

Edwards Lifesciences Corp
Form 10-Q
August 07, 2012

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**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 June 30, 2012

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)

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

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 July 31, 2012 was 115,713,782.

Table of Contents

EDWARDS LIFESCIENCES CORPORATION

FORM 10-Q

For the quarterly period ended June 30, 2012

TABLE OF CONTENTS

	Page Number
<u>Part I.</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>1</u>
<u>Financial Statements (Unaudited)</u>	
<u>Consolidated Condensed Balance Sheets</u>	<u>1</u>
<u>Consolidated Condensed Statements of Operations</u>	<u>2</u>
<u>Consolidated Condensed Statements of Comprehensive Income</u>	<u>3</u>
<u>Consolidated Condensed Statements of Cash Flows</u>	<u>4</u>
<u>Notes to Consolidated Condensed Financial Statements</u>	<u>5</u>
<u>Item 2.</u>	<u>20</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	<u>28</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 4.</u>	<u>29</u>
<u>Controls and Procedures</u>	
<u>Part II.</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>31</u>
<u>Legal Proceedings</u>	
<u>Item 2.</u>	<u>31</u>
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 6.</u>	<u>31</u>
<u>Exhibits</u>	
<u>Signature</u>	<u>33</u>
<u>Exhibits</u>	<u>34</u>

Table of Contents**Part I. Financial Information****Item 1. Financial Statements**

EDWARDS LIFESCIENCES CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

(in millions, except par value; unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 304.3	\$ 171.2
Short-term investments	201.7	279.3
Accounts and other receivables, net of allowances of \$5.1 and \$14.8, respectively	336.4	320.7
Inventories, net (Note 3)	265.4	261.3
Deferred income taxes	36.0	43.9
Prepaid expenses	39.5	35.0
Other current assets	95.5	57.1
Total current assets	1,278.8	1,168.5
Long-term accounts receivable, net of allowances of \$5.8 and \$4.2, respectively	10.9	24.6
Property, plant and equipment, net	315.8	304.3
Goodwill	349.8	349.8
Other intangible assets, net (Note 4)	61.7	66.9
Investments in unconsolidated affiliates (Note 5)	22.1	21.8
Deferred income taxes	10.2	20.0
Other assets	25.8	24.6
	\$ 2,075.1	\$ 1,980.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 284.3	\$ 335.2
Long-term debt	185.1	150.4
Other long-term liabilities	171.1	157.0
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock, \$.01 par value, authorized 50.0 shares, no shares outstanding		
Common stock, \$1.00 par value, 350.0 shares authorized, 123.0 and 120.0 shares issued, and 115.3 and 114.1 shares outstanding, respectively	123.0	120.0
Additional paid-in capital	418.0	300.5
Retained earnings	1,493.6	1,360.7
Accumulated other comprehensive loss	(51.0)	(37.5)
Treasury stock, at cost, 7.7 and 5.9 shares, respectively	(549.0)	(405.8)
Total stockholders' equity	1,434.6	1,337.9

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

Table of Contents

EDWARDS LIFESCIENCES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in millions, except per share information; unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales	\$ 482.0	\$ 431.2	\$ 941.2	\$ 835.7
Cost of goods sold	129.8	127.8	257.1	244.6
Gross profit	352.2	303.4	684.1	591.1
Selling, general and administrative expenses	182.4	163.2	359.6	313.5
Research and development expenses	74.0	64.9	142.6	123.9
Special charges (Note 2)	7.0	4.0	7.0	4.0
Interest income, net	(0.1)	(0.3)	(0.1)	(0.3)
Other income, net	(1.0)	(1.2)	(0.5)	(7.4)
Income before provision for income taxes	89.9	72.8	175.5	157.4
Provision for income taxes	22.1	14.7	42.6	35.4
Net income	\$ 67.8	\$ 58.1	\$ 132.9	\$ 122.0

Share information (Note 13)

Earnings per share:

Basic	\$ 0.59	\$ 0.51	\$ 1.16	\$ 1.06
Diluted	\$ 0.57	\$ 0.48	\$ 1.12	\$ 1.01
Weighted-average number of common shares outstanding:				
Basic	114.9	114.8	114.5	114.9
Diluted	118.4	120.0	118.2	120.2

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

Table of Contents

EDWARDS LIFESCIENCES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in millions; unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 67.8	\$ 58.1	\$ 132.9	\$ 122.0
Other comprehensive (loss) income, net of tax (Note 12)				
Foreign currency translation adjustments	(31.3)	10.8	(24.1)	43.1
Unrealized gain (loss) on cash flow hedges	5.5	(3.1)	10.2	(10.2)
Unrealized (loss) gain on available-for-sale investments for the period	(0.6)	(1.7)	0.1	(0.3)
Reclassification of net realized investment loss to earnings			0.3	
Unrealized (loss) gain on available-for-sale investments	(0.6)	(1.7)	0.4	(0.3)
Other comprehensive (loss) income	(26.4)	6.0	(13.5)	32.6
Comprehensive income	\$ 41.4	\$ 64.1	\$ 119.4	\$ 154.6

Table of Contents

EDWARDS LIFESCIENCES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

	Six Months Ended June 30,	
	2012	2011 (as restated) (Note 16)
Cash flows from operating activities		
Net income	\$ 132.9	\$ 122.0
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	27.8	29.3
Stock-based compensation (Note 9)	20.4	15.5
Excess tax benefit from stock plans	(43.0)	(11.2)
Deferred income taxes	1.3	1.8
Special charges (Note 2)	7.0	4.0
Other	(1.1)	(2.2)
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(22.2)	(48.3)
Inventories, net	(11.4)	(14.8)
Accounts payable and accrued liabilities	(15.5)	13.9
Prepaid expenses and other current assets	12.8	(6.5)
Other	7.1	(4.1)
Net cash provided by operating activities	116.1	99.4
Cash flows from investing activities		
Capital expenditures	(39.2)	(31.1)
Purchases of short-term investments	(246.6)	(304.3)
Proceeds from short-term investments	315.8	14.6
Investments in intangible assets	(7.0)	(2.3)
Proceeds from unconsolidated affiliates, net	1.8	4.9
Acquisition		(42.6)
Proceeds from sale of assets		3.9
Investments in trading securities, net		3.3
Other	0.9	0.1
Net cash provided by (used in) investing activities	25.7	(353.5)
Cash flows from financing activities		
Proceeds from issuance of debt	205.1	200.5
Payments on debt	(169.0)	(71.3)
Purchases of treasury stock	(143.2)	(159.0)
Equity forward contract related to accelerated share repurchase agreement (Note 10)	(10.0)	
Proceeds from stock plans	64.4	33.4
Excess tax benefit from stock plans	43.0	11.2
Other	1.5	0.8
Net cash (used in) provided by financing activities	(8.2)	15.6
Effect of currency exchange rate changes on cash and cash equivalents	(0.5)	18.0

