

Edwards Lifesciences Corp  
Form 10-Q  
October 28, 2016  
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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 September 30, 2016

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.

Non-accelerated filer

Large accelerated filer  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

The number of shares outstanding of the registrant's common stock, \$1.00 par value, as of October 21, 2016 was 213,813,939.



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EDWARDS LIFESCIENCES CORPORATION  
 FORM 10-Q  
 For the quarterly period ended September 30, 2016

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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)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 645.0	\$ 718.4
Short-term investments (Note 4)	555.3	506.3
Accounts and other receivables, net of allowances of \$7.7 and \$6.8, respectively	454.2	371.8
Inventories (Note 2)	401.0	339.9
Prepaid expenses	49.8	45.1
Other current assets	66.1	66.4
Total current assets	2,171.4	2,047.9
Long-term accounts receivable, net of allowances of \$6.6 and \$6.3, respectively	5.3	3.6
Long-term investments (Note 4)	467.5	379.9
Property, plant, and equipment, net	543.7	482.5
Goodwill	630.0	628.3
Other intangible assets, net	207.0	205.4
Deferred income taxes	189.3	180.5
Other assets	124.8	131.2
Total assets	\$ 4,339.0	\$ 4,059.3
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 2)	\$ 532.8	\$ 476.2
Long-term debt	600.6	599.9
Other long-term liabilities	513.8	480.1
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, 242.0 and 239.1 shares issued, and 213.7 and 215.4 shares outstanding, respectively	242.0	239.1
Additional paid-in capital	1,091.1	946.8
Retained earnings	3,747.8	3,336.8
Accumulated other comprehensive loss	(171.2	) (182.6
Treasury stock, at cost, 28.3 and 23.7 shares, respectively	) (2,217.9	) (1,837.0
Total stockholders' equity	2,691.8	2,503.1
Total liabilities and stockholders' equity	\$ 4,339.0	\$ 4,059.3

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

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CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in millions, except per share information; unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	\$739.4	\$615.5	\$2,196.0	\$1,822.6
Cost of sales	201.4	146.7	584.2	441.3
Gross profit	538.0	468.8	1,611.8	1,381.3
Selling, general, and administrative expenses	229.6	212.0	671.1	628.4
Research and development expenses	113.1	101.0	328.4	284.9
Intellectual property litigation expenses	6.5	2.4	27.8	3.7
Special charges (Note 3)	—	—	34.5	—
Interest expense, net	2.1	2.5	6.9	6.7
Other expenses, net	1.5	0.2	5.6	2.2
Income before provision for income taxes	185.2	150.7	537.5	455.4
Provision for income taxes	43.8	32.6	126.5	101.2
Net income	\$141.4	\$118.1	\$411.0	\$354.2
Share information (Note 11)				
Earnings per share:				
Basic	\$0.66	\$0.55	\$1.93	\$1.65
Diluted	\$0.65	\$0.54	\$1.89	\$1.61
Weighted-average number of common shares outstanding:				
Basic	213.2	215.2	212.8	215.3
Diluted	218.1	219.9	217.7	220.1

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 September 30, 2016		Nine Months Ended September 30, 2015	
Net income	\$141.4	\$118.1	\$411.0	\$354.2
Other comprehensive income (loss), net of tax (Note 10):				
Foreign currency translation adjustments	10.6	(6.9 )	31.5	(53.2 )
Unrealized loss on cash flow hedges	(2.0 )	(15.5 )	(22.8 )	(14.8 )
Unrealized (loss) gain on available-for-sale investments	(1.3 )	(0.6 )	1.9	(1.1 )
Reclassification of net realized investment loss to earnings	0.2	0.4	0.8	0.8
Other comprehensive income (loss)	7.5	(22.6 )	11.4	(68.3 )
Comprehensive income	\$148.9	\$95.5	\$422.4	\$285.9

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)

	Nine Months Ended September 30, 2016    2015	
Cash flows from operating activities		
Net income	\$411.0	\$354.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52.1	51.3
Stock-based compensation (Note 7)	43.0	37.0
Excess tax benefit from stock plans	(56.6 )	(27.1 )
Gain on investments	(2.4 )	(2.5 )
Deferred income taxes	(2.6 )	(1.1 )
Purchased in-process research and development (Note 3)	34.5	—
Other	6.3	9.9
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(54.8 )	(28.3 )
Inventories	(43.1 )	(56.1 )
Accounts payable and accrued liabilities	41.4	35.9
Income taxes	72.9	63.9
Prepaid expenses and other current assets	(14.5 )	8.9
Other	16.1	(0.1 )
Net cash provided by operating activities	503.3	445.9
Cash flows from investing activities		
Capital expenditures	(112.9 )	(65.2 )
Purchases of held-to-maturity investments (Note 4)	(579.6 )	(903.5 )
Proceeds from held-to-maturity investments (Note 4)	628.7	1,135.1
Purchases of available-for sale investments (Note 4)	(337.0 )	(307.2 )
Proceeds from available-for-sale investments (Note 4)	161.1	126.3
Investments in intangible assets and in-process research and development	(41.3 )	—
Investments in trading securities, net	(6.5 )	(6.3 )
Investments in unconsolidated affiliates, net (Note 4)	(5.1 )	(0.8 )
Acquisition of business, net of cash acquired	—	(320.1 )
Other	0.7	(1.7 )
Net cash used in investing activities	(291.9 )	(343.4 )
Cash flows from financing activities		
Proceeds from issuance of debt	24.6	20.7
Payments on debt and capital lease obligations	(25.7 )	(18.8 )
Purchases of treasury stock (Note 8)	(380.9 )	(180.1 )
Equity forward contract related to accelerated share repurchase agreement (Note 8)	(35.0 )	—
Excess tax benefit from stock plans	56.6	27.1
Proceeds from stock plans	82.7	60.0
Other	4.1	(7.8 )
Net cash used in financing activities	(273.6 )	(98.9 )
Effect of currency exchange rate changes on cash and cash equivalents	(11.2 )	(11.3 )
Net decrease in cash and cash equivalents	(73.4 )	(7.7 )
Cash and cash equivalents at beginning of period	718.4	653.8

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Cash and cash equivalents at end of period	\$645.0	\$646.1
Supplemental disclosures:		
Cash paid during the year for:		
Income taxes	\$55.3	\$37.2
Non-cash investing and financing transactions:		
Capital expenditures accruals	\$19.7	\$9.9
The accompanying notes are an integral part of these consolidated condensed financial statements.		

