

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Edwards Lifesciences Corp  
Form 10-Q  
April 29, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the Quarterly Period Ended March 31, 2015

or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-15525

EDWARDS LIFESCIENCES CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware 36-4316614  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Edwards Way, Irvine, California 92614  
(Address of principal executive offices) (Zip Code)

(949) 250-2500  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer   
(Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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The number of shares outstanding of the registrant's common stock, \$1.00 par value, as of April 23, 2015 was 107,557,739.

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FORM 10-Q  
For the quarterly period ended March 31, 2015

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## Part I. Financial Information

## Item 1. Financial Statements

EDWARDS LIFESCIENCES CORPORATION  
CONSOLIDATED CONDENSED BALANCE SHEETS

(in millions, except par value; unaudited)

|  | March 31,<br>2015 | December 31,<br>2014 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Current assets   |                   |                      |
| Cash and cash equivalents  | \$457.0           | \$653.8              |
| Short-term investments (Note 4)  | 913.8             | 785.0                |
| Accounts and other receivables, net of allowances of \$5.6 and \$5.1, respectively   | 345.3             | 325.0                |
| Inventories (Note 3)   | 298.5             | 296.8                |
| Deferred income taxes  | 57.0              | 63.5                 |
| Prepaid expenses   | 44.8              | 48.8                 |
| Other current assets   | 138.4             | 121.7                |
| Total current assets   | 2,254.8           | 2,294.6              |
| Long-term accounts receivable, net of allowances of \$5.4 and \$6.2, respectively  | 5.7               | 5.8                  |
| Long-term investments (Note 4)   | 255.6             | 240.9                |
| Property, plant, and equipment, net  | 445.1             | 442.9                |
| Goodwill   | 368.4             | 376.0                |
| Other intangible assets, net   | 20.5              | 23.4                 |
| Deferred income taxes  | 84.9              | 91.5                 |
| Other assets   | 53.4              | 49.2                 |
| Total assets   | \$3,488.4         | \$3,524.3            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                      |
| Current liabilities  |                   |                      |
| Accounts payable and accrued liabilities (Note 3)  | \$405.3           | \$434.4              |
| Long-term debt   | 602.7             | 598.1                |
| Other long-term liabilities  | 266.5             | 300.4                |
| Commitments and contingencies (Note 8)   |                   |                      |
| Stockholders' equity   |                   |                      |
| Preferred stock, \$.01 par value, authorized 50.0 shares, no shares outstanding  | —                 | —                    |
| Common stock, \$1.00 par value, 350.0 shares authorized, 129.4 and 128.9 shares issued, and 107.5 and 107.8 shares outstanding, respectively | 129.4             | 128.9                |
| Additional paid-in capital   | 925.0             | 878.4                |
| Retained earnings  | 2,965.3           | 2,841.9              |
| Accumulated other comprehensive loss   | (147.9            | ) (100.9 )           |
| Treasury stock, at cost, 21.9 and 21.1 shares, respectively  | (1,657.9          | ) (1,556.9 )         |
| Total stockholders' equity   | 2,213.9           | 2,191.4              |
| Total liabilities and stockholders' equity   | \$3,488.4         | \$3,524.3            |

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

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EDWARDS LIFESCIENCES CORPORATION  
 CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
 (in millions, except per share information; unaudited)

|   | Three Months Ended |         |
|---|--------------------|---------|
|   | March 31,          |         |
|   | 2015               | 2014    |
| Net sales   | \$590.3            | \$522.4 |
| Cost of sales   | 136.0              | 145.9   |
| Gross profit  | 454.3              | 376.5   |
| Selling, general, and administrative expenses         | 202.5              | 197.2   |
| Research and development expenses                     | 86.4               | 85.8    |
| Intellectual property litigation expenses             | 0.3                | 5.5     |
| Special charge (Note 2)                               | —                  | 7.5     |
| Interest expense, net                                 | 2.4                | 3.5     |
| Other expense (income), net                           | 0.2                | (0.3    |
| Income before provision for income taxes              | 162.5              | 77.3    |
| Provision for income taxes                            | 39.1               | 17.0    |
| Net income  | \$123.4            | \$60.3  |
| Share information (Note 10)                           |                    |         |
| Earnings per share:                                   |                    |         |
| Basic   | \$1.14             | \$0.57  |
| Diluted   | \$1.12             | \$0.56  |
| Weighted-average number of common shares outstanding: |                    |         |
| Basic   | 107.8              | 106.7   |
| Diluted   | 110.3              | 108.5   |

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

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EDWARDS LIFESCIENCES CORPORATION  
 CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
 (in millions; unaudited)

|  | Three Months Ended |        |
|--|--------------------|--------|
|  | March 31,          |        |
|  | 2015               | 2014   |
| Net income   | \$123.4            | \$60.3 |
| Other comprehensive loss, net of tax (Note 9)                |                    |        |
| Foreign currency translation adjustments                     | (64.7              | ) (0.8 |
| Unrealized gain (loss) on cash flow hedges                   | 17.2               | (4.0   |
| Unrealized gain on available-for-sale investments            | 0.3                | —      |
| Reclassification of net realized investment loss to earnings | 0.2                | —      |
| Other comprehensive loss                                     | (47.0              | ) (4.8 |
| Comprehensive income   | \$76.4             | \$55.5 |

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

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EDWARDS LIFESCIENCES CORPORATION  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(in millions; unaudited)

|   | Three Months Ended<br>March 31, |         |
|---|---------------------------------|---------|
|   | 2015                            | 2014    |
| Cash flows from operating activities  |                                 |         |
| Net income  | \$123.4                         | \$60.3  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |         |
| Depreciation and amortization   | 16.0                            | 16.2    |
| Stock-based compensation (Note 7)   | 13.6                            | 12.0    |
| Excess tax benefit from stock plans   | (9.8)                           | (14.0)  |
| (Gain) loss on investments  | (1.1)                           | 2.7     |
| Deferred income taxes   | 4.1                             | 2.4     |
| Other   | (0.2)                           | 0.2     |
| Changes in operating assets and liabilities:                                      |                                 |         |
| Accounts and other receivables, net   | (36.5)                          | 22.7    |
| Inventories   | (18.9)                          | (0.5)   |
| Accounts payable and accrued liabilities  | (59.1)                          | 21.4    |
| Income taxes  | 26.6                            | 15.0    |
| Prepaid expenses and other current assets   | 8.5                             | (1.4)   |
| Other   | 6.7                             | 1.9     |
| Net cash provided by operating activities   | 73.3                            | 138.9   |
| Cash flows from investing activities  |                                 |         |
| Capital expenditures  | (20.8)                          | (14.3)  |
| Purchases of held-to-maturity investments (Note 4)                                | (422.0)                         | (391.8) |
| Proceeds from held-to-maturity investments (Note 4)                               | 330.9                           | 296.8   |
| Purchases of available-for sale investments (Note 4)                              | (84.6)                          | —       |
| Proceeds from available-for-sale investments (Note 4)                             | 18.3                            | —       |
| Investments in trading securities, net  | (2.0)                           | (10.4)  |
| Investments in unconsolidated affiliates, net (Note 4)                            | (0.4)                           | (0.7)   |
| Other   | 0.3                             | 0.6     |
| Net cash used in investing activities   | (180.3)                         | (119.8) |
| Cash flows from financing activities  |                                 |         |
| Proceeds from issuance of debt  | 7.4                             | 208.3   |
| Payments on debt and capital lease obligations                                    | (8.2)                           | (78.3)  |
| Purchases of treasury stock   | (101.0)                         | (300.0) |
| Excess tax benefit from stock plans   | 9.8                             | 14.0    |
| Proceeds from stock plans   | 23.5                            | 14.2    |
| Other   | (3.4)                           | (2.0)   |
| Net cash used in financing activities   | (71.9)                          | (143.8) |
| Effect of currency exchange rate changes on cash and cash equivalents             | (17.9)                          | —       |
| Net decrease in cash and cash equivalents   | (196.8)                         | (124.7) |
| Cash and cash equivalents at beginning of period                                  | 653.8                           | 420.4   |
| Cash and cash equivalents at end of period  | \$457.0                         | \$295.7 |
| Supplemental disclosures:   |                                 |         |
| Non-cash investing and financing transactions:                                    |                                 |         |

|                               |       |       |
|-------------------------------|-------|-------|
| Capital expenditures accruals | \$6.6 | \$6.2 |
|-------------------------------|-------|-------|

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



Table of Contents**1. BASIS OF PRESENTATION**

The accompanying interim consolidated condensed financial statements and related disclosures have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the consolidated financial statements and notes included in Edwards Lifesciences Corporation's Annual Report on Form 10-K for the year ended December 31, 2014. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted.