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Net increase (decrease) in cash and cash equivalents	133.1	(220.5)
Cash and cash equivalents at beginning of period	171.2	396.1
Cash and cash equivalents at end of period	\$ 304.3	\$ 175.6

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

Table of Contents

1. BASIS OF PRESENTATION

The accompanying interim consolidated condensed financial statements and related disclosures have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the consolidated financial statements and notes included in Edwards Lifesciences Corporation's Annual Report on Form 10-K for the year ended December 31, 2011. 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 May 2011, the Financial Accounting Standards Board ("FASB") issued an amendment to the accounting guidance on fair value measurements to ensure that United States GAAP and International Financial Reporting Standards have common requirements for fair value measurement and disclosures, including a consistent definition of fair value. The guidance was effective for interim and annual periods beginning on or after December 15, 2011. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued an amendment to the accounting guidance on the presentation of comprehensive income. The guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, and instead requires that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company elected to present two separate but consecutive statements.

In September 2011, the FASB issued an amendment to the accounting guidance on goodwill to permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The guidance was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company will consider the use of the qualitative factors in its annual goodwill impairment test this year.

New Accounting Standards Not Yet Adopted

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 is 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 performing its first impairment test under this guidance.

Table of Contents

2. SPECIAL CHARGES

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.

European Receivables

In June 2011, the Company recorded a \$4.0 million charge to reflect the increased risk associated with its European receivables.

3. INVENTORIES, NET

Inventories, net of reserves, consisted of the following (in millions):

	June 30, 2012	December 31, 2011
Raw materials	\$ 51.2	\$ 51.7
Work in process	68.4	66.6
Finished products	145.8	143.0
	\$ 265.4	\$ 261.3

The Company recorded an \$8.1 million charge to gross profit due to the voluntary recalls of certain of the Company's heart valves and Critical Care catheters during the quarter. The majority of the affected products were still part of inventory at the time of the recalls.

4. OTHER INTANGIBLE ASSETS

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

	June 30, 2012			December 31, 2011		
	Cost	Accumulated Amortization	Net Carrying Value	Cost	Accumulated Amortization	Net Carrying Value
Amortizable intangible assets						
Patents	\$ 207.7	\$ (163.4)	\$ 44.3	\$ 205.9	\$ (158.4)	\$ 47.5
Unpatented technology	38.6	(31.9)	6.7	39.3	(31.3)	8.0
Other	11.8	(7.4)	4.4	12.0	(6.9)	5.1
	258.1	(202.7)	55.4	257.2	(196.6)	60.6
Unamortizable intangible assets						
In-process research and development	6.3		6.3	6.3		6.3
	\$ 264.4	\$ (202.7)	\$ 61.7	\$ 263.5	\$ (196.6)	\$ 66.9

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

The net carrying value of patents includes \$16.5 million of capitalized legal costs related to the defense and enforcement of issued patents and trademarks for which success is deemed probable as of June 30, 2012.

Amortization expense related to other intangible assets was \$3.3 million and \$4.2 million for the three months ended June 30, 2012 and 2011, respectively, and \$6.6 million and \$8.4 million for the six months ended June 30, 2012 and 2011, respectively. Estimated amortization expense for each of the years ending December 31 is as follows (in millions):

2012	\$ 13.3
2013	13.3
2014	11.6
2015	10.5
2016	10.1

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:

	June 30, 2012	December 31, 2011
	(in millions)	
Available-for-sale investments		
Cost	\$ 0.4	\$ 2.0
Unrealized gains	1.9	1.3
Fair value of available-for-sale investments	2.3	3.3
Equity method investments		
Cost	13.2	12.6
Equity in losses		(0.7)
Carrying value of equity method investments	13.2	11.9
Cost method investments		
Carrying value of cost method investments	6.6	6.6
Total investments in unconsolidated affiliates	\$ 22.1	\$ 21.8

For the six months ended June 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. There were no sales of available-for-sale investments during the six months ended June 30, 2011.

6. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

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.

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

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):

June 30, 2012	Level 1	Level 2	Level 3	Total
Assets				
Investments held for executive deferred compensation plan	\$ 12.1	\$	\$	\$ 12.1
Investments in unconsolidated affiliates	2.3			2.3
Derivatives		19.4		19.4
	\$ 14.4	\$ 19.4	\$	\$ 33.8
Liabilities				
Executive deferred compensation plan	\$ 12.2	\$	\$	\$ 12.2
December 31, 2011				
Assets				
Investments held for executive deferred compensation plan	\$ 11.5	\$	\$	\$ 11.5
Investments in unconsolidated affiliates	3.3			3.3
Derivatives		12.7		12.7
	\$ 14.8	\$ 12.7	\$	\$ 27.5
Liabilities				
Executive deferred compensation plan	\$ 9.9	\$	\$	\$ 9.9

Executive Deferred Compensation Plan

The Company holds investments in trading securities related to its executive deferred compensation plan ("EDCP"). The amounts deferred under the EDCP are invested in a variety of stock and bond mutual funds. The fair values of these investments and the corresponding liabilities are based on quoted market prices 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.

Table of Contents*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.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company has assets that are subject to measurement at fair value on a non-recurring basis, including assets acquired in a business combination, such as goodwill and intangible assets, and other long-lived assets. The Company reviews the carrying value of intangible and other long-lived assets whenever events and circumstances indicate that the carrying amounts of the assets may not be recoverable. If it is determined that the assets are impaired, the carrying value would be reduced to estimated fair market value. During the six months ended June 30, 2012, the Company had no impairments related to assets subject to measurement at fair value on a non-recurring basis. In March 2011, the Company acquired Embrella Cardiovascular, Inc. This transaction resulted in an increase to "Goodwill" and "Other Intangible Assets, net" of \$34.6 million and \$12.1 million, respectively.

7. 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.

