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## Conference Call Transcript

**EW - Q2 2006 Edwards Lifesciences Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**David Erickson***Edwards Lifesciences - VP, IR***Mike Mussallem***Edwards Lifesciences - Chairman, CEO***Tom Abate***Edwards Lifesciences - CFO, Treasurer*

## CONFERENCE CALL PARTICIPANTS

**Dhulsini DeZoysa***Cowen & Co. - Analyst***Tim Nelson***Piper Jaffray - Analyst***Paul Choi***Merrill Lynch - Analyst***Glenn Reicin***Morgan Stanley - Analyst***Alex Arrow***Lazard Capital Markets - Analyst***Glenn Novarro***Banc of America - Analyst***David Zimbalist***Natexis Bleichroeder - Analyst***Larry Biegelsen***Prudential - Analyst***Larry Keusch***Goldman Sachs - Analyst*

## PRESENTATION

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**Operator**

Greetings, ladies and gentlemen, and welcome to the Edwards Lifesciences second quarter 2006 earnings conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [OPERATOR INSTRUCTIONS] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. David Erickson, Vice President, Investor Relations. Thank you, Mr. Erickson, you may begin.

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**David Erickson - Edwards Lifesciences - VP, IR**

Welcome, and thank you for joining us today. Just after the close of regular trading, we released our second quarter 2006 financial results. During our call today, we will focus our prepared remarks on information that complements the material included in the press release and financial schedules, and then allocate the remaining time for Q&A. Our presenters on today's call are Mike Mussallem, Chairman and CEO, and Tom Abate, Edward's CFO and Treasurer who is dialing in from offsite.

Before I turn the call over to Mike, I would like to remind you that during today's call, we will be making forward-looking statements that are based on estimates, assumptions and projections.

These statements include, but aren't limited to, our ability to achieve 2006 financial goals for sales, gross margin, net income, earnings per share and free cash flow, the continued success of recently introduced products, and the regulatory approval for additional products in our heart valve therapy product line, the continued adoption and sales of FloTrac and LifeStent, the success of the RESILIENT clinical trial, the timing and progress of clinical studies relating to our percutaneous and minimal access valve technologies and the market opportunity for these products, and the impact on our results of stock option expensing, foreign exchange, and special items. Although we believe them to be reasonable, these statements involve risks and uncertainties that could cause actual results or experiences to differ materially from the forward-looking statements.

Information concerning factors that could cause actual results to materially differ from those in the forward-looking statements may be found in our annual report on Form 10-K, and our other SEC filings which are available on our website at [edwards.com](http://edwards.com).

With that, I will turn the call over to Mike Mussallem. Mike.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Thank you, David. We're very pleased to share with you our second quarter results, which were highlighted by strong earnings performance, the diversification of our growth drivers through the increased traction of our new Critical Care and Vascular products, and completion of milestones in our percutaneous and minimal access valve programs.

On a reported basis, total sales for the quarter grew 3.5% to \$267 million, and grew 6% on an underlying basis. Year to date, our underlying sales growth was 7.5%.

Now, I will shift to a more detailed review of our product line sales as well as provide an update on our percutaneous and minimal access heart valve programs and then Tom Abate will discuss the financial results.

For the second quarter 2006, Heart Valve Therapy sales grew 1.7% to \$128 million, an increase of \$3 million on a sequential basis from the first quarter 2006. Excluding the negative impact from foreign exchange, underlying sales were up 3%. Recall last quarter, we indicated that our underlying growth rate would be in the mid single digits due to a particularly strong second quarter in 2005. The continuing strength of our line of Magna valves contributed to growth, offset in part by the de-emphasis of our mechanical and porcine valves.

In the second quarter, we estimate our U.S. sales growth was negatively impact by \$3 to \$4 million due to the trialing of a competitive valve introduced late last year. We believe this impact will be short lived given the superiority of the Edwards valve portfolio. Also, we will see more typical year-over-year comparisons beginning this quarter. Therefore we are confident that our underlying sales growth rate will be sequentially higher in the third quarter and we will project a return to 10% growth in the fourth quarter.

Global heart valve repair sales demonstrated another quarter of double digit growth driven by the continuing adoption of our newest disease-specific products, including the MC3, IMR and GeoForm rings. We expect to further extend our leadership in the valve repair market by launching another new and innovative mitral repair system during the fourth quarter in both the U.S. and Europe. Additionally, we're pleased to have received approval last week for our MC3 ring in Japan.

Our premium priced Magna Aortic valve continues to be the number one tissue heart valve worldwide, representing just over half our global aortic sales. Sales of our Theon mitral valve continue to be a growing contributor to our overall results and all regions reported sequentially higher sales. Our new Magna mitral valve with ThermaFix is continuing to gain sales momentum in Europe. We anticipate receiving FDA approval in the U.S. in the fourth quarter although we have not included any sales in our estimates for this year.

Our BioPhysio valve has been in clinical trials over the last two years at centers outside the U.S. We have determined through these trials that although the safety profile of BioPhysio is excellent, its hemodynamics are only comparable to the Magna valve's superior clinical performance. Further, it is proven to be a more challenging valve to implant. Therefore, in consultation with our clinical investigators, we've decided not to commercialize the BioPhysio valve. We're continuing to focus considerable R&D resources on additional surgical valve programs, including broadening the Magna portfolio of products.

In June, the American College of Cardiology and American Heart Association jointly published new guidelines for the treatment of valvular heart disease. Under the new guidelines, more emphasis is placed on patient preference than strict age requirements for the choice of tissue valves over mechanical valves. The guidelines acknowledge the advancements in tissue valve design technology, especially the superior hemodynamic performance of stented pericardial valves over stented porcine valves.

In addition, the guidelines lowered the recommended age for tissue valve replacement in the mitral position from 70 to 65, and suggested more aggressive treatment of certain patients with asymptomatic aortic stenosis. We are very pleased with these modifications and believe the new guidelines open up the use of tissue valves to a broader range of patients.

Consistent with this view, we are continuing to generate data in order to increase awareness among physicians of the prevalence of under-treatment of severe aortic disease and its consequences if left unaddressed. We continue to expect early results from our sponsored retrospective studies to be available later this year.