In the opinion of management of Edwards Lifesciences Corporation ("Edwards Lifesciences" or the "Company"), the interim consolidated condensed financial statements reflect all adjustments considered necessary for a fair statement of the interim periods. All such adjustments are of a normal, recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

Certain reclassifications related to the presentation of income taxes and special charges have been made in the prior year's consolidated condensed statement of cash flows to conform to the current year presentation. These reclassifications had no impact on the cash flows from operating, investing, or financing activities.

**New Accounting Standards Not Yet Adopted**

In April 2015, the Financial Accounting Standards Board issued an amendment to the accounting guidance on the presentation of debt issuance costs. The guidance requires an entity to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt, consistent with debt discounts. The guidance is effective for annual reporting periods beginning after December 31, 2015 and interim periods within those periods, and must be applied retrospectively to each prior reporting period presented. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial statements.

**2. SPECIAL CHARGE****Settlement**

In March 2014, the Company recorded a \$7.5 million charge to settle past and future obligations related to one of its intellectual property agreements.

**3. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS**

Components of selected captions in the consolidated condensed balance sheets consisted of the following (in millions):

|                   | March 31,<br>2015 | December 31,<br>2014 |
|-------------------|-------------------|----------------------|
| Inventories       |                   |                      |
| Raw materials     | \$67.4            | \$67.4               |
| Work in process   | 71.5              | 59.3                 |
| Finished products | 159.6             | 170.1                |
|                   | \$298.5           | \$296.8              |

At March 31, 2015 and December 31, 2014, approximately \$48.9 million and \$46.2 million, respectively, of the Company's finished products inventories were held on consignment.

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|  |         |         |
|--|---------|---------|
| Accounts payable and accrued liabilities |         |         |
| Accounts payable                         | \$68.6  | \$58.2  |
| Employee compensation and withholdings   | 101.1   | 190.5   |
| Uncertain tax positions                  | 39.2    | —       |
| Research and development accruals        | 39.1    | 39.9    |
| Property, payroll, and other taxes       | 34.0    | 32.7    |
| Taxes payable                            | 12.4    | 9.1     |
| Deferred income taxes                    | 10.5    | 8.3     |
| Accrued rebates                          | 9.8     | 11.7    |
| Litigation reserves                      | 5.0     | 4.4     |
| Fair value of derivatives                | 4.6     | 2.6     |
| Realignment reserves                     | 3.0     | 7.7     |
| Other accrued liabilities                | 78.0    | 69.3    |
|  | \$405.3 | \$434.4 |

## 4. INVESTMENTS

## Debt Securities

Investments in debt securities at the end of each period were as follows (in millions):

|  | March 31, 2015 |                              |                               |               | December 31, 2014 |                              |                               |            |
|--|----------------|------------------------------|-------------------------------|---------------|-------------------|------------------------------|-------------------------------|------------|
|  | Cost           | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Cost              | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
| Held-to-maturity                         |                |                              |                               |               |                   |                              |                               |            |
| Bank time deposits                       | \$722.8        | \$—                          | \$—                           | \$722.8       | \$661.5           | \$—                          | \$—                           | \$661.5    |
| Commercial paper                         | 100.1          | —                            | —                             | 100.1         | 80.0              | —                            | —                             | 80.0       |
| U.S. government and<br>agency securities | 57.3           | 0.1                          | —                             | 57.4          | 58.9              | 0.1                          | (0.1 )                        | 58.9       |
| Asset-backed securities                  | 6.7            | —                            | —                             | 6.7           | 8.2               | —                            | —                             | 8.2        |
| Corporate debt<br>securities             | 23.2           | —                            | —                             | 23.2          | 24.7              | —                            | —                             | 24.7       |
| Municipal securities                     | 6.7            | —                            | —                             | 6.7           | 6.1               | —                            | —                             | 6.1        |
| Total                                    | \$916.8        | \$0.1                        | \$—                           | \$916.9       | \$839.4           | \$0.1                        | \$(0.1 )                      | \$839.4    |
| Available-for-sale                       |                |                              |                               |               |                   |                              |                               |            |
| Commercial paper                         | 16.5           | —                            | —                             | 16.5          | 13.0              | —                            | —                             | 13.0       |
| U.S. government and<br>agency securities | 6.1            | 0.1                          | —                             | 6.2           | 1.0               | —                            | —                             | 1.0        |
| Asset-backed securities                  | 52.9           | —                            | —                             | 52.9          | 42.9              | —                            | —                             | 42.9       |
| Corporate debt<br>securities             | 151.7          | 0.2                          | (0.1 )                        | 151.8         | 103.6             | —                            | (0.4 )                        | 103.2      |
| Total                                    | \$227.2        | \$0.3                        | \$(0.1 )                      | \$227.4       | \$160.5           | \$—                          | \$(0.4 )                      | \$160.1    |

The cost and fair value of investments in debt securities, by contractual maturity, as of March 31, 2015 were as follows:

|                                  | Held-to-Maturity |            | Available-for-Sale |            |
|----------------------------------|------------------|------------|--------------------|------------|
|                                  | Cost             | Fair Value | Cost               | Fair Value |
|                                  | (in millions)    |            |                    |            |
| Due in 1 year or less            | \$849.6          | \$849.6    | \$64.2             | \$64.2     |
| Due after 1 year through 5 years | 46.2             | 46.3       | 110.1              | 110.3      |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Instruments not due at a single maturity date | 21.0    | 21.0    | 52.9    | 52.9    |
|   | \$916.8 | \$916.9 | \$227.2 | \$227.4 |

Actual maturities may differ from the contractual maturities due to call or prepayment rights.

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## Investments in Unconsolidated Affiliates

The Company has a number of equity investments in privately and publicly held companies. Investments in these unconsolidated affiliates are recorded in "Long-term Investments" on the consolidated condensed balance sheets, and are as follows:

|  | March 31,<br>2015<br>(in millions) | December 31,<br>2014 |
|--|------------------------------------|----------------------|
| Available-for-sale investments                 |                                    |                      |
| Cost   | \$—                                | \$—                  |
| Unrealized gains                               | 0.3                                | 0.4                  |
| Fair value of available-for-sale investments   | 0.3                                | 0.4                  |
| Equity method investments                      |                                    |                      |
| Cost   | 12.8                               | 12.8                 |
| Equity in losses                               | (4.8                               | ) (3.5               |
| Carrying value of equity method investments    | 8.0                                | 9.3                  |
| Cost method investments                        |                                    |                      |
| Carrying value of cost method investments      | 16.9                               | 16.7                 |
| Total investments in unconsolidated affiliates | \$25.2                             | \$26.4               |

During the three months ended March 31, 2015, the gross realized gains or losses from sales of available-for-sale investments were not material. In March 2014, the Company recorded an other-than-temporary impairment charge of \$3.5 million related to one of its cost method investments.

## 5. FAIR VALUE MEASUREMENTS

The consolidated condensed financial statements include financial instruments for which the fair market value of such instruments may differ from amounts reflected on a historical cost basis. Financial instruments of the Company consist of cash deposits, accounts and other receivables, investments, accounts payable, certain accrued liabilities, and borrowings under a revolving credit agreement. The carrying value of these financial instruments generally approximates fair value due to their short-term nature. Financial instruments also include notes payable. As of March 31, 2015, the fair value of the notes payable, based on Level 2 inputs, was \$618.7 million.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Company prioritizes the inputs used to determine fair values in one of the following three categories:

Level 1—Quoted market prices in active markets for identical assets or liabilities.

Level 2—Inputs, other than quoted prices in active markets, that are observable, either directly or indirectly.

