Edwards Lifesciences Corp
Form 10-Q
July 29, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2015

or
o 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 ý No o
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 ý No o
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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
The number of shares outstanding of the registrant's common stock, $1.00 par value, as of July 23, 2015 was 107,515,661.

Table of Contents

EDWARDS LIFESCIENCES CORPORATION
FORM 10-Q
For the quarterly period ended June 30, 2015

TABLE OF CONTENTS

Table of Contents

Part I. Financial Information

Item 1. Financial Statements
EDWARDS LIFESCIENCES CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(in millions, except par value; unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$597.6	$653.8
Short-term investments (Note 5)	811.4	785.0
Accounts and other receivables, net of allowances of $8.1 and $5.1, respectively	351.0	325.0
Inventories (Note 4)	313.3	296.8
Deferred income taxes	65.2	63.5
Prepaid expenses	46.1	48.8
Other current assets	112.4	121.7
Total current assets	2,297.0	2,294.6
Long-term accounts receivable, net of allowances of $5.5 and $6.2, respectively	6.6	5.8
Long-term investments (Note 5)	324.6	240.9
Property, plant, and equipment, net	450.6	442.9
Goodwill	370.9	376.0
Other intangible assets, net	18.9	23.4
Deferred income taxes	82.0	91.5
Other assets	57.7	49.2
Total assets	$3,608.3	$3,524.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	$445.2	$434.4
Long-term debt	600.3	598.1
Other long-term liabilities	274.2	300.4
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, $.01 par value, authorized 50.0 shares, no shares outstanding	—	—
Common stock, $1.00 par value, 350.0 shares authorized, 129.9 and 128.9 shares issued, and 107.4 and 107.8 shares outstanding, respectively	129.9	128.9
Additional paid-in capital	964.1	878.4
Retained earnings	3,078.0	2,841.9
Accumulated other comprehensive loss	(146.6)	(100.9)
Treasury stock, at cost, 22.5 and 21.1 shares, respectively	(1,736.8)	(1,556.9)
Total stockholders' equity	2,288.6	2,191.4
Total liabilities and stockholders' equity	$3,608.3	$3,524.3

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales	$616.8	$575.1	$1,207.1	$1,097.5
Cost of sales	158.6	151.2	294.6	297.1
Gross profit	458.2	423.9	912.5	800.4
Selling, general, and administrative expenses	213.9	215.5	416.4	412.7
Research and development expenses	97.5	89.1	183.9	174.9
Intellectual property litigation expenses (income), net	1.0	(747.4)	1.3	(741.9)
Special charges (Note 3)	—	50.0	—	57.5
Interest expense, net	1.8	3.1	4.2	6.6
Other expense, net	1.8	0.4	2.0	0.1
Income before provision for income taxes	142.2	813.2	304.7	890.5
Provision for income taxes	29.5	266.2	68.6	283.2
Net income	$112.7	$547.0	$236.1	$607.3
Share information (Note 11)				
Earnings per share:				
Basic	$1.05	$5.18	$2.19	$5.72
Diluted	$1.02	$5.09	$2.14	$5.63
Weighted-average number of common shares outstanding:				
Basic	107.6	105.6	107.7	106.1
Diluted	110.0	107.4	110.1	107.9

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$112.7	$547.0	$236.1	$607.3
Other comprehensive income (loss), net of tax (Note 10)				
Foreign currency translation adjustments	18.4	(5.4)	(46.3)	(6.2)
Unrealized (loss) gain on cash flow hedges	(16.5)	(3.4)	0.7	(7.4)
Unrealized loss on available-for-sale investments	(0.8)	(0.2)	(0.5)	(0.2)
Reclassification of net realized investment loss to earnings	0.2	0.3	0.4	0.3
Other comprehensive income (loss)	1.3	(8.7)	(45.7)	(13.5)
Comprehensive income	$114.0	$538.3	$190.4	$593.8

