

Edwards Lifesciences Corp
Form 10-Q
November 07, 2013

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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, 2013

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

(State or other jurisdiction of
incorporation or organization)

36-4316614

(I.R.S. Employer Identification No.)

One Edwards Way, Irvine, California

(Address of principal executive offices)

92614

(Zip Code)

(949) 250-2500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if a 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 31, 2013 was 109,406,527.

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EDWARDS LIFESCIENCES CORPORATION
FORM 10-Q
For the quarterly period ended September 30, 2013

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EDWARDS LIFESCIENCES CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

(in millions, except par value; unaudited)

| | September 30, 2013 | December 31, 2012 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 471.0 | \$ 310.9 |
| Short-term investments | 286.6 | 210.5 |
| Accounts and other receivables, net of allowances of \$5.1 and \$5.6, respectively | 327.8 | 347.5 |
| Inventories (Note 3) | 313.9 | 281.0 |
| Deferred income taxes | 41.3 | 43.4 |
| Prepaid expenses | 46.6 | 41.6 |
| Other current assets | 83.2 | 57.0 |
| Total current assets | 1,570.4 | 1,291.9 |
| Long-term accounts receivable, net of allowances of \$6.8 and \$6.4, respectively | 11.1 | 9.9 |
| Property, plant and equipment, net | 409.0 | 373.3 |
| Goodwill | 383.8 | 384.7 |
| Other intangible assets, net (Note 4) | 63.1 | 67.0 |
| Investments in unconsolidated affiliates (Note 5) | 20.7 | 21.1 |
| Deferred income taxes | 41.5 | 47.3 |
| Other assets | 31.0 | 26.3 |
| | \$ 2,530.6 | \$ 2,221.5 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 335.1 | \$ 347.4 |
| Long-term debt (Note 6) | 532.1 | 189.3 |
| Other long-term liabilities | 226.0 | 205.5 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' equity | | |
| Preferred stock, \$.01 par value, authorized 50.0 shares, no shares outstanding | | |
| Common stock, \$1.00 par value, 350.0 shares authorized, 125.7 and 124.2 shares issued, and 109.4 and 114.3 shares outstanding, respectively | 125.7 | 124.2 |
| Additional paid-in capital | 618.0 | 489.0 |
| Retained earnings | 1,969.8 | 1,653.9 |
| Accumulated other comprehensive loss | (42.9) | (37.9) |
| Treasury stock, at cost, 16.3 and 9.9 shares, respectively | (1,233.2) | (749.9) |
| Total stockholders' equity | 1,437.4 | 1,479.3 |

\$ 2,530.6 \$ 2,221.5

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

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EDWARDS LIFESCIENCES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in millions, except per share information; unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net sales | \$ 495.6 | \$ 447.9 | \$ 1,509.5 | \$ 1,389.1 |
| Cost of goods sold | 129.7 | 111.7 | 376.9 | 368.8 |
| Gross profit | 365.9 | 336.2 | 1,132.6 | 1,020.3 |
| Selling, general and administrative expenses | 180.5 | 167.8 | 555.1 | 527.4 |
| Research and development expenses | 84.1 | 73.8 | 244.4 | 216.4 |
| Special (gains) charges (Note 2) | | | (83.6) | 7.0 |
| Interest expense (income), net | 1.0 | (0.3) | 1.2 | (0.4) |
| Other expense, net | 0.4 | 1.5 | 1.7 | 1.0 |
| Income before provision for income taxes | 99.9 | 93.4 | 413.8 | 268.9 |
| Provision for income taxes | 23.0 | 24.2 | 97.9 | 66.8 |
| Net income | \$ 76.9 | \$ 69.2 | \$ 315.9 | \$ 202.1 |

Share information (Note 14)

| | | | | |
|---|---------|---------|---------|---------|
| Earnings per share: | | | | |
| Basic | \$ 0.69 | \$ 0.60 | \$ 2.81 | \$ 1.76 |
| Diluted | \$ 0.68 | \$ 0.58 | \$ 2.75 | \$ 1.71 |
| Weighted-average number of common shares outstanding: | | | | |
| Basic | 111.0 | 115.7 | 112.5 | 114.9 |
| Diluted | 112.9 | 119.0 | 114.7 | 118.4 |

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, | | Nine Months Ended September 30, | |
|--|--|---------|---------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$ 76.9 | \$ 69.2 | \$ 315.9 | \$ 202.1 |
| Other comprehensive income (loss), net of tax (Note 13) | | | | |
| Foreign currency translation adjustments | 18.9 | 23.5 | (0.7) | (0.6) |
| Unrealized (loss) gain on cash flow hedges | (13.3) | (9.8) | (3.4) | 0.4 |
| Unrealized (loss) gain on available-for-sale investments | (0.5) | 0.2 | (0.9) | 0.3 |
| Reclassification of net realized investment loss to earnings | | | | 0.3 |
| Other comprehensive income (loss) | 5.1 | 13.9 | (5.0) | 0.4 |
| Comprehensive income | \$ 82.0 | \$ 83.1 | \$ 310.9 | \$ 202.5 |

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

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EDWARDS LIFESCIENCES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

| | Nine Months Ended September 30, | |
|---|---------------------------------------|----------|
| | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net income | \$ 315.9 | \$ 202.1 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 49.9 | 42.2 |
| Stock-based compensation (Note 10) | 35.9 | 31.3 |
| Excess tax benefit from stock plans | (63.3) | (39.0) |
| Deferred income taxes | 1.4 | 1.1 |
| Special charges (Note 2) | | 7.0 |
| Other | 1.4 | 0.4 |
| Changes in operating assets and liabilities: | | |
| Accounts and other receivables, net | 9.2 | (4.0) |
| Inventories | (41.3) | (23.9) |
| Accounts payable and accrued liabilities | 33.3 | 6.8 |
| Prepaid expenses and other current assets | 20.1 | 15.7 |
| Other | (1.1) | 7.7 |
| Net cash provided by operating activities | 361.4 | 247.4 |
| Cash flows from investing activities | | |
| Capital expenditures | (88.9) | (64.9) |
| Purchases of short-term investments | (373.9) | (526.2) |
| Proceeds from short-term investments | 302.8 | 488.1 |
| (Investments in) proceeds from unconsolidated affiliates, net | (1.5) | 0.4 |
| Investments in intangible assets | (0.6) | (7.0) |
| Proceeds from sale of assets | 1.0 | 2.6 |
| Investments in trading securities, net | (0.6) | (0.1) |
| Other | (4.1) | 0.9 |
| Net cash used in investing activities | (165.8) | (106.2) |
| Cash flows from financing activities | | |
| Proceeds from issuance of debt | 705.1 | 237.9 |
| Payments on debt | (359.8) | (211.6) |
| Purchases of treasury stock | (474.2) | (166.3) |
| Excess tax benefit from stock plans | 63.3 | 39.0 |
| Proceeds from stock plans | 36.9 | 89.4 |
| Equity forward contract related to accelerated share repurchase agreement (Note 11) | (22.7) | |
| Other | 5.8 | 2.9 |
| Net cash used in financing activities | (45.6) | (8.7) |
| Effect of currency exchange rate changes on cash and cash equivalents | 10.1 | 2.1 |
| Net increase in cash and cash equivalents | 160.1 | 134.6 |

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| | | |
|--|----------|----------|
| Cash and cash equivalents at beginning of period | 310.9 | 171.2 |
| Cash and cash equivalents at end of period | \$ 471.0 | \$ 305.8 |

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, 2012. 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.

Recently Adopted Accounting Standards

In December 2011, the Financial Accounting Standards Board ("FASB") issued an amendment to the accounting guidance on disclosures about offsetting assets and liabilities. The guidance requires an entity to disclose both gross and net information about financial instruments and derivative instruments that are eligible for offset in the consolidated balance sheet or subject to an enforceable master netting arrangement or similar agreement. In January 2013, the FASB clarified that this guidance applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the accounting guidance or subject to a master netting arrangement or similar agreement. The guidance was effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company has provided the information required by this guidance in Note 8.

In July 2012, the FASB issued an amendment to the accounting guidance on intangible assets to permit an entity to first assess qualitative factors to determine whether it is more likely than not that the indefinite-lived asset is impaired as a basis for determining whether it is necessary to calculate the fair value of the indefinite-lived asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. The guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company will consider the use of the qualitative factors when it performs its next impairment test or upon a triggering event.