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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, 2015. 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.

A reclassification related to the presentation of taxes receivable has been made in the prior year's consolidated condensed balance sheet to conform to current year presentation.

Recently Adopted Accounting Standards

In September 2015, the Financial Accounting Standards Board ("FASB") issued an update to the guidance on business combinations. The new guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The guidance was effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The adoption of this guidance did not impact the Company's consolidated financial statements.

In April 2015, the 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. In August 2015, the FASB clarified that for a line-of-credit arrangement, a company can continue to defer and present debt issuance costs as an asset and subsequently amortize the debt issuance costs over the term of the line-of-credit arrangement, whether or not there are any outstanding borrowings on the line-of-credit arrangement. The guidance was 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 adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

New Accounting Standards Not Yet Adopted

In August 2016, the FASB issued an amendment to the guidance on the statement of cash flows. The standard addresses eight specific cash flow issues, and is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years with early adoption permitted. This guidance will impact how the Company classifies contingent consideration payments made after a business combination. Contingent consideration payments that are not made soon after the acquisition date will be classified as a financing activity up to the amount of the contingent consideration liability recognized at the acquisition date, with any excess classified as an operating activity. The Company does not expect the adoption of the other provisions of this guidance to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued an amendment to the guidance on stock compensation. The amendment simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company anticipates that adoption of this guidance will introduce more volatility to its effective tax rate, generally reducing the rate.

In March 2016, the FASB issued an update to the guidance on revenue recognition. The update clarifies the implementation guidance on principal versus agent considerations, including how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. In April 2016, the FASB issued another update to the guidance on revenue recognition. This update clarifies the implementation guidance on identifying performance obligations and licensing, while retaining the related principles for those areas. In May 2016, the FASB issued a further update to the guidance on revenue recognition. This update clarifies the implementation guidance on assessing collectibility, presentation of sales taxes and other similar taxes received from

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customers, noncash consideration, contract modifications at transition, and completed contracts at transition. The amendments in these updates are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. The Company is currently evaluating the impact the revenue recognition guidance, including these updates, will have on its consolidated financial statements.

In February 2016, the FASB issued an amendment to the guidance on leases. The amendment improves transparency and comparability among companies by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

## 2. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

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

	September 30, 2016	December 31, 2015
Inventories		
Raw materials	\$ 60.6	\$ 63.8
Work in process	93.7	64.1
Finished products	246.7	212.0
	\$ 401.0	\$ 339.9

At September 30, 2016 and December 31, 2015, approximately \$72.4 million and \$58.8 million, respectively, of the Company's finished products inventories were held on consignment.

	September 30, 2016	December 31, 2015
Accounts payable and accrued liabilities		
Accounts payable	\$ 87.0	\$ 63.9
Employee compensation and withholdings	199.9	209.4
Property, payroll, and other taxes	35.9	34.5
Research and development accruals	37.6	38.6
Accrued rebates	33.3	23.9
Fair value of derivatives	19.4	4.2
Accrued marketing expenses	13.2	9.6
Taxes payable	6.7	14.5
Litigation reserves	8.1	5.6
Other accrued liabilities	91.7	72.0
	\$ 532.8	\$ 476.2

## 3. SPECIAL CHARGES

### Acquisition of In-process Research and Development ("IPR&D")

In May 2016, the Company entered into two separate agreements to acquire technologies for use in its transcatheter heart valve programs. In connection with these agreements, the Company recorded an IPR&D charge totaling \$34.5 million. The acquired technologies are in the early stages of development and have no alternative uses. Additional design developments, bench testing, pre-clinical studies, and human clinical studies must be successfully completed prior to selling any product using these technologies.



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## 4. INVESTMENTS

## Debt Securities

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

	September 30, 2016				December 31, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity								
Bank time deposits	\$412.0	\$ —	\$ —	\$412.0	\$440.1	\$ —	\$ —	\$440.1
U.S. government and agency securities	22.1	—	—	22.1	32.5	—	(0.2 )	32.3
Asset-backed securities	0.6	—	—	0.6	1.2	—	—	1.2
Corporate debt securities	9.1	—	—	9.1	16.4	—	—	16.4
Municipal securities	3.2	—	—	3.2	5.2	—	—	5.2
Total	\$447.0	\$ —	\$ —	\$447.0	\$495.4	\$ —	—\$ (0.2 )	\$495.2
Available-for-sale								
Commercial paper	\$41.0	\$ —	\$ —	\$41.0	\$28.1	\$ —	\$ —	\$28.1
U.S. government and agency securities	101.6	0.3	—	101.9	38.7	—	(0.2 )	38.5
Asset-backed securities	79.9	0.1	—	80.0	62.8	—	(0.2 )	62.6
Corporate debt securities	313.5	1.2	(0.2 )	314.5	230.0	—	(1.3 )	228.7
Municipal securities	4.6	—	—	4.6	4.7	—	—	4.7
Total	\$540.6	\$ 1.6	\$ (0.2 )	\$542.0	\$364.3	\$ —	—\$ (1.7 )	\$362.6

The cost and fair value of investments in debt securities, by contractual maturity, as of September 30, 2016 were as follows:

	Held-to-Maturity		Available-for-Sale	
	Cost	Fair Value	Cost	Fair Value
	(in millions)			
Due in 1 year or less	\$437.4	\$437.4	\$ 117.8	\$ 117.9
Due after 1 year through 5 years	1.0	1.0	343.0	344.1
Instruments not due at a single maturity date	8.6	8.6	79.8	80.0
	\$447.0	\$447.0	\$ 540.6	\$ 542.0

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:

	September 30, 2016	December 31, 2015
	(in millions)	
Available-for-sale investments		
Cost	\$ —	\$ —
Unrealized gains	0.2	0.2
Fair value of available-for-sale investments	0.2	0.2
Equity method investments		
Cost	10.6	10.9
Equity in losses	(3.5 )	(4.2 )
Carrying value of equity method investments	7.1	6.7
Cost method investments		
Carrying value of cost method investments	26.5	21.3
Total investments in unconsolidated affiliates	\$33.8	\$ 28.2

During the three and nine months ended September 30, 2016, the gross realized gains or losses from sales of available-for-sale investments were not material.

