performance and consistent working capital management. This is calculated as cash flow from operating activities minus capital expenditures.



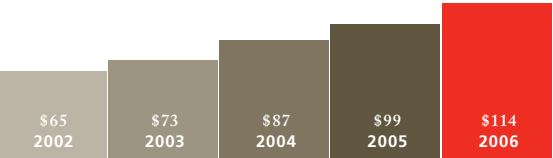
Stock Performance vs. Selected Indices

Since 2001, Edwards’ stock price has increased eighty six percent — outperforming the broader market and its medical products peer group.



R&D Expense (in millions)

Edwards continues to invest in research and development to fuel its new product pipeline.



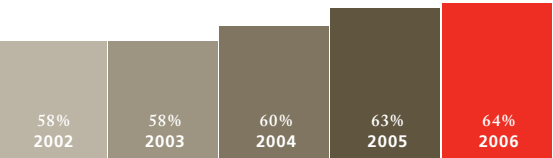
Net Sales (in millions)

In 2006, Edwards’ net sales exceeded \$1 billion for the first time in the company’s history. Approximately eighty-five percent of the company’s sales come from products in leadership positions.



Gross Profit Margin (gross profit as a percentage of net sales)

Sales of higher margin, physician-preference products and the exit from lower margin businesses are driving continued expansion of Edwards’ gross profit margin.



As an industry leader, Edwards Lifesciences is committed to partnering with leading clinicians inside hospitals around the world to develop innovative technologies aimed at improving the lives of patients suffering from advanced cardiovascular disease. Each employee inside Edwards—from research and development to manufacturing to customer support and elsewhere—plays a role in this important endeavor. The many patients whose lives have been improved by an Edwards’ product inside them inspire us to continue our vital work. It’s what’s inside that counts.

SURGICAL AORTIC VALVE REPLACEMENT



David H. Adams, M.D.

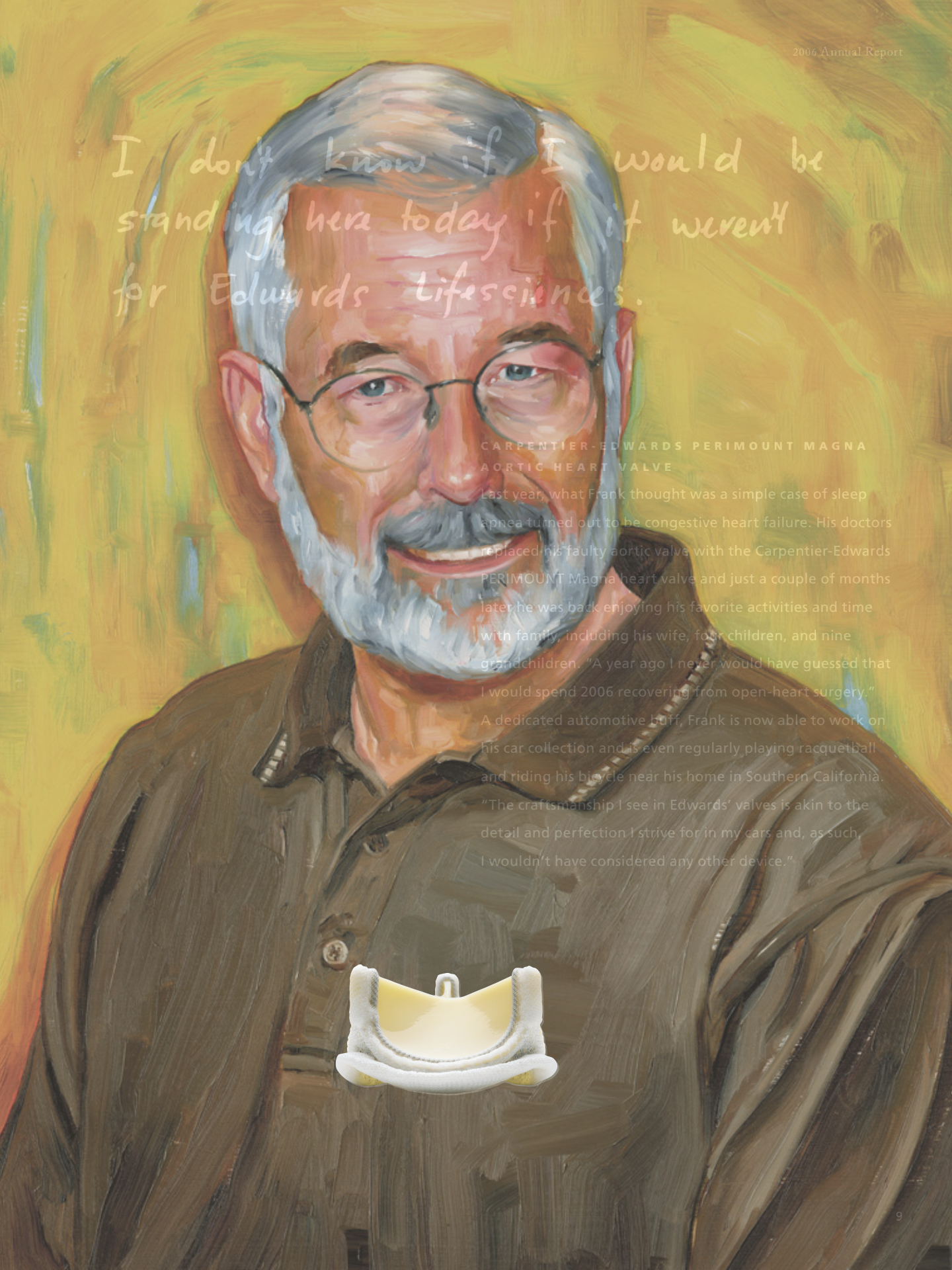
Edwards’ PERIMOUNT tissue valves have demonstrated unmatched long-term durability and hemodynamic performance. The recent addition of the company’s ThermaFix advanced tissue treatment to its best-in-class Magna valve offers the best in valve design, durable materials and tissue processing. “In my opinion, Edwards’ pericardial valves provide the best option for patients, regardless of age, who wish to avoid the negative consequences associated with mechanical valves.”