In Critical Care, which represents one-third of Edwards' overall revenues, we reported accelerated growth and increased profitability. For the second quarter, reported sales grew nearly 10%. Excluding the negative impact from foreign exchange, underlying sales growth was 11.3%. FloTrac, core critical care products and hemofiltration all contributed equally to the growth rate this quarter.

FloTrac continues to enjoy strong adoption in all regions. In April, we successfully launched FloTrac in Japan and we're optimistic about FloTrac's future in this market, because its minimally invasive nature is particularly well suited to Japanese clinical preferences.

In an effort to accelerate global adoption, we are introducing software enhancements to the FloTrac monitoring system in the third quarter, which will increase its applicability to a broader number of patients. Studies to evaluate FloTrac's cost effectiveness and clinical utility are continuing and we expect results from the first of these studies to be presented at an upcoming critical care meeting beginning later this year. We remain confident in our ability to achieve our 2006 sales goal of \$10 to \$20 million.

Our Critical Care business includes Vigilance monitors which are used in conjunction with our Swan-Ganz advanced technology catheters. We became aware of two unusual situations where the Vigilance monitor may have malfunctioned out of more than 2 million uses since its introduction in 1993. One of the events involved patient injury. As a result, we recently issued a recall to upgrade the software in approximately 8,000 of our older monitors. We believe that many of these monitors are no longer routinely used. In the second quarter, we reserved for the expected cost of this recall and based upon the customer reaction to date, we believe it will have minimal impact on future sales.

In our Cardiac Surgery Systems franchise, reported sales for the quarter declined 7.3%, due to the discontinuation of our Japan perfusion products in 2005. Excluding the impact of the divestiture and foreign exchange, underlying sales grew 1.8%, driven by share gains in specialty cannulae. Sales of our Optiwave 980 cardiac ablation system were modest as we continue to ramp up our selling efforts. For 2006, we project Optiwave sales of about \$3 million.

On a reported basis, total sales of Vascular products grew 13% this quarter, and were up 13.8% on an underlying basis. LifeStent products drove most of this quarter's sales growth which was sequentially higher again this quarter to approximately \$4.5 million.

During the quarter, we made some minor enhancements to our new FlexStar delivery system and expect to launch the full line in the current quarter. Also in the quarter, we will introduce the FlexStar XL, a new line of longer length stents. We remain on track to reach our goal of doubling stent sales in 2006.

Enrollment in our Phase II of our RESILIENT trial is nearly complete and we remain on track to receive an SFA indication by the end of 2007. LifeStent continues to perform well clinically and we expect the next presentation of updated clinical trial results to occur in early 2007.

Other Distributed Product sales declined 16.7% this quarter on a reported basis and decreased 7.6% on an underlying basis. During the quarter, we divested a non-strategic pharmaceutical product line representing approximately \$2 million in annual sales. This transaction, which closed at the end of May, resulted in a net pretax gain of \$4.5 million this quarter.

In summary, we achieved a 6% underlying sales growth rate for the quarter. Based on current foreign exchange rates, we are narrowing our 2006 sales estimate to 1 billion forty to 1 billion sixty, reflecting an underlying sales growth rate of approximately 8%. We estimate our reported growth rate to be approximately 3 percentage points lower, driven by a \$17 million negative sales impact from discontinued products, and an estimated \$10 million negative impact from foreign exchange. In the third quarter, we're projecting total reported sales of more than \$250 million.

For Heart Valve Therapy, we now expect reported sales of approximately \$500 million, and are projecting a return to 10% underlying growth in the fourth quarter, which excludes any impact from the U.S. approval of Magna mitral in 2006. In Critical Care, we're raising our annual sales projection to \$345 to \$355 million. In Cardiac Surgery Systems, we project annual sales of \$90 to \$100 million, and in Vascular, we continue to

project full-year sales of \$70 to \$80 million. Lastly, we expect annual sales of Other Distributed Products to be approximately \$30 million. All of these projections assume foreign currency remains at current levels.

Now, I would like to provide a brief update of our minimal access and percutaneous valve programs. As expected, during the second quarter, we completed enrollment of our 20-patient U.S. feasibility trial using the Cribier-Edwards percutaneous aortic valve. We also announced that the FDA approved our request to expand enrollment by an additional 35 patients while we collect the necessary follow-up data on the first 20 patients. Cases are ongoing at our three approved clinical sites and we continue to work closely with the FDA to finalize the design of the pivotal trial, which we expect to begin early in 2007.

In our percutaneous program outside the U.S., the multi-center CE mark study is ongoing in Europe and Canada and we continue to train physicians and add new sites. We expect to complete enrollment by early 2007, and still anticipate receiving approval by the end of 2007.

I'm pleased to report that we have made significant progress on our Ascendra minimal access, beating heart aortic valve program. We believe we have successfully established the feasibility of this therapy, having performed more than 50 cases in Europe and Canada. Results from these cases, which use the same Cribier-Edwards aortic valve, have been very encouraging.

Our clinical and regulatory strategy for Ascendra will be to pursue an approval that coincides with the approval of the percutaneous aortic valve system. Therefore, we hope to receive CE approval for both by the end of 2007. The availability of these two approaches broadens the range of treatable patients. Edwards is uniquely positioned to offer both systems to clinicians, optimizing the choice of care for these patients. These two novel procedures provide an exceptional opportunity for the collaboration of cardiologists and cardiac surgeons in this revolutionary treatment of aortic valve disease.

In percutaneous repair, our feasibility work with the MOBIUS Leaflet Repair System is ongoing in Europe and Canada. Our recent procedural and device enhancements, including a modified device to accommodate thicker mitral leaflets, continue to show promise. We still expect to complete our feasibility study this year.

In our coronary sinus device, the Monarch Annuloplasty System, we have completed enrollment of our 30 patient feasibility study in Europe and Canada. Monarch has shown an excellent safety profile and the procedure is easy to perform which was demonstrated during a live case at the Paris Course in May. We are planning a 90-day efficacy assessment and continue to enroll additional patients while we wait this follow-up data.

Our broad range of innovative percutaneous and minimal access valve technologies will be featured at several upcoming meetings this fall, including the PICS interventional symposium in Las Vegas and the EACTS Techno College in Europe this September, as well as the TCT meeting in Washington, D.C. in October. At these meetings, clinicians will present clinical results and case presentations, and we plan to host an analysts meeting at one of the U.S. events.