	June 30, 2012		December 31, 2011	
	Notional Amount	Fair Value Asset (Liability)	Notional Amount	Fair Value Asset (Liability)
	(in millions)			
Foreign currency forward exchange contracts	\$ 778.7	\$ 19.4	\$ 759.5	\$ 12.7

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 thirteen 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 "Other Comprehensive (Loss) Income" ("OCI") the effective portion of the gain or loss on derivative financial instruments that are designated and that qualify as cash flow hedges. The Company reclassifies these gains and losses into earnings in the same period in which the underlying hedged transactions affect earnings. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. For the six months ended

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

June 30, 2012 and 2011, 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.

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. Under the master-netting agreements, the Company's counterparty settlement risk is the net amount of any receipts or payments due between the Company and the counterparty financial institution.

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

Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value	
		June 30, 2012	December 31, 2011
Assets			
Foreign currency contracts	Prepaid expenses	\$ 19.4	\$ 12.7

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 June 30,			Three Months Ended June 30,	
	2012	2011		2012	2011
Foreign currency contracts	\$ 9.8	\$ (11.7)	Cost of goods sold	\$ 1.0	\$ (6.7)

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	
	Six Months Ended June 30,			Six Months Ended June 30,	
	2012	2011		2012	2011
Foreign currency contracts	\$ 13.4	\$ (26.8)	Cost of goods sold	\$ (2.7)	\$ (9.9)

Derivatives not designated as hedging instruments	Amount of Gain or (Loss) Recognized in Income on Derivative	
	Three Months Ended June 30,	
	2012	2011
Foreign currency contracts	Other income, net	\$ (4.2) \$ (0.7)

Table of Contents

Derivatives not designated as hedging instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		Six Months Ended June 30,	
		2012	2011
Foreign currency contracts	Other income, net	\$ 0.5	\$ (4.3)

The Company expects that during the next twelve months it will reclassify to earnings a \$4.1 million gain currently recorded in "Accumulated Other Comprehensive Loss."

8. DEFINED BENEFIT PLANS

The components of net periodic benefit costs for the three and six months ended June 30, 2012 and 2011 were as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	Service cost	\$ 1.8	\$ 1.6	\$ 3.6
Interest cost	0.6	0.5	1.2	1.0
Expected return on plan assets	(0.3)	(0.4)	(0.7)	(0.7)
Amortization of actuarial loss, prior service credit and other	0.1	0.1	0.3	0.2
Net periodic pension benefit cost	\$ 2.2	\$ 1.8	\$ 4.4	\$ 3.6

9. STOCK-BASED COMPENSATION

Stock-based compensation expense related to awards issued under the Company's incentive compensation plans for the three and six months ended June 30, 2012 and 2011 was as follows (in millions):

	Three Months Ended June 30		Six Months Ended June 30,	
	2012	2011	2012	2011
	Cost of goods sold	\$ 1.2	\$ 0.9	\$ 2.3
Selling, general and administrative expenses	8.3	5.6	15.1	11.2
Research and development expenses	1.7	1.3	3.0	2.6
Total stock-based compensation expense	\$ 11.2	\$ 7.8	\$ 20.4	\$ 15.5

At June 30, 2012, 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 \$80.7 million, which will be amortized on a straight-line basis over the weighted-average remaining requisite service period of 33 months.

During the six months ended June 30, 2012, the Company granted 1.0 million stock options at a weighted-average exercise price of \$85.14 and 0.2 million shares of RSUs at a weighted-average grant-date fair value of \$83.57. The Company also granted 47,275 shares of MRSUs at a weighted-average grant-date fair value of \$109.78. 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.

Table of Contents**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 included a 0.3 percent risk-free interest rate and a 30.4 percent expected volatility rate.

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

Option Awards

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Risk-free interest rate	0.7%	1.6%	0.7%	1.7%
Expected dividend yield	None	None	None	None
Expected volatility	31.4%	27.6%	31.3%	27.4%
Expected term (years)	4.6	4.4	4.6	4.5
Fair value, per share	\$ 23.60	\$ 22.80	\$ 23.44	\$ 22.87

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

ESPP

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Risk-free interest rate	0.2%	0.3%	0.1%	0.2%
Expected dividend yield	None	None	None	None
Expected volatility	35.7%	29.8%	31.4%	25.3%
Expected term (years)	0.7	0.7	0.6	0.7
Fair value, per share	\$ 19.30	\$ 21.30	\$ 17.63	\$ 18.91

10. ACCELERATED SHARE REPURCHASE

In February 2012, the Company entered into an accelerated share repurchase ("ASR") agreement with an investment bank to repurchase \$54.0 million of the Company's common stock. The February 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 March 2012, the Company paid the \$54.0 million purchase price and received an initial delivery of 0.6 million shares, representing the minimum number of shares to be repurchased under the agreement. The initial shares were valued at \$72.40 per share based on the VWAP of the Company's common stock on March 1, 2012, which was the date the major terms of the ASR agreement were finalized, and represented approximately 80 percent of the shares expected to be repurchased. In May 2012, upon conclusion of the February ASR agreement, the Company received an additional 0.1 million shares for a total of 0.7 million shares at an average price per share of \$75.12 based on the VWAP of the Company's common stock during the term of the agreement.

Table of Contents

In May 2012, the Company entered into another ASR agreement with the same investment bank to repurchase \$50.0 million of the Company's common stock. The May ASR agreement provides for the repurchase of the Company's common stock based on the 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 June 2012, the Company paid the \$50.0 million purchase price and received an initial delivery of 0.5 million shares, representing the minimum number of shares to be repurchased under the agreement. The initial shares were valued at \$84.81 per share based on the VWAP of the Company's common stock on June 1, 2012, which was the date the major terms of the May ASR agreement were finalized, and represented approximately 80 percent of the shares expected to be repurchased. At the conclusion of the May ASR agreement, the Company may receive additional shares, resulting in up to a maximum of 0.8 million shares. If the agreement had been settled on June 30, 2012, the investment bank would have been required to deliver 0.1 million additional shares to the Company based on an average VWAP, less the discount, of \$93.43 per share for the period June 1 to June 30, 2012. The May ASR agreement has a termination date of August 31, 2012, although the termination date may be accelerated at the investment bank's option.

The ASR agreements were accounted for as two separate transactions: (a) the value of the initial delivery of shares was recorded as shares of common stock acquired in a treasury stock transaction on the acquisition date and (b) the remaining amount of the purchase price paid was recorded as a forward contract indexed to the Company's own common stock and was recorded in "*Additional Paid-in Capital*" on the consolidated 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.