**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 long-term notes payable. As of September 30, 2016, the fair value of the notes payable, based on Level 2 inputs, was \$614.7 million, versus a carrying value of \$600.6 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):

September 30, 2016	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$35.1	\$9.5	\$—	\$44.6
Available-for-sale investments:				
Corporate debt securities	—	314.5	—	314.5
Asset-backed securities	—	80.0	—	80.0
U.S. government and agency securities	76.5	25.4	—	101.9
Commercial paper	—	41.0	—	41.0
Municipal securities	—	4.6	—	4.6
Equity investments in unconsolidated affiliates	0.2	—	—	0.2
Investments held for deferred compensation plans	43.7	—	—	43.7
Derivatives	—	8.8	—	8.8
	\$155.5	\$483.8	\$—	\$639.3
<b>Liabilities</b>				
Derivatives	\$—	\$19.4	\$—	\$19.4
Deferred compensation plans	44.1	—	—	44.1
Contingent consideration obligation	—	—	31.6	31.6
	\$44.1	\$19.4	\$31.6	\$95.1
<b>December 31, 2015</b>				
<b>Assets</b>				
Cash equivalents	\$3.5	\$8.5	\$—	\$12.0
Available-for-sale investments:				
Corporate debt securities	—	228.7	—	228.7
Asset-backed securities	—	62.6	—	62.6
U.S. government and agency securities	9.6	28.9	—	38.5
Commercial paper	—	28.1	—	28.1
Municipal securities	—	4.7	—	4.7
Equity investments in unconsolidated affiliates	0.1	—	—	0.1
Investments held for deferred compensation plans	35.3	—	—	35.3
Derivatives	—	23.3	—	23.3
	\$48.5	\$384.8	\$—	\$433.3
<b>Liabilities</b>				
Derivatives	\$—	\$4.2	\$—	\$4.2
Deferred compensation plans	35.5	—	—	35.5
Contingent consideration obligation	—	—	30.5	30.5
	\$35.5	\$4.2	\$30.5	\$70.2

The following table summarizes the changes in fair value of the contingent consideration obligation for the nine months ended September 30, 2016 (in millions):

Balance at December 31, 2015	\$30.5
Changes in fair value (recorded in "Research and Development Expenses")	1.1
Balance at September 30, 2016	\$31.6
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



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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.

**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.

**Contingent Consideration Obligation**

The Company recorded a contingent consideration obligation related to its acquisition of CardiAQ. The \$50.0 million contingent consideration obligation has been recorded at its estimated fair value, which was determined using a probability weighted discounted cash flow analysis that considered significant unobservable inputs. These inputs included a 1.5% discount rate used to present value the projected cash flows, a 65.0% probability of milestone achievement, and a projected payment date in 2018. The use of different assumptions could have a material effect on the estimated fair value amount.

**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. It is the Company's policy not to enter into derivative financial instruments for speculative purposes. Notional amounts are stated in United States dollar equivalents at spot exchange rates at the respective dates.

	Notional Amount	
	September	December
	30,	31, 2015
	2016	
	(in millions)	
Foreign currency forward exchange contracts	\$861.7	\$ 1,061.6
Interest rate swap agreements	300.0	300.0

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. The Company also uses foreign currency forward exchange contracts to protect its net investment in certain foreign

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subsidiaries from adverse changes in foreign currency exchange rates. These foreign currency forward exchange contracts are designated as net investment hedges. 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 the interest rate swaps (designated as 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. The effective portions of net investment hedges are reported in "Accumulated Other Comprehensive Loss" as a part of the cumulative translation adjustment, and would be reclassified into earnings if the underlying net investment is sold or substantially liquidated. The ineffective portions of cash flow hedges and net investment hedges are recorded in current period earnings. For the nine months ended September 30, 2016 and 2015, 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 net investment hedges are reported as investing activities in the consolidated condensed statements of cash flows, and cash flows from all other derivative financial instruments are reported as operating activities.

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	
		September 30, 2016	December 31, 2015
Derivatives designated as hedging instruments			
Assets			
Foreign currency contracts	Other current assets	\$4.5	\$ 15.0
Interest rate swap agreements	Other assets	\$4.1	\$ 1.6
Liabilities			
Foreign currency contracts	Accrued and other liabilities	\$19.4	\$ 4.2
Derivatives not designated as hedging instruments			
Assets			
Foreign currency contracts	Other current assets	\$0.2	\$ —
Foreign currency contracts	Other assets	\$—	\$ 6.7

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

September 30, 2016	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		
				Financial Instruments	Cash Collateral Received	Net Amount
Derivative assets						
Foreign currency contracts	\$ 4.7	\$	—\$ 4.7	\$ (1.5 )	\$	—\$ 3.2
Interest rate swap agreements	\$ 4.1	\$	—\$ 4.1	\$ —	\$	—\$ 4.1
Derivative liabilities						
Foreign currency contracts	\$ 19.4	\$	—\$ 19.4	\$ (1.5 )	\$	—\$ 17.9
December 31, 2015						
Derivative assets						
Foreign currency contracts	\$ 21.7	\$	—\$ 21.7	\$ (4.0 )	\$	—\$ 17.7
Interest rate swap agreements	\$ 1.6	\$	—\$ 1.6	\$ —	\$	—\$ 1.6
Derivative liabilities						
Foreign currency contracts	\$ 4.2	\$	—\$ 4.2	\$ (4.0 )	\$	—\$ 0.2

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)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income	
	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015		Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Cash flow hedges					
Foreign currency contracts	\$(6.4)	\$(2.2)	Cost of sales Selling, general, and administrative expenses	\$(3.3)	\$19.9 \$0.5
Net investment hedges					
Foreign currency contracts	\$(0.3)	\$(5.0)	Other expenses, net	\$—	\$—
	Amount of Gain or (Loss) Recognized in OCI on Derivative			Amount of Gain or (Loss) Reclassified from	

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	(Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Accumulated OCI into Income	
	Nine Months Ended September 30,			Nine Months Ended September 30,	
	2016	2015	into Income	2016	2015
Cash flow hedges					
Foreign currency contracts	\$(26.9)	\$26.7	Cost of sales	\$11.3	\$49.4
			Selling, general, and administrative expenses	\$(0.4)	\$0.5
Net investment hedges					
Foreign currency contracts	\$(4.1)	\$(5.0)	Other expenses, net	\$—	\$—