As we've stated previously, we are closely monitoring the proposed CMS changes to inpatient reimbursement rates. Heart valves are among the most highly differentiated medical implants and their performance is critical to patient outcomes. Additionally, heart valves represent a relatively small percentage of the DRG. Therefore, we continue to believe that Edwards will be less affected by these proposed changes. And now, I will turn the call over to Tom Abate. Tom.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

Thank you, Mike. Once again, we achieved strong bottom line growth in the second quarter. Most noticeably, our gross margin showed a significant improvement. We announced a new share repurchase program and repurchased more than a million shares in the quarter. We also had a number of special items which I will detail later that contributed to the quarter.

Reported earnings per share were \$0.58 compared to the prior year of \$0.22. Excluding special items and option expense, our non-GAAP EPS grew to \$0.59 compared to the prior year of \$0.51, nearly a 16% increase.

As we go through the results I will detail the impact of FAS 123(R) on the relevant line items. To assist you with modeling, we will also continue to provide an updated table detailing 2006 stock option expenses by quarter on our Investor Relations website. Our gross profit margin improved to 64.2%, which is up more than 200 basis points over last year. Option expense reduced the margin by approximately 30 basis points. The two major contributors to the improvement over last year were a favorable FX impact of approximately 1%, and last year's divestiture of our low

margin perfusion product line in Japan. We continue to expect a gross profit margin improvement for the full year of 64%, including stock options.

Second quarter SG&A expenses were \$97 million, or 36.3% of sales, which included a 1.2% impact from options. Excluding option expense, SG&A growth was due primarily to an increase in sales and marketing expenses in the U.S. partially offset by FX impact on our international expenses. For 2006, we expect SG&A as a percentage of sales to remain between 36% and 37%, including options.

R&D investments grew to \$28.9 million this quarter, or 10.8% of sales. Excluding option expense of \$1 million, R&D was \$3.7 million higher than last year reflecting additional spending in both our surgical and percutaneous heart valve development programs. For 2006, we expect R&D investments to be approximately 11% of sales, including option expense.

Net interest expense of \$600,000 was \$2.7 million lower than the same quarter last year. This decrease was a result of higher interest income earned in our U.S. cash balances, combined with a greater proportion of our debt in low interest rate countries. For 2006, we continue to expect net interest expense to be less than \$1 million per quarter.

During the quarter, we recorded special items that resulted in a net \$700,000 pre-tax gain, consisting of the following components: A \$4.5 million gain from the sale of a non-strategic product line, a \$2.6 million impairment charge related to the revaluation of our remaining international perfusion product assets, and a \$1.2 million litigation charge. Another special item this quarter was a \$3.7 million tax benefit resulting from the reversal of a tax reserve triggered by the gain from the product line sale. The net impact of these special items resulted in a \$2.6 million or \$0.04 per share contribution to our earnings. These items are included in the net income reconciliation table that accompanies the press release.

For the second quarter, our reported tax rate was 20.7%. Excluding special items and option expense, our effective tax rate was 26%, and we expect our rate to remain at approximately this level for 2006, including the effect of option expense.

When compared to the same quarter last year, FX rates negatively impacted second quarter reported sales by \$3 million or 1.1%. Our currency hedging program, combined with our natural hedges, enable us to offset the bottom line impact. Using current FX rates, we estimate that the full-year sales will be negatively impacted by approximately \$10 million or 1% of sales.

Free cash flow generated during the quarter was \$23.6 million, which we define as cash flow from operating activities of 39.6 million, minus Capex of 16 million. Year to date, free cash flow was \$52.8 million. For 2006, we continue to estimate free cash flow of \$140 to \$150 million.

We continue to believe our shares are an attractive investment and our Board of Directors authorized a new 4 million share repurchase program at their May meeting. During the second quarter, we accelerated share repurchase to approximately 1.3 million shares of common stock, for \$56 million. Year to date, we have purchased nearly 2 million shares.

Turning to the balance sheet, long-term debt for June 30th was \$279.6 million resulting in a debt to cap ratio of 27.9%. Net debt at the end of the quarter was 112.5 million, an increase of 12.9 million from the first quarter. Including receivables in our asset-backed securitization program, Day Sales Outstanding for the quarter was 68 days. Inventories increased by \$4 million from the prior quarter.

As you are aware, we began expensing stock options at the beginning of this year. The impact on net income in the second quarter was \$3.3 million, or \$0.05 per share. This amount is lower than the approximately \$0.08 per share we had previously discussed during last quarter's call. This reduction resulted from a change in the vesting provisions of our option program. We expect the quarterly expense to remain between \$0.05 and \$0.06 per share for the second half of 2006. For the full year, our total cost will be \$0.21 per share, \$0.03 less than our previous estimate. And with that, I will turn it back over to Mike.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Thanks, Tom.

Overall, we had a successful first six months and are looking forward to a strong second half of the year. The success of recently introduced new critical care and vascular products is driving growth and contributing an increasing percentage to total sales. Upcoming product approvals such as Magna mitral and valve repair products, combined with the continuing momentum of FloTrac and LifeStent, represent opportunities to accelerate our growth beyond 2006. And our progress in minimal access and percutaneous valve programs brings us even closer to providing lifesaving therapies to an otherwise untreated patient population.

Reinforced by our first half results, we continue to expect another year of strong performance in 2006 and remain confident in our ability to achieve our original financial goals. These goals are generating total sales between 1 billion twenty and 1 billion sixty, increasing our gross profit margin by 150 to 200 basis points, delivering non-GAAP net income growth of 12% to 15%, and generating free cash flow of \$140 to \$150 million.

Based on current foreign exchange rates, we're narrowing our 2006 sales estimate to a range of 1 billion forty to 1 billion sixty. With the strength of this quarter's performance, we're raising our guidance for full-year EPS to a range of \$2.21 to \$2.27, excluding special items and option expense, and \$2.00 to \$2.06, excluding only special items. Additionally, we're projecting third quarter EPS of \$0.45 to \$0.47, which includes approximately \$0.05 per share of option expense.