Andrea Menchaca
Edwards’ Customer Operations

“Our products save people’s lives every day.”

Edwards’ PERIMOUNT Magna aortic valve is the number one replacement heart valve in the world, combining more than 20 years of clinical experience and innovation with the most advanced tissue technologies. Edwards is committed to partnering with cardiac surgeons to advance the treatment of valve disease. “The surgeon has the skills to save lives and our products help make that happen. In customer operations, we bring the two together.”



CARPENTIER-EDWARDS PERIMOUNT MAGNA
AORTIC HEART VALVE

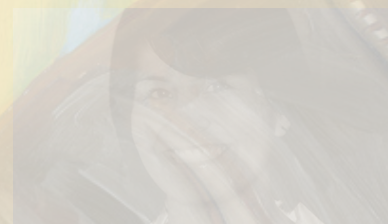
Last year, what Frank thought was a simple case of sleep apnea turned out to be congestive heart failure. His doctors replaced his faulty aortic valve with the Carpentier-Edwards PERIMOUNT Magna heart valve and just a couple of months later he was back enjoying his favorite activities and time with family, including his wife, four children, and nine grandchildren. “A year ago I never would have guessed that I would spend 2006 recovering from open-heart surgery.” A dedicated automotive buff, Frank is now able to work on his car collection and is even regularly playing racquetball and riding his bicycle near his home in Southern California. “The craftsmanship I see in Edwards’ valves is akin to the detail and perfection I strive for in my cars and, as such, I wouldn’t have considered any other device.”

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I don't know if I would be standing here today if it weren't for Edwards Lifesciences.

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MINIMALLY INVASIVE CARDIAC MONITORING



Joanne I. Hessney, M.D.

“FloTrac allows me to treat patients with greater ease.”

In critical and intensive care settings, clinicians need to monitor patients’ cardiovascular performance. Traditionally, cardiac information has been gathered using Edwards’ Swan-Ganz pulmonary artery catheters, which provide the most comprehensive data on cardiac status but are more invasive. The FloTrac system allows clinicians to less-invasively monitor key hemodynamic performance parameters in a greater number of patients.



Feras Hatib
Edwards’ FloTrac System
Research and Design Team

The FloTrac system uses a complex algorithm to measure continuous cardiac output. This advanced technology makes the FloTrac system a unique and truly dynamic device in the critical care industry, and builds upon Edwards’ nearly four decades of leadership in hemodynamic monitoring. “Edwards’ commitment to investing in R&D provided our team with the resources necessary to develop this innovative product.”