Level 3—Unobservable inputs that are not corroborated by market data.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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## Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes the Company's financial instruments which are measured at fair value on a recurring basis (in millions):

| March 31, 2015                                   | Level 1 | Level 2 | Total   |
|--|---------|---------|---------|
| Assets   |         |         |         |
| Cash equivalents                                 | \$10.0  | \$13.4  | \$23.4  |
| Available-for-sale investments:                  |         |         |         |
| Corporate debt securities                        | —       | 151.8   | 151.8   |
| Asset-backed securities                          | —       | 52.9    | 52.9    |
| U.S. government and agency securities            | —       | 6.2     | 6.2     |
| Commercial paper                                 | —       | 16.5    | 16.5    |
| Equity investments in unconsolidated affiliates  | 0.3     | —       | 0.3     |
| Investments held for deferred compensation plans | 32.3    | —       | 32.3    |
| Derivatives                                      | —       | 75.9    | 75.9    |
|  | \$42.6  | \$316.7 | \$359.3 |
| Liabilities                                      |         |         |         |
| Derivatives                                      | \$—     | \$4.6   | \$4.6   |
| Deferred compensation plans                      | 32.9    | —       | 32.9    |
|  | \$32.9  | \$4.6   | \$37.5  |
| December 31, 2014                                |         |         |         |
| Assets   |         |         |         |
| Cash equivalents                                 | \$32.6  | \$12.0  | \$44.6  |
| Available-for-sale investments:                  |         |         |         |
| Corporate debt securities                        | —       | 103.2   | 103.2   |
| Asset-backed securities                          | —       | 42.9    | 42.9    |
| U.S. government and agency securities            | —       | 1.0     | 1.0     |
| Commercial paper                                 | —       | 13.0    | 13.0    |
| Equity investments in unconsolidated affiliates  | 0.4     | —       | 0.4     |
| Investments held for deferred compensation plans | 28.2    | —       | 28.2    |
| Derivatives                                      | —       | 50.7    | 50.7    |
|  | \$61.2  | \$222.8 | \$284.0 |
| Liabilities                                      |         |         |         |
| Derivatives                                      | \$—     | \$2.6   | \$2.6   |
| Deferred compensation plans                      | 28.7    | —       | 28.7    |
|  | \$28.7  | \$2.6   | \$31.3  |

## Cash Equivalents and Available-for-sale Investments

The Company estimates the fair values of its money market funds based on quoted prices in active markets for identical assets. The Company estimates the fair values of its commercial paper, U.S. government and agency securities, asset-backed securities, and corporate debt securities by taking into consideration valuations obtained from third-party pricing services. The pricing services use industry standard valuation models, including both income and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs include reported trades and broker-dealer quotes on the same or similar securities, benchmark yields, credit spreads, prepayment and default projections based on historical data, and other observable inputs. The Company independently reviews and validates the pricing received from the third-party pricing service by comparing the prices to prices reported by a secondary pricing source. The Company's validation procedures have not resulted in an adjustment to the pricing received from the pricing service.

Investments in unconsolidated affiliates are long-term equity investments in companies that are in various stages of development. Certain of the Company's investments in unconsolidated affiliates are designated as available-for-sale. These investments are carried at fair market value based on quoted market prices.

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## Deferred Compensation Plans

The Company holds investments in trading securities related to its deferred compensation plans. The investments are in a variety of stock and bond mutual funds. The fair values of these investments and the corresponding liabilities are based on quoted market prices.

## Derivative Instruments

The Company uses derivative financial instruments in the form of foreign currency forward exchange contracts and foreign currency option contracts to manage foreign currency exposures, and interest rate swap agreements to manage its interest rate exposures. All derivatives contracts are recognized on the balance sheet at their fair value. The fair value of foreign currency derivative financial instruments was estimated based on quoted market foreign exchange rates and market discount rates. The fair value of the interest rate swap agreements was determined based on a discounted cash flow analysis reflecting the contractual terms of the agreements and the 6-month LIBOR forward interest rate curve. Judgment was employed in interpreting market data to develop estimates of fair value; accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions or valuation methodologies could have a material effect on the estimated fair value amounts.

## 6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company uses derivative financial instruments to manage its currency exchange rate risk and its interest rate risk, as summarized below. Notional amounts are stated in United States dollar equivalents at spot exchange rates at the respective dates.

|   | Notional Amount   |                      |
|---|-------------------|----------------------|
|   | March 31,<br>2015 | December 31,<br>2014 |
|   | (in millions)     |                      |
| Foreign currency forward exchange contracts | \$736.1           | \$761.2              |
| Interest rate swap agreements               | 300.0             | 300.0                |
| Foreign currency option contracts           | 14.2              | 9.2                  |

The Company uses derivative financial instruments to manage interest rate and foreign currency risks. It is the Company's policy not to enter into derivative financial instruments for speculative purposes. The Company uses interest rate swaps to convert a portion of its fixed-rate debt into variable-rate debt. These interest rate swaps are designated as fair value hedges and meet the shortcut method requirements under the accounting standards for derivatives and hedging. Accordingly, changes in the fair values of the interest rate swaps are considered to exactly offset changes in the fair value of the underlying long-term debt. The Company uses foreign currency forward exchange contracts to offset the changes due to currency rate movements in the amount of future cash flows associated with intercompany transactions and certain third-party expenses expected to occur within the next 13 months. These foreign currency forward exchange contracts are designated as cash flow hedges. Certain of the Company's locations have assets and liabilities denominated in currencies other than their functional currencies resulting from intercompany and third-party transactions. The Company uses foreign currency forward exchange contracts and foreign currency option contracts that are not designated as hedging instruments to offset the transaction gains and losses associated with certain of these assets and liabilities. All foreign currency forward exchange contracts and foreign currency option contracts are denominated in currencies of major industrial countries, principally the Euro and the Japanese yen.

All derivative financial instruments are recognized at fair value in the consolidated condensed balance sheets. For each derivative instrument that is designated and effective as a fair value hedge, the gain or loss on the derivative is recognized immediately to earnings, and offsets the loss or gain on the underlying hedged item. The gain or loss on fair value hedges is classified in net interest expense, as they hedge the interest rate risk associated with the Company's fixed-rate debt. The Company reports in "Accumulated Other Comprehensive Loss" the effective portion of the gain or loss on derivative financial instruments that are designated, and that qualify, as cash flow hedges. The

Company reclassifies these gains and losses into earnings in the same period in which the underlying hedged transactions affect earnings. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. For the three months ended March 31, 2015 and 2014, the Company did not record any gains or losses due to hedge ineffectiveness. The gains and losses on derivative financial instruments for which the Company does not elect hedge accounting treatment are recognized in the consolidated condensed statements of operations in each period based upon the change in the fair value of the derivative financial instrument. Cash flows from derivative financial instruments are reported as operating activities in the consolidated condensed statements of cash flows.



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Derivative financial instruments involve credit risk in the event the counterparty should default. It is the Company's policy to execute such instruments with global financial institutions that the Company believes to be creditworthy. The Company diversifies its derivative financial instruments among counterparties to minimize exposure to any one of these entities. The Company also uses International Swap Dealers Association master-netting agreements. The master-netting agreements provide for the net settlement of all contracts through a single payment in a single currency in the event of default, as defined by the agreements.

The following table presents the location and fair value amounts of derivative instruments reported in the consolidated condensed balance sheets (in millions):

|   | Balance Sheet Location        | Fair Value     |                   |
|---|-------------------------------|----------------|-------------------|
|   |                               | March 31, 2015 | December 31, 2014 |
| Derivatives designated as hedging instruments     |                               |                |                   |
| Assets  |                               |                |                   |
| Foreign currency contracts                        | Other current assets          | \$64.9         | \$45.2            |
| Interest rate swap agreements                     | Other assets                  | \$4.9          | \$0.4             |
| Liabilities                                       |                               |                |                   |
| Foreign currency contracts                        | Accrued and other liabilities | \$4.6          | \$2.6             |
| Derivatives not designated as hedging instruments |                               |                |                   |
| Assets  |                               |                |                   |
| Foreign currency contracts                        | Other assets                  | \$6.1          | \$5.1             |

