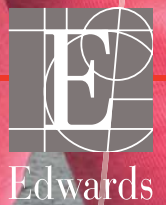
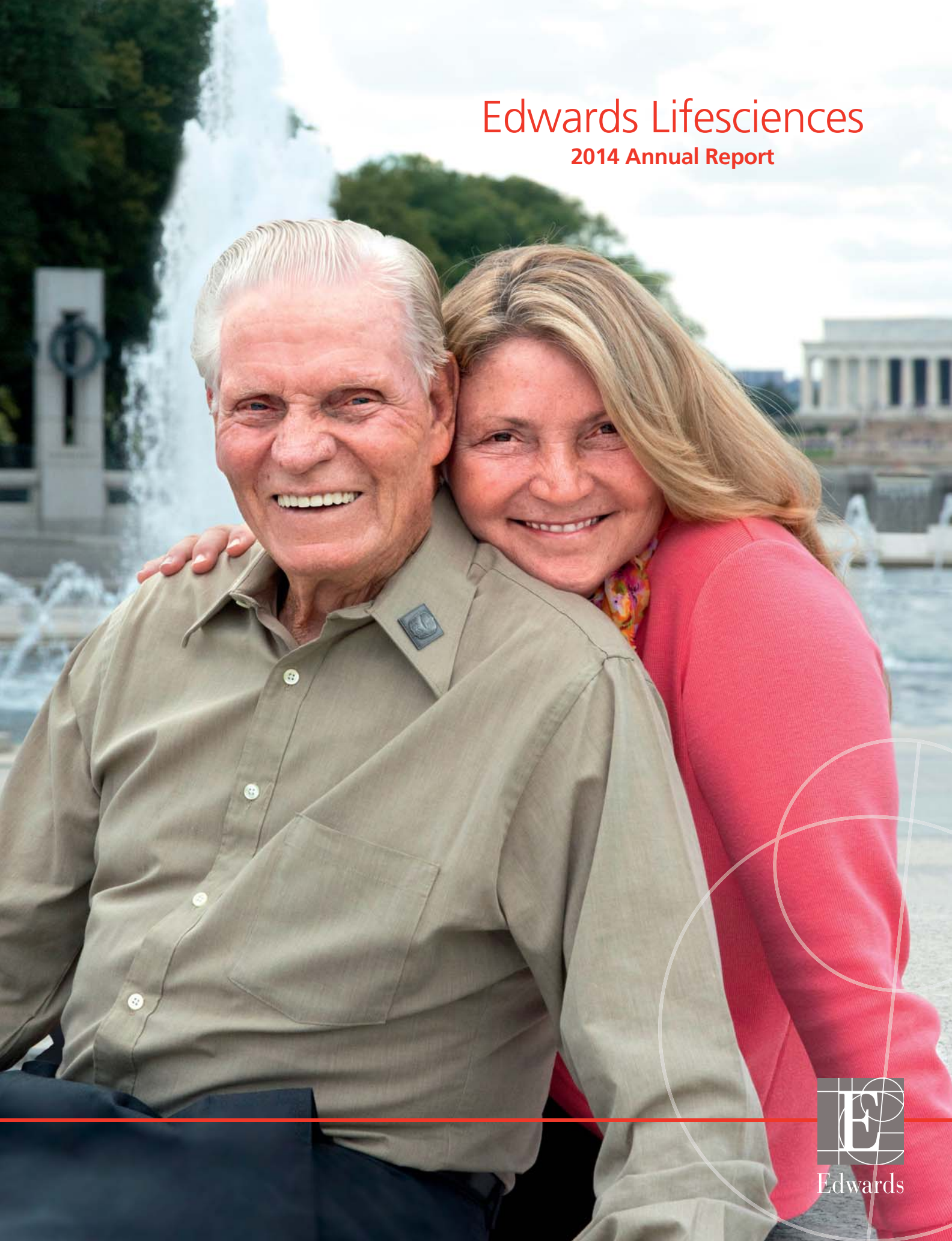


# Edwards Lifesciences

2014 Annual Report



Edwards



**Edwards Lifesciences is the global leader** in the science of heart valves and hemodynamic monitoring. Driven by a passion to help patients, we partner with clinicians to develop innovative technologies in the areas of structural heart disease and critical care monitoring that enable them to save and enhance lives.



**In 2014, Edwards welcomed a delegation of World War II veterans to Washington, D.C.** who represented multiple branches of the U.S. military and served in a variety of capacities in both the Pacific and European theaters of WWII. These veterans are united by their military service but also by a common bond in their medical histories, as they were among the first patients in the nation to receive transcatheter aortic heart valve replacement, or TAVR, with valves from Edwards' SAPIEN family of valves. Pictured above are the 10 honored WWII veterans at the National Mall including the World War II Memorial.

#### **ON THE COVER:**

Clifford Reed, 88, pictured with his daughter Hazel, was included in the WWII veteran delegation. Cliff was drafted into the Army Air Corps in 1944, and served in the military police department at MacDill Air Force Base in Florida until the conclusion of the war in 1945. He then moved to Texas where he worked for Republic Oil. In 1947, Mr. Reed was the sole surviving Texas City volunteer firefighter of what became known as the Texas City Disaster, which is considered the worst industrial accident in American history.

In January of 2014, Cliff was the first patient in the state of Texas to undergo conscious sedation during a TAVR procedure, where he was awake and able to communicate with physicians. This minimally invasive procedure replaces the native diseased heart valve through a catheter without having to undergo open heart surgery. To read more about Cliff's story, please visit our online annual report at [ir.edwards.com](http://ir.edwards.com), or scan the QR code below.



Scan this QR code to experience more online.  
To install the QR Code app, open your mobile device's browser, 1) go to [get.beetag.com](http://get.beetag.com), 2) download the free app, 3) launch the app, 4) click scan, 5) center your camera on the coded image and 6) click to launch the content.

# A Letter to Shareholders

Edwards Lifesciences is entering its 15th year as an independent company, and I continue to be gratified by the meaningful impact that our dedicated employees have in helping so many patients around the world.



**MICHAEL A. MUSSALLEM**, CHAIRMAN & CHIEF EXECUTIVE OFFICER

This milestone affords us a time of reflection on where we have come from and how we have progressed – and, more importantly, enables us to look forward to a bright future in which we are positioned to help even more patients and continue to deliver value to our shareholders.

Despite the remarkable growth of the company in the last 15 years of our long history, our focus and the core of our strategy remain constant. We are committed to providing innovative solutions that address the unmet needs of patients with structural heart disease, as well as the critically ill.

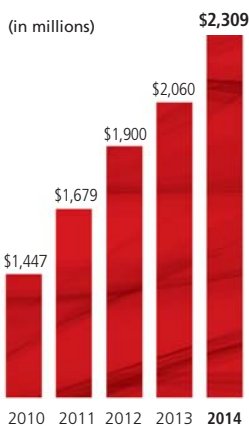
We entered 2014 with uncertainty, given the unpredictable nature of regulatory approvals of our own next-generation technologies and new competition in the U.S. and Europe, and I am proud to say we ended the year exceeding our expectations.

In just a year, we have witnessed our market value as a public company double. Our success was driven by our focus on developing and investing in technologies to better address patient needs. Even with our achievements, we will continue to strive for innovative solutions to the many health care challenges that are ahead.

As we move into 2015, Edwards is well positioned to continue strengthening its global leadership by providing therapies that create enduring value. And we are committed to protecting our lead as we relentlessly aim to help improve the lives of those in need.

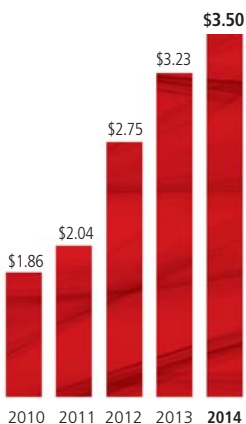
### NON-GAAP NET SALES

Edwards is fortunate to have strong leadership positions in attractive markets with the potential for sustainable growth. In 2014, sales grew 13% on an underlying basis due mainly to continued global adoption of our transcatheter valve technology.



### NON-GAAP DILUTED EARNINGS PER SHARE

In 2014, Edwards achieved year-over-year non-GAAP diluted earnings per share growth of 8%, while continuing to make significant investments in future growth opportunities.



## A Culture of Caring

Edwards' employees are essential to our success as a company. We are privileged to have a culture where so many passionate individuals are motivated to put patients first each day. In 2014, we continued to encourage the development of our talent worldwide, and also recently welcomed new leaders to help guide and execute our focused innovation strategy.

We were pleased to welcome Katie M. Szyman to lead our critical care team. She brings more than 20 years of medical device industry experience and a successful record as a senior leader.

Additionally, we announced some changes in our Board of Directors. In November, we welcomed Nicholas J. Valeriani to the Edwards Board of Directors. Nick was appointed to the Board following the departure in October of David E.I. Pyott, a member of the company's Board of Directors for 14 years. We owe our gratitude to David for his years of exemplary service.

Also in 2014, we reinforced our commitment to good governance and accountability to shareholders by providing the right to call special meetings of shareholders, by implementing a process to declassify our Board of Directors and eliminating the supermajority voting provisions in our governing documents. And, we issued our first sustainability report built on the foundation of our corporate aspirations. We are proud of our sustainability practices and will use this report to drive further improvements.

Another important and defining element of Edwards' culture is our commitment to charitable giving and participation in philanthropic causes. In 2014, global donations from the Edwards Lifesciences Foundation to non-profit organizations around the world exceeded \$8 million. The majority of the charitable investments will support a bold initiative named Every Heartbeat Matters. It aspires to impact the global burden of heart valve disease by supporting the education, screening and treatment of one million underserved people by 2020.