11. 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 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. Both Edwards and Medtronic CoreValve have appealed. The U.S. Court of Appeals for the Federal Circuit heard the appeals in January 2012 and the parties are awaiting its decision. A second lawsuit is pending in the same trial court against Medtronic CoreValve and Medtronic alleging infringement of three of Edwards' U.S. Andersen patents. In September 2010, the United States Patent and Trademark Office ("USPTO") granted Medtronic's third request to reexamine the validity of the claim of the '552 patent and in July 2011 confirmed the validity of that patent. Medtronic has since filed another request for reexamination of the '552 patent and that request has been partially granted by the USPTO.

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' request to reexamine the validity of three of the four Medtronic patents involved in this lawsuit.

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

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 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 infringes two Medtronic patents relating to methods of pacing the heart. The Company plans to vigorously defend against this claim.

In March and September 2010, the Company received grand jury subpoenas for documents from the United States Attorney's Office in the Central District of California in connection with an investigation by the Food and Drug Administration. The subpoenas to the Company seek records relating to the Vigilance I Monitor model with software release 5.3 that was the subject of a voluntary field recall by the Company in June 2006. The Company is cooperating fully with the investigation.

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.

Table of Contents**12. OTHER COMPREHENSIVE (LOSS) INCOME**

The tax effect on the components of other comprehensive (loss) income is as follows (in millions):

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized (Loss) Gain on Investments in Unconsolidated Affiliates	Total Other Comprehensive (Loss) Income
Three Months Ended June 30, 2012				
Pre-tax period change	\$ (31.3)	\$ 8.8	\$ (0.8)	\$ (23.3)
Deferred income tax (expense) benefit		(3.3)	0.2	(3.1)
Net of tax amount	\$ (31.3)	\$ 5.5	\$ (0.6)	\$ (26.4)
Six Months Ended June 30, 2012				
Pre-tax period change	\$ (24.1)	\$ 16.1	\$ 0.7	\$ (7.3)
Deferred income tax expense		(5.9)	(0.3)	(6.2)
Net of tax amount	\$ (24.1)	\$ 10.2	\$ 0.4	\$ (13.5)
Three Months Ended June 30, 2011				
Pre-tax period change	\$ 10.8	\$ (5.0)	\$ (2.9)	\$ 2.9
Deferred income tax benefit		1.9	1.2	3.1
Net of tax amount	\$ 10.8	\$ (3.1)	\$ (1.7)	\$ 6.0
Six Months Ended June 30, 2011				
Pre-tax period change	\$ 43.1	\$ (16.9)	\$ (0.5)	\$ 25.7
Deferred income tax benefit		6.7	0.2	6.9
Net of tax amount	\$ 43.1	\$ (10.2)	\$ (0.3)	\$ 32.6

13. 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.

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

The table below presents the computation of basic and diluted earnings per share (in millions, except for per share information):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Basic:				
Net income	\$ 67.8	\$ 58.1	\$ 132.9	\$ 122.0
Weighted-average shares outstanding	114.9	114.8	114.5	114.9
Basic earnings per share	\$ 0.59	\$ 0.51	\$ 1.16	\$ 1.06
Diluted:				
Net income	\$ 67.8	\$ 58.1	\$ 132.9	\$ 122.0
Weighted-average shares outstanding	114.9	114.8	114.5	114.9
Dilutive effect of stock plans	3.5	5.2	3.7	5.3
Dilutive weighted-average shares outstanding	118.4	120.0	118.2	120.2
Diluted earnings per share	\$ 0.57	\$ 0.48	\$ 1.12	\$ 1.01

Stock options, RSUs, and MRSUs to purchase 2.4 million and 1.2 million shares for the three months ended June 30, 2012 and 2011, respectively, and 1.8 million and 0.7 million for the six months ended June 30, 2012 and 2011, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. Additionally, 0.1 million shares that would have been received if the ASR agreement discussed in Note 10 were settled as of June 30, 2012 were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

14. INCOME TAXES

The Company's effective income tax rates were 24.6% and 24.3% for the three and six months ended June 30, 2012, respectively, and 20.2% and 22.5% for the three and six months ended June 30, 2011, respectively. The effective income tax rate for the six months ended June 30, 2012 included a \$2.3 million benefit from the remeasurement of uncertain tax positions. The effective income tax rates for the three and six months ended June 30, 2011 included a \$2.5 million tax benefit related to rulings made by the tax authorities in Switzerland.

The federal research credit expired on December 31, 2011 and has not been reinstated as of June 30, 2012. The effective income tax rates for the three and six months ended June 30, 2012 have been calculated without an assumed benefit for the federal research credit. In 2011, the federal research credit favorably impacted the effective tax rate by approximately 2.4%.

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.

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

As of June 30, 2012 and December 31, 2011, the liability for income taxes associated with uncertain tax positions was \$86.5 million and \$78.0 million, respectively. The Company estimates that these liabilities would be reduced by \$8.6 million and \$6.8 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 \$77.9 million and \$71.2 million, respectively, if not required, would favorably affect the Company's effective tax rate.

All material state, local and foreign income tax matters have been concluded for years through 2006. The Internal Revenue Service ("IRS") has completed its examination of the 2007 and 2008 tax years for all matters except for certain transfer pricing issues. The appeals process for those transfer pricing issues is on-going, but is expected to be finalized within the next twelve months. The IRS began its examination of the 2009 and 2010 tax years during the second quarter of 2011.

15. 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. Net sales by geographic area are based on the location of the customer.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Segment Net Sales				
United States	\$ 207.0	\$ 151.3	\$ 393.6	\$ 300.4
Europe	150.4	142.3	301.2	280.1
Japan	73.5	57.2	143.3	114.6
Rest of world	57.0	53.5	109.7	97.8
Total segment net sales	\$ 487.9	\$ 404.3	\$ 947.8	\$ 792.9
Segment Pre-Tax Income				
United States	\$ 119.3	\$ 79.6	\$ 221.0	\$ 160.9
Europe	64.1	62.4	131.8	124.8
Japan	37.9	28.0	73.7	55.3
Rest of world	16.0	17.1	29.2	29.4
Total segment pre-tax income	\$ 237.3	\$ 187.1	\$ 455.7	\$ 370.4