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

Table of Contents

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

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities		
Net income	$236.1	$607.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32.8	32.3
Stock-based compensation (Note 8)	24.4	23.9
Excess tax benefit from stock plans	(19.7)	(21.3)
(Gain) loss on investments	(1.4)	0.9
Deferred income taxes	2.2	0.5
Other	0.7	0.4
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(39.5)	(0.2)
Inventories	(32.3)	(11.5)
Accounts payable and accrued liabilities	(19.3)	37.4
Income taxes	44.9	250.9
Prepaid expenses and other current assets	9.6	(7.4)
Other	4.9	3.7
Net cash provided by operating activities	243.4	916.9
Cash flows from investing activities		
Capital expenditures	(39.2)	(30.3)
Purchases of held-to-maturity investments (Note 5)	(553.4)	(1,146.5)
Proceeds from held-to-maturity investments (Note 5)	562.6	594.9
Purchases of available-for sale investments (Note 5)	(206.6)	—
Proceeds from available-for-sale investments (Note 5)	78.0	—
Investments in trading securities, net	(4.8)	(10.9)
Proceeds from unconsolidated affiliates, net (Note 5)	0.7	1.3
Other	(5.1)	1.3
Net cash used in investing activities	(167.8)	(590.2)
Cash flows from financing activities		
Proceeds from issuance of debt	13.3	214.1
Payments on debt and capital lease obligations	(14.7)	(212.9)
Purchases of treasury stock	(179.9)	(300.6)
Excess tax benefit from stock plans	19.7	21.3
Proceeds from stock plans	42.5	32.9
Other	(3.4)	(2.4)
Net cash used in financing activities	(122.5)	(247.6)
Effect of currency exchange rate changes on cash and cash equivalents	(9.3)	(0.9)
Net (decrease) increase in cash and cash equivalents	(56.2)	78.2
Cash and cash equivalents at beginning of period	653.8	420.4
Cash and cash equivalents at end of period	$597.6	$498.6
Supplemental disclosures:		
Non-cash investing and financing transactions:		
Capital expenditures accruals	$8.8	$8.2

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 ("FASB") 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.

In May 2014, the FASB issued an update to the accounting guidance on revenue recognition. The new guidance provides a comprehensive, principles-based approach to revenue recognition, and supersedes most previous revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires improved disclosures on the nature, amount, timing, and uncertainty of revenue that is recognized. In July 2015, the FASB voted to defer the effective date by one year, such that the new standard will be effective for annual reporting periods beginning after December 15, 2017 and interim periods therein. The new guidance can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the change recognized at the date of the initial application. The Company is currently assessing the impact this guidance will have on its consolidated financial statements, and has not yet selected a transition method.

In July 2015, the FASB issued an update to the accounting guidance on inventory. The new guidance requires an entity to measure inventory within the scope of the amendment at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

2. INTELLECTUAL PROPERTY LITIGATION EXPENSES (INCOME), NET

In May 2014, the Company entered into an agreement with Medtronic, Inc. and its affiliates (“Medtronic”) to settle all outstanding patent litigation between the companies, including all cases related to transcatheter heart valves. In the second quarter of 2014, under the terms of a patent cross-license that was part of the agreement, Medtronic made a one-time, upfront payment to the Company in the amount of $750.0 million.

3. SPECIAL CHARGES

Charitable Foundation Contribution

In June 2014, the Company contributed $50.0 million to the Edwards Lifesciences Foundation, a related-party not-for-profit organization intended to provide philanthropic support to health- and community-focused charitable organizations. The contribution was irrevocable and was recorded as an expense at the time of payment.

Table of Contents

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.

4. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

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

	June 30, 2015	December 31, 2014
Inventories		
Raw materials	$69.3	$67.4
Work in process	78.5	59.3
Finished products	165.5	170.1
	$313.3	$296.8

At June 30, 2015 and December 31, 2014, approximately $52.5 million and $46.2 million, respectively, of the Company's finished products inventories were held on consignment.

	June 30, 2015	December 31, 2014
Accounts payable and accrued liabilities		
Accounts payable	$66.2	$58.2
Employee compensation and withholdings	145.0	190.5
Uncertain tax positions	39.2	—
Research and development accruals	38.2	39.9
Property, payroll, and other taxes	32.9	32.7
Accrued rebates	11.1	11.7
Deferred income taxes	10.5	8.3
Taxes payable	8.1	9.1
Litigation reserves	5.8	4.4
Fair value of derivatives	5.1	2.6
Realignment reserves	1.9	7.7
Other accrued liabilities	81.2	69.3
	$445.2	$434.4