EDWARDS SAPIEN 3 VALVE

Approved in Europe in January 2014, the SAPIEN 3 valve is Edwards' most advanced transcatheter heart valve.



EDWARDS INTUITY ELITE VALVE

The EDWARDS INTUITY Elite valve system is built on our proven PERIMOUNT valve platform, offering rapid deployment for faster procedures and facilitating small incision surgery.

Additionally, Edwards employees contributed their time and resources to charitable activities throughout the year. A large majority of employees participated in at least one charitable activity in 2014, and we aspire to reach 100 percent participation every year.

## Solid 2014 Results

I am proud that our talented employees remained dedicated, as always, to our unwavering focus on patients, and that this continued commitment to producing life-saving therapies drove us to a solid 2014 financial performance. We began the year with growth and earnings projections around a wide range due to the uncertainty in the competitive environment. As we reported, we concluded the year with strong performance and extended leadership in all of our businesses. At the same time, we made encouraging progress on the milestones that should create future value.

In 2014, total company sales were \$2.3 billion, which grew 13 percent on an underlying basis. Our gross profit margin was strong at 73 percent, non-GAAP diluted earnings per share grew eight percent and we generated \$445 million in non-GAAP free cash flow.

To strengthen our leadership and enable future growth opportunities, we invested 15 percent of sales in research and development. During the year, we repurchased 4.4 million shares for \$301 million.

In May 2014, we reached an agreement with Medtronic to settle all outstanding patent litigation between the companies, resulting in a one-time payment to Edwards of \$750 million plus quarterly royalty payments through April 2022. From these proceeds, we contributed \$50 million to the Edwards Lifesciences Foundation.

## Leading the Future of Transcatheter Valve Technologies

As we began 2014, our initial expectations for Transcatheter Heart Valve Therapy sales growth were between 0 and 14 percent, and we finished with strong underlying global growth of 29 percent. Sales in the U.S. were robust despite the entrance of a competitor, and Europe grew impressively seven years after the introduction of this therapy. Increased confidence by the clinical community in transcatheter heart valve technologies, boosted by robust clinical data released this year at major health conferences, bodes well for the growing treatment of patients in need.

A number of important transcatheter valve developments were among this year's highlights.





#### CLEARSIIGHT SYSTEM

The ClearSight system is a non-invasive solution that expands clinician access to advanced hemodynamic parameters by quickly connecting to the patient with an inflatable finger cuff.

During the year, we received regulatory approval for our Edwards SAPIEN XT transcatheter heart valve in the U.S., which allows for the treatment of additional patients. In Europe, the Edwards SAPIEN 3 transcatheter valve, launched in January 2014, has set a new standard, combining a low-profile design with the ability to reduce paravalvular leak. We anticipate its U.S. commercial approval early in 2016.

We also announced longer-term clinical evidence from the original PARTNER Trial. In particular, five-year outcomes for inoperable patients treated with the Edwards SAPIEN transcatheter heart valve demonstrated a significant mortality benefit, persistent symptom benefit and a statistically significant reduction in rehospitalizations compared with standard therapy.

Altogether, the Edwards SAPIEN family of valves has been used in the treatment of more than 100,000 patients globally and we look forward to transforming the lives of even more patients with this advanced transcatheter valve.

### Advancements in Surgical Heart Valves



#### EDWARDS CENTERA VALVE

The self-expanding Edwards CENTERA valve is repositionable and features a motorized delivery system for stable deployment.

In our Surgical Heart Valve Therapy product group, we are continuing to lead the way toward faster, more efficient procedures and rapid recoveries.

In April 2014, we received CE Mark for the advanced EDWARDS INTUITY Elite valve system. This rapid deployment valve has been well-received by clinicians for its lower profile, which better enables minimally invasive procedures. We anticipate a U.S. commercial launch of this platform in 2016.

Also in April, three-year clinical outcomes of the EDWARDS INTUITY valve platform demonstrated excellent cardiac and valvular performance, as well as patient functional status. We believe the EDWARDS INTUITY platform can significantly expand the population of patients who receive a less-invasive approach for aortic valve surgery, while at the same time achieving important clinical and cost benefits.

And, we continue to make substantial investments in new technologies. Our advanced tissue treatment technology, RESILIA, has shown promise for improving our current, market-leading process. And the ZETA platform, designed to accommodate future valve-in-valve procedures, may provide a better valve replacement solution for younger heart valve patients. These developments, coupled with an aging global population, are expected to drive continued need for, and growth of, Edwards' leading surgical heart valve platform over the longer term.

## Less-Invasive Monitoring to Speed Recovery

Edwards continues to build on its global leadership in hemodynamic monitoring by expanding into a broader patient population with the ClearSight system, our noninvasive monitoring technology. ClearSight technology, coupled with our leading EV1000 platform, can be utilized by hospitals as they implement enhanced surgical recovery (ESR) programs. ESR strives to improve patient outcomes and speed a patient's recovery by optimizing fluid levels before, during and after surgical procedures.

We believe ESR represents an underpenetrated opportunity that Edwards is particularly well positioned to develop, so we made the difficult decision in 2014 to refocus resources from our continuous glucose monitoring program to ESR. We believe the tools we offer can help bring clarity to complex therapeutic decision making and help clinicians manage patients in a more optimal manner, resulting in clinical and economic benefits.

### 2014 SALES BY GEOGRAPHIC REGION

Edwards is globally diverse, serving patients in more than 100 countries.

- United States 45%
- Europe 32%
- Rest of World 12%
- Japan 11%



### 2014 SALES BY PRODUCT GROUP

More than 95% of Edwards' sales are from products in #1 global positions.

- Transcatheter Heart Valve Therapy 40%
- Surgical Heart Valve Therapy 36%
- Critical Care 24%



## Innovation Key to Enabling Future Growth

Edwards has always been, and will continue to be, aggressive investors in innovation to better address patient needs through extensive internal efforts and also by the identification of promising external ideas. The double-digit sales growth that we have experienced over the last five years is a direct byproduct of these efforts. Our R&D investments will once again be substantial in 2015, as we continue to strengthen our leadership and position Edwards for sustained future growth.

In addition to our ongoing efforts in Surgical Heart Valve Therapy and Critical Care, we remain particularly focused on investments designed to strengthen our leadership position in transcatheter heart valves. Not only are we pursuing additional indications for our current SAPIEN platform, but we also anticipate considerable clinical progress in 2015 with our self-expanding Edwards CENTERA valve, featuring an enhanced motorized delivery system.

Our FORTIS transcatheter mitral valve program is enrolling patients in prospective feasibility studies in Europe, Canada and the U.S. Although the journey to commercialization may be long and require significantly more experience, we continue to believe transcatheter mitral technologies have the potential to address a large patient need, and we remain committed to building a leadership position.

## Well Positioned For Future Success

While we recognize that transcatheter heart valve competition will intensify in the U.S. and Europe, we expect another year of attractive sales growth and solid performances across our company in 2015.

In a consolidating industry, we believe our commitment to meaningful innovation driven by focused teams will continue to help us sustain our success and build long-term value for our shareholders. We believe we create real value when we deliver sophisticated therapies that transform patient care. This work requires expertise and long-term commitment, supported by robust clinical evidence and solid economic data.

As a company, we are driven by a credo that reminds us every day the true significance of the work we do. We remain passionate about the highest standards of quality and accountability to ensure our work reflects this credo. We count it a privilege to serve patients, relentlessly focusing on delivering therapies that save, enhance and prolong lives.

We trust our focused innovation strategy and continue to believe that when we place patients' needs first, we will benefit not only the patient, but also our customers, employees and shareholders.

We thank you for your continued trust, partnership and support.

Sincerely,



**Michael A. Mussallem** Chairman and Chief Executive Officer

This Annual Report includes forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. These forward-looking statements include, but are not limited to, the Company's financial goals and its expectations for delivering innovative solutions that help more patients, further increasing shareholder value, improving sustainability measures, maintaining leadership positions, clinical and economic benefits of new products, and investments in and expected outcomes of research and development. Forward-looking statements are based on estimates and assumptions made by management of the Company and are believed to be reasonable, though they are inherently uncertain and difficult to predict. Our forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of the statement. Forward-looking statements involve risks and uncertainties that could cause actual results or experience to differ materially from that expressed or implied by the forward-looking statements. Factors that could cause actual results or experience to differ materially from that expressed or implied by the forward-looking statements include the pace of adoption of the Company's transcatheter valve programs and the ability of the Company to continue to lead in the development of this field; the Company's success in developing new products, obtaining timely regulatory approvals, creating new market opportunities and launching new products successfully; reimbursement for the Company's products; the impact of competitive products; changes in currency exchange rates; the timing or results of pending or future clinical trials; actions by the U.S. Food and Drug Administration and other regulatory agencies; economic developments in key markets; and other risks detailed in the Company's filings with the Securities and Exchange Commission including its Annual Report on Form 10-K for the year ended December 31, 2014.

Caution: The Edwards SAPIEN 3, EDWARDS INTUITY Elite, RESILIA and FORTIS products are investigational devices in the U.S., limited by U.S. federal law to investigational use. The Edwards CENTERA transcatheter heart valve is not available for commercial sale in the U.S.