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Sales Reconciliation				
Segment net sales	\$ 487.9	\$ 404.3	\$ 947.8	\$ 792.9
Foreign currency	(5.9)	26.9	(6.6)	42.8
Consolidated net sales	\$ 482.0	\$ 431.2	\$ 941.2	\$ 835.7
Pre-Tax Income Reconciliation				
Segment pre-tax income	\$ 237.3	\$ 187.1	\$ 455.7	\$ 370.4
Unallocated amounts:				
Corporate items	(141.3)	(116.6)	(271.7)	(220.4)
Special charges	(7.0)	(4.0)	(7.0)	(4.0)
Interest income, net	0.1	0.3	0.1	0.3
Foreign currency	0.8	6.0	(1.6)	11.1
Consolidated pre-tax income	\$ 89.9	\$ 72.8	\$ 175.5	\$ 157.4

Enterprise-Wide Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
(in millions)				
Net Sales by Geographic Area				
United States	\$ 207.0	\$ 151.3	\$ 393.6	\$ 300.4
Europe	146.5	151.7	295.3	291.2
Japan	72.3	69.8	143.1	139.1
Rest of world	56.2	58.4	109.2	105.0
	\$ 482.0	\$ 431.2	\$ 941.2	\$ 835.7
Net Sales by Major Product and Service Area				
Surgical Heart Valve Therapy	\$ 200.5	\$ 205.1	\$ 404.1	\$ 403.4
Transcatheter Heart Valves	145.8	85.3	267.3	158.0
Critical Care	135.7	140.8	269.8	274.3
	\$ 482.0	\$ 431.2	\$ 941.2	\$ 835.7

	June 30, 2012	December 31, 2011
	(in millions)	
Long-Lived Tangible Assets by Geographic Area		
United States	\$ 232.9	\$ 223.0
International	108.7	105.9
	\$ 341.6	\$ 328.9

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

16. RESTATEMENT OF UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

During the fourth quarter of 2011, the Company determined that its previously issued consolidated condensed balance sheets and consolidated condensed statements of cash flows for the quarters ended March 31 and June 30, 2011 contained errors related to (1) its cash equivalents and short-term investments and (2) the excess tax benefit from stock plans. Neither of these errors had an impact on the consolidated condensed statements of operations.

First, during 2011, the Company purchased bank time deposits with original maturities over three months but less than one year. The Company determined that these bank time deposits had been incorrectly classified as cash equivalents for the above mentioned periods and, accordingly, the Company has restated the presentation as reflected below. The classification error had no impact on the Company's current assets.

Balance Sheets	As of March 31, 2011		As of June 30, 2011	
	As Reported	As Restated	As Reported	As Restated
	(in millions)			
Cash and cash equivalents	\$ 433.8	\$ 325.2	\$ 468.2	\$ 175.6
Short-term investments		108.6		292.6
Total	\$ 433.8	\$ 433.8	\$ 468.2	\$ 468.2

Statements of Cash Flows	Three Months Ended March 31, 2011		Six Months Ended June 30, 2011	
	As Reported	As Restated	As Reported	As Restated
	(in millions)			
Cash flows from investing activities				
Purchases of short-term investments		(105.6)		(304.3)
Proceeds from short-term investments				14.6
Net cash used in investing activities		(52.5)	(63.8)	(353.5)
Effect of currency exchange rate changes on cash and cash equivalents		15.8	20.9	18.0
Net increase (decrease) in cash and cash equivalents		37.7	72.1	(220.5)
Cash and cash equivalents at end of period		433.8	468.2	175.6

Second, the amount presented in the consolidated condensed statements of cash flows as "*Excess Tax Benefits from Stock Plans*" for the period ended June 30, 2011 was not reduced to reflect the absence of cash flows from the generation of credit carryforwards and net operating losses in the United States in 2011 primarily due to significant tax deductions from stock option exercises and, accordingly, the Company has restated the presentation as reflected below.

Statements of Cash Flows	Six Months Ended June 30, 2011	
	As Reported	As Restated
	(in millions)	
Cash flows from operating activities		
Excess tax benefit from stock plans	\$ (36.4)	\$ (11.2)
Net cash provided by operating activities	74.2	99.4
Cash flows from financing activities		
Excess tax benefit from stock plans	36.4	11.2
Net cash provided by financing activities	40.8	15.6

Table of Contents

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, 2011 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 tissue 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.

During the first quarter of 2012, the Company began reporting its products and technologies in three new product groups: Surgical Heart Valve Therapy, which combines surgical heart valves and Cardiac Surgery Systems; Transcatheter Heart Valves; and Critical Care, which includes Vascular. Sales amounts for the prior year periods have been recast to conform with the new product classifications.

Edwards Lifesciences' **Surgical Heart Valve Therapy** portfolio is comprised primarily of tissue heart valves and heart valve repair products for the surgical repair or replacement of a patient's heart valve. The portfolio also includes a diverse line of products 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 products, surgical clips and inserts.

Table of Contents

The healthcare 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 and more established than Edwards Lifesciences with access to significant financial resources. Furthermore, rapid product development and technological change characterize the market in which the Company competes. Global demand for healthcare is increasing as the population ages. There is mounting pressure to contain healthcare 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 July 2012, the Financial Accounting Standards Board 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 is 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 performing its first impairment test under this guidance.

Results of Operations*Net Sales Trends*

(dollars in millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012	2011	Change	Percent Change	2012	2011	Change	Percent Change
United States	\$ 207.0	\$ 151.3	\$ 55.7	36.8%	\$ 393.6	\$ 300.4	\$ 93.2	31.1%
International	275.0	279.9	(4.9)	(1.8)%	547.6	535.3	12.3	2.3%
Total net sales	\$ 482.0	\$ 431.2	\$ 50.8	11.8%	\$ 941.2	\$ 835.7	\$ 105.5	12.6%

In the United States, the \$55.7 million and \$93.2 million increases in net sales for the three and six months ended June 30, 2012, respectively, were due primarily to:

Transcatheter Heart Valves, which increased net sales by \$55.8 million and \$92.5 million, respectively, driven primarily by sales of the *Edwards SAPIEN* transcatheter heart valve which was launched in the United States in the fourth quarter of 2011.

International net sales decreased \$4.9 million for the three months ended June 30, 2012 and increased \$12.3 million for the six months ended June 30, 2012, due primarily to:

foreign currency exchange rate fluctuations, which decreased net sales by \$14.4 million and \$13.7 million, respectively, due primarily to the weakening of the Euro against the United States dollar, partially offset by the strengthening of the Japanese yen against the United States dollar;

partially offset by:

Transcatheter Heart Valves, which increased net sales by \$11.4 million and \$25.0 million, respectively, driven primarily by sales of the *Edwards SAPIEN XT* transcatheter heart valve; and

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

Surgical Heart Valve Therapy products, which increased net sales by \$0.5 million and \$6.2 million, respectively, driven primarily by sales of the *Carpentier-Edwards PERIMOUNT Magna Aortic Ease* valve.