FLOTRAC PLAYED A LARGE
PART IN MY RECOVERY.

FLOTRAC SENSOR

A former sergeant in the Army’s prestigious Airborne division, Mike was used to facing tough and dangerous circumstances. In 2006 however, Mike was presented with a new challenge. At just forty-four years old, Mike suddenly found himself in the hospital after passing out one morning. In a race to find out what was happening, Mike’s doctors monitored him with Edwards’ FloTrac sensor, which provides fast and easy measurement of cardiac output. Based on the information obtained from the FloTrac sensor, doctors suspected that Mike had actually suffered a heart attack, something they never would have guessed in a patient his age. “FloTrac gave my doctors the information they needed in order to find out what was wrong with me and advance my treatment,” said Mike. “FloTrac was invaluable during my heart attack and while I’m not jumping out of airplanes anymore, I do have the strength to do whatever else I set my mind to. Thanks, Edwards.”



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CRITICAL CARE MONITORING



Jean-Louis Vincent, M.D.

One of the key tools in a clinician’s arsenal for treating critically ill patients is the Edwards Swan-Ganz pulmonary artery catheter. Swan-Ganz catheters provide important metrics that help clinicians make more informed clinical decisions before, during and after surgical procedures. “I prefer to base therapeutic decisions on actual, reliable measurements and Swan-Ganz catheters enable me to do this.”



Carlos Flores
Edwards’ Manufacturing

“I feel very proud to be part of this organization for the last 31 years.”

Considered the “gold standard” of hemodynamic monitoring for more than 40 years, Edwards’ Swan-Ganz pulmonary artery catheters have benefited millions of patients globally. Employees like Carlos pride themselves on manufacturing the highest quality products and providing our customers with an outstanding level of service. “I am passionate about my work and contributing to the success of Edwards.”



I received the best care possible.

SWAN-GANZ CATHETER

Helen was diagnosed with a heart murmur and congenital heart defects at birth and had two surgeries during childhood. In 2006, during an annual check up, it was determined that a subsequent narrowing in Helen’s aortic arch would need to be fixed in order to avoid irreversible heart damage and severe lifestyle restrictions. Helen underwent open-heart surgery to repair her aortic arch, which involved placing her on cardio pulmonary bypass and circulatory arrest. Due to the complexity of the procedure, Helen’s surgeons and anesthesiologist needed the most comprehensive real-time monitoring available. In addition to an arterial line to measure Helen’s blood pressure, physicians monitored her condition with the Swan-Ganz catheter. “I know the Swan-Ganz catheter offers the highest level of monitoring available and I know my physicians chose it to ensure my safety at all times,” she said.

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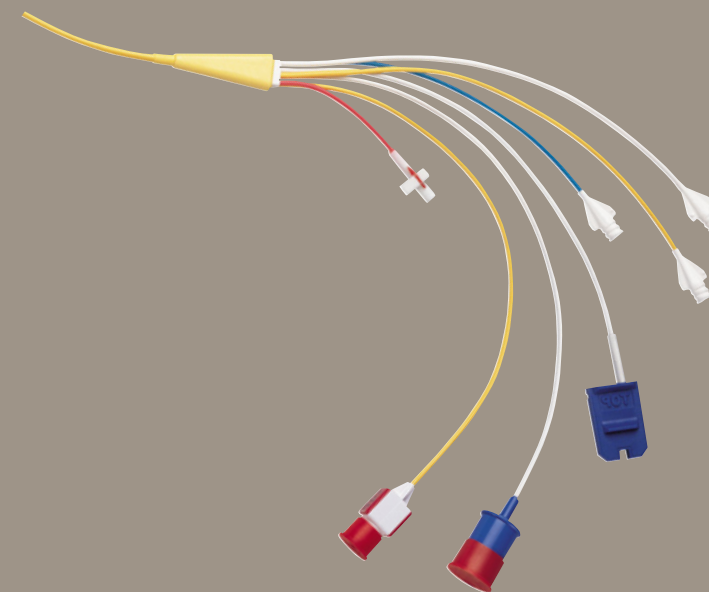
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TRANSCATHETER AORTIC VALVE REPLACEMENT



Jeffrey W. Moses, M.D.

Existing surgical treatments for heart valve disease offer excellent long-term outcomes as biological valve technology and surgical techniques have advanced. However, there is a substantial population of patients who are not being treated today because they are poor candidates for open-heart surgery. Edwards’ transcatheter valve technologies can provide minimally-invasive alternatives to these patients.