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		Amount of Gain or (Loss) Recognized in Income on Derivative Three Months Ended September 30,		
	Location of Gain or (Loss) Recognized in Income on Derivative	2016	2015	
Fair value hedges				
Interest rate swap agreements	Interest expense, net	\$(2.3)	\$4.5	
		Amount of Gain or (Loss) Recognized in Income on Derivative Nine Months Ended September 30,		
	Location of Gain or (Loss) Recognized in Income on Derivative	2016	2015	
Fair value hedges				
Interest rate swap agreements	Interest expense, net	\$2.5	\$6.4	
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.				
		Amount of Gain or (Loss) Recognized in Income on Derivative Three Months Ended September 30,		
	Location of Gain or (Loss) Recognized in Income on Derivative	2016	2015	
Derivatives not designated as hedging instruments				
Foreign currency contracts	Other expenses, net	\$(2.7)	\$(0.3)	
		Amount of Gain or (Loss) Recognized in Income on		

	Location of Gain or (Loss) Recognized in Income on Derivative	Derivative Nine Months Ended September 30, 2016	2015
Derivatives not designated as hedging instruments			
Foreign currency contracts	Other expenses, net	\$(18.5)	\$6.5

The Company expects that during the next twelve months it will reclassify to earnings a \$3.1 million loss 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 and nine months ended September 30, 2016 and 2015 was as follows (in millions):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Cost of sales	\$2.2	\$1.7	\$6.3	\$5.1
Selling, general, and administrative expenses	9.5	8.7	28.6	25.4
Research and development expenses	2.7	2.2	8.1	6.5
Total stock-based compensation expense	\$14.4	\$12.6	\$43.0	\$37.0

At September 30, 2016, the total remaining compensation cost related to nonvested stock options, restricted stock units, market-based restricted stock units, performance-based restricted stock units, and employee stock purchase plan ("ESPP") subscription awards amounted to \$109.6 million, which will be amortized on a straight-line basis over the weighted-average remaining requisite service period of 32 months.

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During the nine months ended September 30, 2016, the Company granted 1.0 million stock options at a weighted-average exercise price of \$105.38 and 0.2 million shares of restricted stock units at a weighted-average grant-date fair value of \$104.68. The Company also granted 0.1 million shares of market-based restricted stock units at a weighted-average grant-date fair value of \$116.06. In addition, the Company issued an additional 0.1 million shares related to a previous year's grant of market-based restricted stock units since the payout percentage achieved at the end of the performance period was in excess of the target. 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.

In 2015, in conjunction with the acquisition of CardiAQ, the Company granted performance-based restricted stock units that vest based on the achievement of a specified milestone. The Company reassesses the probability of vesting at each quarter end and adjusts the stock-based compensation expense based on its probability assessment. As of September 30, 2016, achievement of the milestone was deemed not yet probable and no expense has been recognized related to these awards.

**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 nine months ended September 30, 2016 and 2015 included a risk-free interest rate of 1.0% and 1.0%, respectively, and an expected volatility rate of 30.0% and 31.0%, respectively.

The following table includes the weighted-average grant-date fair values of stock options granted during the periods indicated and the related weighted-average assumptions used in the Black-Scholes option pricing model:

Option Awards	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Average risk-free interest rate	1.0 %	1.6 %	1.1 %	1.4 %
Expected dividend yield	None	None	None	None
Expected volatility	33.2 %	29.7 %	33.1 %	29.8 %
Expected term (years)	4.6	4.7	4.5	4.6
Fair value, per option	\$31.23	\$20.29	\$31.02	\$18.06

The following table includes the weighted-average grant-date fair values for ESPP subscriptions granted during the periods indicated and the related weighted-average assumptions used in the Black-Scholes option pricing model:

ESPP	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Average risk-free interest rate	0.2 %	0.2 %	0.3 %	0.2 %
Expected dividend yield	None	None	None	None
Expected volatility	31.9 %	26.7 %	29.3 %	27.6 %
Expected term (years)	0.8	0.8	0.6	0.6
Fair value, per share	\$31.13	\$17.18	\$21.97	\$15.51

**8. ACCELERATED SHARE REPURCHASE**

In February 2016, Edwards entered into ASR agreements to repurchase \$325.0 million of the Company's common stock based on the volume-weighted average price ("VWAP") of the Company's common stock during the term of the agreements, less a discount. Upon entering into the agreements, Edwards received an initial delivery of 3.2 million shares. The initial shares were valued at \$83.60 per share based on the closing price of the Company's common stock on the date of the agreements, and represented approximately 82% of the total contract value. At the conclusion of



each of the ASR agreements, the Company may receive additional shares or may be required to pay additional cash or shares (at the Company's election). The final settlements are based on the VWAP over the term of the agreements, less a discount, and will occur at varying termination dates extending to December 2016, subject to certain adjustments pursuant to the agreements. In April 2016, one of the ASR agreements concluded at a VWAP less discount per share price of \$84.39, and the Company received an additional 0.3 million

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shares under that agreement. If the remaining agreement had been settled on September 30, 2016, Edwards would have received 0.1 million additional shares.

The ASR agreements were accounted for as two separate transactions: (a) the value of the initial delivery of shares was recorded as shares of common stock acquired in a treasury stock transaction on the acquisition date, and (b) the remaining amount of the purchase price paid was recorded as a forward contract indexed to the Company's own common stock and was recorded in "Additional Paid-in Capital" on the consolidated balance sheets. The initial delivery of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share. The Company determined that the forward contract indexed to the Company's common stock met all the applicable criteria for equity classification and, therefore, was not accounted for as a derivative instrument.

9. COMMITMENTS AND CONTINGENCIES

On October 30, 2015, Boston Scientific Scimed, Inc., a subsidiary of Boston Scientific Corporation ("Boston Scientific"), filed a lawsuit in the district court in Düsseldorf, Germany against Edwards Lifesciences and its German subsidiary, Edwards Lifesciences Services GmbH, alleging that Edwards Lifesciences' SAPIEN 3 heart valve infringes certain claims of a Boston Scientific German national patent arising from EP 2 749 254 B1 (the "'254 patent") related to paravalvular sealing technology. On February 26, 2016, Boston Scientific added the German national patent arising from EP 2 926 766 (the "'766 Patent") to the infringement allegations. On April 8, 2016, Boston Scientific filed a similar patent infringement action in district court in Paris, France relating to these patents. The complaints seek unspecified money damages and injunctive relief. The Company intends to defend itself vigorously in these matters. Trial is scheduled for February 2017 in the German matter and is not yet scheduled in the France matter.