Table of Contents

5. INVESTMENTS

Debt Securities

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

	June 30, 2015				December 31, 2014			
Held-to-maturity	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bank time deposits	$638.2	$—	$—	$638.2	$661.5	$—	$—	$661.5
Commercial paper	100.1	—	—	100.1	80.0	—	—	80.0
U.S. government and agency securities	51.7	0.1	(0.1)	51.7	58.9	0.1	(0.1)	58.9
Asset-backed securities	2.9	—	—	2.9	8.2	—	—	8.2
Corporate debt securities	22.6	—	—	22.6	24.7	—	—	24.7
Municipal securities	5.2	—	—	5.2	6.1	—	—	6.1
Total	$820.7	$0.1	$(0.1)	$820.7	$839.4	$0.1	$(0.1)	$839.4
Available-for-sale								
Commercial paper	13.2	—	—	13.2	13.0	—	—	13.0
U.S. government and agency securities	13.0	—	—	13.0	1.0	—	—	1.0
Asset-backed securities	64.6	—	—	64.6	42.9	—	—	42.9
Corporate debt securities	200.2	0.1	(0.5)	199.8	103.6	—	(0.4)	103.2
Total	$291.0	$0.1	$(0.5)	$290.6	$160.5	$—	$(0.4)	$160.1

The cost and fair value of investments in debt securities, by contractual maturity, as of June 30, 2015 were as follows:

	Held-to-Maturity		Available-for-Sale	
	Cost	Fair Value	Cost	Fair Value
	(in millions)			
Due in 1 year or less	$767.3	$767.4	$44.1	$44.1
Due after 1 year through 5 years	36.9	36.9	183.4	183.1
Instruments not due at a single maturity date	16.5	16.4	63.5	63.4
	$820.7	$820.7	$291.0	$290.6

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

Table of Contents

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:

	June 30, 2015	December 31, 2014
	(in millions)	
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	12.1	12.8
Equity in losses	(5.0)	(3.5)
Carrying value of equity method investments	7.1	9.3
Cost method investments		
Carrying value of cost method investments	17.3	16.7
Total investments in unconsolidated affiliates	$24.7	$26.4

During the three and six months ended June 30, 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.

6. 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 June 30, 2015, the fair value of the notes payable, based on Level 2 inputs, was $615.4 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.

Table of Contents

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):

June 30, 2015	Level 1	Level 2	Total
Assets			
Cash equivalents	$0.3	$9.8	$10.1
Available-for-sale investments:			
Corporate debt securities	—	199.8	199.8
Asset-backed securities	—	64.7	64.7
U.S. government and agency securities	—	12.9	12.9
Commercial paper	—	13.2	13.2
Equity investments in unconsolidated affiliates	0.3	—	0.3
Investments held for deferred compensation plans	33.6	—	33.6
Derivatives	—	46.8	46.8
	$34.2	$347.2	$381.4
Liabilities			
Derivatives	$—	$5.1	$5.1
Deferred compensation plans	33.6	—	33.6
	$33.6	$5.1	$38.7
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.

Table of Contents

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.

7. 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	
	June 30, 2015	December 31, 2014
	(in millions)	
Foreign currency forward exchange contracts	$753.1	$761.2
Interest rate swap agreements	300.0	300.0
Foreign currency option contracts	18.2	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 local currency 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 principally from intercompany and local currency 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 six months ended June 30, 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.

Table of Contents

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):

Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value June 30, 2015	December 31, 2014
Assets			
Foreign currency contracts	Other current assets	$37.2	$45.2
Interest rate swap agreements	Other assets	$2.3	$0.4
Liabilities			
Foreign currency contracts	Accrued and other liabilities	$5.1	$2.6
Derivatives not designated as hedging instruments			
Assets			
Foreign currency contracts	Other assets	$7.3	$5.1

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

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
June 30, 2015	Gross Amounts	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amount
Derivative Assets						
Foreign currency contracts	$44.5	$—	$44.5	$(5.1)	$—	$39.4
Interest rate swap agreements	$2.3	$—	$2.3	$—	$—	$2.3
Derivative Liabilities						
Foreign currency contracts	$5.1	$—	$5.1	$(5.1)	$—	$—
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) Three Months Ended June 30,		Location of Gain or (Loss) Reclassified from	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Three Months Ended June 30,	
	2015	2014		2015	2014

Derivatives in cash flow hedging relationships			Accumulated OCI into Income		
Foreign currency contracts	$(7.4)	$(2.7)	Cost of sales	$19.0	$3.0

11

Table of Contents

Derivatives in cash flow hedging relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) Six Months Ended June 30, 2015	2014	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Six Months Ended June 30, 2015	2014
Foreign currency contracts	$28.9	$(4.4)	Cost of sales	$29.5	$8.0

Derivatives in fair value hedging relationships	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Three Months Ended June 30, 2015	2014
Interest rate swap agreements	Interest expense, net	$(2.6)	$2.6

Derivatives in fair value hedging relationships	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Six Months Ended June 30, 2015	2014
Interest rate swap agreements	Interest expense, net	$1.9	$4.7

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.