Philippe Marchand
Edwards’ RetroFlex System
Research and Development Team

“Working on such a revolutionary technology is a once in a lifetime opportunity.”

The RetroFlex delivery system is designed to deliver the Edwards SAPIEN transcatheter heart valve through a patient’s femoral artery. The RetroFlex system was used in the company’s transcatheter valve feasibility study in the U.S., which was successfully completed in 2006. “Our team has worked with clinicians to help bring this technology to life and that’s very rewarding.”



EDWARDS SAPIEN TRANSCATHETER HEART VALVE

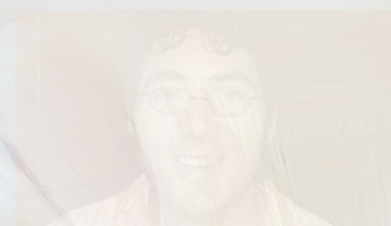
An accomplished radiologist for over thirty years at Columbia Presbyterian Hospital in New York City, Louis had been enjoying retirement since 1979 by pursuing the best golfing weather between his homes in California and New York. In 2005, he went to his local doctor complaining of chest pain and shortness of breath. At ninety-three years of age, and already having had several cardiac procedures, Louis’ physician told him he wasn’t a viable candidate for another surgery. Not willing to let that be the final word, Louis contacted leading clinicians at Columbia Presbyterian Hospital about an investigational, non-surgical, minimally invasive technology: transcatheter aortic valve replacement. In 2006, Louis received his new heart valve and was released from the hospital just four days later. Now at ninety-four, he’s back playing the game that he loves several days a week and spends as much time as possible with his wife and family.

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Our complete financial results and consolidated financial statements including the notes referred to below, appear in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 2006. A copy of the Form 10-K is available on our web site at www.edwards.com.

Condensed Consolidated Balance Sheets

December 31, <i>(in millions, except par value)</i>	2 0 0 6	2 0 0 5
<i>Assets</i>		
Current assets		
Cash and cash equivalents	\$ 182.8	\$ 178.6
Accounts receivable, net	111.5	101.1
Other receivables	15.6	17.4
Inventories, net	142.1	131.5
Deferred income taxes	21.8	27.6
Prepaid expenses and other current assets	57.8	58.0
Total current assets	531.6	514.2
Property, plant and equipment, net	213.0	201.9
Goodwill	337.7	337.7
Other intangible assets, net	116.1	137.7
Investments in unconsolidated affiliates	20.2	10.7
Deferred income taxes	14.5	11.5
Other assets	13.7	15.4
Total assets	\$ 1,246.8	\$ 1,229.1
<i>Liabilities and Stockholders' Equity</i>		
Current liabilities		
Accounts payable	\$ 57.2	\$ 60.7
Accrued liabilities	132.0	108.3
Taxes payable	37.0	25.2
Total current liabilities	226.2	194.2
Long-term debt	235.9	316.1
Other long-term liabilities	35.3	28.8
Commitments and contingent liabilities (Notes 9 and 17)		
<i>Stockholders' Equity</i>		
Preferred stock, \$.01 par value, authorized 50.0 shares, no shares outstanding	—	—
Common stock, \$1.00 par value, 350.0 shares authorized, 67.0 and 65.6 shares issued, 57.7 and 59.6 shares outstanding at December 31, 2006 and 2005, respectively	67.0	65.6
Additional paid-in capital	603.7	536.7
Retained earnings	433.9	303.4
Accumulated other comprehensive loss	(15.8)	(22.2)
Treasury stock, at cost, 9.3 and 6.0 shares at December 31, 2006 and 2005, respectively	(339.4)	(193.5)
Total stockholders' equity	749.4	690.0
Total liabilities and stockholders' equity	\$ 1,246.8	\$ 1,229.1