The following table presents the effect of master-netting agreements and rights of offset on the consolidated condensed balance sheets (in millions):

| March 31, 2015                | Gross Amounts | Gross Amounts Offset in the Consolidated Balance Sheet | Net Amounts Presented in the Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Balance Sheet |                          |  | Net Amount |
|-------------------------------|---------------|--|---|--|--------------------------|--|------------|
|                               |               |  |   | Financial Instruments                                      | Cash Collateral Received |  |            |
| Derivative Assets             |               |  |   |  |                          |  |            |
| Foreign currency contracts    | \$71.0        | \$—  | \$71.0  | \$(4.6 )   | \$—                      |  | \$66.4     |
| Interest rate swap agreements | \$4.9         | \$—  | \$4.9   | \$—  | \$—                      |  | \$4.9      |
| Derivative Liabilities        |               |  |   |  |                          |  |            |
| Foreign currency contracts    | \$4.6         | \$—  | \$4.6   | \$(4.6 )   | \$—                      |  | \$—        |
| December 31, 2014             |               |  |   |  |                          |  |            |
| Derivative Assets             |               |  |   |  |                          |  |            |
| Foreign currency contracts    | \$50.3        | \$—  | \$50.3  | \$(2.6 )   | \$—                      |  | \$47.7     |
| Interest rate swap agreements | \$0.4         | \$—  | \$0.4   | \$—  | \$—                      |  | \$0.4      |
| Derivative Liabilities        |               |  |   |  |                          |  |            |
| Foreign currency contracts    | \$2.6         | \$—  | \$2.6   | \$(2.6 )   | \$—                      |  | \$—        |

The following tables present the effect of derivative instruments on the consolidated condensed statements of operations and consolidated condensed statements of comprehensive income (in millions):

| Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income |
|--|--|
|--|--|

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|   | Three Months Ended<br>March 31, |         | Location of Gain or<br>(Loss) Reclassified from<br>Accumulated OCI<br>into Income<br>) Cost of sales | Three Months Ended<br>March 31, |       |
|---|---------------------------------|---------|--|---------------------------------|-------|
|   | 2015                            | 2014    |  | 2015                            | 2014  |
| Derivatives in cash flow hedging<br>relationships |                                 |         |  |                                 |       |
| Foreign currency contracts                        | \$36.3                          | \$(1.7) |  | \$10.5                          | \$5.0 |

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|   | Location of Gain or (Loss)<br>Recognized in Income on<br>Derivative | Amount of Gain or (Loss)<br>Recognized in Income on<br>Derivative<br>Three Months Ended |       |
|---|---|---|-------|
|   |   | March 31,<br>2015   | 2014  |
| Derivatives in fair value hedging relationships   | Interest expense, net   | \$4.5   | \$2.1 |
| Interest rate swap agreements   |   |   |       |
| The gains on the interest rate swap agreements are fully offset by the changes in the fair value of the fixed-rate debt being hedged. |   |   |       |

|   | Location of Gain or (Loss)<br>Recognized in Income on<br>Derivative | Amount of Gain or (Loss)<br>Recognized in Income on<br>Derivative<br>Three Months Ended |         |
|---|---|---|---------|
|   |   | March 31,<br>2015   | 2014    |
| Derivatives not designated as hedging instruments   | Other expense (income), net   | \$4.9   | \$(0.7) |
| Foreign currency contracts  |   |   |         |
| The Company expects that during the next twelve months it will reclassify to earnings a \$17.9 million gain currently recorded in "Accumulated Other Comprehensive Loss." |   |   |         |

## 7. STOCK-BASED COMPENSATION

Stock-based compensation expense related to awards issued under the Company's incentive compensation plans for the three months ended March 31, 2015 and 2014 was as follows (in millions):

|   | Three Months Ended<br>March 31, |        |
|---|---------------------------------|--------|
|   | 2015                            | 2014   |
| Cost of sales                                 | \$1.8                           | \$1.5  |
| Selling, general, and administrative expenses | 9.6                             | 8.8    |
| Research and development expenses             | 2.2                             | 1.7    |
| Total stock-based compensation expense        | \$13.6                          | \$12.0 |

At March 31, 2015, the total remaining compensation cost related to nonvested stock options, restricted stock units, market-based restricted stock units, and employee stock purchase plan ("ESPP") subscription awards amounted to \$78.9 million, which will be amortized on a straight-line basis over the weighted-average remaining requisite service period of 29 months.

## Fair Value Disclosures

The Black-Scholes option pricing model was used with the following weighted-average assumptions for options granted during the following periods:

| Option Awards                   | Three Months Ended<br>March 31, |         |   |  |
|---------------------------------|---------------------------------|---------|---|--|
|                                 | 2015                            | 2014    |   |  |
| Average risk-free interest rate | 1.5                             | % 1.5   | % |  |
| Expected dividend yield         | None                            | None    |   |  |
| Expected volatility             | 30.5                            | % 30.8  | % |  |
| Expected term (years)           | 4.7                             | 4.9     |   |  |
| Fair value, per share           | \$38.39                         | \$20.00 |   |  |



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The Black-Scholes option pricing model was used with the following weighted-average assumptions for ESPP subscriptions granted during the following periods:

| ESPP                            | Three Months Ended |   |         |   |
|---------------------------------|--------------------|---|---------|---|
|                                 | March 31,          |   |         |   |
|                                 | 2015               |   | 2014    |   |
| Average risk-free interest rate | 0.2                | % | 0.1     | % |
| Expected dividend yield         | None               |   | None    |   |
| Expected volatility             | 28.1               | % | 31.9    | % |
| Expected term (years)           | 0.6                |   | 0.7     |   |
| Fair value, per share           | \$29.95            |   | \$16.55 |   |

#### 8. COMMITMENTS AND CONTINGENCIES

Edwards Lifesciences is or may be a party to, or may otherwise be responsible for, pending or threatened lawsuits related primarily to products and services currently or formerly manufactured or performed, as applicable, by Edwards Lifesciences. Such cases and claims raise difficult and complex factual and legal issues and are subject to many uncertainties, including, but not limited to, the facts and circumstances of each particular case or claim, the jurisdiction in which each suit is brought, and differences in applicable law. Upon resolution of any such legal matter or other claim, Edwards Lifesciences may incur charges in excess of established reserves. The Company is not able to estimate the amount or range of any loss for legal contingencies for which there is no reserve or additional loss for matters already reserved. While any such charge related to matters could have a material adverse impact on Edwards Lifesciences' net income or cash flows in the period in which it is recorded or paid, management does not believe that any such charge relating to any currently pending lawsuit would have a material adverse effect on Edwards Lifesciences' financial position, results of operations, or liquidity.

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

#### 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

Presented below is a summary of activity for each component of "Accumulated Other Comprehensive Loss" for the three months ended March 31, 2015.

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Unrealized<br>Gain<br>on Cash Flow<br>Hedges | Unrealized<br>Gain<br>on<br>Available-for-<br>sale<br>Investments | Unrealized<br>Pension<br>Costs | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|--|---|--|---|--------------------------------|--|
|  | (in millions)                                     |  |   |                                |  |
| December 31, 2014  | \$(116.4  | ) \$32.3                                     | \$—   | \$(16.8                        | ) \$(100.9   |
| Other comprehensive (loss) gain<br>before reclassifications  | (64.7   | ) 36.3                                       | 0.3   | —                              | (28.1  |
| Amounts reclassified from<br>accumulated other comprehensive | —   | (10.5  | ) 0.2   | —                              | (10.3  |

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|                             |          |      |        |       |         |          |
|-----------------------------|----------|------|--------|-------|---------|----------|
| loss                        |          |      |        |       |         |          |
| Deferred income tax expense | —        | (8.6 | )      | —     | —       | (8.6     |
| March 31, 2015              | \$(181.1 | )    | \$49.5 | \$0.5 | \$(16.8 | )        |
|                             |          |      |        |       |         | \$(147.9 |

The following table provides information about amounts reclassified from "Accumulated Other Comprehensive Loss" (in millions):

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|  | Three Months Ended<br>March 31, |                 | Affected Line on Consolidated<br>Condensed<br>Statements of Operations |
|--|---------------------------------|-----------------|--|
|  | 2015                            | 2014            |  |
| Details about Accumulated Other<br>Comprehensive Loss Components |                                 |                 |  |
| Gain on cash flow hedges   | \$10.5<br>(3.8                  | \$5.0<br>) (1.9 | Cost of sales<br>) Provision for income taxes                          |
|  | \$6.7                           | \$3.1           | Net of tax   |
| Gain on available-for-sale investments                           | \$(0.2                          | ) \$—           | Other expense (income), net  |
|  | —                               | —               | Provision for income taxes   |
|  | \$(0.2                          | ) \$—           | Net of tax   |