On November 2, 2015, Edwards Lifesciences LLC, a U.S. subsidiary of Edwards Lifesciences, filed a lawsuit against Sadra Medical, Inc. and Boston Scientific Scimed, Inc., two subsidiaries of Boston Scientific, in the United Kingdom in the High Court of Justice, Chancery Division, Patents Court to declare invalid and revoke the U.K. national patent corresponding to the '254 patent. Edwards later added Boston Scientific's UK national patent corresponding to the '766 patent to this invalidity lawsuit. The Boston Scientific subsidiaries filed counterclaims against Edwards Lifesciences and three of its European subsidiaries alleging that the SAPIEN 3 heart valve infringes certain claims of the same patents and seeking unspecified monetary damages and injunctive relief. Trial is scheduled for January 2017.

On November 23, 2015, Edwards Lifesciences PVT, Inc., a U.S. subsidiary of Edwards Lifesciences, filed a lawsuit in the district court in Düsseldorf, Germany for patent infringement against Boston Scientific and a German subsidiary, Boston Scientific Medizintechnik GmbH, alleging that the Lotus heart valve infringes certain claims of Edwards Lifesciences' German national patents EP 1 441 672 B1 and 2 255 753 B1 related to prosthetic valve and delivery system technology. Edwards Lifesciences later added its German national patent EP 2 399 550 to this suit. The complaint seeks unspecified monetary damages and injunctive relief. Trial is scheduled for February 2017.

On April 19, 2016, Boston Scientific filed a lawsuit against Edwards Lifesciences in the Federal District Court in the District of Delaware alleging that the SAPIEN 3 heart valve infringes certain claims of Boston Scientific's U.S. Patent 8,992,608 (the "'608 patent") related to paravalvular sealing technology and seeking unspecified monetary damages and injunctive relief. On June 9, 2016, Edwards Lifesciences LLC and Edwards Lifesciences PVT, Inc. filed counterclaims alleging that Boston Scientific's Lotus heart valve infringes Edwards Lifesciences' U.S. Patents 9,168,133; 9,339,383; and 7,510,575 related to prosthetic valve technology. Trial is scheduled for July 2018. On October 12, 2016, Edwards Lifesciences filed an Inter Partes Review ("IPR") request with the U.S. Patent and Trademark Office challenging the validity of Boston Scientific's '608 patent.

Also on April 19, 2016, Boston Scientific filed a lawsuit against Edwards Lifesciences in the Federal District Court in the Central District of California alleging that five of its transcatheter heart valve delivery systems and a valve crimper infringe certain claims of eight Boston Scientific U.S. patents. The complaints seek unspecified monetary damages and injunctive relief. Trial is scheduled for May 2018. The Company intends to defend itself vigorously in these matters and has filed an IPR request related to the crimping device patent.

Because the ultimate outcome of the above matters involve judgments, estimates and inherent uncertainties, and cannot be predicted with certainty, charges related to such matters could have a material adverse impact on Edwards Lifesciences' financial position, results of operations, and liquidity.

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In addition, 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 (the "Other Lawsuits"). The Other Lawsuits 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. Management does not believe that any charge relating to the Other Lawsuits would have a material adverse effect on Edwards Lifesciences' overall financial position, results of operations, or liquidity. However, the resolution of one or more of the Other Lawsuits in any reporting period, could have a material adverse impact on Edwards Lifesciences' net income or cash flows for that period. 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.

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.

**10. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table is a summary of activity for each component of "Accumulated Other Comprehensive Loss" for the nine months ended September 30, 2016 (in millions):

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized (Loss) Gain on Available-for-sale Investments	Unrealized Pension Costs	Total Accumulated Other Comprehensive Loss
December 31, 2015	\$ (181.5 )	\$ 11.8	\$ (1.5 )	\$ (11.4 )	\$ (182.6 )
Other comprehensive gain (loss) before reclassifications	30.0	(26.9 )	1.8	—	4.9
Amounts reclassified from accumulated other comprehensive loss	—	(10.9 )	0.8	—	(10.1 )
Deferred income tax benefit	1.5	15.0	0.1	—	16.6
September 30, 2016	\$ (150.0 )	\$ (11.0 )	\$ 1.2	\$ (11.4 )	\$ (171.2 )

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 September 30,		Nine Months Ended September 30,		Affected Line on Consolidated Condensed Statements of Operations
	2016	2015	2016	2015	
Gain (loss) on cash flow hedges	\$ (3.4)	\$ 20.4	\$ 10.9	\$ 49.9	Cost of sales
	1.2	(7.5 )	(4.5 )	(18.2 )	Provision for income taxes
	\$ (2.2)	\$ 12.9	\$ 6.4	\$ 31.7	Net of tax
(Loss) gain on available-for-sale investments	\$ (0.2)	\$ (0.4 )	\$ (0.8 )	\$ (0.8 )	Other expenses, net
	—	—	—	—	Provision for income taxes
	\$ (0.2)	\$ (0.4 )	\$ (0.8 )	\$ (0.8 )	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 restricted stock units, market-based restricted stock units, performance-based restricted stock units, and in-the-money options. The dilutive impact of the restricted stock units, market-based restricted stock units, performance-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.