## Non-GAAP Financial Information

To supplement the consolidated financial results prepared in accordance with Generally Accepted Accounting Principles (“GAAP”), the company uses non-GAAP historical financial measures. The company uses the term “underlying” when referring to non-GAAP sales information, which excludes foreign exchange fluctuations, as well as adjustments for discontinued and acquired products and sales return reserves associated with transcatheter heart valve (“THV”) product upgrades, and “excluding special items” to also exclude gains and losses from special items such as significant investments, litigation, and business development transactions, and for 2012 to include the tax benefit for the U.S. Research and Development (“R&D”) tax credit, which was required to be included in 2013. Management does not consider the excluded items or adjustments as part of day-to-day business or reflective of the core operational activities of the company as they result from transactions outside the ordinary course of business.

Management uses non-GAAP financial measures internally for strategic decision making, forecasting future results and evaluating current performance. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP and reflect an additional way of viewing aspects of the Company’s core operations that, when viewed with its GAAP results, provide a more complete understanding of factors and trends affecting the company’s business. Non-GAAP financial measures are not prepared in accordance with GAAP; therefore, the information is not necessarily comparable to other companies and should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. A reconciliation of non-GAAP historical financial measures to the most comparable GAAP measure is provided in the tables below.

Twelve months ended December 31, 2014	<b>GAAP net sales growth rate</b>	Impact of sales return reserve	Impact of foreign exchange	<b>Non-GAAP net sales growth rate</b>
<b>Non-GAAP Net Sales Growth by Product Group</b>				
Transcatheter Heart Valve Therapy	33.3%	(4.5%)	0.1%	28.9%

## Reconciliation of GAAP to Non-GAAP Financial Information

Twelve months ended December 31 (in millions, except per share data)	2014	2013	2012	2011	2010
<b>GAAP Net Income</b>	<b>\$811.1</b>	\$389.1	\$291.5	\$236.6	\$216.2
Reconciling items:					
THV sales returns reserve and related costs	2.2	15.2	—	—	—
Intellectual property litigation (income) expenses, net	(740.4)	(61.5)	14.4	4.7	8.5
Product recalls	—	—	8.1	—	—
Charitable fund contribution	50.0	—	—	—	—
Acquisition of in-process research and development	10.2	—	7.0	—	—
Settlement	7.5	—	—	—	—
Asset write-down	5.0	5.9	—	—	7.2
Worldwide realignment	—	10.4	9.0	5.5	7.2
European receivables reserve	—	—	—	12.8	—
Product litigation reserves	—	—	—	3.3	—
MONARC program discontinuation	—	—	—	—	8.3
Provision (benefit) for income taxes:					
Tax effect on non-GAAP adjustments	240.2	17.2	(10.9)	(5.8)	(7.6)
Remeasurement of uncertain tax position reserve	(6.2)	—	(2.3)	—	—
Federal research and development tax credit	—	(8.4)	8.4	—	—
Expiration of various statutes of limitations	—	—	—	(4.0)	—
Tax rulings and settlements	—	—	—	(9.4)	(9.8)
Resolution of outstanding transfer price issues	—	—	—	—	(7.9)
<b>Non-GAAP Net Income</b>	<b>\$379.6</b>	\$367.9	\$325.2	\$243.7	\$222.1
Non-GAAP earnings per share:					
Basic non-GAAP earnings per share	\$3.56	\$3.29	\$2.83	\$2.13	\$1.95
Diluted non-GAAP earnings per share	\$3.50	\$3.23	\$2.75	\$2.04	\$1.86
Weighted-average shares outstanding:					
Basic	106.5	111.7	114.9	114.6	113.7
Diluted	108.5	113.8	118.3	119.4	119.2
<b>Non-GAAP Free Cash Flow</b>					
Twelve months ended December 31 (in millions)	2014	2013	2012	2011	2010
Net cash provided by operating activities	\$1,022.3	\$472.7	\$362.1	\$308.2	\$251.4
Capital expenditures	(82.9)	(109.0)	(109.0)	(76.6)	(61.8)
Reconciling items:					
Medtronic litigation settlement	(750.0)	—	—	—	—
Charitable fund contribution	50.0	—	—	—	—
Medtronic litigation award	—	(83.6)	—	—	—
Net tax payments on Medtronic litigation and charitable contribution	205.1	26.3	—	—	—
<b>Non-GAAP Free Cash Flow</b>	<b>\$444.5</b>	\$306.4	\$253.1	\$231.6	\$189.6
<b>Non-GAAP Net Sales Growth</b>					
Twelve months ended December 31	2014	2013	2012	2011	2010
<b>GAAP Net Sales Growth Rate</b>	<b>13.6%</b>	7.7%	13.2%	16.0%	9.5%
Impact of sales return reserve	(1.5%)	0.7%	—	—	—
Impact of discontinued, newly acquired and other products	—	—	—	—	3.9%
Impact of foreign exchange	1.2%	2.4%	3.0%	(4.4%)	(0.7%)
<b>Non-GAAP Net Sales Growth Rate</b>	<b>13.3%</b>	10.8%	16.2%	11.6%	12.7%

Note: Numbers may not calculate due to rounding.

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the Fiscal Year Ended December 31, 2014

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 92614**  
(Address of principal executive offices) (ZIP Code)

**(949) 250-2500**

Registrant's telephone number, including area code

**Securities registered pursuant to Section 12(b) of the Act:**

Common Stock, par value \$1.00 per share

**Name of each exchange on which registered:**

New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:** None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller  
reporting company)

Smaller Reporting Company

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

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2014 (the last trading day of the registrant's most recently completed second quarter): \$9,013,877,277 based on a closing price of \$85.84 of the registrant's common stock on the New York Stock Exchange. This calculation does not reflect a determination that persons are affiliates for any other purpose.

The number of shares outstanding of the registrant's common stock, \$1.00 par value, as of January 31, 2015, was 107,839,918.

**Documents Incorporated by Reference**

Portions of the registrant's proxy statement for the 2015 Annual Meeting of Stockholders (to be filed within 120 days of December 31, 2014) are incorporated by reference into Part III, as indicated herein.

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**EDWARDS LIFESCIENCES CORPORATION**  
**Form 10-K Annual Report—2014**  
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## PART I

### Item 1. Business

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

#### Overview

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

Cardiovascular disease is the number-one cause of death in the world, and is the top disease in terms of health care spending in nearly every country. Cardiovascular disease is progressive in that it tends to worsen over time and often affects an individual’s entire circulatory system.

Patients undergoing treatment for cardiovascular disease may be treated using a variety of our products and technologies. For example, an individual with a heart valve disorder may have a faulty valve. A clinician may elect to remove the valve and replace it with one of our bioprosthetic surgical tissue heart valves, surgically re-shape and repair the faulty valve with an Edwards Lifesciences annuloplasty ring, or deploy an Edwards Lifesciences transcatheter valve via a minimally invasive catheter-based system. Patients in the hospital setting, including high-risk patients in the operating room or intensive care unit, are candidates for having their cardiac function or fluid levels monitored by our Critical Care products.

#### Segment and Geographical Information

We conduct operations worldwide and are 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. Additional segment and geographical information is incorporated herein by reference to Note 18 to the “Consolidated Financial Statements.” See also the risk factor “Our business is subject to economic, political, and other risks associated with international sales and operations, including risks arising from currency exchange rate fluctuations” in Part I, Item 1A, “Risk Factors,” for information regarding risks involving our international operations.

## Corporate Background

Edwards Lifesciences Corporation was incorporated in Delaware on September 10, 1999. Unless otherwise indicated or otherwise required by the context, the terms “we,” “our,” “it,” “its,” “Company,” “Edwards,” and “Edwards Lifesciences” refer to Edwards Lifesciences Corporation and its subsidiaries.

Our principal executive offices are located at One Edwards Way, Irvine, California 92614. The telephone number at that address is (949) 250-2500. We make available, free of charge on our website located at [www.edwards.com](http://www.edwards.com), our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after filing such reports with the Securities and Exchange Commission (“SEC”). The contents of our website are not incorporated by reference into this report.

## Edwards Lifesciences’ Product and Technology Offerings

The following discussion summarizes the main areas of products and technologies we offer to treat advanced cardiovascular disease. These are categorized into three main areas: Transcatheter Heart Valve Therapy, Surgical Heart Valve Therapy, and Critical Care. For more information on net sales from these three main areas, see “*Net Sales by Product Group*” under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*”

We are the global leader in heart valve therapy and the world’s leading manufacturer of heart valves and repair products, which are used to replace or repair a patient’s diseased or defective heart valve. We produce pericardial valves from biologically inert animal tissue sewn onto proprietary wireform stents.

### Transcatheter Heart Valve Therapy

We have leveraged the knowledge and experience from our Surgical Heart Valve Therapy portfolio to optimize transcatheter heart valve replacement technology, designed for the nonsurgical replacement of heart valves. The *Edwards SAPIEN*, *Edwards SAPIEN XT*, and *Edwards SAPIEN 3* transcatheter aortic heart valves, and their respective delivery systems, are used to treat heart valve disease using catheter-based approaches for certain patients deemed at high risk for traditional open-heart surgery. Delivered while the heart is beating, these valves can enable patients to experience a better quality of life sooner than patients receiving traditional surgical therapies. We began offering our transcatheter heart valves to patients commercially in Europe in 2007, in the United States in 2011, and in Japan in 2013. As of December 31, 2014, our transcatheter aortic heart valves were available for sale in more than 65 countries. Supported by extensive customer training and service, and a growing body of compelling clinical evidence, our *SAPIEN* family of transcatheter aortic heart valves are the most widely prescribed transcatheter heart valves in the world.

Sales of our transcatheter heart valves represented approximately 41%, 35%, and 29% of our net sales in 2014, 2013, and 2012, respectively.