**10. EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income by the weighted-average common shares outstanding during a period. Employee equity share options, nonvested shares, and similar equity instruments granted by the Company are treated as potential common shares in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of restricted stock units, market-based restricted stock units, and in-the-money options. The dilutive impact of the restricted stock units, market-based restricted stock units, and in-the-money options is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of compensation expense for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in "Additional Paid-in Capital" when the award becomes deductible are assumed to be used to repurchase shares. Potential common share equivalents have been excluded where their inclusion would be anti-dilutive. The table below presents the computation of basic and diluted earnings per share (in millions, except for per share information):

|  | Three Months Ended<br>March 31, |        |
|--|---------------------------------|--------|
|  | 2015                            | 2014   |
| Basic:                                       |                                 |        |
| Net income                                   | \$123.4                         | \$60.3 |
| Weighted-average shares outstanding          | 107.8                           | 106.7  |
| Basic earnings per share                     | \$1.14                          | \$0.57 |
| Diluted:                                     |                                 |        |
| Net income                                   | \$123.4                         | \$60.3 |
| Weighted-average shares outstanding          | 107.8                           | 106.7  |
| Dilutive effect of stock plans               | 2.5                             | 1.8    |
| Dilutive weighted-average shares outstanding | 110.3                           | 108.5  |
| Diluted earnings per share                   | \$1.12                          | \$0.56 |

Stock options, restricted stock units, and market-based restricted stock units to purchase 0.1 million and 3.7 million shares for the three months ended March 31, 2015 and 2014, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

**11. INCOME TAXES**

The Company's effective income tax rates were 24.1% and 22.0% for the three months ended March 31, 2015 and 2014, respectively. The change in the effective rates is a primary result of fluctuations in the relative contribution of the Company's foreign operations and U.S. operations to worldwide pretax income.

The federal research credit expired on December 31, 2014 and had not been reinstated as of March 31, 2015. Therefore, the effective income tax rate for the three months ended March 31, 2015 was calculated without an assumed benefit from the federal research credit.





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The Company strives to resolve open matters with each tax authority at the examination level and could reach agreement with a tax authority at any time. While the Company has accrued for matters it believes are more likely than not to require settlement, the final outcome with a tax authority may result in a tax liability that is more or less than that reflected in the consolidated condensed financial statements. Furthermore, the Company may later decide to challenge any assessments, if made, and may exercise its right to appeal. The uncertain tax positions are reviewed quarterly and adjusted as events occur that affect potential liabilities for additional taxes, such as lapsing of applicable statutes of limitations, proposed assessments by tax authorities, negotiations between tax authorities, identification of new issues, and issuance of new legislation, regulations, or case law.

As of March 31, 2015 and December 31, 2014, the liability for income taxes associated with uncertain tax positions was \$195.8 million and \$192.3 million, respectively. The Company estimates that these liabilities would be reduced by \$34.6 million and \$34.3 million, respectively, from offsetting tax benefits associated with the correlative effects of potential transfer pricing adjustments, state income taxes, and timing adjustments. The net amounts of \$161.2 million and \$158.0 million, respectively, if not required, would favorably affect the Company's effective tax rate.

At March 31, 2015, all material state, local, and foreign income tax matters have been concluded for years through 2008. During the third quarter of 2013, the Internal Revenue Service ("IRS") completed its fieldwork for the 2009 and 2010 tax years. The case is currently in suspense pending finalization of an Advance Pricing Agreement ("APA") and Joint Committee of Taxation approval. The IRS began its examination of the 2011 and 2012 tax years during the fourth quarter of 2013.

The Company has also entered into an APA process between the Switzerland and United States governments for the years 2009 through 2015 covering transfer pricing matters. The transfer pricing matters are significant to the Company's consolidated condensed financial statements, and the final outcome and timing of the negotiations between the two governments is uncertain.

During 2014, the Company also filed with the IRS a request for a pre-filing agreement associated with a tax return filing position on a portion of the litigation settlement payment received from Medtronic, Inc. in May 2014. During the first quarter of 2015, the IRS accepted the pre-filing agreement into the pre-filing agreement program. The finalization of the pre-filing agreement could result in a significant change in our uncertain tax positions within the next 12 months.

## 12. SEGMENT INFORMATION

Edwards Lifesciences conducts operations worldwide and is managed in the following geographical regions: United States, Europe, Japan, and Rest of World. All regions sell products that are used to treat advanced cardiovascular disease and critically ill patients.

The Company's geographic segments are reported based on the financial information provided to the Chief Operating Decision Maker (the Chief Executive Officer). The Company evaluates the performance of its geographic segments based on net sales and income before provision for income taxes ("pre-tax income"). The accounting policies of the segments are substantially the same as those described in Note 2 of the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2014. Segment net sales and segment pre-tax income are based on internally derived standard foreign exchange rates, which may differ from year to year, and do not include inter-segment profits. Because of the interdependence of the reportable segments, the pre-tax income as presented may not be representative of the geographical distribution that would occur if the segments were not interdependent. Net sales by geographic area are based on the location of the customer.

Certain items are maintained at the corporate level and are not allocated to the segments. The non-allocated items include net interest expense, global marketing expenses, corporate research and development expenses, manufacturing variances, corporate headquarters costs, special gains and charges, stock-based compensation, foreign currency hedging activities, certain litigation costs, and most of the Company's amortization expense. Although most of the Company's depreciation expense is included in segment pre-tax income, due to the Company's methodology for cost build-up, it is impractical to determine the amount of depreciation expense included in each segment, and, therefore, a portion is maintained at the corporate level. The Company neither discretely allocates assets to its operating segments,

nor evaluates the operating segments using discrete asset information.

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The table below presents information about Edwards Lifesciences' reportable segments (in millions):

|                              | Three Months Ended<br>March 31, |         |
|------------------------------|---------------------------------|---------|
|                              | 2015                            | 2014    |
| Segment Net Sales            |                                 |         |
| United States                | \$283.5                         | \$222.4 |
| Europe                       | 216.5                           | 175.6   |
| Japan                        | 68.7                            | 60.2    |
| Rest of World                | 71.3                            | 63.7    |
| Total segment net sales      | \$640.0                         | \$521.9 |
| Segment Pre-tax Income       |                                 |         |
| United States                | \$167.4                         | \$118.4 |
| Europe                       | 107.9                           | 80.2    |
| Japan                        | 31.4                            | 27.6    |
| Rest of World                | 16.8                            | 16.3    |
| Total segment pre-tax income | \$323.5                         | \$242.5 |

The table below presents reconciliations of segment net sales to consolidated net sales and segment pre-tax income to consolidated pre-tax income (in millions):

|   | Three Months Ended<br>March 31, |          |   |
|---|---------------------------------|----------|---|
|   | 2015                            | 2014     |   |
| Net Sales Reconciliation                      |                                 |          |   |
| Segment net sales                             | \$640.0                         | \$521.9  |   |
| Foreign currency                              | (49.7                           | ) 0.5    |   |
| Consolidated net sales                        | \$590.3                         | \$522.4  |   |
| Pre-tax Income Reconciliation                 |                                 |          |   |
| Segment pre-tax income                        | \$323.5                         | \$242.5  |   |
| Unallocated amounts:                          |                                 |          |   |
| Corporate items                               | (156.8                          | ) (154.6 | ) |
| Special charge (Note 2)                       | —                               | (7.5     | ) |
| Intellectual property litigation expense, net | (0.3                            | ) (5.5   | ) |
| Interest expense, net                         | (2.4                            | ) (3.5   | ) |
| Foreign currency                              | (1.5                            | ) 5.9    | ) |
| Consolidated pre-tax income                   | \$162.5                         | \$77.3   |   |

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## Enterprise-wide Information

Enterprise-wide information is based on actual foreign exchange rates used in the Company's consolidated condensed financial statements.