In February 2013, the FASB issued an amendment to the accounting guidance on reporting amounts reclassified out of accumulated other comprehensive income. The guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. The guidance was effective prospectively for reporting periods beginning after December 15, 2012, and interim periods within those annual periods. The Company has provided the information required by this guidance in Note 13.

New Accounting Standards Not Yet Adopted

In June 2013, the FASB issued an amendment to the accounting guidance on income taxes impacting the presentation of unrecognized tax benefits. The guidance requires an entity to net its unrecognized tax benefits against the deferred tax assets for all same jurisdiction net operating loss or similar tax loss carryforwards, or tax credit carryforwards. The guidance is effective for annual reporting

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periods beginning after December 15, 2013 and interim periods therein. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial statements.

2. SPECIAL (GAINS) CHARGES

Litigation Award

In February 2013, the Company received \$83.6 million from Medtronic, Inc. in satisfaction of the April 2010 jury award of damages for infringement of the U.S. Andersen transcatheter heart valve patent, including accrued interest. See Note 12 for additional information.

Licensing of Intellectual Property

In April 2012, the Company obtained an exclusive license to a suturing device for minimally invasive surgery applications. The intellectual property is under development and there is uncertainty as to whether the product will ultimately be approved. The Company recorded a charge of \$2.0 million related to the upfront licensing and royalty fees.

In June 2012, the Company obtained a co-exclusive sublicense to intellectual property related to processing tissue and implanting cardiovascular valves. The intellectual property is under development and there is uncertainty as to whether the product will ultimately be approved. The Company recorded a charge of \$5.0 million related to the upfront licensing fee.

3. INVENTORIES

Inventories consisted of the following (in millions):

| | September 30, 2013 | December 31, 2012 |
|-------------------|-----------------------|----------------------|
| Raw materials | \$ 61.1 | \$ 49.5 |
| Work in process | 70.3 | 58.8 |
| Finished products | 182.5 | 172.7 |
| | \$ 313.9 | \$ 281.0 |

4. OTHER INTANGIBLE ASSETS

Other intangible assets consisted of the following (in millions):

| | September 30, 2013 | | | December 31, 2012 | | |
|--|--------------------|-----------------------------|--------------------------|-------------------|-----------------------------|--------------------------|
| | Cost | Accumulated Amortization | Net Carrying Value | Cost | Accumulated Amortization | Net Carrying Value |
| Amortizable intangible assets | | | | | | |
| Patents | \$ 218.3 | \$ (176.6) | \$ 41.7 | \$ 211.2 | \$ (167.3) | \$ 43.9 |
| Developed technology | 41.7 | (34.5) | 7.2 | 41.3 | (33.0) | 8.3 |
| Other | 10.7 | (7.7) | 3.0 | 10.6 | (6.8) | 3.8 |
| | 270.7 | (218.8) | 51.9 | 263.1 | (207.1) | 56.0 |
| Unamortizable intangible assets | | | | | | |
| In-process research and development | 11.2 | | 11.2 | 11.0 | | 11.0 |
| | \$ 281.9 | \$ (218.8) | \$ 63.1 | \$ 274.1 | \$ (207.1) | \$ 67.0 |

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The net carrying value of patents includes \$22.2 million of capitalized legal costs related to the defense and enforcement of issued patents and trademarks for which success is deemed probable as of September 30, 2013.

Amortization expense related to other intangible assets was \$4.0 million and \$3.5 million for the three months ended September 30, 2013 and 2012, respectively, and \$11.6 million and \$10.1 million for the nine months ended September 30, 2013 and 2012, respectively. Estimated amortization expense for each of the years ending December 31 is as follows (in millions):

| | |
|------|---------|
| 2013 | \$ 15.6 |
| 2014 | 14.9 |
| 2015 | 13.7 |
| 2016 | 13.3 |
| 2017 | 3.1 |

The Company expenses costs incurred to renew or extend the term of acquired intangible assets.

5. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

The Company has a number of equity investments in privately and publicly held companies. Investments in these unconsolidated affiliates are as follows:

| | September 30, 2013 | December 31, 2012 |
|---|-----------------------|----------------------|
| | (in millions) | |
| Available-for-sale investments | | |
| Cost | \$ 0.4 | \$ 0.4 |
| Unrealized gains | 0.6 | 1.6 |
| Fair value of available-for-sale investments | 1.0 | 2.0 |
| Equity method investments | | |
| Cost | 13.7 | 13.3 |
| Equity in losses | (2.9) | (1.8) |
| Carrying value of equity method investments | 10.8 | 11.5 |
| Cost method investments | | |
| Carrying value of cost method investments | 8.9 | 7.6 |
| Total investments in unconsolidated affiliates | \$ 20.7 | \$ 21.1 |

There were no sales of available-for-sale investments during the nine months ended September 30, 2013. For the nine months ended September 30, 2012, proceeds from sales of available-for-sale investments were \$2.1 million, and the Company realized pre-tax gains from these sales of \$0.4 million.

6. DEBT

On June 13, 2013, the Company amended its Four-Year Credit Agreement ("Credit Facility") to increase the aggregate borrowings provided under the Credit Facility to \$750.0 million. Additional issuance costs of \$0.5 million that were incurred due to the amendment are being amortized to interest expense over the remaining term of the Credit Facility, which matures on July 29, 2015. As of September 30, 2013, borrowings of \$532.1 million were outstanding under the Credit Facility and have been classified as long-term obligations as these borrowings were expected to be refinanced through the issuance of long-term notes payable. See Note 17 for additional information.

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7. 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, bank time deposits, accounts and other receivables, investments in unconsolidated affiliates, 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.

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.

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, 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---------|---------|---------|---------|
| Assets | | | | |
| Investments held for executive deferred compensation plan | \$ 14.4 | \$ | \$ | \$ 14.4 |
| Investments in unconsolidated affiliates | 1.0 | | | 1.0 |
| Derivatives | | 13.2 | | 13.2 |
| | \$ 15.4 | \$ 13.2 | \$ | \$ 28.6 |
| Liabilities | | | | |
| Derivatives | \$ | \$ 10.8 | \$ | \$ 10.8 |
| Executive deferred compensation plan | 14.7 | | | 14.7 |
| | \$ 14.7 | \$ 10.8 | \$ | \$ 25.5 |
| December 31, 2012 | | | | |
| Assets | | | | |
| Investments held for executive deferred compensation plan | \$ 12.7 | \$ | \$ | \$ 12.7 |
| Investments in unconsolidated affiliates | 2.0 | | | 2.0 |
| Derivatives | | 5.7 | | 5.7 |
| | \$ 14.7 | \$ 5.7 | \$ | \$ 20.4 |
| Liabilities | | | | |
| Executive deferred compensation plan | \$ 12.4 | \$ | \$ | \$ 12.4 |

Executive Deferred Compensation Plan

The Company holds investments in trading securities related to its executive deferred compensation plan. The investments are in a variety of stock and bond mutual funds. The fair values of

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these investments and the corresponding liabilities are based on quoted market prices and are categorized as Level 1.

Investments in Unconsolidated Affiliates

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 and are categorized as Level 1.

Derivative Instruments

The Company uses derivative financial instruments in the form of foreign currency forward exchange contracts to manage foreign currency exposures. All derivatives contracts are recognized on the balance sheet at their fair value. The fair value for derivatives is determined based on quoted foreign currency exchange rates discounted to present as appropriate. The valuation procedures are based upon well recognized financial principles. Although readily observable data is used in the valuations, different valuation methods could have an effect on the estimated fair value. The derivative instruments are categorized as Level 2.

8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company uses derivative financial instruments to manage its currency exchange rate risk as summarized below. Notional amounts are stated in United States dollar equivalents at spot exchange rates at the respective dates. As of September 30, 2013 and December 31, 2012, the Company held foreign currency forward exchange contracts with notional amounts of \$790.1 million and \$779.0 million, respectively.

The Company uses foreign currency forward exchange contracts to offset the changes due to currency rate movements in the amount of future cash flows associated with intercompany transactions and certain third-party expenses expected to occur within the next 13 months. These foreign currency forward exchange contracts are designated as cash flow hedges. Certain of the Company's locations have assets and liabilities denominated in currencies other than their functional currencies resulting from intercompany and third-party transactions. The Company uses foreign currency forward exchange contracts 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 are denominated in currencies of major industrial countries, principally the Euro and the Japanese yen. It is the Company's policy not to enter into derivative financial instruments for speculative purposes.