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 Line

(dollars in millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012	2011	Change	Percent Change	2012	2011	Change	Percent Change
Surgical Heart Valve Therapy	\$ 200.5	\$ 205.1	\$ (4.6)	(2.3)%	\$ 404.1	\$ 403.4	\$ 0.7	0.2%
Transcatheter Heart Valves	145.8	85.3	60.5	70.8%	267.3	158.0	109.3	69.1%
Critical Care	135.7	140.8	(5.1)	(3.6)%	269.8	274.3	(4.5)	(1.6)%
Total net sales	\$ 482.0	\$ 431.2	\$ 50.8	11.8%	\$ 941.2	\$ 835.7	\$ 105.5	12.6%

Surgical Heart Valve Therapy

Net sales of Surgical Heart Valve Therapy products decreased by \$4.6 million for the three months ended June 30, 2012 and increased by \$0.7 million for the six months ended June 30, 2012, due primarily to:

foreign currency exchange rate fluctuations, which decreased net sales by \$5.1 million and \$4.5 million, respectively, due primarily to the weakening of the Euro against the United States dollar, partially offset by the strengthening of the Japanese yen against the United States dollar;

partially offset by:

cardiac surgery systems, which increased net sales by \$2.3 million and \$3.7 million, respectively, driven by minimally invasive surgical products; and

surgical heart valve repair products, which increased net sales in the six month period by \$2.0 million, driven by the *Carpentier-Edwards Physio II* ring.

In Europe, the Company received CE Mark in February 2012 for *EDWARDS INTUITY*, its minimally invasive aortic valve surgery system. During the second quarter, the Company received conditional Investigational Device Exemption ("IDE") approval from the United States Food and Drug Administration ("FDA") to initiate the TRANSFORM Trial, which will evaluate the *EDWARDS INTUITY* valve system. Also, during the second quarter, the Company received IDE approval to initiate a clinical trial to study its *GLX* next-generation tissue treatment platform applied to a surgical bovine pericardial heart valve. During the second quarter, the Company received regulatory approval in the United States and Europe for its *ProPlege* retrograde cardioplegia device, designed to protect the heart during aortic and mitral valve procedures. The Company initiated a limited launch of *ProPlege* in Europe in June 2012 and in the United States in July 2012.

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

Transcatheter Heart Valves

Net sales of Transcatheter Heart Valves for the three and six months ended June 30, 2012 increased by \$60.5 million and \$109.3 million, respectively, due primarily to:

the *Edwards SAPIEN* transcatheter heart valve, which increased net sales by \$45.2 million and \$72.3 million, respectively, primarily due to the launch in the United States in the fourth quarter of 2011; and

the *Edwards SAPIEN XT* transcatheter heart valve, which increased net sales by \$22.9 million and \$46.5 million, respectively, primarily due to an increase in international sales;

partially offset by:

foreign currency exchange rate fluctuations, which decreased net sales by \$5.6 million and \$6.7 million, respectively, due primarily to the weakening of the Euro against the United States dollar.

The Company expects that its transcatheter heart valves will continue to be a strong contributor to 2012 sales. In November 2011, the Company received approval from the FDA for the transfemoral delivery of the *Edwards SAPIEN* transcatheter heart valve for treatment of certain inoperable patients with severe symptomatic aortic stenosis (Cohort B of The PARTNER Trial). In June 2012, an FDA advisory panel reviewed and recommended approval of the *Edwards SAPIEN* transcatheter heart valve for treatment of patients with severe, symptomatic aortic stenosis deemed at high risk for traditional open-heart surgery (Cohort A of The PARTNER Trial). The Company is awaiting action by the FDA.

Critical Care

Net sales of Critical Care products for the three and six months ended June 30, 2012 decreased by \$5.1 million and \$4.5 million, respectively, due primarily to:

foreign currency exchange rate fluctuations, which decreased net sales by \$3.7 million and \$2.5 million, respectively, due primarily to the weakening of the Euro against the United States dollar, partially offset by the strengthening of the Japanese yen against the United States dollar;

the discontinuation of distributed sales of certain oximetry products and reduced sales of the Company's Central Venous Access products, which decreased net sales by \$1.4 million and \$6.4 million, respectively; and

hardware and pressure monitoring sales, which decreased net sales by \$2.8 million for the three months ended June 30, 2012;

partially offset by:

FloTrac systems, which increased net sales by \$2.4 million and \$4.4 million, respectively.

Gross Profit

	Three Months Ended			Six Months Ended		
	June 30,			June 30,		
	2012	2011	Change	2012	2011	Change
Gross profit as a percentage of net sales	73.1%	70.4%	2.7 pts.	72.7%	70.7%	2.0 pts.

The 2.7 and 2.0 percentage point increases in gross profit as a percentage of net sales for the three and six months ended June 30, 2012, respectively, were driven primarily by:

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

a 2.2 percentage point and a 1.5 percentage point increase in the United States due to a more profitable product mix, primarily higher sales of Transcatheter Heart Valves; and

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

a 2.6 percentage point and 1.8 percentage point increase due to the impact of foreign currency exchange rate fluctuations, including the outcome of foreign currency hedging contracts;

partially offset by:

a 1.9 percentage point and a 1.0 percentage point decrease due to the voluntary recalls of certain of the Company's heart valves and Critical Care catheters during the quarter.

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

(dollars in millions)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
SG&A expenses	\$ 182.4	\$ 163.2	\$ 19.2	\$ 359.6	\$ 313.5	\$ 46.1
SG&A expenses as a percentage of net sales	37.8%	37.8%	pts.	38.2%	37.5%	0.7 pts.

The increase in SG&A expenses for the three and six months ended June 30, 2012 was due primarily to higher sales and marketing expenses in the United States, mainly to support the transcatheter heart valve program, including the launch in the United States. The impact of foreign currency reduced expenses by \$5.7 million and \$6.0 million, respectively, due to the weakening of various currencies against the United States dollar, primarily the Euro.

Research and Development Expenses

(dollars in millions)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Research and development expenses	\$ 74.0	\$ 64.9	\$ 9.1	\$ 142.6	\$ 123.9	\$ 18.7
Research and development expenses as a percentage of net sales	15.4%	15.1%	0.3 pts.	15.2%	14.8%	0.4 pts.