Derivatives not designated as hedging instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Three Months Ended June 30, 2015	2014
Foreign currency contracts	Other expense, net	$1.9	$(2.5)

Derivatives not designated as hedging instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Six Months Ended June 30, 2015	2014
Foreign currency contracts	Other expense, net	$6.8	$(3.2)

The Company expects that during the next twelve months it will reclassify to earnings a $19.7 million gain currently recorded in "Accumulated Other Comprehensive Loss."

12

Table of Contents

8. STOCK-BASED COMPENSATION

Stock-based compensation expense related to awards issued under the Company's incentive compensation plans for the three and six months ended June 30, 2015 and 2014 was as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of sales	$1.6	$1.5	$3.4	$3.0
Selling, general, and administrative expenses	7.1	8.6	16.7	17.4
Research and development expenses	2.1	1.8	4.3	3.5
Total stock-based compensation expense	$10.8	$11.9	$24.4	$23.9

At June 30, 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 $108.1 million, which will be amortized on a straight-line basis over the weighted-average remaining requisite service period of 33 months.

During the six months ended June 30, 2015, the Company granted 0.8 million stock options at a weighted-average exercise price of $130.89 and 0.2 million shares of restricted stock units at a weighted-average grant-date fair value of $131.23. The Company also granted 34,000 shares of market-based restricted stock units at a weighted-average grant-date fair value of $138.66. The market-based restricted stock units vest based on a combination of certain service and market conditions. The actual number of shares issued will be determined based on the Company’s total shareholder return relative to a selected industry peer group over a three-year performance period, and may range from 0% to 175% of the targeted number of shares granted.

Fair Value Disclosures

The fair value of the market-based restricted stock units was determined using a Monte Carlo simulation model, which uses multiple input variables to determine the probability of satisfying the market condition requirements. The weighted-average assumptions used to determine the fair value of the market-based restricted stock units granted during the six months ended June 30, 2015 and 2014 included a risk-free interest rate of 1.0% and 0.9%, respectively, and an expected volatility rate of 31.0% and 31.7%, respectively.

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 June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Average risk-free interest rate	1.4	%	1.4	%	1.4	%	1.4	%
Expected dividend yield	None		None		None		None	
Expected volatility	29.7	%	30.7	%	29.8	%	30.7	%
Expected term (years)	4.5		4.5		4.5		4.6	
Fair value, per share	$35.40		$23.58		$35.64		$23.21	

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 June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Average risk-free interest rate	0.2	%	0.1	%	0.2	%	0.1	%
Expected dividend yield	None		None		None		None	
Expected volatility	26.5	%	29.2	%	27.6	%	31.3	%
Expected term (years)	0.6		0.7		0.6		0.7	
Fair value, per share	$33.01		$18.33		$30.86		$16.96	

13

Table of Contents

9. 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 these 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 cost of a program to comply with environmental protection laws, management believes that such cost will not have a material impact on Edwards Lifesciences' financial position, results of operations, or liquidity.

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

Presented below is a summary of activity for each component of "Accumulated Other Comprehensive Loss" for the six months ended June 30, 2015.

	Foreign Currency Translation Adjustments	Unrealized Gain on Cash Flow Hedges	Unrealized Loss on Available-for-sale Investments	Unrealized Pension Costs	Total Accumulated Other Comprehensive Loss
	(in millions)				
December 31, 2014	$(116.4)	$32.3	$—	$(16.8)	$(100.9)
Other comprehensive (loss) gain before reclassifications	(46.3)	28.9	(0.5)	—	(17.9)
Amounts reclassified from accumulated other comprehensive loss	—	(29.5)	0.4	—	(29.1)
Deferred income tax benefit	—	1.3	—	—	1.3
June 30, 2015	$(162.7)	$33.0	$(0.1)	$(16.8)	$(146.6)