All derivative financial instruments are recognized at fair value in the consolidated condensed balance sheets. 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 nine months ended September 30, 2013 and 2012, the Company did not record any gains or losses due to hedge ineffectiveness. The gains and losses on derivative financial instruments for which the Company does not elect hedge accounting treatment are recognized in the consolidated condensed statements of operations in each period based upon the change in the fair value of the derivative financial instrument. Cash flows from derivative financial instruments are reported as operating activities in the consolidated condensed statements of cash flows.

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

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

| Derivatives designated as hedging instruments | Balance Sheet Location | Fair Value | |
|---|---------------------------|-----------------------|----------------------|
| | | September 30, 2013 | December 31, 2012 |
| Assets | | | |
| Foreign currency contracts | Other current assets | \$ 13.2 | \$ 5.7 |
| Liabilities | | | |
| Foreign currency contracts | Accrued liabilities | \$ 10.8 | \$ |

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

| September 30, 2013 | Gross Amounts(a) | Gross Amounts Offset in 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 | \$ 13.2 | \$ | \$ 13.2 | \$ (5.2) | \$ | \$ 8.0 |
| Derivative Liabilities | | | | | | |
| Foreign currency contracts | \$ 10.8 | \$ | \$ 10.8 | \$ (5.2) | \$ | \$ 5.6 |
| December 31, 2012 | | | | | | |
| Derivative Assets | | | | | | |
| Foreign currency contracts | \$ 10.9 | \$ (5.2) | \$ 5.7 | \$ | \$ | \$ 5.7 |
| Derivative Liabilities | | | | | | |
| Foreign currency contracts | \$ 5.2 | \$ (5.2) | \$ | \$ | \$ | \$ |

- (a) The gross amounts presented as of December 31, 2012 do not include derivative assets of \$3.8 million, and derivative liabilities of \$3.8 million as these derivatives were not subject to a master-netting arrangement and did not have rights of offset.

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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):

| Derivatives in cash flow hedging relationships | 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, | | | Three Months Ended September 30, | |
| | 2013 | 2012 | | 2013 | 2012 |
| Foreign currency contracts | \$ (14.4) | \$ (9.5) | Cost of goods sold | \$ 7.3 | \$ 6.2 |

| Derivatives in cash flow hedging relationships | 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 | |
|--|--|--------|--|--|--------|
| | Nine Months Ended September 30, | | | Nine Months Ended September 30, | |
| | 2013 | 2012 | | 2013 | 2012 |
| Foreign currency contracts | \$ 13.3 | \$ 3.9 | Cost of goods sold | \$ 18.3 | \$ 3.5 |

| 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 | |
|---|---|---|----------|
| | | Three Months Ended September 30, | |
| | | 2013 | 2012 |
| Foreign currency contracts | Other expense, net | \$ (0.3) | \$ (3.5) |

| 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 | |
|---|---|---|----------|
| | | Nine Months Ended September 30, | |
| | | 2013 | 2012 |
| Foreign currency contracts | Other expense, net | \$ 14.1 | \$ (3.0) |

The Company expects that during the next twelve months it will reclassify to earnings a \$3.6 million gain currently recorded in "Accumulated Other Comprehensive Loss."

9. DEFINED BENEFIT PLANS

The components of net periodic benefit cost for the three and nine months ended September 30, 2013 and 2012 were as follows (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|----------------------------------|--------|---------------------------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Service cost | \$ 2.0 | \$ 1.8 | \$ 5.9 | \$ 5.4 |
| Interest cost | 0.5 | 0.6 | 1.5 | 1.8 |
| Expected return on plan assets | (0.3) | (0.4) | (0.9) | (1.1) |

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| | | | | |
|--|--------|--------|--------|--------|
| Amortization of actuarial loss, prior service credit and other | 0.2 | 0.2 | 0.7 | 0.5 |
| Net periodic benefit cost | \$ 2.4 | \$ 2.2 | \$ 7.2 | \$ 6.6 |

Table of Contents**10. 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, 2013 and 2012 was as follows (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|---------|---------------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Cost of goods sold | \$ 1.6 | \$ 1.4 | \$ 4.5 | \$ 3.7 |
| Selling, general and administrative expenses | 8.6 | 8.0 | 26.2 | 23.1 |
| Research and development expenses | 1.7 | 1.5 | 5.2 | 4.5 |
| Total stock-based compensation expense | \$ 11.9 | \$ 10.9 | \$ 35.9 | \$ 31.3 |

At September 30, 2013, the total remaining compensation cost related to nonvested stock options, restricted stock units ("RSUs"), market-based restricted stock units ("MRSUs") and employee stock purchase plan ("ESPP") subscription awards amounted to \$86.5 million, which will be amortized on a straight-line basis over the weighted-average remaining requisite service period of 31 months.

During the nine months ended September 30, 2013, the Company granted 1.4 million stock options at a weighted-average exercise price of \$71.51, and 0.2 million shares of RSUs at a weighted-average grant-date fair value of \$72.25. The Company also granted 0.1 million shares of MRSUs at a weighted-average grant-date fair value of \$49.78. The MRSUs 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 percent to 175 percent of the targeted number of shares granted.

Fair Value Disclosures

The fair value of the MRSUs 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 MRSUs granted during the nine months ended September 30, 2013 and 2012 included a risk-free interest rate of 0.4 percent and 0.3 percent, respectively, and an expected volatility rate of 33.4 percent and 30.4 percent, 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 September 30, | | Nine Months Ended September 30, | |
|-------------------------|--|----------|---------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Risk-free interest rate | 1.4% | 0.6% | 0.8% | 0.7% |
| Expected dividend yield | None | None | None | None |
| Expected volatility | 30.8% | 31.2% | 30.7% | 31.3% |
| Expected term (years) | 4.9 | 4.9 | 4.6 | 4.6 |
| Fair value, per share | \$ 19.46 | \$ 29.00 | \$ 19.47 | \$ 23.92 |

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

ESPP

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------|--|----------|---------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Risk-free interest rate | 0.1% | 0.2% | 0.1% | 0.1% |
| Expected dividend yield | None | None | None | None |
| Expected volatility | 30.2% | 36.0% | 33.4% | 33.2% |
| Expected term (years) | 0.6 | 0.6 | 0.6 | 0.6 |
| Fair value, per share | \$ 16.05 | \$ 26.90 | \$ 20.31 | \$ 21.30 |

11. ACCELERATED SHARE REPURCHASE

In August 2013, the Company entered into an accelerated share repurchase ("ASR") agreement with a bank. The ASR agreement provides for the repurchase 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 agreement, less a discount, and is subject to collar provisions that establish minimum and maximum number of shares to be repurchased. In August 2013, under the terms of the ASR agreement, the Company paid \$250.0 million and received an initial delivery of 3.1 million shares, representing the minimum number of shares to be repurchased under the agreement. The initial shares were valued at \$72.39 per share based on the VWAP of the Company's common stock on August 23, 2013, which was the date the major terms of the ASR agreement were finalized, and represented approximately 90 percent of the total contract value. At the conclusion of the ASR agreement, the Company may receive additional shares, resulting in up to a maximum of 3.8 million shares. If the agreement had been settled on September 30, 2013, the bank would have been required to deliver 0.5 million additional shares based on an average VWAP, less the discount, of \$69.54 per share for the period August 26 through September 30, 2013. The ASR agreement has a termination date of December 17, 2013, although the termination date may be accelerated at the bank's option.

The ASR agreement was 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 condensed balance sheet. 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.