The increase in research and development expenses for the three and six months ended June 30, 2012 was due primarily to additional investments in clinical studies and new product development efforts in the transcatheter heart valve program.

Special Charges

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.

Table of Contents

European Receivables

In June 2011, the Company recorded a \$4.0 million charge to reflect the increased risk associated with its European receivables.

Interest Income, net

(in millions)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Interest expense	\$ 1.2	\$ 0.7	\$ 0.5	\$ 2.3	\$ 1.2	\$ 1.1
Interest income	(1.3)	(1.0)	(0.3)	(2.4)	(1.5)	(0.9)
Interest income, net	\$ (0.1)	\$ (0.3)	\$ 0.2	\$ (0.1)	\$ (0.3)	\$ 0.2

The increase in interest expense for the three and six months ended June 30, 2012 resulted primarily from higher average interest rates as compared to the prior year period. The increase in interest income resulted primarily from the recognition of interest income on discounted accounts receivables in southern Europe, partially offset by lower average interest rates.

Other Income, net

(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
License agreement	\$ (0.9)	\$ (0.9)	\$ (0.9)	\$ (0.9)
Gain on investments in unconsolidated affiliates	(0.6)	(0.3)	(1.0)	(4.6)
Foreign exchange losses (gains), net	0.5	(0.5)	1.1	(1.4)
Earn-out payments				(1.0)
Other		(0.4)	0.3	(0.4)
Other income, net	\$ (1.0)	\$ (1.2)	\$ (0.5)	\$ (7.4)

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

The 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 (gains) relate to the foreign currency fluctuations in the Company's global trade and intercompany receivable and payable balances. Foreign exchange fluctuations (primarily the Euro) resulted in a net loss in 2012.

In September 2009, the Company sold its hemofiltration product line. In connection with the transaction, the Company was entitled to earn-out payments up to \$9.0 million based on certain revenue objectives to be achieved by the buyer over the two years following the sale. As of March 31, 2011, all earn-out payments had been earned.

Table of Contents

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 24.6% and 24.3% for the three and six months ended June 30, 2012, respectively, and 20.2% and 22.5% for the three and six months ended June 30, 2011, respectively. The effective income tax rate for the six months ended June 30, 2012 included a \$2.3 million benefit from the remeasurement of uncertain tax positions. The effective income tax rates for the three and six months ended June 30, 2011 included a \$2.5 million tax benefit related to rulings made by the tax authorities in Switzerland.

The federal research credit expired on December 31, 2011 and has not been reinstated as of June 30, 2012. The effective income tax rates for the three and six months ended June 30, 2012 have been calculated without an assumed benefit for the federal research credit. In 2011, the federal research credit favorably impacted the full year effective tax rate by approximately 2.4%.

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 June 30, 2012 and December 31, 2011, the liability for income taxes associated with uncertain tax positions was \$86.5 million and \$78.0 million, respectively. The Company estimates that these liabilities would be reduced by \$8.6 million and \$6.8 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 \$77.9 million and \$71.2 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. The Company further 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.

As of June 30, 2012, cash and cash equivalents and short-term investments held outside the United States were \$477.5 million, and have historically been used to fund international operations. 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. 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

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

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. Borrowings generally bear interest at the London interbank offering rate ("LIBOR") plus 0.875%, subject to adjustment for leverage ratio changes as defined in the Credit Facility. The Company also pays a facility fee of 0.125% on the entire \$500.0 million facility whether or not drawn. The facility fee is also subject to adjustment for leverage ratio changes. All amounts outstanding under the Credit Facility have been classified as long-term obligations as these borrowings are expected to be refinanced pursuant to the Credit Facility. As of June 30, 2012, borrowings of \$185.1 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 June 30, 2012.

In February 2010, 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. In September 2011, 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 \$500.0 million of the Company's common stock. Under these stock repurchase authorizations, in February 2012 and May 2012, the Company entered into accelerated share repurchase ("ASR") agreements with an investment bank to repurchase \$54.0 million and \$50.0 million, respectively, of the Company's common stock. The Company received 0.7 million shares under the February 2012 ASR agreement, which was concluded in May 2012. In June 2012, the Company received an initial delivery of 0.5 million shares under the May 2012 ASR agreement, representing the minimum number of shares to be repurchased under the agreement, which was approximately 80 percent of the shares expected to be repurchased. At the conclusion of the May 2012 ASR agreement, the Company may receive additional shares, resulting in up to a maximum of 0.8 million shares. The May 2012 ASR agreement has a termination date of August 31, 2012, although the termination date may be accelerated at the investment bank's option. During the six months ended June 30, 2012, the Company repurchased a total of 1.8 million shares at an aggregate cost of \$150.2 million, including prepaid amounts under the May 2012 ASR agreement, and as of June 30, 2012, had remaining authority under the program to purchase \$447.7 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 June 30, 2012, 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, 2011 other than as follows: During the quarter ended June 30, 2012, the Company entered into two separate supply agreements and a registry agreement. Under the supply agreements, the Company has agreed to purchase a minimum of \$13.4 million of product by July 31, 2013. The total future minimum commitments under the registry agreement are approximately \$4.3 million, with payments through 2019.

Net cash flows provided by **operating activities** of \$116.1 million for the six months ended June 30, 2012 increased \$16.7 million over the same period a year ago due primarily to (1) increased collection of accounts receivable, particularly a \$26.3 million non-recurring collection in Spain and the sale of the Company's Greek bonds and (2) improved operating performance. These increases were partially offset by (1) a \$31.8 million impact from excess tax benefits from stock plans, primarily the realization of

Table of Contents

excess tax benefits that had been previously suspended due to credit carryforwards and net operating losses in the United States in 2011 and (2) the timing of supplier payments.

Net cash provided by **investing activities** of \$25.7 million for the six months ended June 30, 2012 consisted primarily of net proceeds from short-term investments of \$69.2 million, partially offset by capital expenditures of \$39.2 million.

Net cash used in investing activities of \$353.5 million for the six months ended June 30, 2011 consisted primarily of net purchases of short-term investments of \$289.7 million, a \$42.6 million payment associated with the acquisition of Embrella Cardiovascular, Inc., and capital expenditures of \$31.1 million.

Net cash used in **financing activities** of \$8.2 million for the six months ended June 30, 2012 consisted primarily of purchases of treasury stock of \$153.2 million, partially offset by proceeds from stock plans of \$64.4 million, the excess tax benefit from stock plans of \$43.0 million (including the realization of previously suspended excess tax benefits), and net proceeds from debt of \$36.1 million.