### Surgical Heart Valve Therapy

The core of our surgical tissue heart valve product line is the *Carpentier-Edwards PERIMOUNT* pericardial valve, including the line of *PERIMOUNT Magna Ease* valves, the newest generation pericardial valves for aortic and mitral surgical replacement. With significant clinical data on durability and performance, *PERIMOUNT* valves are the most widely prescribed tissue heart valves in the world. In addition to its replacement valves, we pioneered and are the worldwide leader in heart valve repair therapies, including annuloplasty rings and systems. We have also developed the *EDWARDS INTUITY Valve System*, a minimally invasive aortic heart valve system designed to enable a faster procedure, shorter patient time on cardiopulmonary bypass and a smaller incision.

Sales of our surgical tissue heart valve products represented approximately 31%, 34%, and 36% of our net sales in 2014, 2013, and 2012, respectively.

Cardiac surgeons and their patients increasingly are seeking less invasive approaches to aortic or mitral valve surgery, which can offer a number of potential benefits, including smaller incisions, less blood loss, quicker recoveries, and less scarring. Edwards Lifesciences offers a variety of systems used to enable minimal incision valve surgery where surgeons perform intricate procedures through small incisions. We are also a global leader in protection cannulae, which are used during cardiac surgery.

## **Critical Care**

We are a world leader in hemodynamic monitoring systems used to measure a patient's heart function in surgical and intensive care settings. Hemodynamic monitoring enables a clinician to balance the oxygen supply and demand of a critically ill patient and plays an important role in enhancing surgical recovery by enabling appropriate tissue and organ perfusion, and ultimately patient outcomes and survival. Our hemodynamic monitoring technologies are used before, during, and after surgeries, such as open-heart, major vascular, major abdominal, neurological, and orthopedic surgical procedures, as well as for acutely ill patients with conditions such as sepsis, acute respiratory distress syndrome, and multi-organ failure.

We manufacture products to help clinicians make more informed fluid management decisions for their patients, including the minimally invasive *FloTrac* continuous cardiac output monitoring system, and the non-invasive *ClearSight* hemodynamic monitor that provides real-time, beat-to-beat information. Our hemodynamic monitoring product line also includes the *Swan-Ganz* line of pulmonary artery catheters, the *PreSep* continuous venous oximetry catheter for measuring central venous oxygen saturation, and the *VolumeView* sensor-catheter set that measures a critically ill patient's volumetric hemodynamic parameters. Our *EV1000* clinical monitoring platform displays a patient's physiologic status and integrates many of our sensors and catheters into one intuitive platform.

We are also the global leader in disposable pressure monitoring devices and innovative closed blood sampling systems to help protect both patients and clinicians from the risk of infection.

Sales of our core hemodynamic products represented approximately 15%, 17%, and 19% of our net sales in 2014, 2013, and 2012, respectively.

We manufacture and sell a variety of peripheral vascular products used to treat endoluminal occlusive disease, including the *Fogarty* line of embolectomy catheters, which has been an industry standard for removing blood clots from peripheral blood vessels for more than 40 years.

## **Competition**

The medical device industry is highly competitive. We compete with many companies, including divisions of companies much larger than us and smaller companies that compete in specific product lines or certain geographies. Furthermore, new product development and technological change characterize the areas in which we compete. Our present or future products could be rendered obsolete or uneconomical as a result of technological advances by one or more of our present or future competitors or by other therapies, including drug therapies. We must continue to develop and commercialize new products and technologies to remain competitive in the cardiovascular medical device industry. We believe that we compete primarily on the basis of clinical superiority supported by extensive data, and innovative features that enhance patient benefit, product performance, and reliability. Customer and sales support, and cost-effectiveness are additional aspects of competition.

The cardiovascular segment of the medical device industry is dynamic and subject to significant change due to cost-of-care considerations, regulatory reform, industry and customer consolidation, and evolving patient needs. The ability to provide products and technologies that demonstrate value and improve clinical outcomes is becoming increasingly important for medical device manufacturers.

We believe that we are a leading global competitor in each of our product lines. In Surgical and Transcatheter Heart Valve therapies, our primary competitors include Medtronic, Inc., St. Jude Medical, Inc., and Sorin Group. In Critical Care, we compete primarily with a variety of companies in specific product lines including ICU Medical, Inc., PULSION Medical Systems SE, a subsidiary of Getinge AB, and LiDCO Group PLC.

### **Sales and Marketing**

We have a number of broad product lines that require a sales and marketing strategy tailored to our customers in order to deliver high-quality, cost-effective products and technologies to all of our customers worldwide. Our portfolio includes some of the most recognizable product brands in cardiovascular devices today. To help broaden awareness of our products and technologies, we conduct educational symposia and provide training to our customers.

Because of the diverse global needs of the population that we serve, our distribution system consists of a direct sales force as well as independent distributors. We are not dependent on any single customer and no single customer accounted for 10% or more of our net sales in 2014.

Where we choose to market our products is also influenced by the existence of, or potential for, adequate reimbursement to hospitals by national healthcare systems. Sales personnel work closely with the customers who purchase our products, which primarily include physicians, nurses, and other clinical personnel, but can also include decision makers such as material managers, biomedical staff, hospital administrators, purchasing managers, and ministries of health. Also, for certain of our products and where appropriate, our sales force actively pursues approval of Edwards Lifesciences as a qualified supplier for hospital group purchasing organizations (“GPOs”) that negotiate contracts with suppliers of medical products. Additionally, we have contracts with a number of United States national and regional buying groups.

**United States.** In the United States, we sell substantially all of our products through our direct sales force. In 2014, 45% of our reported sales were derived from sales to customers in the United States.

**International.** In 2014, 55% of our reported sales were derived internationally through our direct sales force and independent distributors. Of the total international sales, 58% were in Europe, 20% were in Japan, and 22% were in Rest of World. We sell our products in approximately 100 countries, and our major international markets include Australia, Brazil, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, and the United Kingdom. A majority of the sales and marketing approach outside the United States is direct sales, although it varies depending on each country’s size and state of development.

### **Raw Materials and Manufacturing**

We operate manufacturing facilities in various geographies around the world. Our Transcatheter Heart Valve Therapy and Surgical Heart Valve Therapy products are manufactured primarily in the United States (California and Utah), Switzerland, and Singapore. Critical Care products are manufactured primarily in our facilities located in Puerto Rico and the Dominican Republic.

We use a diverse and broad range of raw and organic materials in the design, development, and manufacture of our products. Our non-implantable products are manufactured from man-made raw materials including resins, chemicals, electronics, and metals. Most of our Transcatheter Heart Valve Therapy and Surgical Heart Valve Therapy products are manufactured from natural tissues harvested from animal tissue, as well as man-made materials. We purchase certain materials and components used in manufacturing our products from external suppliers. In addition, we purchase certain supplies from single sources for reasons of quality assurance, sole source availability, cost effectiveness, or constraints resulting from regulatory requirements.

We work closely with our suppliers to mitigate risk and assure continuity of supply while maintaining uncompromised quality and reliability. Alternative supplier options are generally considered and identified,



although we do not typically pursue regulatory qualification of alternative sources due to the strength of our existing supplier relationships and the time and expense associated with the regulatory validation process.

We follow rigorous sourcing and manufacturing procedures intended to safeguard humans from potential risks associated with diseases such as bovine spongiform encephalopathy (“BSE”). International health and regulatory authorities have given guidance identifying three factors contributing to the control of BSE: source of animals, nature of tissue used, and manufacturing process controls. In the countries in which we sell our products, we comply with all current global guidelines regarding risks for products intended to be implanted in humans. We obtain bovine tissue used in our pericardial tissue valve products only from sources within the United States and Australia, where strong control measures and surveillance programs exist. In addition, bovine tissue used in our pericardial tissue valve products is from tissue types considered by global health and regulatory organizations to have shown no risk of infectibility. Our manufacturing and sterilization processes are designed to render tissue biologically safe from all known infectious agents and viruses, and exceed the worldwide standard for sterile medical products.

### **Quality Assurance**

We are committed to providing quality products that comply with United States Food and Drug Administration (“FDA”) and other applicable regulations to our customers. To meet this commitment, we have implemented modern quality systems and concepts throughout the organization. The quality system starts with the initial product specification and continues through the design of the product, component specification processes, and the manufacturing, sales, and servicing of the product. The quality system is intended to design quality into products and utilizes continuous improvement concepts, including Lean/Six Sigma principles, throughout the product lifecycle.

Our operations are inspected by the FDA and comply with all applicable international quality systems standards, including the International Organization for Standardization (“ISO”) 13485. These standards require, among other items, quality system controls that are applied to product design, component material, suppliers, and manufacturing operations. These regulatory approvals and ISO certifications can be obtained only after a complete audit of a company’s quality system has been conducted by regulatory or independent outside auditors. Periodic reexamination by an independent outside auditor is required to maintain these certifications.

### **Environmental, Health, and Safety**

We are committed to providing a safe and healthy workplace, promoting environmental excellence in our communities, and complying with all relevant regulations and medical device industry standards. Through our corporate and site level Environmental, Health, and Safety functions, we establish and monitor programs to reduce pollution, prevent injuries, and maintain compliance. In order to measure performance, we monitor and report on a number of metrics, including regulated and non-regulated waste disposal, energy usage, water consumption, air toxic emissions, and injuries from our production activities. Each of our manufacturing sites is evaluated regularly with respect to a broad range of Environmental, Health, and Safety criteria.