|   | Three Months Ended<br>March 31,<br>2015 |                   | 2014                 |
|---|---|-------------------|----------------------|
|   | (in millions)                           |                   |                      |
| Net Sales by Geographic Area                  |   |                   |                      |
| United States                                 | \$283.5                                 |                   | \$222.4              |
| Europe  | 185.3                                   |                   | 180.3                |
| Japan   | 58.1                                    |                   | 58.7                 |
| Rest of World                                 | 63.4                                    |                   | 61.0                 |
|   | \$590.3                                 |                   | \$522.4              |
| Net Sales by Major Product and Service Area   |   |                   |                      |
| Transcatheter Heart Valve Therapy             | \$268.5                                 |                   | \$189.2              |
| Surgical Heart Valve Therapy                  | 196.9                                   |                   | 202.6                |
| Critical Care                                 | 124.9                                   |                   | 130.6                |
|   | \$590.3                                 |                   | \$522.4              |
|   |   | March 31,<br>2015 | December<br>31, 2014 |
|   |   | (in millions)     |                      |
| Long-lived Tangible Assets by Geographic Area |   |                   |                      |
| United States                                 | \$359.3                                 |                   | \$347.6              |
| Europe  | 38.1                                    |                   | 42.1                 |
| Japan   | 8.0                                     |                   | 8.5                  |
| Rest of World                                 | 93.1                                    |                   | 93.9                 |
|   | \$498.5                                 |                   | \$492.1              |

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend the forward-looking statements contained in this report to be covered by the safe harbor provisions of such Acts. All statements other than statements of historical fact in this report or referred to or incorporated by reference into this report are "forward-looking statements" for purposes of these sections. These statements include, among other things, any predictions of earnings, revenues, expenses or other financial items, plans or expectations with respect to development activities, clinical trials or regulatory approvals, any statements of plans, strategies and objectives of management for future operations, any statements concerning our future operations, financial conditions and prospects, and any statements of assumptions underlying any of the foregoing. These statements can sometimes be identified by the use of the forward-looking words such as "may," "believe," "will," "expect," "project," "estimate," "should," "anticipate," "plan," "goal," "continue," "seek," "pro forma," "forecast," "intend," "guidance," "optimistic," "aspire," "confident," other forms of these words or similar words or expressions or the negative thereof. Investors are cautioned not to unduly rely on such forward-looking statements. These forward-looking statements are subject to substantial risks and uncertainties that could cause our results or future business, financial condition, results of operations or performance to differ materially from our historical results or experiences or those expressed or implied in any forward-looking statements contained in this report. Investors should carefully review the information contained in, or incorporated by reference into, our annual report on Form 10-K for the year ended December 31, 2014 and subsequent reports on Forms 10-Q and 8-K for a description of certain of these risks and uncertainties. These forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of the statement. If we do update or correct one or more of these statements, investors and others should not conclude that we will make additional updates or corrections.

## Overview

We are the global leader in the science of heart valves and hemodynamic monitoring. Driven by a passion to help patients, we partner with clinicians to develop innovative technologies in the areas of structural heart disease and critical care monitoring, enabling them to save and enhance lives. We conduct operations worldwide and are managed in the following geographical regions: United States, Europe, Japan, and Rest of World. Our products are categorized into the following main areas: Transcatheter Heart Valve Therapy ("THV"), Surgical Heart Valve Therapy, and Critical Care.

## Financial Results

The following is a summary of our financial performance (dollars in millions, except per share data):

|   | Three Months Ended |         |       | Change |      |
|---|--------------------|---------|-------|--------|------|
|   | March 31,          |         |       |        |      |
|   | 2015               | 2014    |       |        |      |
| Net sales                                 | \$590.3            | \$522.4 | 13.0  | %      |      |
| Gross profit as a percentage of net sales | 77.0               | % 72.1  | % 4.9 |        | pts. |
| Net income                                | \$123.4            | \$60.3  | 104.6 | %      |      |
| Earnings per share                        |                    |         |       |        |      |
| Basic                                     | \$1.14             | \$0.57  | 100.0 | %      |      |
| Diluted                                   | \$1.12             | \$0.56  | 100.0 | %      |      |

Our sales growth was led by our THV products, which, in the United States, benefited from the launch of the Edwards SAPIEN XT transcatheter heart valve, and in Europe, benefited from the Edwards SAPIEN 3 transcatheter heart valve. Our gross profit margin was positively impacted by foreign currency exchange rate fluctuations and an improved product mix in the United States, led by THV products. Our gross profit margin in the first quarter of 2014 was negatively impacted by the THV sales return reserve in connection with our SAPIEN 3 and SAPIEN XT launches, and the related inventory write-off. Our sales growth and improved gross profit margins drove the increase in our net income compared to the prior year.

Healthcare Environment, Opportunities, and Challenges

The medical device industry is highly competitive and continues to evolve. Our success is measured both by the development of innovative products and the value we bring to our stakeholders. We are committed to developing new technologies, providing innovative patient care, and to defending our intellectual property. To strengthen our leadership and enable future growth opportunities, in the first three months of 2015 we invested 14.6% of our net sales in research and

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development. In a consolidating industry, we believe our focus on innovation and a robust product pipeline will continue to help us compete more effectively.

## New Accounting Standards

For information on new accounting standards, see Note 1 to the "Consolidated Condensed Financial Statements."

## Results of Operations

## Net Sales Trends

(dollars in millions)

|                 | Three Months Ended |         |        | Percent<br>Change |   |
|-----------------|--------------------|---------|--------|-------------------|---|
|                 | March 31,          |         | Change |                   |   |
|                 | 2015               | 2014    |        |                   |   |
| United States   | \$283.5            | \$222.4 | \$61.1 | 27.5              | % |
| International   | 306.8              | 300.0   | 6.8    | 2.3               | % |
| Total net sales | \$590.3            | \$522.4 | \$67.9 | 13.0              | % |

United States net sales increased \$61.1 million for the three months ended March 31, 2015 due primarily to:

THV, which increased net sales by \$59.6 million, due primarily to (1) sales of the Edwards SAPIEN XT transcatheter heart valve resulting from its launch in June 2014, (2) royalties earned under a license agreement with Medtronic, Inc. and its affiliates ("Medtronic"), and (3) a first quarter 2014 sales reserve for estimated THV product returns upon delivery of next-generation valves. These increases were partially offset by decreased sales of the Edwards SAPIEN transcatheter heart valve as customers converted to Edwards SAPIEN XT.

International net sales increased \$6.8 million for the three months ended March 31, 2015 due primarily to:

THV, which increased net sales by \$44.8 million, driven primarily by the launches of the Edwards SAPIEN 3 transcatheter heart valve in Europe and the Edwards SAPIEN XT transcatheter heart valve in Japan, partially offset by lower sales of the Edwards SAPIEN XT transcatheter heart valve in Europe, as customers converted to Edwards SAPIEN 3; and

Surgical Heart Valve Therapy, which increased net sales by \$8.6 million, driven primarily by sales of pericardial aortic tissue valves and EDWARDS INTUITY Elite valves;

partially offset by:

foreign currency exchange rate fluctuations, which decreased net sales for the three months ended March 31, 2015 by \$41.3 million, due primarily to the weakening of various currencies against the United States dollar, mainly the Euro and the Japanese yen.

The impact of foreign currency exchange rate fluctuations on net sales is not necessarily indicative of the impact on net income due to the corresponding effect of foreign currency exchange rate fluctuations on international manufacturing and operating costs and our hedging activities. For more information, see Item 3, "Quantitative and Qualitative Disclosures About Market Risk."

## Net Sales by Product Group

(dollars in millions)

|                                   | Three Months Ended |         |        | Percent<br>Change |    |
|-----------------------------------|--------------------|---------|--------|-------------------|----|
|                                   | March 31,          |         | Change |                   |    |
|                                   | 2015               | 2014    |        |                   |    |
| Transcatheter Heart Valve Therapy | \$268.5            | \$189.2 | \$79.3 | 41.9              | %  |
| Surgical Heart Valve Therapy      | 196.9              | 202.6   | (5.7)  | (2.8)             | )% |
| Critical Care                     | 124.9              | 130.6   | (5.7)  | (4.4)             | )% |
| Total net sales                   | \$590.3            | \$522.4 | \$67.9 | 13.0              | %  |

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Transcatheter Heart Valve Therapy

The \$79.3 million increase in net sales of THV products for the three months ended March 31, 2015 was due primarily to:

• the Edwards SAPIEN XT transcatheter heart valve, driven primarily by the launches in the United States and Japan;

• the Edwards SAPIEN 3 transcatheter heart valve, driven primarily by the launch in Europe; and

• royalties earned in the United States under a license agreement with Medtronic;

partially offset by:

• lower sales of the Edwards SAPIEN transcatheter heart valve, primarily in the United States, and the Edwards SAPIEN XT transcatheter heart valve in Europe, as customers converted to next-generation products; and

• foreign currency exchange rate fluctuations, which decreased net sales for the three months ended March 31, 2015 by \$29.9 million, due primarily to the weakening of the Euro against the United States dollar.