12. COMMITMENTS AND CONTINGENCIES

In February 2008, Edwards Lifesciences filed a lawsuit against CoreValve, Inc. in the U.S. District Court for the District of Delaware alleging that its ReValving System infringes three of Edwards' U.S. Andersen patents, later narrowed to one patent ("the '552 patent"). Medtronic, Inc. ("Medtronic") acquired CoreValve, Inc. ("Medtronic CoreValve") in April 2009. In April 2010, a federal jury found the '552 patent to be valid and found that Medtronic CoreValve willfully infringes it. The jury also awarded Edwards \$73.9 million in damages. In February 2011, the District Court reaffirmed the jury decision and ruled that Edwards is entitled to recover additional damages due to Medtronic CoreValve's continued infringing sales from the trial through the life of the patent, plus interest. In the

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same ruling, the court denied Edwards' motions for a permanent injunction, as well as its motion for increased damages relating to Medtronic CoreValve's willful infringement. In November 2012, the U.S. Court of Appeals for the Federal Circuit affirmed the April 2010 federal jury decision that Medtronic CoreValve is willfully infringing the '552 patent and ordered the trial court to reconsider Edwards' request for a permanent injunction that would prohibit the manufacture or sale of the CoreValve System in the United States. The Court of Appeals also affirmed the validity of the '552 patent and the federal jury's verdict awarding an initial payment of \$73.9 million in damages to Edwards, which covers infringement through early 2010. In February 2013, the Court of Appeals issued a mandate affirming the judgment of the District Court and directing it to reconsider its prior denial of Edwards' request for a permanent injunction and to assess additional damages for the period after the date of the jury award. In February 2013, Edwards received a payment of \$83.6 million from Medtronic in satisfaction of the April 2010 jury award of damages for infringement, including accrued interest, through April 2010. Proceedings continue before the District Court regarding the permanent injunction and the additional damages. In October 2013, the U.S. Supreme Court denied Medtronic's request for review of the Court of Appeals decision.

A second lawsuit is pending in the same District Court against Medtronic CoreValve and Medtronic alleging infringement of three of Edwards' U.S. Andersen patents. In July 2013, the District Court dismissed one of the patents from the lawsuit based on the outcome of reexamination proceedings at the United States Patent and Trademark Office ("USPTO").

In May 2012, the USPTO granted Medtronic's fourth request to reexamine the validity of the claim of the '552 patent and in February 2013 confirmed the validity of that patent.

In June 2011, Medtronic filed a lawsuit in the U.S. District Court for the District of Minnesota alleging that certain surgical valve holders and a surgical embolic filter device infringe its patents. Edwards counterclaimed against Medtronic, alleging that the Medtronic Contour 3D annuloplasty ring infringes an Edwards ring patent. Edwards subsequently added two more patents to its counterclaim. In February and March 2012, the USPTO granted Edwards' requests to reexamine the validity of three of the four Medtronic patents involved in this lawsuit.

In June 2011, Medtronic CoreValve also filed another lawsuit in the U.S. District Court for the Central District of California alleging that the *Edwards SAPIEN* transcatheter heart valve infringes a Medtronic CoreValve patent. Edwards counterclaimed against Medtronic CoreValve and Medtronic, alleging that the Medtronic CoreValve heart valve infringes Edwards' U.S. Letac-Cribier transcatheter heart valve patent. Edwards' counterclaim was subsequently transferred to the U.S. District Court for the District of Delaware, where proceedings continue. In April 2012, the USPTO granted Edwards' request to reexamine the validity of the Medtronic CoreValve patent. In November 2012, the California court ruled that the Medtronic CoreValve patent is invalid and dismissed the lawsuit in favor of Edwards. Medtronic has filed an appeal.

In March 2012, Medtronic filed another lawsuit in the U.S. District Court for the Central District of California alleging that the methods of implanting the *Edwards SAPIEN* transcatheter heart valve in the United States infringe two Medtronic patents relating to methods of pacing the heart.

In August 2012, Edwards filed a lawsuit against Medtronic in the German District Court of Mannheim alleging that Medtronic's CoreValve and Evolut valves infringe two of Edwards' transcatheter valve patents. These patents were issued by the European Patent Office ("EPO") and were validated as national patents in various European countries, including Germany. In April 2013, Edwards added a third transcatheter valve patent to the lawsuit. An infringement hearing was held in April 2013 for one of the original patents, and the Court ruled that the Medtronic valves did not infringe that patent. Edwards has appealed this decision. The hearing for the second patent was held in May 2013 and the Court subsequently ruled that the Medtronic valves infringe that patent. The Court granted an injunction prohibiting the sale of CoreValve and Evolut systems in Germany, a recall of

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these products, and an accounting for past damages. The Court's decision requires Edwards to post a €50 million bond in order to enforce the decision. Edwards has posted this bond, which did not require any transfer or restriction of cash. The bond is a guarantee of Edwards' potential liability for damages incurred by Medtronic for lost sales of its valves during the injunction if the decision is reversed on appeal or the patents are held invalid. Edwards is currently not able to estimate the impact of the infringement decision. A hearing date for the third patent is scheduled for December 2013. Related oppositions on the validity of these patents are ongoing at the EPO. In the opposition to the second patent, the EPO issued a non-binding preliminary opinion in October 2013 outlining concerns about the validity of that patent. An EPO hearing for the opposition to the second patent is scheduled for March 2014.

On September 18, 2013 and October 24, 2013, persons purporting to represent a class of persons who purchased the common stock of Edwards between April 25, 2012 and April 23, 2013 filed lawsuits against Edwards and certain of its officers in the United States District Court for the Central District of California. The lawsuits allege that certain of Edwards' public statements concerning the projected sales and prospects of the *SAPIEN* transcatheter aortic heart valve were false and misleading and assert claims under Sections 10(b) and 20 of the Securities Exchange Act of 1934. Edwards believes that the lawsuits are without merit and intends to vigorously defend against the allegations.

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. 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 could have a material adverse impact on Edwards Lifesciences' net income or cash flows in the period in which it is recorded or paid, management does not believe that any such charge relating to any currently pending lawsuit would have a material adverse effect on Edwards Lifesciences' financial position, results of operations or liquidity.

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

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13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Presented below is a summary of activity for each component of "Accumulated Other Comprehensive Loss" for the nine months ended September 30, 2013.

| | Foreign Currency Translation Adjustments | Unrealized Gain on Cash Flow Hedges | Unrealized Gain on Available-for-Sale Investments | Unrealized Pension Costs | Total Accumulated Other Comprehensive Loss |
|--|---|--|---|--------------------------------|--|
| (in millions) | | | | | |
| December 31, 2012 | \$ (25.8) | \$ 7.0 | \$ 1.4 | \$ (20.5) | \$ (37.9) |
| Other comprehensive (loss) income before reclassifications | (0.7) | 13.3 | (1.0) | | 11.6 |
| Amounts reclassified from accumulated other comprehensive loss | | (18.3) | | | (18.3) |
| Deferred income tax income | | 1.6 | 0.1 | | 1.7 |
| September 30, 2013 | \$ (26.5) | \$ 3.6 | \$ 0.5 | \$ (20.5) | \$ (42.9) |

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

| Details about Accumulated Other Comprehensive Loss Components | Amount Reclassified from Accumulated Other Comprehensive Loss | | Affected Line on Consolidated Condensed Statements of Operations |
|---|---|--------------------------------------|--|
| | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 | |
| Gain on cash flow hedges | \$ 7.3 | \$ 18.3 | Cost of goods sold |
| | (2.8) | (7.0) | Provision for income taxes |
| | \$ 4.5 | \$ 11.3 | Net of tax |

14. 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 RSUs, MRSUs, and in-the-money options. The dilutive impact of the RSUs, MRSUs, 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.

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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, | | Nine Months Ended September 30, | |
|--|--|---------|---------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Basic: | | | | |
| Net income | \$ 76.9 | \$ 69.2 | \$ 315.9 | \$ 202.1 |
| Weighted-average shares outstanding | 111.0 | 115.7 | 112.5 | 114.9 |
| Basic earnings per share | \$ 0.69 | \$ 0.60 | \$ 2.81 | \$ 1.76 |
| Diluted: | | | | |
| Net income | \$ 76.9 | \$ 69.2 | \$ 315.9 | \$ 202.1 |
| Weighted-average shares outstanding | 111.0 | 115.7 | 112.5 | 114.9 |
| Dilutive effect of stock plans | 1.9 | 3.3 | 2.2 | 3.5 |
| Dilutive weighted-average shares outstanding | 112.9 | 119.0 | 114.7 | 118.4 |
| Diluted earnings per share | \$ 0.68 | \$ 0.58 | \$ 2.75 | \$ 1.71 |

Stock options, RSUs, and MRSUs to purchase 3.6 million and 1.3 million shares for the three months ended September 30, 2013 and 2012, respectively, and 3.2 million and 1.6 million for the nine months ended September 30, 2013 and 2012, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. Additionally, 0.5 million shares that would have been received if the ASR agreement discussed in Note 11 were settled as of September 30, 2013 were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

15. INCOME TAXES

The Company's effective income tax rates were 23.0% and 23.7% for the three and nine months ended September 30, 2013, respectively, and 25.9% and 24.8% for the three and nine months ended September 30, 2012, respectively.