Consolidated Statements of Operations

Twelve months ended December 31, <i>(in millions, except per share information)</i>	2 0 0 6	2 0 0 5	2 0 0 4
Net sales	\$ 1,037.0	\$ 997.9	\$ 931.5
Cost of goods sold	373.6	374.6	370.2
Gross profit	663.4	623.3	561.3
Selling, general and administrative expenses	376.0	348.7	319.9
Research and development expenses	114.2	99.0	87.0
Purchased in process research and development expenses (Note 3)	—	1.2	93.3
Special (gains) charges, net (Note 4)	(4.5)	48.2	17.2
Interest expense	10.5	12.3	15.2
Interest income	(7.8)	(2.6)	(1.0)
Other expense (income), net (Note 15)	2.7	(0.2)	(0.4)
Income before provision for income taxes	172.3	116.7	30.1
Provision for income taxes	41.8	37.4	28.4
Net income	\$ 130.5	\$ 79.3	\$ 1.7
<i>Share information (Note 2):</i>			
Earnings per share:			
Basic	\$ 2.23	\$ 1.33	\$ 0.03
Diluted	\$ 2.10	\$ 1.27	\$ 0.03
Weighted average number of common shares outstanding:			
Basic	58.5	59.6	59.6
Diluted	63.9	62.3	62.0

Consolidated Statements of Cash Flows

Twelve months ended December 31, <i>(in millions)</i>	2 0 0 6	2 0 0 5	2 0 0 4
<i>Cash flows from operating activities</i>			
Net income	\$ 130.5	\$ 79.3	\$ 1.7
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	56.8	56.2	55.7
Stock-based compensation (Notes 2 and 12)	26.6	3.3	—
Deferred income taxes	7.1	(13.8)	0.8
Purchased in process research and development	—	1.2	93.3
Special charges (gains), net	19.3	(0.8)	19.6
Other	5.4	15.0	6.7
Changes in operating assets and liabilities:			
Accounts and other receivables	2.5	(12.6)	7.1
Accounts receivable securitization	0.9	(2.6)	2.5
Inventories	(12.8)	(12.9)	(7.1)
Accounts payable and accrued liabilities	(3.9)	25.1	13.0
Prepaid expenses	(1.2)	0.3	(7.2)
Other	(0.4)	(0.9)	(5.5)
Net cash provided by operating activities	230.8	136.8	180.6
<i>Cash flows from investing activities</i>			
Capital expenditures	(57.4)	(48.5)	(42.5)
Investments in intangible assets	(2.0)	(2.5)	(11.0)
Investments in unconsolidated affiliates	(1.8)	(1.5)	(1.0)
Proceeds from sale of assets (Note 4)	22.2	24.6	15.1
Acquisitions	—	—	(137.7)
Other	3.3	0.7	—
Net cash used in investing activities	(35.7)	(27.2)	(177.1)
<i>Cash flows from financing activities</i>			
Proceeds from issuance of long-term debt	54.8	337.3	285.7
Payments on long-term debt	(140.7)	(278.2)	(278.6)
Purchases of treasury stock	(145.9)	(53.5)	(59.1)
Proceeds from stock plans	33.5	26.2	30.5
Excess tax benefit from stock plans (Notes 2 and 12)	5.2	—	—
Other	(0.5)	(2.8)	1.0
Net cash (used in) provided by financing activities	(193.6)	29.0	(20.5)
Effect of currency exchange rate changes on cash and cash equivalents	2.7	(8.9)	4.8
Net increase (decrease) in cash and cash equivalents	4.2	129.7	(12.2)
Cash and cash equivalents at beginning of year	178.6	48.9	61.1
Cash and cash equivalents at end of year	\$ 182.8	\$ 178.6	\$ 48.9
Supplemental disclosures:			
Cash paid during the year for:			
Interest	\$ 10.5	\$12.3	\$ 12.9
Income taxes	\$ 14.3	\$37.2	\$ 11.4
Non-cash transactions:			
Investment received in exchange for assets (Notes 4 and 8)	\$ 6.4	—	—

Consolidated Statements of Stockholders’ Equity and Comprehensive Income (Loss)