### **Research and Development**

We are engaged in ongoing research and development to deliver clinically advanced new products, to enhance the effectiveness, ease of use, safety and reliability of our current leading products, and to expand the applications of our products as appropriate. We focus on opportunities within specific areas of structural heart disease and critical care monitoring, and we are dedicated to developing novel technologies to better enable clinicians to treat patients.

We invested \$346.5 million in research and development in 2014, \$323.0 million in 2013, and \$291.3 million in 2012 (14.9%, 15.8%, and 15.3% of net sales, respectively). The majority of our research and development investment has been applied to strengthen our leadership position in transcatheter heart valve replacement technologies, surgical tissue heart valves, heart valve repair therapies, and hemodynamic monitoring products. We have also dedicated a sizable portion of our research and development investment to developing advanced technologies designed to address unmet clinical needs within the area of structural heart disease. A considerable portion of our research and development investment includes clinical trials and the collection of evidence that provide data for use in regulatory submissions, and post-market approval studies involving applications of our products.

We are investing substantially in the development of transcatheter heart valve technologies designed to treat heart valve disease using catheter-based approaches. In the area of transcatheter aortic valve replacement (“TAVR”), we are developing a repositionable, self-expanding transcatheter heart valve system, the *Edwards CENTERA* transcatheter valve system, in addition to next-generation balloon-expandable valves. We are also making significant investments in the development of transcatheter heart valve technologies designed to treat mitral valve disease.

Surgical Heart Valve Therapy development programs include the *EDWARDS INTUITY Elite Valve System*, a next-generation minimally invasive aortic heart valve system, and *RESILIA*, an advanced tissue platform designed to improve tissue valve durability and ease of use.

In our Critical Care product line, we are pursuing the development of non-invasive and minimally invasive hemodynamic monitoring systems, including continuous hemodynamic monitoring, and other technologies that collect critical patient information to help clinicians make more informed treatment decisions for larger patient populations.

Our research and development activities are conducted primarily in facilities located in the United States, Israel, and the Netherlands. Our experienced research and development staff is focused on product design and development, quality, clinical research, and regulatory compliance. To pursue primary research efforts, we have developed alliances with several leading research institutions and universities, and also work with leading clinicians around the world in conducting scientific studies on our existing and developing products.

## **Proprietary Technology**

Patents and other proprietary rights are important to the success of our business. We also rely upon trade secrets, know-how, continuing innovations, and licensing opportunities to develop and maintain our competitive position.

We own more than 2,500 issued United States patents, pending United States patent applications, issued foreign patents, and pending foreign patent applications. We also have licensed various United States and foreign patents and patent applications that relate to aspects of the technology incorporated in certain of our products, including our heart valves and annuloplasty rings. We also own or have rights in United States and foreign patents and patent applications in the field of transcatheter heart valve repair and replacement. In addition, we own or have rights in United States and foreign patents and patent applications that cover catheters, systems and methods for hemodynamic monitoring, and vascular access products.

We are a party to several license agreements with unrelated third parties pursuant to which we have obtained, for varying terms, the exclusive or non-exclusive rights to certain patents held by such third parties in consideration for cross-licensing rights and/or royalty payments. We have also licensed certain patent rights to others.

We monitor the products of our competitors for possible infringement of our owned and licensed patents. Litigation has been necessary to enforce certain patent rights held by us, and we plan to continue to defend and prosecute our rights with respect to such patents.

We own certain United States registered trademarks used in our business. Many of our trademarks have also been registered for use in certain foreign countries where registration is available and where we have determined it is commercially advantageous to do so.

### **Government Regulation and Other Matters**

Our products and facilities are subject to regulation by numerous government agencies, including the U.S. FDA, European Community Notified Bodies, and the Japanese Pharmaceuticals and Medical Devices Agency, to confirm compliance to the various laws and regulations governing the development, testing, manufacturing, labeling, marketing, and distribution of our products. We are also governed by federal, state, local, and international laws of general applicability, such as those regulating employee health and safety and the protection of the environment. Overall, the amount and scope of domestic and foreign laws and regulations applicable to our business is increasing.

***United States Regulation.*** In the United States, the FDA has responsibility for regulating medical devices. The FDA regulates design, development, testing, clinical studies, manufacturing, labeling, promotion, and record keeping for medical devices, and reporting of adverse events, recalls, or other field actions by manufacturers and users to identify potential problems with marketed medical devices. Many of the devices that we develop and market are in a category for which the FDA has implemented stringent clinical investigation and pre-market clearance or approval requirements. The process of obtaining FDA clearance or approval to market a product is resource intensive, lengthy, and costly. FDA review may involve substantial delays that adversely affect the marketing and sale of our products. A number of our products are pending regulatory clearance or approval to begin commercial sales in various markets. Ultimately, the FDA may not authorize the commercial release of a medical device if it determines the device is not safe and effective or does not meet other standards for clearance. Additionally, even if a product is cleared or approved, the FDA may require testing and surveillance programs to monitor the effects of these products once commercialized.

The FDA has the authority to halt the distribution of certain medical devices, detain or seize adulterated or misbranded medical devices, order the repair, replacement, or refund of the costs of such devices, or preclude the importation of devices that are or appear violative. The FDA also conducts inspections to determine compliance with the quality system regulations concerning the manufacturing and design of devices and current medical device reporting regulations, recall regulations, clinical testing regulations, and other requirements. The FDA may withdraw product clearances or approvals due to failure to comply with regulatory standards, or the occurrence of unforeseen problems following initial approval, and require notification of health professionals and others with regard to medical devices that present unreasonable risks of substantial harm to the public health. Additionally, the failure to comply with FDA or comparable regulatory standards or the discovery of previously unknown product problems could result in fines, delays, or suspensions of regulatory clearances or approvals, seizures, injunctions, recalls, refunds, civil money penalties, or criminal prosecution. Our compliance with applicable regulatory requirements is subject to continual review. Moreover, the FDA and several other United States agencies administer controls over the export of medical devices from the United States and the import of devices into the United States, which could also subject us to sanctions for noncompliance.

In May 2013, we received a warning letter from the Denver District Office of the FDA resulting from an inspection of our facility in Draper, Utah. The warning letter relates specifically to the execution of our quality systems at the Utah facility, including design and process validation, corrective and preventive actions, finished device acceptance, and packaging, and indicated that we would not receive pre-market approvals for devices reasonably related to those issues until the issues are resolved. Our Utah facility manufactures devices such as cannulae and cardioplegia catheters, heart valve repair rings, and transcatheter heart valve delivery system components and accessories. We are actively implementing the necessary actions to resolve these issues identified in the letter. In June 2014, we were granted a variance from the FDA through June 15, 2015 for the *SAPIEN XT* delivery systems and components that are manufactured at the Draper facility. Under the

variance, we are complying with an agreed upon action plan for the *SAPIEN XT* delivery system that verifies the safety and effectiveness of its intended use.

We are also subject to additional laws and regulations that govern our business operations, products, and technologies, including:

- federal, state, and foreign anti-kickback laws and regulations, which generally prohibit payments to physicians or other purchasers of medical products as an inducement to purchase a product;
- the Stark law, which prohibits physicians from referring Medicare or Medicaid patients to a provider that bills these programs for the provision of certain designated health services if the physician (or a member of the physician's immediate family) has a financial relationship with that provider;
- federal and state laws and regulations that protect the confidentiality of certain patient health information, including patient records, and restrict the use and disclosure of such information, in particular, the Health Insurance Portability and Accountability Act of 1996;
- the Physician Payments Sunshine Act, which requires public disclosure of the financial relationships of United States physicians and teaching hospitals with applicable manufacturers, including medical device, pharmaceutical, and biologics companies;
- the False Claims Act, which prohibits the submission of false or otherwise improper claims for payment to a federally funded health care program, and health care fraud statutes that prohibit false statements and improper claims to any third-party payor; and
- the United States Foreign Corrupt Practices Act, which can be used to prosecute companies in the United States for arrangements with foreign government officials or other parties outside the United States.

Failure to comply with these laws and regulations could result in criminal liability, significant fines or penalties, negative publicity, and substantial costs and expenses associated with investigation and enforcement activities. To assist in our compliance efforts, we adhere to many codes of ethics and conduct regarding our sales and marketing activities in the United States and other countries in which we operate. In addition, we have in place a dedicated team to improve our internal business compliance programs and policies.

***International Regulation.*** Internationally, the regulation of medical devices is complex. In Europe, our products are subject to extensive regulatory requirements. The regulatory regime in the European Union for medical devices became mandatory in June 1998. It requires that medical devices may only be placed on the market if they do not compromise safety and health when properly installed, maintained, and used in accordance with their intended purpose. National laws conforming to the European Union's legislation regulate our products under the medical devices regulatory system. Although the more variable national requirements under which medical devices were formerly regulated have been substantially replaced by the European Union Medical Devices Directive, individual nations can still impose unique requirements that may require supplemental submissions. The European Union medical device laws require manufacturers to declare that their products conform to the essential regulatory requirements after which the products may be placed on the market bearing the CE Mark. Manufacturers' quality systems for products in all but the lowest risk classification are also subject to certification and audit by an independent notified body. In Europe, particular emphasis is being placed on more sophisticated and faster procedures for the reporting of adverse events to the competent authorities.

In Japan, pre-market approval and clinical studies are required as is governmental pricing approval for medical devices. Clinical studies are subject to a stringent "Good Clinical Practices" standard. Approval time frames from the Japanese Ministry of Health, Labour and Welfare vary from simple notifications to review periods of one or more years, depending on the complexity and risk level of the device. In addition, importation of medical devices into Japan is subject to the "Good Import Practices" regulations. As with any highly regulated market, significant changes in the regulatory environment could adversely affect future sales.