The federal research credit expired on December 31, 2011 and was not reinstated until January 2, 2013. Accordingly, the effective income tax rates for the three and nine months ended September 30, 2012 were calculated without an assumed benefit for the federal research credit. The effective income tax rate for the nine months ended September 30, 2013 included (1) an \$8.4 million benefit for the full year 2012 federal research credit and (2) \$31.3 million of tax expense associated with the \$83.6 million litigation award received from Medtronic, Inc. in February 2013 (see Note 2). The effective income tax rate for the nine months ended September 30, 2012 included a \$2.3 million benefit from the remeasurement of uncertain tax positions.

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.

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As of September 30, 2013 and December 31, 2012, the liability for income taxes associated with uncertain tax positions was \$128.2 million and \$113.6 million, respectively. The Company estimates that these liabilities would be reduced by \$27.3 million and \$26.1 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 \$100.9 million and \$87.5 million, respectively, if not required, would favorably affect the Company's effective tax rate.

At September 30, 2013, the Company had concluded all United States federal income tax matters for years through 2008. The Internal Revenue Service began its examination of the 2009 and 2010 tax years during the second quarter of 2011. All material state, local and foreign income tax matters have been concluded for years through 2006.

16. 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.

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, 2012. Net sales and pre-tax income of reportable segments 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 operating profit as presented may not be representative of the geographical distribution that would occur if the segments were not interdependent. Net sales by geographic area are based on the location of the customer.

Certain items are maintained at the corporate level and are not allocated to the segments. The non-allocated items include net interest expense, global marketing expenses, corporate research and development expenses, manufacturing variances, corporate headquarters costs, special gains and charges, stock-based compensation, foreign currency hedging activities, certain litigation costs and most of the Company's amortization expense. Although most of the Company's depreciation expense is included in segment pre-tax income, due to the Company's methodology for cost build-up, it is impractical to determine the amount of depreciation expense included in each segment, and, therefore, a portion is maintained at the corporate level. The Company neither discretely allocates assets to its operating segments, nor evaluates the operating segments using discrete asset information.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------|--|----------|---------------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Segment Net Sales | | | | |
| United States | \$ 232.1 | \$ 193.5 | \$ 700.5 | \$ 587.1 |
| Europe | 146.2 | 129.7 | 462.4 | 430.9 |
| Japan | 69.2 | 70.7 | 209.5 | 214.0 |
| Rest of world | 65.4 | 62.0 | 183.0 | 171.7 |
| | | | | |
| Total segment net sales | \$ 512.9 | \$ 455.9 | \$ 1,555.4 | \$ 1,403.7 |

| | | | | |
|-------------------------------|----------|----------|----------|----------|
| Segment Pre-tax Income | | | | |
| United States | \$ 135.1 | \$ 109.2 | \$ 410.6 | \$ 330.2 |
| Europe | 66.2 | 53.4 | 212.4 | 185.2 |
| Japan | 31.6 | 36.5 | 102.0 | 110.2 |
| Rest of world | 20.1 | 19.3 | 50.1 | 48.5 |
| | | | | |
| Total segment pre-tax income | \$ 253.0 | \$ 218.4 | \$ 775.1 | \$ 674.1 |

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 September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|--|----------|---------------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net Sales Reconciliation | | | | |
| Segment net sales | \$ 512.9 | \$ 455.9 | \$ 1,555.4 | \$ 1,403.7 |
| Foreign currency | (17.3) | (8.0) | (45.9) | (14.6) |
| | | | | |
| Consolidated net sales | \$ 495.6 | \$ 447.9 | \$ 1,509.5 | \$ 1,389.1 |
| | | | | |
| Pre-tax Income Reconciliation | | | | |
| Segment pre-tax income | \$ 253.0 | \$ 218.4 | \$ 775.1 | \$ 674.1 |
| Unallocated amounts: | | | | |
| Corporate items | (148.8) | (127.4) | (440.0) | (399.1) |
| Special gains (charges) | | | 83.6 | (7.0) |
| Interest (expense) income, net | (1.0) | 0.3 | (1.2) | 0.4 |
| Foreign currency | (3.3) | 2.1 | (3.7) | 0.5 |
| | | | | |
| Consolidated pre-tax income | \$ 99.9 | \$ 93.4 | \$ 413.8 | \$ 268.9 |

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Enterprise-Wide Information

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|----------|---------------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| (in millions) | | | | |
| Net Sales by Geographic Area | | | | |
| United States | \$ 232.1 | \$ 193.6 | \$ 700.5 | \$ 587.2 |
| Europe | 144.4 | 121.8 | 454.2 | 417.1 |
| Japan | 56.7 | 71.8 | 176.0 | 214.9 |
| Rest of world | 62.4 | 60.7 | 178.8 | 169.9 |
| | \$ 495.6 | \$ 447.9 | \$ 1,509.5 | \$ 1,389.1 |
| Net Sales by Major Product and Service Area | | | | |
| Surgical Heart Valve Therapy | \$ 191.8 | \$ 185.7 | \$ 594.2 | \$ 589.8 |
| Transcatheter Heart Valves | 172.0 | 123.8 | 523.8 | 391.1 |
| Critical Care | 131.8 | 138.4 | 391.5 | 408.2 |
| | \$ 495.6 | \$ 447.9 | \$ 1,509.5 | \$ 1,389.1 |

| | September 30, 2013 | December 31, 2012 |
|--|-----------------------|----------------------|
| | (in millions) | |
| Long-lived Tangible Assets by Geographic Area | | |
| United States | \$ 293.4 | \$ 263.4 |
| International | 146.6 | 136.2 |
| | \$ 440.0 | \$ 399.6 |

17. SUBSEQUENT EVENT

In October 2013, the Company issued \$600.0 million of 2.875% fixed-rate unsecured senior notes due October 15, 2018 (the "Notes"). The proceeds from the Notes of \$597.0 million, which is net of an issuance discount of \$3.0 million, was used to repay all amounts outstanding under the Company's Credit Facility and the remainder will be used for general corporate purposes. Interest is payable semi-annually in arrears, with the first payment commencing in April 2014. The effective interest rate is 2.983%. Issuance costs, which were \$1.8 million as of September 30, 2013, as well as the discount on the Notes, will be amortized to interest expense over the term of the Notes. The Company may redeem the Notes, in whole or in part, at any time and from time to time at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, the Company may be required to repurchase all or a portion of the Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest. The Notes also include covenants that limit the Company's ability to incur secured indebtedness, enter into sale and leaseback transactions, and consolidate, merge or transfer all or substantially all of its assets.

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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. The Company (as defined below in "Overview") intends 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 the Company's 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 the Company's results or future business, financial condition, results of operations or performance to differ materially from the Company's 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, the Company's annual report on Form 10-K for the year ended December 31, 2012 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 the Company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of the statement. If the Company does update or correct one or more of these statements, investors and others should not conclude that the Company will make additional updates or corrections.

Overview

Edwards Lifesciences Corporation ("Edwards Lifesciences" or the "Company") is focused on technologies that treat structural heart disease and critically ill patients. A pioneer in the development and commercialization of heart valve products, Edwards Lifesciences is the world's leading manufacturer of heart valves and repair products used to replace or repair a patient's diseased or defective heart valve. The Company is also a global leader in hemodynamic monitoring systems used to measure a patient's cardiovascular function in the hospital setting.

The Company reports its products and technologies in three product groups: Surgical Heart Valve Therapy; Transcatheter Heart Valves; and Critical Care.

Edwards Lifesciences' **Surgical Heart Valve Therapy** portfolio is comprised primarily of tissue heart valves and heart valve repair products for the surgical replacement or repair of a patient's heart valve. The portfolio also includes a diverse line of cardiac surgery systems used during minimally invasive surgical procedures, and cannulae, embolic protection devices and other products used during cardiopulmonary bypass. The Company's **Transcatheter Heart Valves** portfolio includes technologies designed to treat heart valve disease using catheter-based approaches as opposed to open surgical techniques. In the **Critical Care** portfolio, Edwards Lifesciences' products include pulmonary artery catheters, disposable pressure transducers and advanced monitoring systems. The portfolio also includes a line of balloon catheter-based vascular products, surgical clips and inserts.

The health care marketplace continues to be competitive with strong global and local competitors. The Company competes with many companies, ranging from small start-up enterprises to companies that are larger with broader product offerings than Edwards Lifesciences. Furthermore, rapid product

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development and technological change characterize the market in which the Company competes. Global demand for health care is increasing as the population ages. There is mounting pressure to contain health care costs in the face of this increasing demand, which has resulted in pricing and market share pressures. The cardiovascular segment of the medical device industry is dynamic, and technology, cost-of-care considerations, regulatory reform, industry and customer consolidation, and evolving patient needs are expected to continue to drive change.