Before we open it up to questions I would like to encourage to you mark your calendars for Friday, December 8<sup>th</sup>, when we will host our 2006 investor conference in New York. At this event, we will provide an update on our new technologies as well as our outlook for 2007. Watch for more information about this event later this year and with that, Tom and I are ready to answer your questions.

### QUESTION AND ANSWER

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#### Operator

Thank you. Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. [OPERATOR INSTRUCTIONS] Our first question is from Dhulsini DeZoysa with Cowen and Company. Please proceed with your question.

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#### Dhulsini DeZoysa - Cowen & Co. - Analyst

Hey, guys. Mike, I'm sorry I joined late. It is turning into a busy evening. Did you give an update on the status of the Magna mitral in the U.S.?

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#### Mike Mussallem - Edwards Lifesciences - Chairman, CEO

Yes, I did. What I said was we are expecting approval in the fourth quarter of this year, and that when we gave our sales projections in the Heart Valve category, that we have not included that approval in our 2006 estimates.

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#### Dhulsini DeZoysa - Cowen & Co. - Analyst

Okay. Great. Thanks. And then, on your comment on the Ascendra timing running in parallel with your percutaneous aortic replacement, you followed that comment with the CE mark specifically. Does that also apply in the U.S.? And does that indicate that you're running dual tracks without placing priority on one program?

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#### Mike Mussallem - Edwards Lifesciences - Chairman, CEO

Yes, good question. What we're indicating here is what our strategy is, and our strategy is to have them coincide in Europe and in the U.S. Now, naturally, we need to get the agreement from the regulators for that to coincide, but what we're sharing is, yes, our intention is to have both of these products approved at the same time.

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#### Dhulsini DeZoysa - Cowen & Co. - Analyst

So presumably you don't have a favorite program at this moment?

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#### Mike Mussallem - Edwards Lifesciences - Chairman, CEO

That's correct. We think that these two technologies are quite complementary and really make this technology available to a broader range of patients.

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**Dhulsini DeZoysa - Cowen & Co. - Analyst**

Okay, and then Tom, one for you. Your gross margin improvement and your guidance of 150 basis points over 2005 levels, absorbs your stock option expense for this year. It seems that you should be running about 180 to maybe even 200 basis points of improvement on a kind of apples to apples basis. So as we look ahead I know you're not ready to give 2007 guidance, but is it fair to assume that a minimum of kind of 100 basis points is reasonable?

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

You know, what has happened so far this year is we have gotten quite a bit of boost in the rate as a result of the unfavorable foreign exchange comparison. So as we stated this quarter and also last quarter, a full point of the improvement was based on that. So, moving into the second half of the year, that's going to diminish in the third quarter and disappear in the fourth as the rates reverse. Therefore we're sticking with the 50 to 100 basis points probably going forward into 2007.

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**Dhulsini DeZoysa - Cowen & Co. - Analyst**

Okay. So then we will just have to watch for the mix shift.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

Correct.

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**Dhulsini DeZoysa - Cowen & Co. - Analyst**

As you roll out. Okay. Great. Thanks very much.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

Sure.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Thank you.

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**Operator**

Our next question comes from Tim Nelson with Piper Jaffray. Please proceed with your question.

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**Tim Nelson - Piper Jaffray - Analyst**

Hi, Mike.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Hey, Tim.

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**Tim Nelson - Piper Jaffray - Analyst**

Can we talk a little bit about the competitive dynamics in the valve business? This seems to be the third quarter (in a row) that we have talked about competitive trialing, with minimal impact in the first quarter, and then one to two in last quarter, and three to four in this quarter. It doesn't sound like trialing to me. It keeps growing. And also, it is logical to assume that a lot of this competitive trialing is in the elderly patient population, where the longevity advantage of the Magna is not required. How do you get it back?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well, a couple of things, Tim. One is we do think it is competitive trialing and we do think that it has a limited life to it. One of the things we have noticed, and we think the reason that it is growing, is that they're ending up going to many more accounts. And so, as the number of accounts grows, that is where you see the competitive trialing growing.

And I think that it anniversaries in the fourth quarter, overall. When we reflect on our European experience, Tim, I think this valve ended up with less than 5% market share, certainly less than 5% overall. And you're correct, I think they do target it on that older population with an argument that maybe it doesn't matter so much, but we look actually look forward to the clinical comparisons, because we think there is disadvantages for that patient group as well. So we're pretty confident, Tim, that not only is this effect not going to be not long-lasting, but as we have new heart valves approved, it is going to even impact our ability to gain the share back.

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**Tim Nelson - Piper Jaffray - Analyst**

Okay. I would assume that in the heart valve business your US/ OUS mix shifted a little to OUS given this impact? Is that a good assumption?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

I don't follow the question exactly, Tim.

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**Tim Nelson - Piper Jaffray - Analyst**

The revenue mix between the United States and outside the United States shifted more towards outside the United States.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, that's correct. Certainly the growth in heart valve outside the U.S. was stronger than in the U.S. As a matter of fact, we're doing very well in, Japan, for example, and in intercontinental markets.

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**Tim Nelson - Piper Jaffray - Analyst**

Could you give us a relative difference there in terms of growth rates?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Sure. One of the things that continues to happen, and I think I mentioned this, is we have an impact on our porcine and mechanical valves declining. The sum of that has impact over all. But the U.S. growth rate in heart valves was very low, so I think we were overall 3% on a global basis. I think the U.S. was not very different from that. So what you saw was because the U.S. is the largest portion, and that really ended up driving the overall growth rate.

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**Tim Nelson - Piper Jaffray - Analyst**

And repair again, I missed that part. You mentioned repair growth rates but I missed it. What was it?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes. Repairs continued to be double digit. It is double digits in the U.S. and it is double digit outside the U.S.

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**Tim Nelson - Piper Jaffray - Analyst**

Great. Thanks. I'll get back in queue.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Okay, Tim.

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**Operator**

Our next question comes from Paul Choi with Merrill Lynch. Please proceed with your question.