In many of the other foreign countries in which we market our products, we may be subject to regulations affecting, among other things:

- product standards and specifications;
- packaging requirements;
- labeling requirements;
- product collection and disposal requirements;
- quality system requirements;
- import restrictions;
- tariffs;
- duties; and
- tax requirements.

Many of the regulations applicable to our devices and products in these countries are similar to those of the FDA. In some regions, the level of government regulation of medical devices is increasing, which can lengthen time to market and increase registration and approval costs. In many countries, the national health or social security organizations require our products to be qualified before they can be marketed and considered eligible for reimbursement.

***Health Care Initiatives.*** Government and private sector initiatives to limit the growth of health care costs, including price regulation and competitive pricing, coverage and payment policies, comparative effectiveness reviews, technology assessments, and managed-care arrangements, are continuing in many countries where we do business, including the United States, Europe, and Japan. As a result of these changes, the marketplace has placed increased emphasis on the delivery of more cost-effective medical therapies. For example, government programs, private health care insurance, and managed-care plans have attempted to control costs by restricting coverage and limiting the level of reimbursement for procedures or treatments, and some third-party payors require their pre-approval before new or innovative devices or therapies are utilized by patients. These various initiatives have created increased price sensitivity over medical products generally and may impact demand for our products and technologies.

The delivery of our products is subject to regulation by the Department of Health and Human Services (“HHS”) in the United States and comparable state and foreign agencies responsible for reimbursement and regulation of health care items and services. Foreign governments also impose regulations in connection with their health care reimbursement programs and the delivery of health care items and services. Reimbursement schedules regulate the amount the United States government will reimburse hospitals and doctors for the inpatient care of persons covered by Medicare. HHS’ Centers for Medicare & Medicaid Services (“CMS”) may also review whether and/or under what circumstances a procedure or technology is reimbursable for Medicare beneficiaries. Several legislative proposals in the United States have been advanced that would restrict future funding increases for government-funded programs, including Medicare and Medicaid. Changes in current reimbursement levels could have an adverse effect on market demand and our pricing flexibility.

Health care cost containment efforts have also prompted domestic hospitals and other customers of medical device manufacturers to consolidate into larger purchasing groups to enhance purchasing power, and this trend is expected to continue. The medical device industry has also experienced some consolidation, partly in order to offer a broader range of products to large purchasers. As a result, transactions with customers are larger, more complex and tend to involve more long-term contracts than in the past. These larger customers, due to their enhanced purchasing power, may attempt to increase the pressure on product pricing.

**Health Care Reform.** In 2010, significant reforms to the health care system were adopted as law in the United States. The law includes provisions that, among other things, reduce or limit Medicare reimbursement, require all individuals to have health insurance (with limited exceptions), and impose increased taxes. Specifically, the law requires the medical device industry to subsidize health care reform in the form of a 2.3% excise tax on United States sales of most medical devices. The excise tax increased our operating expenses. Because other parts of the 2010 health care law remain subject to continued implementation, the long-term impact on us is uncertain. This law or any future legislation could reduce medical procedure volumes, lower reimbursement for our products, and impact the demand for our products or the prices at which we sell our products.

## Seasonality

Our quarterly net sales are influenced by many factors, including new product introductions, acquisitions, regulatory approvals, patient and physician holiday schedules, and other factors. Net sales in the third quarter are typically lower than other quarters of the year due to the seasonality of the United States and European markets, where summer vacation schedules normally result in fewer medical procedures.

## Employees

As of December 31, 2014, we had approximately 9,100 employees worldwide, the majority of whom were located in the United States, the Dominican Republic, Singapore, and Puerto Rico. Other major concentrations of employees are located in Europe and Japan. We emphasize competitive compensation, benefits, equity participation, and a positive and attractive work environment in our efforts to attract and retain qualified personnel, and employ a rigorous talent management system. None of our North American employees are represented by a labor union. In various countries outside of North America, we interact with trade unions and work councils that represent a limited number of employees.

## Item 1A. Risk Factors

*Our business and assets are subject to varying degrees of risk and uncertainty. An investor should carefully consider the risks described below, as well as other information contained in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission. Additional risks not presently known to us or that we currently deem immaterial may also adversely affect our business. If any of these events or circumstances occurs, our business, financial condition, results of operations, or prospects could be materially harmed. In that case, the value of our securities could decline and an investor could lose part or all of his or her investment. In addition, forward-looking statements within the meaning of the federal securities laws that are contained in this Annual Report on Form 10-K or in our other filings or statements may be subject to the risks described below as well as other risks and uncertainties. Please read the cautionary notice regarding forward-looking statements in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," below.*

*If we do not introduce new products in a timely manner, our products may become obsolete and our operating results may suffer.*

The cardiovascular products industry is characterized by technological changes, frequent new product introductions, and evolving industry standards. Without the timely introduction of new and improved products, our products could become technologically obsolete or more susceptible to competition and our revenue and operating results would suffer. Even if we are able to develop new or improved products, our ability to market them could be limited by the need for regulatory clearance, restrictions imposed on approved indications, entrenched patterns of clinical practice, uncertainty over third-party reimbursement, or other factors. We devote significant financial and other resources to our research and development activities; however, the research and development process is prolonged and entails considerable uncertainty. Accordingly, products we are currently developing may not complete the development process or obtain the regulatory or other approvals required to market such products in a timely manner or at all.

Technical innovations often require substantial time and investment before we can determine their commercial viability. We may not have the financial resources necessary to fund all of these projects. In addition, even if we are able to successfully develop new or improved products, they may not produce revenue in excess of the costs of development, and they may be rendered obsolete or less competitive by changing customer preferences or the introduction by our competitors of products with newer technologies or features or other factors.

*We may incur product liability losses that could adversely affect our operating results.*

Our business exposes us to potential product liability risks that are inherent in the design, manufacture, and marketing of medical devices. Our products are often used in surgical and intensive care settings with seriously ill patients. In addition, many of the medical devices we manufacture and sell are designed to be implanted in the human body for long periods of time. Component failures, manufacturing flaws, design defects, or inadequate disclosure of product-related risks or product-related information could result in an unsafe condition or injury to, or death of, patients. Such a problem could result in product liability lawsuits and claims, safety alerts, or product recalls in the future, which, regardless of their ultimate outcome, could have a material adverse effect on our business, reputation, and ability to attract and retain customers. Product liability claims may be brought from time to time either by individuals or by groups seeking to represent a class. We may incur charges related to such matters in excess of any established reserves and such charges, including the establishment of any such reserves, could have a material adverse impact on our net income and net cash flows.

*We may experience supply interruptions that could harm our ability to manufacture products.*

We use a broad range of raw and organic materials and other items in the design and manufacture of our products. Our Surgical and Transcatheter Heart Valve Therapy products are manufactured from treated natural animal tissue and man-made materials. Our non-implantable products are manufactured from man-made raw materials including resins, chemicals, electronics, and metals. We purchase certain of the materials and components used in the manufacture of our products from external suppliers, and we purchase certain supplies from single sources for reasons of quality assurance, cost-effectiveness, availability, or constraints resulting from regulatory requirements. General economic conditions could adversely affect the financial viability of our suppliers, resulting in their inability to provide materials and components used in the manufacture of our products. While we work closely with suppliers to monitor their financial viability, assure continuity of supply, and maintain high quality and reliability, these efforts may not be successful. In addition, due to the rigorous regulations and requirements of the FDA and foreign regulatory authorities regarding the manufacture of our products (including the need for approval of any change in supply arrangements), we may have difficulty establishing additional or replacement sources on a timely basis or at all if the need arises. Although alternative supplier options are considered and identified, we typically do not pursue regulatory qualification of alternative sources due to the strength of our existing supplier relationships and the time and expense associated with the regulatory validation process. A change in suppliers could require significant effort or investment in circumstances where the items supplied are integral to product performance or incorporate unique technology, and the loss of any existing supply contract could have a material adverse effect on us.

Regulatory agencies in the United States or other international geographies from time to time have limited or banned the use of certain materials used in the manufacture of our products. In these circumstances, transition periods typically provide time to arrange for alternative materials. In addition, the SEC enacted disclosure rules regarding products that may contain certain minerals that originate from conflict areas in and around the Democratic Republic of Congo. If our suppliers cannot verify that their components do not originate from these conflict areas, we may need to source components from alternative suppliers. If we are unable to identify alternative materials or suppliers and secure approval for their use in a timely manner, our business could be harmed.

Some of our suppliers are located outside the United States. As a result, trade or regulatory embargoes imposed by foreign countries or the United States could result in delays or shortages that could harm our business.

*The manufacture of many of our products is highly complex and subject to strict quality controls. If we or one of our suppliers encounters manufacturing or quality problems, including as a result of natural disasters, our business could suffer.*

The manufacture of many of our products is highly complex and subject to strict quality controls, due in part to rigorous regulatory requirements. In addition, quality is extremely important due to the serious and costly consequences of a product failure. Problems can arise during the manufacturing process for a number of reasons, including equipment malfunction, failure to follow protocols and procedures, raw material problems, or human error. If these problems arise or if we otherwise fail to meet our internal quality standards or those of the FDA or other applicable regulatory body, which include detailed record-keeping requirements, our reputation could be damaged, we could become subject to a safety alert or a recall, we could incur product liability and other costs, product approvals could be delayed, and our business could otherwise be adversely affected.