At the end of 2014, we submitted our pre-market approval application for the Edwards SAPIEN 3 transcatheter valve system in the United States. In the first quarter of 2015, clinicians presented 30-day SAPIEN 3 data for high- and intermediate-risk patients demonstrating the lowest all-cause mortality rates of any of the PARTNER studies, as well as excellent results on other key metrics. Clinicians also presented the final five-year PARTNER clinical data for high-risk patients treated with the first-generation SAPIEN valve, which demonstrated equivalent outcomes to traditional open-heart surgery and durable valve performance. Also, in the first quarter of 2015, we began enrollment in our SAPIEN 3 continued access program for up to 1,000 intermediate-risk patients, and we began enrollment in our pivotal trial in Europe of our self-expanding CENTERA valve platform.

Surgical Heart Valve Therapy

The \$5.7 million decrease in net sales of Surgical Heart Valve Therapy products for the three months ended March 31, 2015 was due primarily to:

• foreign currency exchange rate fluctuations, which decreased net sales by \$14.7 million, due primarily to the weakening of the Euro and the Japanese yen against the United States dollar;

partially offset by:

• surgical heart valve products, which increased net sales by \$13.7 million, driven by sales of pericardial aortic tissue valves, primarily in Europe and Japan, and EDWARDS INTUITY Elite valves, primarily in Europe.

Critical Care

The \$5.7 million decrease in net sales of Critical Care products during the three months ended March 31, 2015 was due primarily to:

• foreign currency exchange rate fluctuations, which decreased net sales by \$9.4 million, due primarily to the weakening of the Euro and the Japanese yen against the United States dollar;

partially offset by:

• enhanced surgical recovery products, primarily outside the United States, which increased net sales by \$5.5 million.

Gross Profit

|   | Three Months Ended |        |        |      |
|---|--------------------|--------|--------|------|
|   | March 31,          |        | Change |      |
|   | 2015               | 2014   |        | pts. |
| Gross profit as a percentage of net sales | 77.0               | % 72.1 | % 4.9  |      |

The increase in gross profit as a percentage of net sales for the three months ended March 31, 2015 was driven primarily by:





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a 2.4 percentage point increase due to the impact of foreign currency exchange rate fluctuations, including the settlement of foreign currency hedging contracts;

a 2.1 percentage point increase due to the impact on the first quarter of 2014 from the THV sales return reserve in connection with our SAPIEN 3 and SAPIEN XT launches, and the related inventory write-off, primarily in the United States; and

a 1.1 percentage point increase due to an improved product mix, primarily in the United States, driven by THV products;

partially offset by:

higher spending in our operations.

Selling, General, and Administrative ("SG&A") Expenses  
(dollars in millions)

|  | Three Months Ended |         |              |
|--|--------------------|---------|--------------|
|  | March 31,          |         |              |
|  | 2015               | 2014    | Change       |
| SG&A expenses                              | \$202.5            | \$197.2 | \$5.3        |
| SG&A expenses as a percentage of net sales | 34.3               | % 37.7  | % (3.4) pts. |

The increase in SG&A expenses for the three months ended March 31, 2015 was due primarily to higher personnel-related costs. These increases were partially offset by the impact of foreign currency, which reduced expenses by \$14.7 million, due primarily to the weakening of the Euro against the United States dollar. The decrease in SG&A expenses as a percentage of net sales for the three months ended March 31, 2015 was due to strong THV sales growth in the United States and Europe, while the increase in sales and marketing expenses was modest.

Research and Development Expenses  
(dollars in millions)

|  | Three Months Ended |        |              |
|--|--------------------|--------|--------------|
|  | March 31,          |        |              |
|  | 2015               | 2014   | Change       |
| Research and development expenses                              | \$86.4             | \$85.8 | \$0.6        |
| Research and development expenses as a percentage of net sales | 14.6               | % 16.4 | % (1.8) pts. |

The increase in research and development expenses for the three months ended March 31, 2015 was due primarily to new THV product development efforts, partially offset by lower than expected spending for certain THV clinical expenses for the three months ended March 31, 2015. The decrease in research and development expenses as a percentage of net sales was due primarily to the timing of clinical expenses.

Intellectual Property Litigation Expense, Net

We incurred external legal costs related to intellectual property litigation of \$0.3 million and \$5.5 million for the three months ended March 31, 2015 and 2014, respectively. Intellectual property litigation expense decreased from the prior year due to the May 2014 litigation settlement agreement with Medtronic.

Special Charge

For information on special charges, see Note 2 to the "Consolidated Condensed Financial Statements."

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Interest Expense, net  
(in millions)

|                       | Three Months Ended |        |          |
|-----------------------|--------------------|--------|----------|
|                       | March 31,          |        |          |
|                       | 2015               | 2014   | Change   |
| Interest expense      | \$4.2              | \$4.6  | \$(0.4 ) |
| Interest income       | (1.8 )             | (1.1 ) | (0.7 )   |
| Interest expense, net | \$2.4              | \$3.5  | \$(1.1 ) |

The decrease in interest expense for the three months ended March 31, 2015 resulted primarily from a lower average debt balance as compared to the prior year period, partially offset by higher average interest rates. The increase in interest income for the three months ended March 31, 2015 resulted primarily from higher average investment balances.

Other Expense (Income), net  
(in millions)

|                             | Three Months Ended |          |
|-----------------------------|--------------------|----------|
|                             | March 31,          |          |
|                             | 2015               | 2014     |
| Loss on investments         | \$1.4              | \$3.5    |
| Foreign exchange gains, net | (0.9 )             | (0.2 )   |
| Insurance settlement gain   | —                  | (3.7 )   |
| Other                       | (0.3 )             | 0.1      |
| Other expense (income), net | \$0.2              | \$(0.3 ) |

The loss on investments primarily represents our net share of gains and losses in investments accounted for under the equity method, and realized gains and losses on our available-for-sale and cost method investments. During the three months ended March 31, 2014, we recorded an other-than-temporary impairment charge of \$3.5 million related to one of our cost method investments.

The foreign exchange gains relate to the foreign currency fluctuations in our global trade and intercompany receivable and payable balances, offset by the gains and losses on derivative instruments intended as an economic hedge of those exposures.

In March 2014, we recorded a \$3.7 million insurance settlement gain related to inventory that was damaged in the fourth quarter of 2013.

#### Provision for Income Taxes

The provision for income taxes consists of provisions for federal, state, and foreign income taxes. We operate in an international environment with significant operations in various locations outside the United States, which have statutory tax rates lower than the United States tax rate. Accordingly, the consolidated income tax rate is a composite rate reflecting the earnings in the various locations and the applicable rates. Our effective income tax rates were 24.1% and 22.0% for the three months ended March 31, 2015 and 2014, respectively. The change in the effective rates is primarily a result of fluctuations in the relative contribution of our foreign operations and United States operations to worldwide pre-tax income.

The federal research credit expired on December 31, 2014 and had not been reinstated as of March 31, 2015.

Therefore, the effective income tax rate for the three months ended March 31, 2015 was calculated without an assumed benefit from the federal research credit.

We strive to resolve open matters with each tax authority at the examination level and could reach agreement with a tax authority at any time. While we have accrued for matters we believe are more likely than not to require settlement, the final outcome with a tax authority may result in a tax liability that is more or less than that reflected in the consolidated condensed financial statements. Furthermore, we may later decide to challenge any assessments, if made, and may exercise our right to appeal. The uncertain tax positions are reviewed quarterly and adjusted as events occur

that affect potential liabilities for additional taxes, such as lapsing of applicable statutes of limitations, proposed assessments by tax authorities, negotiations between tax authorities, identification of new issues, and issuance of new legislation, regulations, or case law. Management believes that adequate amounts of tax and related penalty and interest have been provided in income tax expense for any adjustments that may result from our uncertain tax positions. For further information, see Note 11 to the "Consolidated Condensed Financial Statements."

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During 2014, we filed with the Internal Revenue Service ("IRS") a request for a pre-filing agreement associated with a tax return filing position on a portion of the litigation settlement payment received from Medtronic in May 2014.