Net cash provided by financing activities of \$15.6 million for the six months ended June 30, 2011 consisted primarily of net proceeds from debt of \$129.2 million, proceeds from stock plans of \$33.4 million, and the excess tax benefit from stock plans of \$11.2 million, partially offset by purchases of treasury stock of \$159.0 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 37-41 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, 2011. Management believes that at June 30, 2012, there had been no material changes to this information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate, Foreign Currency and Credit Risk

For a complete discussion of the Company's exposure to interest rate, foreign currency and credit risk, refer to Item 7A "*Quantitative and Qualitative Disclosures About Market Risk*" on pages 41-43 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011. There have been no significant changes from the information discussed therein.

Concentrations of Risk

The Company invests excess cash in bank time deposits and diversifies the concentration of cash amongst different financial institutions.

In the normal course of business, Edwards Lifesciences provides credit to customers in the healthcare industry, performs credit evaluations of these customers and maintains allowances for potential credit losses which have historically been adequate compared to actual losses. The Company continues to do business with foreign governments in certain European countries that have experienced a deterioration in credit and economic conditions. These conditions have resulted in, and may continue to result in, a reduction of value and an increase in the average length of time that it takes to collect

Table of Contents

accounts receivable outstanding in these countries. In addition, the Company may also be impacted by declines in sovereign credit ratings or sovereign defaults in these countries.

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 June 30, 2012, Edwards Lifesciences had \$22.1 million of investments in equity instruments of other companies and had recorded unrealized gains of \$1.5 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 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 June 30, 2012. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as a result of a material weakness in internal control over financial reporting, as previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, the Company's disclosure controls and procedures were not effective and are under remediation as of June 30, 2012.

As described in the Company's Annual Report on Form 10-K, filed on February 27, 2012, for the year ended December 31, 2011, the Company did not maintain effective controls over the completeness and timeliness of information impacting classification and disclosures related to financial reporting. Specifically, effective controls were not in place with respect to communication to appropriate financial reporting personnel from other departments of changes to information impacting classification and disclosures in the financial statements. This control deficiency resulted in a restatement to the Company's unaudited consolidated condensed balance sheets as of March 31, June 30, and September 30, 2011 to correct the misclassification of short-term investments incorrectly classified as cash equivalents, and the restatement of the Company's unaudited consolidated condensed statements of cash flows for the periods ended March 31, June 30, and September 30, 2011 to appropriately present the activity related to short-term investments resulting from the aforementioned classification error, and for the periods ended June 30 and September 30, 2011 to correct the amount presented as excess tax benefit from stock plans as a component of cash flows from operating and financing activities (see Note 16 to the "*Consolidated Condensed Financial Statements*" of this Quarterly Report on Form 10-Q). Additionally, this control deficiency could result in other classification and disclosure misstatements related to financial reporting that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, the Company's management determined that this control deficiency constituted a material weakness and has determined that it continues to exist and is under remediation as of June 30, 2012.

Changes in Internal Control Over Financial Reporting. There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Plan for Remediation of Material Weakness. Beginning in February 2012, with the oversight of the Audit and Public Policy Committee, the Company's management began to design and implement

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

certain remediation measures to address the material weakness discussed above and to improve its internal control over financial reporting.

The Company has enhanced its existing controls and added new controls beginning in the quarter ended March 31, 2012 to improve the communication to appropriate financial reporting personnel from other departments of changes to information impacting classification and disclosures in the financial statements. Specifically, these changes included implementation of quarterly meetings and modifications to existing monthly meetings involving other departments and regions as well as financial reporting personnel to appropriately address matters impacting the classification and disclosures in the Company's financial statements; and enhancing certain tools to be used to facilitate effective communication between other departments, regions and financial reporting personnel. In addition, during the quarter ended June 30, 2012, financial reporting personnel traveled to the Company's regional offices to present financial trainings and to help the Company better execute on its communication and coordination efforts in the regions.

The Company believes the remediation measures will strengthen the Company's internal control over financial reporting and remediate the material weakness identified. However, these measures had not been in operation long enough to effectively measure their operating effectiveness and, therefore, the identified material weakness had not been fully remediated as of June 30, 2012. The Company will continue to monitor the effectiveness of these remediation measures and will make any changes and take such other actions that are deemed appropriate given the circumstances.

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

For a description of our material pending legal proceedings, please see Note 11 to the "Consolidated Condensed Financial Statements" of this Quarterly Report on Form 10-Q, which is incorporated by reference.

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)(c)	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)
April 1, 2012 through April 30, 2012	679	\$ 72.62		\$ 497.7
May 1, 2012 through May 31, 2012	32,617	85.25		497.7
June 1, 2012 through June 30, 2012	593,817	82.82	593,817	447.7
Total	627,113	82.93	593,817	

- (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 RSUs issued to employees.
- (b) On September 13, 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.
- (c) In May 2012, the Company's February ASR agreement was concluded, and the Company received an additional 0.1 million shares. In June 2012, the Company paid \$50.0 million under its new May ASR agreement and received an initial delivery of 0.5 million shares of the Company's common stock at \$84.81 per share, representing approximately 80 percent of the shares expected to be repurchased. At the conclusion of the May ASR agreement, the Company may receive additional shares, resulting in up to a maximum of 0.8 million shares. Shares purchased pursuant to the ASR agreements are presented in the above table 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 \$50.0 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:

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

- 10.1* Edwards Lifesciences Corporation Form of Performance-Based Restricted Stock Unit Statement and related Long-Term Stock Incentive Compensation Program Global Performance-Based Restricted Stock Unit Award Agreement
- 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

31

Edgar Filing: Edwards Lifesciences Corp - Form 10-Q

Table of Contents

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 June 30, 2012, 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

*

Represents management contract or compensatory plan.

**

XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities and Exchange Act of 1933, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

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: August 7, 2012

By: /s/ THOMAS M. ABATE

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

33

Table of Contents

EXHIBITS FILED WITH SECURITIES AND EXCHANGE COMMISSION

Exhibit No.	Description
10.1*	Edwards Lifesciences Corporation Form of Performance-Based Restricted Stock Unit Statement and related Long-Term Stock Incentive Compensation Program Global Performance-Based Restricted Stock Unit Award Agreement
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 June 30, 2012, 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

*
Represents management contract or compensatory plan.

**
XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities and Exchange Act of 1933, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.