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Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of stock-based 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 September 30, 2016		Nine Months Ended September 30, 2015	
Basic:				
Net income	\$ 141.4	\$ 118.1	\$ 411.0	\$ 354.2
Weighted-average shares outstanding	213.2	215.2	212.8	215.3
Basic earnings per share	\$0.66	\$0.55	\$ 1.93	\$ 1.65
Diluted:				
Net income	\$ 141.4	\$ 118.1	\$ 411.0	\$ 354.2
Weighted-average shares outstanding	213.2	215.2	212.8	215.3
Dilutive effect of stock plans	4.9	4.7	4.9	4.8
Dilutive weighted-average shares outstanding	218.1	219.9	217.7	220.1
Diluted earnings per share	\$0.65	\$0.54	\$ 1.89	\$ 1.61

Stock options, restricted stock units, and market-based restricted stock units to purchase 1.1 million and 1.8 million shares for the three months ended September 30, 2016 and 2015, respectively, and 0.8 million and 1.3 million shares for the nine months ended September 30, 2016 and 2015, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. Additionally, 0.1 million shares that would have been received if the ASR agreement discussed in Note 8 was settled as of September 30, 2016 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 23.7% and 21.6% for the three months ended September 30, 2016 and 2015, respectively, and 23.5% and 22.2% for the nine months ended September 30, 2016 and 2015. 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, offset by the benefit from the reinstatement of the federal research credit. The federal research credit expired on December 31, 2014 and was not reinstated until December 18, 2015 when the research credit was permanently extended, retroactive to January 1, 2015. Therefore, the effective income tax rate for the three and nine months ended September 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 September 30, 2016 and December 31, 2015, the liability for income taxes associated with uncertain tax positions was \$231.4 million and \$216.1 million, respectively. The Company estimates that these liabilities would be reduced by \$40.8 million and \$40.6 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 \$190.6 million and \$175.5 million, respectively, if not required, would favorably affect the Company's effective tax

rate.

At September 30, 2016, all material state, local, and foreign income tax matters have been concluded for years through 2008. The Internal Revenue Service ("IRS") has substantially completed its fieldwork for the 2009 through 2012 tax years. However, the audit is currently in suspense pending finalization of an Advance Pricing Agreement ("APA") and Joint Committee of Taxation approval.

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The Company has entered into an APA process between the Switzerland and United States governments for the years 2009 through 2013 covering transfer pricing matters with the possibility of a rollforward of the results to subsequent years. The transfer pricing matters are significant to the Company's consolidated condensed financial statements, and the final outcome, including the ability of the two governments to reach an agreement, is uncertain.

During 2014, the Company 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 is still pending. However, the Company made an advance payment of tax in December 2015 solely to prevent the further accrual of interest on any potential deficiency, not to signify any potential agreement to a contrary position that may be taken by the IRS.

**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 structural heart 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, 2015. 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, certain 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 September 30, 2016		Nine Months Ended September 30, 2015	
Segment Net Sales				
United States	\$417.1	\$323.1	\$1,194.2	\$909.3
Europe	171.2	194.6	556.3	625.0
Japan	68.1	73.8	203.8	217.7
Rest of World	72.4	78.8	220.9	230.5
Total segment net sales	\$728.8	\$670.3	\$2,175.2	\$1,982.5
Segment Pre-tax Income				
United States	\$274.2	\$197.0	\$776.0	\$530.8
Europe	80.1	95.3	273.0	306.4
Japan	33.4	35.1	101.5	103.1
Rest of World	17.4	22.8	54.4	61.1
Total segment pre-tax income	\$405.1	\$350.2	\$1,204.9	\$1,001.4





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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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
<b>Net Sales Reconciliation</b>				
Segment net sales	\$728.8	\$670.3	\$2,175.2	\$1,982.5
Foreign currency	10.6	(54.8 )	20.8	(159.9 )
Consolidated net sales	\$739.4	\$615.5	\$2,196.0	\$1,822.6
<b>Pre-tax Income Reconciliation</b>				
Segment pre-tax income	\$405.1	\$350.2	\$1,204.9	\$1,001.4
Unallocated amounts:				
Corporate items	(211.9 )	(185.0 )	(613.4 )	(520.6 )
Special charges (Note 3)	—	—	(34.5 )	—
Intellectual property litigation expenses	(6.5 )	(2.4 )	(27.8 )	(3.7 )
Interest expense, net	(2.1 )	(2.5 )	(6.9 )	(6.7 )
Foreign currency	0.6	(9.6 )	15.2	(15.0 )
Consolidated pre-tax income	\$185.2	\$150.7	\$537.5	\$455.4

**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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
<b>Net Sales by Geographic Area</b>				
United States	\$417.1	\$323.1	\$1,194.2	\$909.3
Europe	172.3	166.4	564.4	533.6
Japan	79.8	60.3	226.3	180.7
Rest of World	70.2	65.7	211.1	199.0
	\$739.4	\$615.5	\$2,196.0	\$1,822.6
<b>Net Sales by Major Product and Service Area</b>				
Transcatheter Heart Valve Therapy	\$410.1	\$296.1	\$1,196.5	\$846.0
Surgical Heart Valve Therapy	190.9	187.9	585.5	588.8
Critical Care	138.4	131.5	414.0	387.8
	\$739.4	\$615.5	\$2,196.0	\$1,822.6

	September 30,	
	2016	December 31, 2015
<b>Long-lived Tangible Assets by Geographic Area</b>		
United States	\$531.5	\$473.6
Europe	30.2	36.0
Japan	9.8	8.1
Rest of World	97.0	96.0

\$668.5 \$ 613.7

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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, 2015 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 patient-focused medical innovations for structural heart disease and critical care monitoring. Driven by a passion to help patients, we collaborate with the world's leading clinicians and researchers to address unmet healthcare needs, working to improve patient outcomes 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 ("THVT"), Surgical Heart Valve Therapy ("SHVT"), and Critical Care.

Financial Highlights

Our sales growth was led by our THVT products, which benefited from the launches of the Edwards SAPIEN 3 transcatheter heart valve in the United States (July 2015), Europe (January 2014), and Japan (March 2016). Our gross profit margin in 2016 was negatively impacted relative to 2015 by foreign currency exchange rate fluctuations, partially offset by an

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improved product mix, led by THVT products. Our gross profit margin in 2015 was negatively impacted by a THVT sales return reserve and related costs in connection with the launches of our next-generation products. The increase in our net income was primarily driven by our increased sales, partially offset by an in-process research and development ("IPR&D") charge in the second quarter of 2016 for technology we acquired for use in our transcatheter heart valve programs.

## Healthcare Environment, Opportunities, and Challenges

The medical technology 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 and providing innovative patient care, and we are committed to defending our intellectual property in support of those developments. In the first nine months of 2016 we invested 15.0% of our net sales in research and development.