During the first quarter of 2015, the IRS accepted the pre-filing agreement into the pre-filing agreement program. The finalization of the pre-filing agreement could result in a significant change in our uncertain tax positions within the next 12 months. As a result, a portion of our long-term uncertain tax positions has been reclassified as short-term.

**Liquidity and Capital Resources**

Our sources of cash liquidity include cash and cash equivalents, short-term investments, amounts available under credit facilities, and cash from operations. We believe that these sources are sufficient to fund the current requirements of working capital, capital expenditures, and other financial commitments for the next twelve months. However, we periodically consider various financing alternatives and may, from time to time, seek to take advantage of favorable interest rate environments or other market conditions.

As of March 31, 2015, cash and cash equivalents and short-term investments held in the United States and outside the United States were \$605.1 million and \$765.7 million, respectively. We believe that cash held in the United States, in addition to amounts available under credit facilities and cash from operations, are sufficient to fund our United States operating requirements for the next twelve months. Cash and cash equivalents and short-term investments held outside the United States have historically been used to fund international operations and acquire businesses outside of the United States, the majority of which relates to undistributed earnings of certain of our foreign subsidiaries, which are considered by us to be indefinitely reinvested. Repatriations of cash and cash equivalents and short-term investments held outside the United States are subject to restrictions in certain jurisdictions, and may be subject to withholding and other taxes. The potential tax liability related to any repatriation would be dependent on the facts and circumstances that exist at the time such repatriation is made and the complexities of the tax laws of the United States and the respective foreign jurisdictions.

In October 2013, we issued \$600.0 million of 2.875% fixed-rate unsecured senior notes due October 15, 2018. As of March 31, 2015, the total carrying value of our long-term debt was \$602.7 million. We have a Five-Year Credit Agreement ("Credit Agreement") which provides up to an aggregate of \$750.0 million in borrowings in multiple currencies. We may increase the amount available under the Credit Agreement, subject to agreement of the lenders, by up to an additional \$250.0 million in the aggregate. As of March 31, 2015, there were no borrowings outstanding under the Credit Agreement.

From time to time, we repurchase shares of our common stock under share repurchase programs authorized by the Board of Directors. We consider several factors in determining when to execute share repurchases, including, among other things, expected dilution from stock plans, cash capacity, and the market price of our common stock. In May 2013, the Board of Directors approved a \$750.0 million stock repurchase program providing for repurchases of our common stock through December 31, 2016. In July 2014, the Board of Directors approved a new stock repurchase program providing for an additional \$750.0 million of repurchases without a specified end date. During 2015, we repurchased a total of 0.7 million shares under these programs at an aggregate cost of \$100.0 million, and as of March 31, 2015, had remaining authority to purchase \$852.5 million of our common stock.

At March 31, 2015, there had been no material changes in our significant contractual obligations and commercial commitments as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Net cash flows provided by operating activities of \$73.3 million for the three months ended March 31, 2015 decreased \$65.6 million over the same period last year due primarily to a higher bonus payout in 2015 associated with 2014 performance and lower accounts receivable collections, partially offset by improved operating performance.

Net cash used in investing activities of \$180.3 million for the three months ended March 31, 2015 consisted primarily of net purchases of investments of \$159.8 million and capital expenditures of \$20.8 million.

Net cash used in investing activities of \$119.8 million for the three months ended March 31, 2014 consisted primarily of net purchases of investments of \$106.1 million and capital expenditures of \$14.3 million.

Net cash used in financing activities of \$71.9 million for the three months ended March 31, 2015 consisted primarily of purchases of treasury stock of \$101.0 million, partially offset by proceeds from stock plans of \$23.5 million.

Net cash used in financing activities of \$143.8 million for the three months ended March 31, 2014 consisted primarily of purchases of treasury stock of \$300.0 million, partially offset by net proceeds from debt of \$130.0 million, proceeds from stock plans of \$14.2 million, and the excess tax benefit from stock plans of \$14.0 million (including the realization of previously suspended excess tax benefits).

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Critical Accounting Policies and Estimates

The consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to our critical accounting policies and estimates which we believe could have the most significant effect on our reported results and require subjective or complex judgments by management is contained on pages 36-38 in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no significant changes from the information discussed therein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk, Foreign Currency Risk, Credit Risk, and Concentrations of Risk

For a complete discussion of our exposure to interest rate risk, foreign currency risk, credit risk, and concentrations of risk, refer to Item 7A "Quantitative and Qualitative Disclosures About Market Risk" on pages 38-40 of our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no significant changes from the information discussed therein.

Investment Risk

We are exposed to investment risks related to changes in the fair values of our investments. Our investments include short-term and long-term investments in fixed-rate debt securities, and investments in equity instruments of public and private companies. See Note 4 to the "Consolidated Condensed Financial Statements" for additional information on our investments.

As of March 31, 2015, we had \$916.8 million of investments in fixed-rate debt securities designated as held-to-maturity, of which \$67.2 million were long-term, and \$227.4 million of investments in fixed-rate debt securities designated as available-for-sale, of which \$163.2 million were long-term. As of March 31, 2015, we had recorded unrealized gains of \$0.2 million on the available-for-sale investments in "Accumulated Other Comprehensive Loss," net of tax. The market value of our investments may decline if current market interest rates rise, which could result in a realized loss if we choose or are forced to sell an investment before its scheduled maturity, which we currently do not anticipate. In addition, we had \$25.2 million of investments in equity instruments of other companies and had recorded unrealized gains of \$0.3 million on these investments in "Accumulated Other Comprehensive Loss," net of tax. Should these companies experience a decline in financial condition or fail to meet certain development milestones, the decline in the investments' value may be considered other-than-temporary and impairment charges may be necessary.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our management, including the Chief Executive Officer and the Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2015. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded as of March 31, 2015 that our disclosure controls and procedures are effective in providing reasonable assurance that the information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## Part II. Other Information

## Item 1. Legal Proceedings

Please see Note 8 to the "Consolidated Condensed Financial Statements" of this Quarterly Report on Form 10-Q, which is incorporated by reference.

## Item 1A. Risk Factors

There have been no material changes to the risk factors under Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

| Period                                     | Total Number of Shares (or Units) Purchased (a) | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) (b) |
|--|---|--|---|--|
| January 1, 2015 through January 31, 2015   | —   | \$—                                    | —   | \$ 952.5   |
| February 1, 2015 through February 28, 2015 | 157,367   | 133.97                                 | 150,000   | 932.4  |
| March 1, 2015 through March 31, 2015       | 575,159   | 138.89                                 | 575,159   | 852.5  |
| Total                                      | 732,526   | 137.84                                 | 725,159   |  |

The difference between the total number of shares (or units) purchased and the total number of shares (or units) (a) purchased as part of publicly announced plans or programs is due to shares withheld by us to satisfy tax withholding obligations in connection with the vesting of restricted stock units issued to employees.

On May 14, 2013, the Board of Directors approved a stock repurchase program authorizing us to purchase on the open market, including pursuant to a Rule 10b5-1 plan, and in privately negotiated transactions up to \$750.0 (b) million of our common stock from time to time until December 31, 2016. On July 10, 2014, the Board of Directors approved a new stock repurchase program providing for an additional \$750.0 million of repurchases of our common stock.

## Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index hereto and include the following:

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 The following financial statements from Edwards Lifesciences' Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Operations, (iii) the Consolidated Condensed Statements of Comprehensive Income, (iv) the Consolidated Condensed Statements of Cash Flows, and (v) Notes to Consolidated Condensed Financial Statements



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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: April 29, 2015

EDWARDS LIFESCIENCES CORPORATION  
(Registrant)

By: /s/ SCOTT B. ULLEM

Scott B. Ullem  
Corporate Vice President,  
Chief Financial Officer  
(Principal Financial Officer)

Date: April 29, 2015

By: /s/ ROBERT W.A. SELLERS

Robert W.A. Sellers  
Vice President,  
Corporate Controller  
(Principal Accounting Officer)

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EXHIBITS FILED WITH SECURITIES AND EXCHANGE COMMISSION

| Exhibit No. | Description  |
|-------------|--|
| 31.1        | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2        | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32          | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 101         | The following financial statements from Edwards Lifesciences' Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Operations, (iii) the Consolidated Condensed Statements of Comprehensive Income, (iv) the Consolidated Condensed Statements of Cash Flows, and (v) Notes to Consolidated Condensed Financial Statements |
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