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**Paul Choi - Merrill Lynch - Analyst**

Thank you, Mike. Could you guys give us a little more color on the following? You guys have said you've been in negotiations with the FDA with respect to the pivotal trial design. Is there a particular point that you guys are in a little bit of a loggerhead with?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

No, as a matter of fact, I'm pleased to comment on it, Paul. Remember what the FDA is looking for is follow-up on those first 20 patients. And they originally indicated that they would like to have six months follow-up, although we wonder whether they really need six months, given that we don't think much happens after the early implants. But that's really what we're going through. We are waiting for that, and in the meantime, we're in our discussions, so I think we mentioned this quarter that we expect to start this pivotal trial in early 2007. We think we're very much on track. Naturally, we're into interesting discussions on what that trial design should, be but I really don't have anything to report at this point.

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**Paul Choi - Merrill Lynch - Analyst**

Okay. Fair enough. And then, to follow-up on Tim's question with respect to competitive trialing. With respect to Thermafix being an additional property that you guys have, that obviously Saint Jude doesn't quite have on their product yet in terms of anti-calcification, it would seem to be clearly a favorable selling point for you guys. With respect to the patient population, you guys mentioned you're sort of doing a little comparison, but when can we expect that kind of data to be out there?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well, I think the data that talks about the longevity of the Edwards valve is undisputed. There is a tremendous weight of data from 20 years in the aortic position and nearly that in the mitral position that already exists, and that existed before Thermafix. What we have in terms of valve anti-calcification treatments are dramatically different than what are you going to find on competitive valves. So any kind of direct comparisons between valves certainly favors the Edwards product line.

I think we have several things that we need to do. One is we will take advantage of the new AHA/ACC guidelines to position tissue valves versus mechanical valves. We're going to invite more direct competition or comparisons of our valves to the new competitive valve that's out and just focus on our execution. And then as we get new products approved like Mitral Magna, it will just add to that advantage.

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**Paul Choi - Merrill Lynch - Analyst**

Great. And then a last question on LifeStent. It seems like it is clearly trending well for you guys in terms of FlexStar being out there. Is that the one thing that you found so far that has held up in the quarter? And how much do you think that's going to add once you guys get the full launch going here?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well --

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**Paul Choi - Merrill Lynch - Analyst**

Beyond your targets of doubling sales this year?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, that's it. I think the year is playing out just the way that we planned it. We're seeing a nice up-tick in our peripheral stents. FlexStar is going to be introduced a little bit later, but things have gone very well with our existing products. So we continue to feel very confident that we will have a doubling of the sales versus last year, and we also have the new longer stents that will be coming out this quarter. So we're feeling quite good about where we're positioned now.

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**Paul Choi - Merrill Lynch - Analyst**

Great. Thanks a lot, guys.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

You're welcome.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

Sure.

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**Operator**

Our next question comes from Glenn Reicin with Morgan Stanley. Please proceed with your question.

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**Glenn Reicin - Morgan Stanley - Analyst**

Good afternoon, folks. Thanks for taking my question. As you know, I'm a little bit new to this call so I'm going to be aggressive in terms of the questions I ask and you can just decline to answer them. I just want to make sure I heard correctly on the valve side, since you're saying underlying growth for bio prosthetic valves is around 3%, repair 10%, and then the delta is a negative on mechanicals?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, just to clarify a little bit, Glenn. We sell mechanical valves outside the U.S., and we saw a decline in those mechanical valves, more than what we expected, about \$1 million more than we normally get. This is part of a gradual de-emphasis, but it was a little more aggressive this quarter. We saw porcine valves inside the U.S. and outside the U.S., we also saw a porcine decline that was more aggressive than we normally

expect. Actually, I think porcine valves declined in excess of 20% in the quarter and that was about another \$1 million addition. So that's what I was trying to relate.

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**Glenn Reicin - Morgan Stanley - Analyst**

Okay. So the total mechanical line declined 20% or something?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

We sell, Glenn, around \$15 million worth of mechanicals on an annual basis.

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**Glenn Reicin - Morgan Stanley - Analyst**

Right. So it had to be very significant, that decline you're saying was down \$1 million.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Exactly. I think the number was --

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

You're pretty close, Glenn, in that percent. The first percent you gave, the 3%, was heart valves including everything in.

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**Glenn Reicin - Morgan Stanley - Analyst**

Okay. So that 3% is the reported number? Now if mechanicals are down 20% or \$1 million, you're saying repair products are up 10%. What would be tissue valves in total? What was the growth in that product line?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

I think tissue valves in total, let me look for this number.

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**Glenn Reicin - Morgan Stanley - Analyst**

Probably pretty flattish.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well, pericardial valves total in the quarter were up around 4% so we have to back out the porcine decline even though pericardial is the bulk, but the growth rate is almost 3%, Glenn.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

2.6%.

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**Glenn Reicin - Morgan Stanley - Analyst**

Okay, so the decline in porcine knocked another point out of the growth rate, roughly?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

That's correct.

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**Glenn Reicin - Morgan Stanley - Analyst**

I just wanted to make sure I got that right. And then, on the Critical Care line, you did really well. It sounds like FloTrac is going okay. I'm not quite sure where the rest of the growth came from. Was it hemofiltration?

---

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes. We log on an underlying basis. If you take foreign exchange out, we had over 11% growth and it came from three components. They were all similar in size, and that is FloTrac, our core critical care business, which are things like advanced technology catheters that also grew a similar amount, and the third is hemofiltration. So those are all about equal contributors.

---

**Glenn Reicin - Morgan Stanley - Analyst**

On a dollar basis.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

On a dollar basis to the growth.

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**Glenn Reicin - Morgan Stanley - Analyst**

Then how do you explain the hemofiltration growth?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Hemofiltration has been a nice grower for us all along, Glenn. We have a very competitive product line. We have some new offerings that are there. We really only sell that outside the U.S. and we really see that growth coming primarily from Europe, but to some extent in Asia as well.

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**Glenn Reicin - Morgan Stanley - Analyst**

So what was the growth we saw on a percentage basis?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Of the hemofiltration line itself?

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**Glenn Reicin - Morgan Stanley - Analyst**

Yes.

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**Tom Abate** - *Edwards Lifesciences - CFO, Treasurer*

We normally don't share that number. It would be quite a strong number. I think it is coming off a small base but it is going to be probably in the close to 20% growth.

---

**Glenn Reicin** - *Morgan Stanley - Analyst*

Okay. That's what I thought. And then FloTrac looks to have tripled or something?