## 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			Percent Change	Nine Months			Percent Change
	Ended September 30,		Change		Ended September 30,		Change	
	2016	2015			2016	2015		
United States	\$417.1	\$323.1	\$94.0	29.1 %	\$1,194.2	\$909.3	\$284.9	31.3 %
International	322.3	292.4	29.9	10.2 %	1,001.8	913.3	88.5	9.7 %
Total net sales	\$739.4	\$615.5	\$123.9	20.1 %	\$2,196.0	\$1,822.6	\$373.4	20.5 %

International net sales include the impact of foreign currency exchange rate fluctuations. 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			Percent Change	Nine Months			Percent Change
	Ended September 30,		Change		Ended September 30,		Change	
	2016	2015			2016	2015		
Transcatheter Heart Valve Therapy	\$410.1	\$296.1	\$114.0	38.5 %	\$1,196.5	\$846.0	\$350.5	41.4 %
Surgical Heart Valve Therapy	190.9	187.9	3.0	1.6 %	585.5	588.8	(3.3 )	(0.6 )%
Critical Care	138.4	131.5	6.9	5.2 %	414.0	387.8	26.2	6.8 %
Total net sales	\$739.4	\$615.5	\$123.9	20.1 %	\$2,196.0	\$1,822.6	\$373.4	20.5 %

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Transcatheter Heart Valve Therapy

The increase in net sales of THVT products in the United States was due primarily to:

• the Edwards SAPIEN 3 valve, driven by its launch in July 2015;

partially offset by:

• lower sales of the Edwards SAPIEN XT valve as customers converted to Edwards SAPIEN 3.

The increase in international net sales of THVT products was due to:

• the Edwards SAPIEN 3 valve, driven primarily by its launch in Europe in January 2014 and in Japan in March 2016.

In March 2016, we received approval from the the United States Food and Drug Administration ("FDA") to expand use of the Edwards SAPIEN XT transcatheter heart valve for pulmonic valve replacement procedures. The approval enables the treatment of adult and pediatric patients who suffer from either a narrowed pulmonary valve, or moderate or greater pulmonary regurgitation caused by congenital heart disease. Also in March 2016, we received approval for SAPIEN 3 in Japan for the treatment of patients suffering from severe, symptomatic aortic stenosis. In August 2016, we received approval from the FDA, and in September 2016, we received CE Mark in Europe, to expand use of the Edwards SAPIEN 3 transcatheter heart valve for the treatment of patients suffering from severe, symptomatic aortic stenosis who have been determined to be at intermediate risk for open-heart surgery.

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Surgical Heart Valve Therapy

The increase in net sales of SHVT in the three month period was driven by:

• higher sales of surgical heart valve products in the United States, primarily mitral tissue valves;

The decrease in net sales of SHVT in the nine month period was driven by:

• slightly lower sales of aortic tissue valve products in the United States; and

• lower international sales of mitral tissue valves, primarily in Europe and Rest of World;

partially offset by:

• higher international sales of aortic tissue valves, primarily in Japan, Europe and Rest of World.

Foreign currency exchange rate fluctuations increased international net sales by \$2.9 million and \$1.6 million for the three and nine months ended September 30, 2016, respectively, due primarily to the strengthening of the Japanese yen against the United States dollar, partially offset by the weakening of various currencies against the United States dollar.

In August 2016, the FDA approved our advanced EDWARDS INTUITY Elite Valve System, a rapid deployment device for surgical aortic valve replacement. In September 2016, we received CE Mark for our INSPIRIS RESILIA aortic valve, the first in a new class of resilient heart valves, designed for potential future valve-in-valve procedures.

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Critical Care

The increase in international net sales of Critical Care products was driven by enhanced surgical recovery products in Europe and Rest of World, and core hemodynamic products, primarily in Rest of World. The increase in year-to-date net sales in the United States was driven by enhanced surgical recovery products.

Foreign currency exchange rate fluctuations increased net sales by \$3.5 million and \$2.8 million for the three and nine months ended September 30, 2016, respectively, due primarily to the strengthening of the Japanese yen against the United States dollar, partially offset by the weakening of various currencies against the United States dollar.

In October 2016, we received CE Mark for our Acumen Hypotension Probability Indicator ("HPI"), a technology that alerts clinicians to potential hypotension, or abnormally low blood pressure, in their surgical and critical care patients before it occurs. HPI is enabled by the minimally invasive FloTrac IQ sensor, which recently received CE Mark.

Gross Profit

The decrease in gross profit as a percentage of net sales for the three and nine months ended September 30, 2016 was driven primarily by:



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a 4.7 percentage point and 4.6 percentage point decrease, respectively, due to the impact of foreign currency exchange rate fluctuations, including the settlement of foreign currency hedging contracts;  
partially offset by:

a 1.8 percentage point and 1.6 percentage point increase, respectively, in the United States due to an improved product mix, driven by THVT products.

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

The increase in SG&A expenses for the three and nine months ended September 30, 2016 was due primarily to (1) higher sales and marketing expenses in the United States, mainly to support the THVT program, and (2) higher personnel-related costs. These increases were partially offset by the suspension of the medical device excise tax in the United States. The decrease in SG&A expenses as a percentage of net sales for the three and nine months ended September 30, 2016 was due primarily to higher THVT sales in the United States, Europe, and Japan.

Research and Development ("R&D") Expenses

The increase in R&D expenses for the three and nine months ended September 30, 2016 was due primarily to mitral and aortic THVT product development efforts. The suspension of the medical device excise tax provided additional flexibility to accelerate investments in structural heart initiatives.

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## Intellectual Property Litigation Expenses

We incurred external legal costs related to intellectual property litigation of \$6.5 million and \$2.4 million for the three months ended September 30, 2016 and 2015, respectively, and \$27.8 million and \$3.7 million for the nine months ended September 30, 2016 and 2015, respectively. The increase in intellectual property litigation expenses was primarily due to the first quarter resolution of an intellectual property litigation matter, and the increased costs associated with ongoing litigation in the United States and Europe.

## Special Charges

In May 2016, we entered into two separate agreements to acquire technologies for use in our THVT programs. In connection with these agreements, we recorded an IPR&D charge totaling \$34.5 million. The acquired technologies are in the early stages of development and have no alternative uses. Additional design developments, bench testing, pre-clinical studies, and human clinical studies must be successfully completed prior to selling any product using these technologies.