In addition, our manufacturing facilities in California, Utah, the Dominican Republic, and Puerto Rico could be materially damaged by earthquakes, hurricanes, and other natural disasters or catastrophic circumstances. While we believe that our exposure to significant losses from a catastrophic disaster could be partially mitigated by our ability to manufacture some of our products at our other manufacturing facilities, the losses could have a material adverse effect on our business for an indeterminate period of time before this manufacturing transition is complete and operates without significant disruption.

*We may be required, from time to time, to recognize charges in connection with the write-down of our asset or business dispositions, or for other reasons.*

From time to time, we identify businesses and products that are not performing at a level commensurate with the rest of our business. We may seek to dispose of these underperforming businesses or products. We may also seek to dispose of other businesses or products for strategic or other business reasons. If we cannot dispose of a business or product on acceptable terms, we may voluntarily cease operations related to that business or product. Any of these events could result in charges, which could be substantial and which could adversely affect our results of operations.

*We may not successfully identify and complete acquisitions or strategic alliances on favorable terms or achieve anticipated synergies relating to any acquisitions or alliances, and such acquisitions could result in unforeseen operating difficulties and expenditures, require significant management resources, and require significant charges or write-downs.*

We regularly explore potential acquisitions of complementary businesses, technologies, services, or products, as well as potential strategic alliances. We may be unable to find suitable acquisition candidates or appropriate partners with which to form alliances. Even if we identify appropriate acquisition or alliance candidates, we may be unable to complete the acquisitions or alliances on favorable terms, if at all. In addition, the process of integrating an acquired business, technology, service, or product into our existing operations could result in unforeseen difficulties and expenditures. Integration of an acquired company often requires significant expenditures as well as significant management resources that otherwise would be available for ongoing development of our other businesses. Moreover, we may not realize the anticipated financial or other benefits of an acquisition or alliance.

We may be required to take charges or write-downs in connection with acquisitions. In particular, acquisitions of businesses engaged in the development of new products may give rise to in-process research and development ("IPR&D") assets. To the extent that the value of these assets declines, we may be required



to write down the value of the assets. Also, in connection with certain asset acquisitions, we may be required to take an immediate charge related to acquired IPR&D. Either of these situations could result in substantial charges, which could adversely affect our results of operations.

Future acquisitions could also involve the issuance of equity securities, the incurrence of debt, contingent liabilities, or amortization of expenses related to other intangible assets, any of which could adversely impact our financial condition or results of operations. In addition, equity or debt financing required for such acquisitions may not be available.

*General economic and political conditions could have a material adverse effect on our business.*

External factors can affect our profitability and financial condition. Such external factors include general domestic and global economic conditions, such as interest rates, tax rates, and factors affecting global economic stability, and the political environment regarding health care in general. The strength and timing of the current economic recovery remains uncertain, and we cannot predict to what extent the global economic conditions may negatively impact our business. For example, negative conditions in the credit and capital markets could impair our ability to access the financial markets for working capital or other funds, and could negatively impact our ability to borrow. An increase in interest rates could result in an increase in our borrowing costs and could otherwise restrict our ability to access the capital markets. Such conditions could result in decreased liquidity and impairments in the carrying value of our investments, and could adversely affect our results of operations and financial condition. These and other conditions could also adversely affect our customers, and may impact their ability or decision to purchase our products or make payments on a timely basis.

In 2010, significant reforms to the health care system were adopted as law in the United States. The law includes provisions that, among other things, reduce or limit Medicare reimbursement, require all individuals to have health insurance (with limited exceptions) and impose increased taxes. Specifically, the law requires the medical device industry to subsidize health care reform in the form of a 2.3% excise tax on United States sales of most medical devices. The excise tax increased our operating expenses. Because other parts of the 2010 health care law remain subject to continued implementation, the long-term impact on us is uncertain. This law or any future legislation, including deficit reduction legislation, could adversely affect our results of operations, financial condition, and prospects if they were to impact the demand for our products or pricing, or result in cuts to, or a restructuring of, entitlement programs such as Medicare and Medicaid.

*Our business is subject to economic, political, and other risks associated with international sales and operations, including risks arising from currency exchange rate fluctuations.*

Because we sell our products in a number of countries, our business is subject to the risks of doing business internationally, including risks associated with anti-corruption and anti-bribery laws. Our net sales originating outside the United States, as a percentage of total net sales, were 55% in 2014. We anticipate that sales from international operations will continue to represent a substantial portion of our total sales. In addition, many of our manufacturing facilities and suppliers are located outside of the United States. Accordingly, our future results could be harmed by a variety of factors, including:

- changes in local medical reimbursement policies and programs;
- changes in foreign regulatory requirements;
- changes in a specific country's or region's political or economic conditions, such as the current financial uncertainties in Europe and changing circumstances in emerging regions, that may reduce the number of procedures that use our products;
- trade protection measures, quotas, embargoes, import or export licensing requirements, and duties, tariffs, or surcharges;

- potentially negative impact of tax laws, including transfer pricing liabilities and tax costs associated with the repatriation of cash;
- difficulty in staffing and managing global operations;
- cultural, exchange rate, or other local factors affecting financial terms with customers;
- local economic and financial conditions, including sovereign defaults and decline in sovereign credit ratings, affecting the collectability of receivables, including receivables from sovereign entities;
- an outbreak of any life-threatening communicable disease;
- economic and political instability and local economic and political conditions;
- differing labor regulations; and
- differing protection of intellectual property.

Substantially all of our sales outside of the United States are denominated in local currencies. Measured in local currency, a substantial portion of our international sales was generated in Europe (and primarily denominated in the Euro) and in Japan. The United States dollar value of our international sales varies with currency exchange rate fluctuations. Decreases in the value of the United States dollar to the Euro or the Japanese yen have the effect of increasing our reported revenues even when the volume of international sales has remained constant. Increases in the value of the United States dollar relative to the Euro or the Japanese yen, as well as other currencies, have the opposite effect and, if significant, could have a material adverse effect on our reported revenues and results of operations. We have a hedging program for certain currencies that attempts to manage currency exchange rate risks to an acceptable level based on management's judgment of the appropriate trade-off between risk, opportunity, and cost; however, this hedging program does not completely eliminate the effects of currency exchange rate fluctuations.

The United States Foreign Corrupt Practices Act, the United Kingdom Bribery Act, and similar laws in other jurisdictions contain prohibitions against bribery and other illegal payments, and make it an offense to fail to have procedures in place that prevent such payments. Recent years have seen an increasing number of investigations and other enforcement activities under these laws. Although we have compliance programs in place with respect to these laws, which may be used as a defense to prove we had adequate procedures, no assurance can be given that a violation will not be found, and if found, the resulting penalties could adversely affect us and our business.

*The stock market can be volatile and fluctuations in our quarterly sales and operating results as well as other factors could cause our financial guidance to vary from actual results and our stock price to decline.*

From time to time, the stock market experiences extreme price and volume fluctuations. This volatility can have a significant effect on the market prices of securities for reasons unrelated to underlying performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results. In addition, the market price of our common stock could fluctuate substantially in response to any of the other risk factors set out above and below, as well as a number of other factors, including the performance of comparable companies or the medical device industry, or changes in financial estimates and recommendations of securities analysts.

Our sales and operating results may vary significantly from quarter to quarter. A high proportion of our costs are fixed, due in part to significant selling, research and development, and manufacturing costs. Thus, small declines in revenue could disproportionately affect our operating results in a quarter, and the price of our common stock could fall. Other factors that could affect our quarterly sales and operating results include:

- announcements of innovations, new products, strategic developments, or business combinations by us or our competitors;

- demand for and clinical acceptance of products;
- the timing and execution of customer contracts, particularly large contracts that would materially affect our operating results in a given quarter;
- the timing of sales of products and of the introduction of new products;
- the timing of marketing, training, and other expenses related to the introduction of new products;
- the timing of regulatory approvals;
- changes in foreign currency exchange rates;
- delays or problems in introducing new products, such as slower than anticipated adoption of transcatheter heart valves;
- changes in our pricing policies or the pricing policies of our competitors;
- the timing of approvals of governmental reimbursement rates or changes in reimbursement rates for our products;
- increased expenses, whether related to sales and marketing, raw materials or supplies, product development, or administration;
- changes in the level of economic activity in the United States or other regions in which we do business;
- costs related to acquisitions of technologies or businesses; and
- our ability to expand our operations and the amount and timing of expansion-related expenditures.

The quarterly and full-year financial guidance we provide to investors and analysts with insight to our view of our future performance is based on assumptions about our sales and operating results. Due to the nature of our business and the numerous factors that can impact our sales and operating performance, including those described above, our financial guidance may vary from actual results. If we fail to meet any financial guidance that we provide, or if we find it necessary to revise such guidance during the year, the price of our common stock could decline.

*We face intense competition, and if we do not compete effectively, our business will be harmed.*

The cardiovascular medical device industry is highly competitive. We compete with many companies, some of which have longer operating histories, better brand or name recognition, and broader product offerings. Our customers consider many factors when selecting a product, including product reliability, breadth of product line, clinical outcomes, product availability, price, availability and rate of reimbursement, and services provided by the manufacturer. In addition, our ability to compete will depend in large part on our ability to develop and acquire new products and technologies, anticipate technology advances, and keep pace with other developers of cardiovascular therapies and technologies. Our sales, technical, and other key personnel play an integral role in the development, marketing, and selling of new and existing products. If we are unable to recruit, hire, develop, and retain a talented, competitive workforce, our ability to compete may be adversely affected. Our competitive position can also be adversely affected by product problems, physician advisories and safety alerts, reflecting the importance of quality in the medical device industry. Our position can shift as a result of any of these factors. See “*Competition*” under “*Business*” included herein.