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**Mike Mussallem** - *Edwards Lifesciences - Chairman, CEO*

Yes.

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**Glenn Reicin** - *Morgan Stanley - Analyst*

Doubled and tripling.

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**Mike Mussallem** - *Edwards Lifesciences - Chairman, CEO*

FloTrac is going to be on a steep curve. We think it is going to be a very important product for us in the future, moving into triple digits, that kind of number, Glenn. So this is on a long-term trajectory up.

---

**Glenn Reicin** - *Morgan Stanley - Analyst*

Okay. And then I will get back in line in a second. The last question was on the vascular category. Are stents the only thing that is growing in the category right now? So all of the growth is essentially being generated?

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**Mike Mussallem** - *Edwards Lifesciences - Chairman, CEO*

Yes, that is a fair characterization.

---

**Glenn Reicin** - *Morgan Stanley - Analyst*

Okay. What products are actually in decline, besides the grafting product, if any?

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**Mike Mussallem** - *Edwards Lifesciences - Chairman, CEO*

In the vascular category it is pretty flat. These are our Fogarty catheters, Glenn.

---

**Glenn Reicin** - *Morgan Stanley - Analyst*

So we can assume, besides the divestiture, that the only movements we're seeing in absolute sales are really coming from the stent side?

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**Mike Mussallem** - *Edwards Lifesciences - Chairman, CEO*

You're talking in vascular?

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**Glenn Reicin - Morgan Stanley - Analyst**

Yes, within vascular.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, the growth is going to come from stents. That's correct.

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**Glenn Reicin - Morgan Stanley - Analyst**

Okay. Thank you very much.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

You're welcome.

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**Operator**

Our next question comes from Alex Arrow with Lazard Capital Markets. Please proceed with your question.

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**Alex Arrow - Lazard Capital Markets - Analyst**

Thanks. Good afternoon. If I could start with the Magna portfolio. Mike, you had talked about the decision not to commercialize the BioPhysio, and you are going to be broadening the Magna portfolio. Other than the Magna Mitral, have you said what else you're going to be broadening?

---

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

We have not, Alex, and we're doing that for competitive reasons, to not share necessarily what is coming down the line. But the Magna has just been a spectacular valve for us and it has really impressed us in terms of its performance and we're looking forward to actually introducing more products within that line in both the aortic and the mitral side.

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**Alex Arrow - Lazard Capital Markets - Analyst**

Is it fair for us to conclude you're talking about more surgical products?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

That's correct. That's exactly what I'm talking about.

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**Alex Arrow - Lazard Capital Markets - Analyst**

Okay. Would it be perhaps surgical products that have more hemodynamics? Is there a point in which you get the most hemodynamic you can possibly get because it is already the biggest opening you can possibly get?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

It is a combination of things with the Magna product line. Hemodynamics are very important and we look forward to getting better hemodynamics. Durability is quite important, and we have more and more ability to improve our durability by lowering stresses, and then ease of

use, Alex, turns out to be important as well and so we would like to introduce that, particularly in positions like the mitral position that are difficult implants for surgeons, because it is a difficult spot to get to. So for example, Mitral Magna has very low stent posts compared to what we had available for surgeons in the past.

---

**Alex Arrow - Lazard Capital Markets - Analyst**

Okay. Thanks. On the FlexStar, the longer lengths product offering, it's something that it seems like a relatively simple thing and yet I think it is a differentiator based on what surgeons seem to say. Why is it such a major deal to launch a longer length? I mean, do you need a separate approval just to make an existing peripheral stent longer?

---

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Certainly, there is a regulatory aspect and we have the regulatory approval, but the bigger challenge actually comes in the manufacture and production of these stents. These are nitinol stents that are cut with a laser, and so to make a stent that is that long is very technically challenging and then even more importantly, to deliver it in a very accurate way. When have you a stent that is that long, I think of we're going to introduce 150-millimeter stent, to deliver a stent that long accurately in a way that is fully expected by the interventionist is not a small task and we think that we've mastered that at this point.

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**Alex Arrow - Lazard Capital Markets - Analyst**

Okay. Thanks. You've given us a nice specific time line for the CE mark for both Ascendra and Cribier-Edwards and so perhaps I can see if you will say anything about the U.S. timeline. You said the pivotal trial will start in early 2007. Is that the most you will say about the U.S. timeline?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, it really is, Alex. I think it's premature for us to talk to what we think that will be while we still haven't nailed down the pivotal trial.

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**Alex Arrow - Lazard Capital Markets - Analyst**

Okay. And then last, just a quick accounting question. Did you say DSOs were 68 days or 48 days?

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

68.

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**Alex Arrow - Lazard Capital Markets - Analyst**

How do you calculate that? It looks like 48 days.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

What we do is we take out the securitization that occurs to give you a more realistic number. But if you did it straight off of the balance sheet, you would get a lower number.

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**Alex Arrow - Lazard Capital Markets - Analyst**

I'm sorry, you take out the securitization?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Tom, I don't think Alex may be aware of the securitization that we do with receivables.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

Well, when we give the number, we will say excluding receivable securitization which reduces the number on the balance sheet, which would appear to be a lower DSO. So we add that back to get closer to what a realistic DSO number is operationally.

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**Alex Arrow - Lazard Capital Markets - Analyst**

Okay. I mean securitizing receivables simply means you're holding on to an asset in order to make sure that your customers are paying you, or is there something more to it than that?

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

No, it is where you factor them and you actually receive the cash up front and you sell the receivables.

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**Alex Arrow - Lazard Capital Markets - Analyst**

Oh, right. Okay. If it's all right, I will call you after the call.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

Sure. It's in our statements. If you look at any of the filings, you can see the numbers clearly identified. It will help you put the pieces together. But feel free to call.

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**Alex Arrow - Lazard Capital Markets - Analyst**

All right. Thanks very much.

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**Operator**

Our next question comes from Glenn Novarro with Banc of America. Please proceed with your question.

