

Notes to Consolidated
Financial Statements

The Company also maintains the Nonemployee Directors and Consultants Stock Incentive Program (the “Nonemployee Program”), which became effective April 1, 2000, and was amended on March 1, 2001. Under the Nonemployee Program, each non-employee director annually receives 10,000 stock options. Additionally 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, 2001, 81,370 options were issued under the Nonemployee Program.

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

	2001		2000	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<i>(options in thousands)</i>				
Outstanding, beginning of year	7,686	\$ 13.59	—	\$ —
Options issued with the Distribution	—	—	7,852	13.37
Options granted during period	1,123	22.01	424	16.87
Options exercised	(481)	12.14	—	—
Options canceled	(612)	14.33	(590)	13.14
Outstanding, end of year	7,716	14.79	7,686	13.59
Exercisable, end of year	1,857	\$ 13.46	523	\$ 10.20

The following table summarizes stock options outstanding at December 31, 2001:

	Outstanding			Exercisable	
	Number of Options	Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<i>Range of Exercise Prices (options in thousands)</i>					
\$13.88 (Founders Options)	4,690	8.3	\$ 13.88	4	\$ 13.88
\$10.20 - \$15.71 (Conversion Options)	1,637	6.4	12.22	1,454	11.91
\$15.44 - \$26.64 (Other options)	1,389	9.3	20.90	399	19.11
	7,716	8.0	14.79	1,857	13.46

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 for 2001 and 2000 would have been reduced by \$9 million and \$7 million, respectively, resulting in a net loss of \$20 million and \$279 million, respectively, or \$(0.34) and pro forma \$(4.79) per share, respectively, for both basic and diluted net loss per share. The fair value of each option granted during 2001 and 2000 is estimated based on the date of grant using the Black-Scholes

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option-pricing model with the following assumptions: expected life of five 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 2001 and 2000 was \$7.00 and \$6.39, respectively. The Company expects to grant additional awards in future years.

Restricted Stock

The Company has made one-time grants of 5,000 shares of restricted stock to each of the 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 Nonemployee 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 was approximately \$0.2 million for both 2001 and 2000.

Employee Stock Purchase Plan

The Company currently has two employee stock purchase plans (“ESPPs”) 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 effective date of subscription or the date of purchase. One of the plans is for eligible U.S. employees, and the other is for eligible international employees. Under the ESPPs, employees can authorize the Company to withhold up to 12% of their compensation during any offering periods for common stock purchases, subject to certain limitations. The ESPPs were implemented on June 1, 2001. The ESPP for eligible United States employees is qualified under Section 423 of the Internal Revenue Code. The Board of Directors authorized an aggregate of 2,150,000 shares of the Company’s common stock for issuance under the ESPPs. As of December 31, 2001, a total of 160,309 shares have been issued under the plans.

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.

Treasury Stock

In November 2001, the Company’s Board of Directors approved a stock repurchase program authorizing the Company to purchase on the open market and in privately negotiated transactions up to 2 million shares of the Company’s outstanding common stock. Stock repurchased under the program will primarily be used to offset dilution resulting from shares issued under the Company’s employee stock option programs. During 2001, the Company repurchased 26,800 shares at an aggregate cost of approximately \$686,000. The timing and size of any future stock repurchases are subject to a variety of factors, including market conditions, stock prices and other cash requirements.