New Accounting Standards Not Yet Adopted

In June 2013, the Financial Accounting Standards Board issued an amendment to the accounting guidance on income taxes impacting the presentation of unrecognized tax benefits. The guidance requires an entity to net its unrecognized tax benefits against the deferred tax assets for all same jurisdiction net operating loss or similar tax loss carryforwards, or tax credit carryforwards. The guidance is effective for annual reporting periods beginning after December 15, 2013 and interim periods therein. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial statements.

Results of Operations*Net Sales Trends*

(dollars in millions)

| | Three Months Ended | | | | Nine Months Ended | | | |
|------------------------|--------------------|-----------------|----------------|----------------|-------------------|-------------------|-----------------|----------------|
| | September 30, | | Change | Percent Change | September 30, | | Change | Percent Change |
| | 2013 | 2012 | | | 2013 | 2012 | | |
| United States | \$ 232.1 | \$ 193.6 | \$ 38.5 | 19.9% | \$ 700.5 | \$ 587.2 | \$ 113.3 | 19.3% |
| International | 263.5 | 254.3 | 9.2 | 3.6% | 809.0 | 801.9 | 7.1 | 0.9% |
| Total net sales | \$ 495.6 | \$ 447.9 | \$ 47.7 | 10.6% | \$ 1,509.5 | \$ 1,389.1 | \$ 120.4 | 8.7% |

In the United States, the \$38.5 million and \$113.3 million increases in net sales for the three and nine months ended September 30, 2013 were due primarily to Transcatheter Heart Valves, which increased net sales by \$30.8 million and \$101.2 million, respectively, driven primarily by sales of the *Edwards SAPIEN* transcatheter heart valve. Procedure volume increased following the United States Food and Drug Administration ("FDA") action in October 2012 to expand the indicated patient population and access routes compared to the original 2011 approval.

International net sales increased \$9.2 million and \$7.1 million for the three and nine months ended September 30, 2013, respectively, due primarily to:

Transcatheter Heart Valves, which increased net sales by \$14.7 million and \$29.5 million, respectively, driven primarily by sales of the *Edwards SAPIEN XT* transcatheter heart valve; and

surgical heart valve products, which increased net sales by \$4.9 million and \$10.4 million, respectively, driven primarily by sales of the *Carpentier-Edwards PERIMOUNT Magna Mitral Ease* and *EDWARDS INTUITY Elite* valves;

partially offset by:

foreign currency exchange rate fluctuations, which decreased net sales by \$9.0 million and \$31.0 million, respectively, due primarily to the weakening of the Japanese yen against the United States dollar, partially offset by the strengthening of the Euro against the United States dollar.

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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 the Company's hedging activities. For more information see Item 3, "*Quantitative and Qualitative Disclosures About Market Risk.*"

Net Sales by Product Group

(dollars in millions)

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|------------------------------|----------------------------------|----------|---------|----------------|---------------------------------|------------|----------|----------------|
| | 2013 | 2012 | Change | Percent Change | 2013 | 2012 | Change | Percent Change |
| Surgical Heart Valve Therapy | \$ 191.8 | \$ 185.7 | \$ 6.1 | 3.3% | \$ 594.2 | \$ 589.8 | \$ 4.4 | 0.7% |
| Transcatheter Heart Valves | 172.0 | 123.8 | 48.2 | 38.9% | 523.8 | 391.1 | 132.7 | 33.9% |
| Critical Care | 131.8 | 138.4 | (6.6) | (4.8)% | 391.5 | 408.2 | (16.7) | (4.1)% |
| Total net sales | \$ 495.6 | \$ 447.9 | \$ 47.7 | 10.6% | \$ 1,509.5 | \$ 1,389.1 | \$ 120.4 | 8.7% |

Surgical Heart Valve Therapy

Net sales of Surgical Heart Valve Therapy products increased by \$6.1 million and \$4.4 million for the three and nine months ended September 30, 2013, respectively, due primarily to:

surgical heart valve products, which increased net sales by \$10.4 million and \$17.1 million, respectively, driven primarily by sales of the *Carpentier-Edwards PERIMOUNT Magna Aortic Ease*, *Carpentier-Edwards PERIMOUNT Magna Mitral Ease*, and *EDWARDS INTUITY Elite* valves; and

cardiac surgery systems, which increased net sales by \$0.9 million and \$2.7 million, respectively, driven primarily by sales of specialty cannula products;

partially offset by:

foreign currency exchange rate fluctuations, which decreased net sales by \$4.8 million and \$14.8 million, respectively, due primarily to the weakening of the Japanese yen against the United States dollar, partially offset by the strengthening of the Euro against the United States dollar.

At the end of the first quarter of 2013, the Company received approval to sell its *Carpentier-Edwards PERIMOUNT Magna Ease* valve in China. In the United States, the Company received approval from the FDA to include *EDWARDS INTUITY Elite*, its next generation minimally invasive aortic valve surgery system, in its ongoing TRANSFORM Trial, a clinical trial designed to support FDA approval for the product. The Company is continuing to enroll patients in its COMMENCE clinical trial, which is studying its next-generation tissue treatment platform applied to the *Magna Ease* aortic surgical valve and the *Magna Mitral Ease* valve.

Transcatheter Heart Valves

Net sales of Transcatheter Heart Valves for the three and nine months ended September 30, 2013 increased by \$48.2 million and \$132.7 million, respectively, due primarily to:

the *Edwards SAPIEN* transcatheter heart valve in the United States, which increased net sales by \$23.6 million and \$91.2 million, respectively; and

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the *Edwards SAPIEN XT* transcatheter heart valve, which increased net sales by \$22.4 million and \$41.2 million, respectively, primarily due to an increase in international sales.

The Company completed enrollment in Cohort A, the surgical arm of The PARTNER II Trial, which is evaluating the *Edwards SAPIEN XT* transcatheter heart valve for the United States market. The Company submitted its pre-market approval for Cohort B of The PARTNER II Trial to the FDA during the second quarter of 2013. Cohort B is designed for patients with a higher risk profile who are deemed inoperable. Also, during the second quarter of 2013, the Company received approval for *SAPIEN XT* in Japan, and began commercial sales in October 2013. During the third quarter of 2013, the Company received approval for *SAPIEN* in Australia and *SAPIEN XT* in Canada, and received FDA approval to expand The PARTNER II Trial to include a 500 patient cohort to study the *Edwards SAPIEN 3* transcatheter valve system in high risk and inoperable patients. Also, in the third quarter of 2013, the FDA revised the label for the Company's *SAPIEN* valve to remove references to specific access points now making it available for inoperable patients who need alternate access points.

Critical Care

Net sales of Critical Care products for the three and nine months ended September 30, 2013 decreased by \$6.6 million and \$16.7 million, respectively, due primarily to foreign currency exchange rate fluctuations, which decreased net sales by \$7.3 million and \$19.6 million, respectively, due primarily to the weakening of the Japanese yen against the United States dollar.

Gross Profit

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|-------------------------------------|-------|------------|------------------------------------|-------|----------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Gross profit as a percentage of net sales | 73.8% | 75.1% | (1.3) pts. | 75.0% | 73.5% | 1.5 pts. |

The percentage point decrease in gross profit for the three months ended September 30, 2013 and the percentage point increase in gross profit as a percentage of net sales for the nine months ended September 30, 2013 were driven primarily by:

a 2.3 percentage point and 1.3 percentage point decrease, respectively, primarily due to higher manufacturing costs in preparation for multiple Transcatheter Heart Valve product introductions; and

a 0.4 percentage point decrease and 0.7 percentage point increase, respectively, due to the impact of foreign currency exchange rate fluctuations, including the settlement of foreign currency hedging contracts;

partially offset by:

a 1.0 percentage point and 1.2 percentage point increase, respectively, in the United States, and a 0.8 percentage point and 0.5 percentage point increase, respectively, in international markets, due to a more profitable product mix, primarily higher sales of Transcatheter Heart Valves; and

a 0.5 percentage point increase for the nine month period due to the voluntary recalls of certain of the Company's heart valves and Critical Care catheters during the second quarter of 2012;

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

(dollars in millions)

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|-------------------------------------|----------|------------|------------------------------------|----------|------------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| SG&A expenses | \$ 180.5 | \$ 167.8 | \$ 12.7 | \$ 555.1 | \$ 527.4 | \$ 27.7 |
| SG&A expenses as a percentage of net sales | 36.4% | 37.5% | (1.1) pts. | 36.8% | 38.0% | (1.2) pts. |

The increase in SG&A expenses for the three and nine months ended September 30, 2013 was due primarily to (1) higher sales and marketing expenses in the United States and Japan, mainly to support the Transcatheter Heart Valve program and (2) the 2.3% excise tax on United States sales of most medical devices which became effective in 2013. These increases were partially offset by the impact of foreign currency, which reduced expenses by \$2.6 million and \$8.9 million, respectively, due primarily to the weakening of the Japanese yen against the United States dollar, partially offset by the strengthening of the Euro against the United States dollar. The decrease in SG&A expenses as a percentage of net sales for the three and nine months ended September 30, 2013 was due primarily to decreased SG&A expenses in Europe as a percentage of net sales.