<i>(in millions)</i>	<i>Common Stock</i>		<i>Treasury Stock</i>		<i>Additional Paid-In Capital</i>	<i>Retained Earnings</i>	<i>Accumulated Other Comprehensive Income (Loss)</i>	<i>Comprehensive</i>	
	<i>Shares</i>	<i>Par Value</i>	<i>Shares</i>	<i>Amount</i>				<i>Total</i>	<i>Income (Loss)</i>
Balance at December 31, 2003	62.6	\$ 62.6	3.1	\$ (80.9)	\$ 463.2	\$ 222.4	\$ (32.2)	\$ 635.1	
Comprehensive income									
Net income						1.7		1.7	\$ 1.7
Other comprehensive income (loss), net of tax:									
Foreign currency translation adjustments							16.6	16.6	16.6
Unrealized gain on cash flow hedges							2.4	2.4	2.4
Unrealized loss on available-for-sale investments							(8.8)	(8.8)	(8.8)
Reclassification adjustment for other-than-temporary impairments							4.7	4.7	4.7
Minimum pension liability adjustment							(3.5)	(3.5)	(3.5)
Common stock issued under equity plans	1.6	1.6			29.4			30.5	
Tax benefit related to equity plans					8.0			8.0	
Purchase of treasury stock			1.7	(59.1)				(59.1)	
Balance at December 31, 2004	64.2	64.2	4.8	(140.0)	500.6	224.1	(20.8)	628.1	\$ 13.1
Comprehensive income									
Net income						79.3		79.3	\$ 79.3
Other comprehensive income (loss), net of tax:									
Foreign currency translation adjustments							(21.0)	(21.0)	(21.0)
Unrealized gains on cash flow hedges							15.3	15.3	15.3
Unrealized loss on available-for-sale investments							(6.9)	(6.9)	(6.9)
Reclassification adjustment for other-than-temporary impairments							10.9	10.9	10.9
Minimum pension liability adjustment							0.3	0.3	0.3
Common stock issued under equity plans	1.4	1.4			24.9			28.6	
Tax benefit related to equity plans					7.9			7.9	
Stock-based compensation expense					3.3			1.0	
Purchase of treasury stock			1.2	(53.5)				(53.5)	
Balance at December 31, 2005	65.6	65.6	6.0	(193.5)	536.7	303.4	(22.2)	690.0	\$ 77.9
Comprehensive income									
Net income						130.5		130.5	\$ 130.5
Other comprehensive income (loss), net of tax:									
Foreign currency translation adjustments							11.8	11.8	11.8
Unrealized loss on cash flow hedges							(5.2)	(5.2)	(5.2)
Unrealized gain on available-for-sale investments							2.0	2.0	2.0
Minimum pension liability adjustment							2.1	2.1	2.1
Impact of SFAS 158, net of tax							(4.3)	(4.3)	
Common stock issued under equity plans	1.4	1.4			32.1			33.5	
Tax benefit related to equity plans					8.4			8.4	
Stock-based compensation expense					26.6			26.6	
Purchase of treasury stock			3.3	(145.9)				(145.9)	
Balance at December 31, 2006	67.0	\$ 67.0	9.3	\$ (339.4)	\$ 603.7	\$ 433.9	\$ (15.8)	\$ 749.4	\$ 141.2

Reconciliation of GAAP to Non-GAAP Financial Information

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

Management uses non-GAAP financial measures internally for strategic decision making, forecasting future results and evaluating current performance. By disclosing non-GAAP financial measures, management intends to provide investors with a more meaningful, consistent comparison of the Company’s core operating results and trends for the periods presented.

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

Reconciliation of GAAP to Non-GAAP Financial Information

NON-GAAP NET INCOME 2002-2006					
Twelve months ended December 31, <i>(in millions, except per share data)</i>					
	2 0 0 6	2 0 0 5	2 0 0 4	2 0 0 3	2 0 0 2
GAAP Net Income	\$ 130.5	\$ 79.3	\$ 1.7	\$ 79.0	\$ 55.7
Reconciling items:					
Cost of Goods Sold - Discontinued products	2.0	—	—	—	—
Purchased in-process research & development expenses	—	1.2	93.3	13.6	—
Special charges (gains):					
Settlements and litigations gains (losses), net	(20.2)	2.9	—	5.3	(14.8)
(Gain) loss on sale of assets, net	(13.7)	(14.1)	(7.4)	3.3	—
PVT milestone payment	10.0	—	—	—	—
Realignment expenses	9.4	3.9	—	13.0	—
Discontinued products	6.8	1.4	10.6	—	—
Restructure 3F Therapeutics agreements	2.0	22.8	—	—	—
Litigation reserves	1.2	—	—	—	—
Asset and investment impairments	—	16.3	9.0	—	67.4
Charitable fund contribution	—	15.0	5.0	—	—
Pension curtailment	—	—	—	1.9	—
Spin-off charges	—	—	—	—	3.3
Subtotal special charges (gains), net	(4.5)	48.2	17.2	23.5	55.9
Stock option expense under FAS 123R	19.3	—	—	—	—
Provision (benefit) for income taxes:					
Tax effect on non-GAAP adjustments	6.6	(11.5)	(8.1)	(6.3)	(8.6)
Tax benefit from audit settlements and reversal of valuation allowances	(6.9)	(8.0)	—	(13.2)	(20.1)
Repatriation taxes	—	15.8	—	—	—
Tax effect on stock option expense under FAS 123R	(5.5)	—	—	—	—
Subtotal income tax (benefit), net	(5.8)	(3.7)	(8.1)	(19.5)	(28.7)
Non-GAAP Net Income	\$ 141.5	\$ 125.0	\$ 104.1	\$ 96.6	\$ 82.9
Non-GAAP earnings per share:					
Basic non-GAAP earnings per share	\$ 2.42	\$ 2.10	\$ 1.75	\$ 1.63	\$ 1.41
Diluted non-GAAP earnings per share	\$ 2.27	\$ 1.98	\$ 1.67	\$ 1.58	\$ 1.35
Weighted average shares outstanding:					
Basic	58.5	59.6	59.6	59.1	59.0
Diluted	64.1	65.0	64.7	62.9	61.3