Other Expenses, net  
(in millions)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Foreign exchange losses, net	\$0.7	\$1.6	\$1.1	\$3.5
Loss (gain) on investments	0.9	(1.4)	(0.5)	(0.7)
Charitable foundation contribution	—	—	5.0	—
Other	(0.1)	—	—	(0.6)
Other expenses, net	\$1.5	\$0.2	\$5.6	\$2.2

The net foreign exchange losses relate primarily 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.

The loss (gain) 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.

In March 2016, we contributed \$5.0 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.

## 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 rate was 23.7% and 21.6% for the three months ended September 30, 2016 and 2015, respectively, and 23.5% and 22.2% for the nine months ended September 30, 2016 and 2015. 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, offset by the benefit from the reinstatement of the federal research credit. The federal research credit expired on December 31, 2014 and was not reinstated until December 18, 2015 when the research credit was permanently extended, retroactive to January 1, 2015. Therefore, the effective income tax rate for the nine months ended September 30, 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

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adjustments that may result from our uncertain tax positions. For further information, see Note 12 to the "Consolidated Condensed Financial Statements."

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, 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 is still pending. However, we made an advance payment of tax in December 2015 solely to prevent the further accrual of interest on any potential deficiency, not to signify any potential agreement to a contrary position that may be taken by the IRS.

Our Dominican Republic ("DR") branch receives tax incentives, including an exemption from paying DR income taxes, under a Free Trade Zone law. Effective November 9, 2012, DR enacted a law which, among other tax provisions, would apply a 10% withholding tax on dividends or branch remittances from a Free Trade Zone company to its shareholder(s). The DR withholding tax provision was, however, contingent upon certain future events. On October 5, 2016, the DR Ministry of Finance published a notification confirming that the 10% withholding tax on branch remittances would be due and payable by DR Free Trade Zone companies for dividends and remittances paid on or after October 5, 2016. As a result, we expect this action will increase our effective tax rate in 2017; however, the amount is not expected to have a material impact on our results of operations.

**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 September 30, 2016, cash and cash equivalents and short-term investments held in the United States and outside the United States were \$216.5 million and \$983.8 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, the majority of which relates to undistributed earnings of certain of our foreign subsidiaries, which are considered by us to be indefinitely reinvested, have historically been used to fund international operations and acquire businesses and assets outside of the United States. We consider making short-term loans of cash held outside the United States to the United States from time to time based on facts and circumstances. The permanent 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.

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 September 30, 2016, there were no borrowings outstanding under the Credit Agreement. In October 2013, we issued \$600.0 million of 2.875% fixed-rate unsecured senior notes due October 15, 2018. As of September 30, 2016, the total carrying value of our long-term debt was \$600.6 million.

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 February 2016, we entered into accelerated share repurchase ("ASR") agreements to repurchase \$325.0 million of the Company's common stock under a Board approved program. During 2016, we repurchased a total of 4.4 million shares at an aggregate cost of \$400.1 million, which includes the price of the forward contract associated with our ASR agreements, and as of September 30, 2016, had remaining authority to purchase \$277.5 million of our common stock. For further information, see Note 8 to the "Consolidated Condensed Financial Statements."

At September 30, 2016, 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, 2015.

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Consolidated Cash Flows - For the nine months ended September 30, 2016 and 2015:

Net cash flows provided by operating activities of \$503.3 million for the nine months ended September 30, 2016 increased \$57.4 million over the same period last year due primarily to (1) improved operating performance and (2) a decrease in inventory builds in comparison to the prior year, partially offset by (1) the impact from excess tax benefits from stock plans, primarily due to our increased stock price, and (2) an increase in accounts receivable due to increased sales, primarily in the United States.

Net cash used in investing activities of \$291.9 million for the nine months ended September 30, 2016 consisted primarily of net purchases of investments of \$138.4 million and capital expenditures of \$112.9 million.

Net cash used in investing activities of \$343.4 million for the nine months ended September 30, 2015 consisted primarily of a \$320.1 million net payment associated with the acquisition of CardiAQ and capital expenditures of \$65.2 million, partially offset by net proceeds from investments of \$43.6 million.

Net cash used in financing activities of \$273.6 million for the nine months ended September 30, 2016 consisted primarily of purchases of treasury stock of \$415.9 million, including amounts paid under the ASR agreements, partially offset by proceeds from stock plans of \$82.7 million.

Net cash used in financing activities of \$98.9 million for the nine months ended September 30, 2015 consisted primarily of purchases of treasury stock of \$180.1 million, partially offset by proceeds from stock plans of \$60.0 million and the excess tax benefits from stock plans of \$27.1 million.

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 condensed 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, 2015. 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, 2015. There have been no significant changes from the information discussed therein.

Investment Risk

We are exposed to investment risks related to changes in the underlying financial condition and credit capacity of certain of our investments. As of September 30, 2016, we had \$989.0 million of investments in fixed-rate debt securities of various

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companies, of which \$433.7 million were long-term. In addition, we had \$33.8 million of investments in equity instruments of public and private companies. Should these companies experience a decline in financial condition or credit capacity, or fail to meet certain development milestones, a decline in the investments' value may occur, resulting in unrealized or realized losses.

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 September 30, 2016. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded as of September 30, 2016 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 September 30, 2016 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 9 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, 2015.

## 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)
July 1, 2016 through July 31, 2016	1,597	\$ 104.72	—	\$ 277.5
August 1, 2016 through August 31, 2016	—	—	—	277.5
September 1, 2016 through September 30, 2016	430	115.45	—	277.5
Total	2,027	107.00	—	

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 July 10, 2014, the Board of Directors approved a stock repurchase program authorizing us to purchase on the (b) open market, including pursuant to a Rule 10b5-1 plan and in privately negotiated transactions, up to \$750.0 million of our common stock.

## Item 6. Exhibits

The exhibits listed in the Exhibit Index (following the signature page of this report) are filed, furnished, or incorporated by reference as part of this report on Form 10-Q.





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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.

EDWARDS LIFESCIENCES  
CORPORATION  
(Registrant)

Date: October 28, 2016 By: /s/ SCOTT B. ULLEM

Scott B. Ullem  
Chief Financial Officer  
(Principal Financial Officer)

Date: October 28, 2016 By: /s/ ROBERT W.A. SELLERS

Robert W.A. Sellers  
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 September 30, 2016, 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