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**Glenn Novarro - Banc of America - Analyst**

Thanks. I had a question on the heart valve guidance for the year. I believe you said \$500 million. As I look back at my notes for first quarter, the guidance on the Q1 call was \$505 to \$515 million. You talked about porcine being down and mechanical being down in this quarter. Can you add a little bit more color, why like \$500 million is now the new number versus \$505 to \$515 million? And then I have a follow-up question.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, thanks, Glenn. You're exactly right in terms of your numbers and your memory. And remember, we intended to, or expected to generate mid single digit growth this quarter and we didn't generate that. And so, that in itself is probably a detriment of say about \$4 million. So there is sort of a detriment by itself, and if we just look forward at what is going on, with competitive trialing, with porcine and mechanical valves, we think it is prudent to set the estimate around \$500 million.

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**Glenn Novarro - Banc of America - Analyst**

Okay. And as a follow-up, is it possible for you to break out that valve revenue number between volume, price, and mix? The reason I'm asking is because for the last year or so, you've benefited from moving more and more of your mix into Magna, which carries a higher price tag. So is it possible to break down growth in that dynamic?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, of course, anything is possible, Glenn, but I think we've always tried to characterize it with you and give you a feel for what is going on and we still see the benefit of premium price on the Magna coming from that. But at this point, most of what we're feeling right here are really volume units, as we indicated, by the reasons that we gave.

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**Glenn Novarro - Banc of America - Analyst**

So I guess the price benefit year-over-year is much less than we've seen in previous years?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

I think the price benefit is there. I think it is just being offset with some volume.

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**Glenn Novarro - Banc of America - Analyst**

It is a 1% or 2% max?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

I'm sorry?

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**Glenn Novarro - Banc of America - Analyst**

So the price, if I had to guess on what the price benefit was to your growth, your valve grew 3, 4%. Was price maybe 1% or 2%?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, at least.

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**Glenn Novarro - Banc of America - Analyst**

Okay. Great. Thanks.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

You're welcome.

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**Operator**

Our next question comes from David Zimbalist. Please proceed with your question.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Hey, David, are you there?

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**David Zimbalist - Natexis Bleichroeder - Analyst**

Hello?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Hello.

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**David Zimbalist - Natexis Bleichroeder - Analyst**

Can you hear me? Hello?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, we can hear you.

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**David Zimbalist - Natexis Bleichroeder - Analyst**

Okay. Great. I'm calling, as a follow-up to Glenn Navarro's question. What was the mix shift toward Magna, or how much more incremental mix shift did you get out of Magna this quarter?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well, Magna continues to grow very nicely. Are you talking about in the U.S. or broadly?

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**David Zimbalist - Natexis Bleichroeder - Analyst**

Both.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well, Magna is growing in excess of 20%, so that continues to grow. So what it is doing is cannibalizing our other pericardial valves for that matter.

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**David Zimbalist - Natexis Bleichroeder - Analyst**

Okay. And is the price premium still holding at 20%?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, it is.

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**David Zimbalist - Natexis Bleichroeder - Analyst**

Okay. And what, in the Critical Care business, do you see as being sustainable for the rest of the year? The basic and advanced catheters tend to be up and down, but is there anything that has changed in that business that you think is sustainable to keep it high single digit rates?

---

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, thanks, David. We expected that as FloTrac took off and that's really the news here. And what's different about the Critical Care business is that it was going to lift the growth rate. At the start of the year, we projected the Critical Care business would grow underlying at an 8% to 10% growth rate and this was a particularly strong quarter. I don't know that you should expect that on a sustainable basis we're going to be 11% for the back half of the year.

But I do think that we will be in that 8% to 10% range, just because of the solid core business we have and the upgrading we do from base to advance, and hemofiltration continues to give us some lift. But, FloTrac is on an upward curve and that is really going to be the growth driver in the back half and certainly in 2007 and beyond.

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**David Zimbalist - Natexis Bleichroeder - Analyst**

Okay. I actually missed the first part of the call. Did you give a target for FloTrac for the year?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

We didn't change our original target, which was \$10 to \$20 million. We didn't do very much in 2005. That was our year of introduction, and those are very slow sales cycles so it is a big percent increase but we said \$10 to \$20 million.

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**David Zimbalist - Natexis Bleichroeder - Analyst**

Okay. Is it fair to say that you're looking more towards the upper end of that range at this point or is the first quarter not enough?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well, given that we already did probably five in the first half, 10 becomes pretty easy, but we haven't really given much definition beyond that.

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**David Zimbalist - Natexis Bleichroeder - Analyst**

Okay. And then the last question. Your gross margin continues to sort of pace ahead of both your guidance and most of the street models. What would be your first priorities for allocating that incremental profit as you maintain your earnings growth trajectories that you've already targeted? Where do you spend that extra money?

---

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well, we very much have one of our goals of lifting our gross margin rate, and so we would continue to focus on those premium products that have the ability to have leadership positions and so we will continue to feed our surgical heart valve product line. We continue to be very excited about our percutaneous valve programs. We will continue to do more to supplement FloTrac and other growth drivers within Critical Care. And then, we think the peripheral stent product line has the opportunity to really drive the vascular products on a regular basis.

So we stay very focused within our core areas and I think our areas of investment that we have been tracking over the past several months continue to be areas that we're interested in. But we will give a lot more definition to that in some future outlooks, as we get into our investor conference as well.

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**David Zimbalist - Natexis Bleichroeder - Analyst**

Okay, but no new targets for total number of vascular sales people? No increase in that?

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

No, we're going to naturally be making some changes, but there is nothing so dramatic to change an SG&A rate.

**David Zimbalist - Natexis Bleichroeder - Analyst**

Okay. Great.

**David Erickson - Edwards Lifesciences - VP, IR**

Next question, please.

**Operator**

Our next question comes from Mr. Larry Biegelsen with Prudential. Please proceed with your question.

**Larry Biegelsen - Prudential - Analyst**

Hi, thanks for taking the question. Mike. How confident are you that the Magna mitral will be approved in the U.S. in 4Q '06?

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

That's a good question, Larry. I would say internally we do feel pretty confident, although you never know when you're involved in the regulatory discussions if we'll get a new round of questions. But we have gotten questions and we have answered them, so we think if things go the way we expect, that we will get an approval in the fourth quarter. But we just can't be certain. And we have really planned our year and given projections to you all based on not having the mitral Magna in 2006.

**Larry Biegelsen - Prudential - Analyst**

If approved, would you care to venture what kind of sales that you would expect in 2006?