NON-GAAP FREE CASH FLOW 2002-2005					
Twelve months ended December 31, <i>(in millions)</i>					
	2 0 0 6	2 0 0 5	2 0 0 4	2 0 0 3	2 0 0 2
Net cash provided by operating activities	\$ 230.8	\$ 136.8	\$ 180.6	\$ 142.1	\$ 150.5
Capital expenditures	(57.4)	(48.5)	(42.5)	(37.9)	(40.7)
Reconciling items:					
Patent litigation settlement	(23.8)	—	—	—	—
Charitable fund contribution	—	15.0	—	—	—
Restructure 3F agreements	—	22.8	—	—	—
Implementation of accounts receivable securitization program	—	—	—	—	(30.1)
Non-GAAP Free Cash Flow	\$ 149.6	\$ 126.1	\$ 138.1	\$ 104.2	\$ 79.7

Corporate Information

Corporate Headquarters

Edwards Lifesciences Corporation
One Edwards Way, Irvine, CA 92614
(800) 4-A-HEART or (949) 250-2500
www.edwards.com

Annual Meeting

The Annual Meeting of Shareholders will be held on May 10, 2007 at 10:00 a.m. (Pacific) at the offices of Edwards Lifesciences Corporation, One Edwards Way, Irvine, CA 92614.

SEC Form 10-K

A copy of Edwards Lifesciences’ annual report to the Securities and Exchange Commission on Form 10-K is available on the company’s web site at www.edwards.com or upon request to the Investor Relations department at (949) 250-2806.

Stock Symbol

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

Information on the Internet

Edwards Lifesciences’ web site at www.edwards.com provides access to a wide range of information for our customers, patients and stockholders. Persons interested in investing in Edwards Lifesciences are invited to visit the “Investor Information” section of our web site to access our press releases, SEC filings and other company information.

Corporate Public Relations

Members of the news media should call (949) 250-5070.

Investor Information

Shareholders, securities analysts and investors seeking additional information about Edwards Lifesciences should contact:
David K. Erickson
Vice President, Investor Relations
(949) 250-2806 Phone
(949) 250-2248 Fax
investor_relations@edwards.com

Analyst Coverage

For a list of research firms and analysts who cover Edwards Lifesciences, please visit the Investor Relations section of the company’s web site at www.edwards.com.

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: Computershare Investor Services
P.O. Box 43069
Providence, RI 02940-3069
(800) 756-8200
Hearing impaired # TDD:
(800) 952-9245
www.computershare.com

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Orange County, CA

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Edwards Lifesciences is an affirmative action, equal opportunity employer.

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Chief Executive Officer



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& Treasurer



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Heart Valve Therapy &
Cardiac Surgery Systems



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Certification

On May 26, 2006, Edwards Lifesciences submitted to the New York Stock Exchange a certification signed by its Chief Executive Officer that as of May 26, 2006 he was not aware of any violation by Edwards Lifesciences of the NYSE corporate governance listing standards. In addition, the certifications signed by the Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act were filed as an exhibit to Edwards Lifesciences' Annual Report on Form 10-K for the year ended December 31, 2006.

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.

Edwards Lifesciences Corporation

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