Research and Development Expenses

(dollars in millions)

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|-------------------------------------|---------|----------|------------------------------------|----------|----------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Research and development expenses | \$ 84.1 | \$ 73.8 | \$ 10.3 | \$ 244.4 | \$ 216.4 | \$ 28.0 |
| Research and development expenses as a percentage of net sales | 17.0% | 16.5% | 0.5 pts. | 16.2% | 15.6% | 0.6 pts. |

The increase in research and development expenses for the three and nine months ended September 30, 2013 was due primarily to additional investments in a number of heart valve clinical studies and, for the nine months ended September 30, 2013, new product development efforts in the Transcatheter Heart Valve program.

Special (Gains) Charges

Litigation Award

In February 2013, the Company received \$83.6 million from Medtronic, Inc. in satisfaction of the April 2010 jury award of damages for infringement of the U.S. Andersen transcatheter heart valve patent, including accrued interest. For further information, see Note 12 to the "Consolidated Condensed Financial Statements."

Licensing of Intellectual Property

In April 2012, the Company obtained an exclusive license to a suturing device for minimally invasive surgery applications. The intellectual property is under development and there is uncertainty as to whether the product will ultimately be approved. The Company recorded a charge of \$2.0 million related to the upfront licensing and royalty fees.

In June 2012, the Company obtained a co-exclusive sublicense to intellectual property related to processing tissue and implanting cardiovascular valves. The intellectual property is under development

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and there is uncertainty as to whether the product will ultimately be approved. The Company recorded a charge of \$5.0 million related to the upfront licensing fee.

Interest Expense (Income), net

(in millions)

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------------|-------------------------------------|-----------------|---------------|------------------------------------|-----------------|---------------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Interest expense | \$ 1.9 | \$ 0.9 | \$ 1.0 | \$ 4.7 | \$ 3.2 | \$ 1.5 |
| Interest income | (0.9) | (1.2) | 0.3 | (3.5) | (3.6) | 0.1 |
| Interest expense (income), net | \$ 1.0 | \$ (0.3) | \$ 1.3 | \$ 1.2 | \$ (0.4) | \$ 1.6 |

The increase in interest expense for the three and nine months ended September 30, 2013 resulted primarily from a higher average debt balance as compared to the prior year period. The decrease in interest income during the three and nine months ended September 30, 2013 resulted primarily from lower average interest rates, partially offset by higher average investment balances. In October 2013, the Company issued \$600.0 million of 2.875% fixed-rate unsecured senior notes, which is expected to increase the Company's interest expense.

Other Expense, net

(in millions)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|---------------|---------------------------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Loss (gain) on investments in unconsolidated affiliates | \$ 0.7 | \$ 0.3 | \$ 0.7 | \$ (0.7) |
| Foreign exchange losses, net | 0.3 | 0.6 | 1.5 | 1.7 |
| (Gain) loss on sale of property | (0.3) | 0.6 | (0.3) | 0.6 |
| License agreement | | | | (0.9) |
| Other | (0.3) | | (0.2) | 0.3 |
| Other expense, net | \$ 0.4 | \$ 1.5 | \$ 1.7 | \$ 1.0 |

The loss (gain) on investments in unconsolidated affiliates primarily represents the Company's net share of gains and losses in investments accounted for under the equity method, and realized gains and losses on the Company's available-for-sale and cost method investments.

The foreign exchange losses relate to the foreign currency fluctuations in the Company's 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. Foreign exchange fluctuations, related primarily to United States dollar payables in non-United States dollar functional currency locations and Euro denominated intercompany receivables, resulted in a net loss in 2013.

The gain on sale of property during 2013 relates to the sale of property development rights. The loss on sale of property during 2012 was due to the sale of one of the Company's buildings.

The license agreement gain relates to the collection of a previously fully reserved promissory note under a licensing arrangement.

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Provision for Income Taxes

The provision for income taxes consists of provisions for federal, state and foreign income taxes. The Company operates 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. The Company's effective income tax rates were 23.0% and 23.7% for the three and nine months ended September 30, 2013, respectively, and 25.9% and 24.8% for the three and nine months ended September 30, 2012, respectively.

The federal research credit expired on December 31, 2011 and was not reinstated until January 2, 2013. Accordingly, the effective income tax rates for the three and nine months ended September 30, 2012 were calculated without an assumed benefit for the federal research credit. The effective income tax rate for the nine months ended September 30, 2013 included (1) an \$8.4 million benefit for the full year 2012 federal research credit and (2) \$31.3 million of tax expense associated with the \$83.6 million litigation award received from Medtronic, Inc. in February 2013 (see Note 2 to the "*Consolidated Condensed Financial Statements*"). The effective income tax rate for the nine months ended September 30, 2012 included a \$2.3 million benefit from the remeasurement of uncertain tax positions.

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. Management believes that adequate amounts of tax and related penalty and interest have been provided in income tax expense for any adjustments that may result from these uncertain tax positions.

As of September 30, 2013 and December 31, 2012, the liability for income taxes associated with uncertain tax positions was \$128.2 million and \$113.6 million, respectively. The Company estimates that these liabilities would be reduced by \$27.3 million and \$26.1 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 \$100.9 million and \$87.5 million, respectively, if not required, would favorably affect the Company's effective tax rate.

Liquidity and Capital Resources

The Company's sources of cash liquidity include cash on hand and cash equivalents, short-term investments (bank time deposits with original maturities over three months but less than one year), amounts available under credit facilities and cash from operations. The Company believes that these sources are sufficient to fund the current requirements of working capital, capital expenditures and other financial commitments. However, the Company periodically considers various financing alternatives and may, from time to time, seek to take advantage of favorable interest rate environments or other market conditions. The Company believes that it has the financial flexibility to attract long-term capital to fund short-term and long-term growth objectives. However, no assurances can be given that such long-term capital will be available to the Company on favorable terms, or at all.

The Company believes that cash held in the United States, in addition to amounts available under credit facilities and cash from operations, are sufficient to fund its United States operating requirements. Cash and cash equivalents and short-term investments held outside the United States have historically been used to fund international operations and acquire businesses outside of the

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United States, although a portion of those amounts may from time to time be subject to temporary intercompany loans into the United States. As of September 30, 2013, cash and cash equivalents and short-term investments held outside the United States were \$712.9 million. The majority of cash and cash equivalents and short-term investments held outside the United States relate to undistributed earnings of certain of the Company's foreign subsidiaries which are considered to be indefinitely reinvested by the Company. 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 would exist at the time such repatriation is made and the complexities of the tax laws of the United States and the respective foreign jurisdictions.

The Company has a Four-Year Credit Agreement ("the Credit Facility") which matures on July 29, 2015. The Credit Facility provides up to an aggregate of \$500.0 million in borrowings in multiple currencies, with an "accordion feature" allowing the Company to increase the availability under the Credit Facility to \$750.0 million under certain circumstances. On June 13, 2013, the Company exercised the accordion feature and amended its Credit Facility to increase the aggregate borrowings provided under the Credit Facility to \$750.0 million. Borrowings generally bear interest at the London interbank offering rate ("LIBOR") plus a spread ranging from 0.875% to 1.600%, depending on the leverage ratio as defined in the Credit Facility. The Company also pays a facility fee ranging from 0.125% to 0.275%, depending on the leverage ratio, on the entire facility whether or not drawn. As of September 30, 2013, all amounts outstanding under the Credit Facility have been classified as long-term obligations as these borrowings were expected to be refinanced through the issuance of long-term notes payable. As of September 30, 2013, borrowings of \$532.1 million were outstanding under the Credit Facility. The Credit Facility is unsecured and contains various financial and other covenants, including a maximum leverage ratio and a minimum interest coverage ratio, as defined in the Credit Facility. The Company was in compliance with all covenants at September 30, 2013.