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

Details about Accumulated Other Comprehensive Loss Components	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Affected Line on Consolidated Condensed Statements of Operations
Gain on cash flow hedges	$19.0	$3.0	$29.5	$8.0	Cost of sales
	(6.9)	(1.1)	(10.7)	(3.0)	Provision for income taxes
	$12.1	$1.9	$18.8	$5.0	Net of tax
	$(0.2)	$(0.3)	$(0.4)	$(0.3)	Other expense, net

Loss on available-for-sale investments					
	—	—	—	—	Provision for income taxes
	$(0.2)	$(0.3)	$(0.4)	$(0.3)	Net of tax

11. 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

Table of Contents

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Basic:				
Net income	$112.7	$547.0	$236.1	$607.3
Weighted-average shares outstanding	107.6	105.6	107.7	106.1
Basic earnings per share	$1.05	$5.18	$2.19	$5.72
Diluted:				
Net income	$112.7	$547.0	$236.1	$607.3
Weighted-average shares outstanding	107.6	105.6	107.7	106.1
Dilutive effect of stock plans	2.4	1.8	2.4	1.8
Dilutive weighted-average shares outstanding	110.0	107.4	110.1	107.9
Diluted earnings per share	$1.02	$5.09	$2.14	$5.63

Stock options, restricted stock units, and market-based restricted stock units to purchase 1.0 million and 4.4 million shares for the three months ended June 30, 2015 and 2014, respectively, and 0.6 million and 4.0 million shares for the six months ended June 30, 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.

12. INCOME TAXES

The Company's effective income tax rates were 20.7% and 32.7% for the three months ended June 30, 2015 and 2014, respectively, and 22.5% and 31.8% for the six months ended June 30, 2015 and 2014, respectively.

The effective tax rate for the three and six months ended June 30, 2014 included (1) $262.1 million of tax expense associated with a $750.0 million litigation settlement payment received from Medtronic in May 2014 (see Note 2) and (2) $6.2 million of tax benefits from the remeasurement of uncertain tax positions.

The federal research credit expired on December 31, 2014 and had not been reinstated as of June 30, 2015. Therefore, the effective income tax rate for the three and six months ended June 30, 2015 was calculated without an assumed benefit from the federal research credit.

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 June 30, 2015 and December 31, 2014, the liability for income taxes associated with uncertain tax positions was $201.6 million and $192.3 million, respectively. The Company estimates that these liabilities would be reduced by $35.1 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 $166.5 million and $158.0 million, respectively, if not required, would favorably affect the Company's effective tax rate.

15

Table of Contents

At June 30, 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.

13. 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Segment Net Sales				
United States	$302.7	$242.0	$586.2	$464.4
Europe	213.9	188.3	430.4	363.9
Japan	75.2	68.2	143.9	128.4
Rest of World	80.4	75.1	151.7	138.8
Total segment net sales	$672.2	$573.6	$1,312.2	$1,095.5
Segment Pre-tax Income				
United States	$166.4	$131.2	$333.8	$249.6
Europe	103.2	87.7	211.1	167.9
Japan	36.6	31.9	68.0	59.5

Rest of World	21.5	23.7	38.3	40.0
Total segment pre-tax income	$327.7	$274.5	$651.2	$517.0

16

Table of Contents

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net Sales Reconciliation				
Segment net sales	$672.2	$573.6	$1,312.2	$1,095.5
Foreign currency	(55.4)	1.5	(105.1)	2.0
Consolidated net sales	$616.8	$575.1	$1,207.1	$1,097.5
Pre-tax Income Reconciliation				
Segment pre-tax income	$327.7	$274.5	$651.2	$517.0
Unallocated amounts:				
Corporate items	(178.8)	(158.1)	(335.6)	(312.7)
Special charges (Note 3)	—	(50.0)	—	(57.5)
Intellectual property litigation (expenses) income, net	(1.0)	747.4	(1.3)	741.9
Interest expense, net	(1.8)	(3.1)	(4.2)	(6.6)
Foreign currency	(3.9)	2.5	(5.4)	8.4
Consolidated pre-tax income	$142.2	$813.2	$304.7	$890.5

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in millions)			
Net Sales by Geographic Area				
United States	$302.7	$242.0	$586.2	$464.4
Europe	181.9	193.8	367.2	374.1
Japan	62.3	66.7	120.4	125.4
Rest of World	69.9	72.6	133.3	133.6
	$616.8	$575.1	$1,207.1	$1,097.5

Net Sales by Major Product and Service Area