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, it is tough to estimate, Larry, depending on when we get it in the quarter. If we got it early in the quarter, you could think of an extra \$2 to, \$3 million worth of revenue and if we got it late in the quarter, certainly less than that.

**Larry Biegelsen - Prudential - Analyst**

And the second question, what gives you confidence that the use of Biocore is just trialing?

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well, mostly, it is one of those things that you can never be sure about, Larry, but I can tell you most of it comes from field reports. And our field people are reporting on a regular basis that people are discontinuing the trialing of the valve. And so that's really what gives us the basis. And so

we're really having a chance to watch this, in many cases in our own accounts, accounts that have used mechanical valves in the past that are doing some trialing of this, and that's what we're observing.

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**Larry Biegelsen - Prudential - Analyst**

Where is Biocore having more of an impact? On the mitral or on the aortic side?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

It depends on whether you look at dollars or percent. On a dollar basis, I think they're pretty similar. On a percentage basis, they're having more success in the mitral position. There are many more aortic valves implanted.

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**Larry Biegelsen - Prudential - Analyst**

If I could just ask you one more question on percutaneous valves. Could you discuss the time line of how you might receive a CE mark approval by the end of 2007 if you will complete enrollment of the trial in early '07? What is the follow-up and when do you plan to file?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well, we would expect the filing to occur in early 2007, and we expect the requirements for CE mark to be about a six-month follow-up. And that's why we say end of 2007.

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**Larry Biegelsen - Prudential - Analyst**

Thank you.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

You're welcome.

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**Operator**

Our next question comes from Larry Keusch with Goldman Sachs. Please proceed with your question.

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**Larry Keusch - Goldman Sachs - Analyst**

Yes. Hi, Mike. I don't know if this is an issue or not, but perhaps you can speak to it. A lot of physician strikes are starting to pick up in Europe. Germany obviously has been ongoing for some time, France just started. How are you guys thinking about potential disruptions to the business from those dynamics?

---

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, thanks, Larry. Yes, we have felt some of that. Actually, we have probably estimated that the impact this quarter maybe was \$0.5 million, for example, of valve sales. So it is one more thing here to pile on. But as bad as that strike is, there is just a tremendous amount of price sensitivity in Germany as well, and we refused to participate in some of those most sensitive accounts and so we probably felt some of that as well, but there is just a lot of pressure in the German market.

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**Larry Keusch - Goldman Sachs - Analyst**

Okay, and then France, maybe incremental, we will see how this goes I guess?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Say that again, please.

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**Larry Keusch - Goldman Sachs - Analyst**

France may be sort of incremental in the third quarter, and we will I guess just have to see how dramatic the strike is?

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Yes, we've got some other good things going in France so we're hoping that offsets each other.

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**Larry Keusch - Goldman Sachs - Analyst**

Okay. And then two other questions for you. Mike. As you look at the building ramp in LifeStent, could you talk a little bit about which physicians you're actually starting to gain some traction with? In other words, is it vascular surgeons, is it radiologists? Can you glean anything yet, or is it too early to really get a sense of where that is going?

---

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

It seems, Larry, to be across the board. I can't say it tends to be stronger with one group more than the other. So it doesn't seem to sit with just radiologists or vascular surgeons, for example, more than interventionalists. We see the full range of customers at this point. I think more of what we're seeing is our products preferred in the SFA position. It really becomes a product of choice there.

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**Larry Keusch - Goldman Sachs - Analyst**

And one of the reasons I was asking was do you have a better call point with one of those physician groups than the other?

---

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Well, we have the long history with vascular surgeons, Larry. Because of our Fogarty product line they tend to be more of a surgical product, so that one is an easier call point for Edwards, but we have tried not to let that hold us back. We put a dedicated sales force in the U.S. so that we could get out there and reach the rest of the interventional community.

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**Larry Keusch - Goldman Sachs - Analyst**

Okay, super. And last question, maybe for Tom. Obviously there are a lot of moving parts in the reported numbers this quarter, and so Tom, if you could just help us think about this, if you strip away all the one-time items and keep the correct tax rate, but include ESO, so continuing operations with ESO included in there, where is the EPS that you come out with?

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

For the quarter or are you looking for the full year?

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**Larry Keusch - Goldman Sachs - Analyst**

For the quarter.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

You can either work your way from GAAP or non-GAAP, but if I started with the reported GAAP figures, we have \$0.58, right?

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**Larry Keusch - Goldman Sachs - Analyst**

Yes.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

And there were \$0.04 for special items which lands us at a \$0.54 a share.

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**Larry Keusch - Goldman Sachs - Analyst**

Right.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

Now \$0.03 is the difference between where we landed and where you may have expected, and we guided, had to do the with the options. The change in the option program.

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**Larry Keusch - Goldman Sachs - Analyst**

Right.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

So I look at that being comparable to what we were looking for of \$0.51 versus First Call of \$0.50, or the guidance we gave of \$0.48 to \$0.50.

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**Larry Keusch - Goldman Sachs - Analyst**

Got it. Okay.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Does that help?

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**Larry Keusch - Goldman Sachs - Analyst**

Yes, that is exactly what I was looking for. Thanks very much.

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**Tom Abate - Edwards Lifesciences - CFO, Treasurer**

Sure.

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**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Thanks, Larry.

**Operator**

Mr. Erickson, there are no further questions at this time. Do you have any closing remarks?

**Mike Mussallem - Edwards Lifesciences - Chairman, CEO**

Okay. Thanks for your continued interest in Edwards. And Tom and David and I will welcome any additional questions by telephone. So with that, back to you, David.

**David Erickson - Edwards Lifesciences - VP, IR**

Thank you for joining us on today's call. Reconciliations between GAAP and non-GAAP numbers mentioned during the call, which include underlying growth rates and amounts suggested for special items, are included in today's press release and can also be found in the Investor Relations section of our website at [edwards.com](http://edwards.com).

If you missed any portion of today's call, telephonic replay will be available for 72 hours and to access this, please dial 877-660-6853 or 201-612-7415. Use account number 2995, and pass code 207529. Let me repeat those numbers: 877-660-6853 or 201-612-7415. The account number 2995. Pass code is 207529. Alternatively, an audio replay will be archived on the Investor Relations section of our website. Thank you very much.

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