In October 2013, the Company issued \$600.0 million of 2.875% fixed-rate unsecured senior notes due October 15, 2018 (the "Notes"). The proceeds from the Notes of \$597.0 million, which is net of an issuance discount of \$3.0 million, were used to repay all amounts outstanding under the Company's Credit Facility and the remainder will be used for general corporate purposes. Interest is payable semi-annually in arrears, with the first payment commencing in April 2014. The Company may redeem the Notes, in whole or in part, at any time and from time to time at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, the Company may be required to repurchase all or a portion of the Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest. The Notes also include covenants that limit the Company's ability to incur secured indebtedness, enter into sale and leaseback transactions, and consolidate, merge or transfer all or substantially all of its assets.

In September 2011, the Board of Directors approved a stock repurchase program authorizing the Company to purchase on the open market and in privately negotiated transactions up to \$500.0 million of the Company's common stock. Under this stock repurchase authorization, in November 2012, the Company entered into a Rule 10b5-1 plan to repurchase, during 2013, up to \$245.0 million of the Company's common stock in accordance with certain pre-defined price parameters. As of September 30, 2013, the Company had repurchased \$245.0 million under that plan. In May 2013, the Board of Directors approved a new stock repurchase program authorizing the Company to purchase on the open market and in privately negotiated transactions up to an additional \$750.0 million of the Company's common stock. Under this stock repurchase authorization, in August 2013, the Company entered into an accelerated share repurchase ("ASR") agreement with a bank to repurchase \$250.0 million of the Company's common stock. The Company received an initial delivery of 3.1 million shares under the ASR agreement, representing the minimum number of shares to be repurchased under the agreement, which was approximately 90 percent of the total contract value. In October 2013,

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the ASR agreement concluded, and the Company received an additional 0.4 million shares. During the nine months ended September 30, 2013, the Company repurchased a total of 6.4 million shares at an aggregate cost of \$495.0 million, and as of September 30, 2013, had remaining authority to purchase \$502.6 million of the Company's common stock. In addition to shares repurchased under the stock repurchase program, the Company also acquired shares to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

At September 30, 2013, there had been no material changes in the Company's significant contractual obligations and commercial commitments as disclosed in its Annual Report on Form 10-K for the year ended December 31, 2012.

Net cash flows provided by **operating activities** of \$361.4 million for the nine months ended September 30, 2013 increased \$114.0 million over the same period last year due primarily to (1) the receipt of \$83.6 million from Medtronic, Inc. in satisfaction of the April 2010 jury award of damages for infringement of the U.S. Andersen transcatheter heart valve patent and (2) improved operating performance. These increases were partially offset by a \$24.3 million impact from excess tax benefits from stock plans, primarily as a result of the realization of excess tax benefits that had been previously unrealized due to credit carryforwards and net operating losses in the United States in 2011.

Net cash used in **investing activities** of \$165.8 million for the nine months ended September 30, 2013 consisted primarily of capital expenditures of \$88.9 million and net purchases of short-term investments of \$71.1 million.

Net cash used in investing activities of \$106.2 million for the nine months ended September 30, 2012 consisted primarily of capital expenditures of \$64.9 million and net purchases of short-term investments of \$38.1 million.

Net cash used in **financing activities** of \$45.6 million for the nine months ended September 30, 2013 consisted primarily of purchases of treasury stock of \$496.9 million, partially offset by net proceeds from debt of \$345.3 million, the excess tax benefit from stock plans of \$63.3 million (including the realization of previously unrealized excess tax benefits), and proceeds from stock plans of \$36.9 million.

Net cash used in financing activities of \$8.7 million for the nine months ended September 30, 2012 consisted primarily of purchases of treasury stock of \$166.3 million, partially offset by proceeds from stock plans of \$89.4 million, the excess tax benefit from stock plans of \$39.0 million (including the realization of previously suspended excess tax benefits), and net proceeds from debt of \$26.3 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 the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to the Company's critical accounting policies and estimates which the Company believes could have the most significant effect on the Company's reported results and require subjective or complex judgments by management is contained on pages 36-39 in Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," of the Company's Annual Report on Form 10-K for the year ended December 31, 2012. There have been no significant changes from the information discussed therein.

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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 the Company's 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 39-40 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012. As of September 30, 2013, there have been no significant changes from the information discussed therein. See "*Liquidity and Capital Resources*" for information on the subsequent issuance of unsecured senior notes.

Investment Risk

Edwards Lifesciences is exposed to investment risks related to changes in the fair values of its investments. The Company invests in equity instruments of public and private companies. These investments are classified in "*Investments in Unconsolidated Affiliates*" on the consolidated condensed balance sheets.

As of September 30, 2013, Edwards Lifesciences had \$20.7 million of investments in equity instruments of other companies and had recorded unrealized gains of \$0.5 million on these investments in "*Accumulated Other Comprehensive Loss,*" net of tax. Should these companies experience a decline in financial condition or fail to meet certain development milestones, the decline in the investments' value may be considered other-than-temporary and impairment charges may be necessary.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company's management, including the Chief Executive Officer and the Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of the Company's 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, 2013. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded as of September 30, 2013 that the Company's disclosure controls and procedures are effective in providing reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's 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 the Company's internal controls over financial reporting during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**Part II. Other Information****Item 1. Legal Proceedings**

For a description of our material pending legal proceedings, please see Note 12 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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)(c) |
|--|--|--|---|--|
| July 1, 2013 through July 31, 2013 | | \$ | | \$ 752.6 |
| August 1, 2013 through August 31, 2013 | 3,143,779 | 72.39 | 3,139,460 | 502.6 |
| September 1, 2013 through September 30, 2013 | | | | 502.6 |
| Total | 3,143,779 | 72.39 | 3,139,460 | |

- (a) The difference between the total number of shares (or units) purchased and the total number of shares (or units) purchased as part of publicly announced plans or programs is due to shares withheld by the Company to satisfy tax withholding obligations in connection with the vesting of restricted stock units issued to employees.
- (b) On May 14, 2013, the Board of Directors approved a stock repurchase program authorizing the Company to purchase on the open market and in privately negotiated transactions up to \$750.0 million of the Company's common stock.
- (c) In August 2013, the Company paid \$250.0 million under its ASR agreement and received an initial delivery of 3.1 million shares of the Company's common stock at \$72.39 per share, representing approximately 90 percent of the total contract value. In October 2013, the ASR concluded, and the Company received an additional 0.4 million shares. Shares purchased pursuant to the ASR agreement are presented in the table above in the periods in which they were received. The amount that may yet be purchased under the stock repurchase program, as presented in the above table, was reduced by the \$250.0 million payment.

Item 6. Exhibits

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

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- 4.1 Indenture, dated as of September 6, 2013, between Edwards Lifesciences Corporation and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.5 in Edwards Lifesciences' Registration Statement on Form S-3, filed September 6, 2013).

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- 4.2 First Supplemental Indenture, dated as of October 3, 2013, to the Indenture, dated September 6, 2013, by and between Edwards Lifesciences Corporation and Wells Fargo Bank, National Association, as trustee, including the Form of Global Note for the 2.875% Senior Notes due 2018 as Exhibit A therein (incorporated by reference to Exhibit 4.1 in Edwards Lifesciences' Form 8-K, filed October 3, 2013).
- 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, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Operations, (iii) the Consolidated Condensed Statements of Comprehensive Income, (iv) the Consolidated Condensed Statements of Cash Flows, and (v) Notes to Consolidated Condensed Financial Statements

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SIGNATURE

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

EDWARDS LIFESCIENCES CORPORATION
(Registrant)

Date: November 7, 2013

By: /s/ THOMAS M. ABATE

Thomas M. Abate
Corporate Vice President,
Chief Financial Officer
(Chief Accounting Officer)

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EXHIBITS FILED WITH SECURITIES AND EXCHANGE COMMISSION

| Exhibit No. | Description |
|--------------------|--|
| 4.1 | Indenture, dated as of September 6, 2013, between Edwards Lifesciences Corporation and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.5 in Edwards Lifesciences' Registration Statement on Form S-3, filed September 6, 2013). |
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