

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14.

INCOME TAXES

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

The Company's income (loss) before provision for income taxes was generated from United States and international operations as follows:

	Years Ended December 31,		
(in millions)	2002	2001	2000
United States	\$ 3.5	\$ (66.7)	\$ (320.8)
International	52.5	58.3	62.4
	<u>\$ 56.0</u>	<u>\$ (8.4)</u>	<u>\$ (258.4)</u>

The provision for income taxes consists of the following:

	Years Ended December 31,		
(in millions)	2002	2001	2000
Current			
United States			
Federal	\$ 0.6	\$ —	\$ —
State and local	0.3	0.7	1.0
International			
including			
Puerto Rico	10.6	30.9	13.2
Current income			
tax expense	<u>11.5</u>	<u>31.6</u>	<u>14.2</u>
Deferred			
United States			
Federal	(7.4)	(15.3)	—
State and local	(0.9)	(5.1)	(0.9)
International			
including			
Puerto Rico	(2.9)	(9.7)	—
Deferred income			
tax benefit	<u>(11.2)</u>	<u>(30.1)</u>	<u>(0.9)</u>
Total income tax			
expense	<u>\$ 0.3</u>	<u>\$ 1.5</u>	<u>\$ 13.3</u>

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

December 31, (in millions)	2002	2001
Deferred tax assets		
Investments in unconsolidated affiliates	\$ 29.7	\$ —
Net operating loss carryforwards	19.0	13.2
Accrued liabilities	12.0	4.9
Other intangible assets	10.5	—
Allowance for doubtful accounts	7.9	5.5
Tax credit carryforwards	6.4	3.1
Compensation and benefits	5.6	6.7
Inventories	2.4	3.0
Other	9.9	4.7
Total deferred tax assets	<u>103.4</u>	<u>41.1</u>
Deferred tax liabilities		
Property, plant and equipment	(15.8)	(12.9)
Deferred gain on sale of assets	—	(13.9)
Other intangible assets	—	(10.0)
Other	(1.3)	(1.1)
Total deferred tax liabilities	<u>(17.1)</u>	<u>(37.9)</u>
Valuation allowance	(19.9)	(4.2)
Net deferred tax assets (liabilities)	<u>\$ 66.4</u>	<u>\$ (1.0)</u>

Deferred income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries of approximately \$80.1 million as of December 31, 2002 since these amounts are intended to be permanently reinvested in foreign operations. It is not practicable to calculate the deferred taxes associated with these earnings; however, foreign tax credits would likely be available to reduce federal income taxes in the event of distribution.