*Consolidation in the health care industry could have an adverse effect on our sales and results of operations.*

The health care industry has been consolidating, and organizations such as GPOs, independent delivery networks, and large single accounts, such as the United States Veterans Administration, continue to consolidate purchasing decisions for many of our health care provider customers. As a result, transactions with

customers are larger, more complex, and tend to involve more long-term contracts. The purchasing power of these larger customers has increased, and may continue to increase, causing downward pressure on product pricing. If we are not one of the providers selected by one of these organizations, we may be precluded from making sales to its members or participants. Even if we are one of the selected providers, we may be at a disadvantage relative to other selected providers that are able to offer volume discounts based on purchases of a broader range of medical equipment and supplies. Further, we may be required to commit to pricing that has a material adverse effect on our revenues, profit margins, business, financial condition, and results of operations. We expect that market demand, governmental regulation, third-party reimbursement policies, and societal pressures will continue to change the worldwide health care industry, resulting in further business consolidations and alliances, which may exert further downward pressure on the prices of our products and could adversely impact our business, financial condition, and results of operations.

*Our inability to protect our intellectual property or other sensitive company information could have a material adverse effect on our business.*

Our success and competitive position are dependent in part upon our proprietary intellectual property. We rely on a combination of patents and trade secrets to protect our proprietary intellectual property, and we expect to continue to do so. Although we seek to protect our proprietary rights through a variety of means, we cannot guarantee that the protective steps we have taken are adequate to protect these rights. Patents issued to or licensed by us in the past or in the future may be challenged and held invalid. In addition, as our patents expire, we may be unsuccessful in extending their protection through patent term extensions. The expiration of, or the failure to maintain or extend our patents, could have a material adverse effect on us.

We also rely on confidentiality agreements with certain employees, consultants, and other third parties to protect, in part, trade secrets and other proprietary information. These agreements could be breached, and we may not have adequate remedies for such a breach. In addition, others could independently develop substantially equivalent proprietary information or gain access to our trade secrets or proprietary information.

Our intellectual property, other proprietary technology, and other sensitive company information is potentially vulnerable to loss, damage, or misappropriation from system malfunction, computer viruses, unauthorized access to our data, or misappropriation or misuse of it by those with permitted access, and other events. While we have invested to protect our intellectual property and other information, and continue to work diligently in this area, there can be no assurance that our precautionary measures will prevent breakdowns, breaches, cyber-attacks, or other events. Such events could have a material adverse effect on our reputation, financial condition, or results of operations.

We spend significant resources to enforce our intellectual property rights, sometimes resulting in litigation. Intellectual property litigation is complex and can be expensive and time-consuming. However, our efforts in this regard may not be successful. We may not be able to detect infringement. In addition, competitors may design around our technology or develop competing technologies. Patent litigation can result in substantial cost and diversion of effort. Intellectual property protection may also be unavailable or limited in some foreign countries, enabling our competitors to capture increased market position. The invalidation of key intellectual property rights or an unsuccessful outcome in lawsuits filed to protect our intellectual property could have a material adverse effect on our financial condition, results of operations, or prospects.

*Third parties may claim we are infringing their intellectual property, and we could suffer significant litigation or licensing expenses or be prevented from selling products.*

During recent years, we and our competitors have been involved in substantial litigation regarding patent and other intellectual property rights in the medical device industry. From time to time, we have been and may in the future be forced to defend against claims and legal actions alleging infringement of the intellectual property rights of others, and such intellectual property litigation is typically costly and time-consuming. Adverse determinations in any such litigation could result in significant liabilities to third parties or

injunctions, or could require us to seek licenses from third parties and, if such licenses are not available on commercially reasonable terms, prevent us from manufacturing, selling, or using certain products, any one of which could have a material adverse effect on us. In addition, some licenses may be non-exclusive, which could provide our competitors access to the same technologies.

Third parties could also obtain patents that may require us to either redesign products or, if possible, negotiate licenses from such third parties. Such licenses may materially increase our expenses. If we are unable to redesign products or obtain a license, we might have to exit a particular product offering.

*We and our customers are subject to rigorous governmental regulations and we may incur significant expenses to comply with these regulations and develop products that are compatible with these regulations. In addition, failure to comply with these regulations could subject us to substantial sanctions which could adversely affect our business, results of operations, and financial condition.*

The medical devices we manufacture and market are subject to rigorous regulation by the FDA and numerous other federal, state, and foreign governmental authorities, including regulations that cover the composition, labeling, testing, clinical study, design, sourcing, manufacturing, packaging, marketing, advertising, promotion, and distribution of our products.

We are required to register with the FDA as a device manufacturer. As a result, we are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulation ("QSR") requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, design, quality control, and documentation procedures. The FDA may also inspect our compliance with requirements related to adverse event reporting, recalls or corrections (field actions), the conduct of clinical studies, and other requirements. In the European Union, we are required to maintain certain CE Mark and ISO certifications in order to sell our products, and are subject to periodic inspections by notified bodies to obtain and maintain these certifications. If we or our suppliers fail to adhere to QSR, CE Mark, ISO, or similar requirements, this could delay or interrupt product production or sales and/or lead to fines, difficulties in obtaining regulatory clearances, recalls, or other consequences, which in turn could have a material adverse effect on our financial condition and results of operations or prospects.

Medical devices must receive FDA clearance or approval before they can be commercially marketed in the United States. In addition, the FDA may require testing and surveillance programs to monitor the effects of approved products that have been commercialized, and can prevent or limit further marketing of a product based upon the results of post-marketing programs. In addition, the federal Medical Device Reporting regulations require us to provide information to the FDA whenever there is evidence that reasonably suggests that a device may have caused or contributed to a death or serious injury or, if a malfunction were to occur, would be likely to cause or contribute to a death or serious injury. Federal regulations also require us to report certain recalls or corrective actions to the FDA. Furthermore, most major markets for medical devices outside the United States require clearance, approval, or compliance with certain standards before a product can be commercially marketed. The process of obtaining regulatory clearances or approvals to market a medical device, particularly from the FDA and certain foreign governmental authorities, can be costly and time-consuming, and clearances or approvals may not be granted for products or product improvements on a timely basis, if at all. Delays in receipt of, or failure to obtain, clearances or approvals for products or product improvements could result in delayed realization of product revenues or in substantial additional costs, which could have a material adverse effect on our business or results of operations or prospects. At any time after approval of a product for commercial sale, the FDA may conduct periodic inspections to determine compliance with QSR requirements, and/or current Medical Device Reporting regulations, or other regulatory requirements. Noncompliance with applicable requirements may subject us or responsible individuals to sanctions including civil money penalties, product seizure, injunction, or criminal prosecution. In addition, the FDA may withhold or delay pre-market approval of our products until the noncompliance is resolved. Product approvals by the FDA can also be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial approval.



Regulatory agencies in the United States or other international geographies from time to time limit or ban the use of certain materials used in the manufacture of our products, require collection and disposal of products at the end of their lifecycle, and require disclosure of the origin of certain raw materials in our products. Noncompliance with applicable requirements could have a material adverse effect on our business.

The United States Physician Payment Sunshine Act, and similar laws in other jurisdictions, also impose reporting and disclosure requirements on device, pharmaceutical, and biologics companies for certain financial relationships with United States health care providers and teaching hospitals. Failure to submit required information or submitting incorrect information may result in significant civil monetary penalties.

We are also subject to various United States and international laws pertaining to health care pricing, anti-corruption, and fraud and abuse, including prohibitions on kickbacks and the submission of false claims laws and restrictions on relationships with physicians and other referral sources. These laws are broad in scope and are subject to evolving interpretation, which could require us to incur substantial costs to monitor compliance or to alter our practices if we are found not to be in compliance. Violations of these laws may be punishable by criminal or civil sanctions against us and our officers and employees, including substantial fines, imprisonment, and exclusion from participation in governmental health care programs.

Despite our implementation of robust compliance processes, we may be subject, from time to time, to inspections, investigations, and other enforcement actions by governmental authorities. If we are found not to be in compliance with applicable laws or regulations, the applicable governmental authority can impose fines, delay, suspend, or revoke regulatory clearances or approvals, institute proceedings to detain or seize our products, issue a recall, impose marketing or operating restrictions, enjoin future violations and assess civil penalties against us or our officers or employees, and institute criminal prosecution. Moreover, governmental authorities can ban or request the recall, repair, replacement, or refund of the cost of any device or product we manufacture or distribute. Any of the foregoing actions could result in decreased sales as a result of negative publicity and product liability claims, and could have a material adverse effect on our financial condition, results of operations, and prospects. In addition to the sanctions for noncompliance described above, commencement of an enforcement proceeding, inspection, or investigation could divert substantial management attention from the operation of our business and have an adverse effect on our business, results of operations, and financial condition.

*Our industry is experiencing greater scrutiny and regulation by governmental authorities, which may lead to greater governmental regulation in the future.*

In recent years, the medical device industry has been subject to increased regulatory scrutiny, including by the FDA, numerous other federal, state, and foreign governmental authorities, as well as members of Congress. This has included increased regulation, enforcement, inspections, and governmental investigations of the medical device industry and disclosure of financial relationships with health care professionals. We anticipate that the government will continue to scrutinize our industry closely, and that additional regulation by governmental authorities, both foreign and domestic, may increase compliance costs, exposure to litigation, and other adverse effects to our operations.

*Unsuccessful clinical trials or procedures relating to products under development could have a material adverse effect on our prospects.*

The regulatory approval process for new products and new indications for existing products requires extensive clinical trials and procedures, including early clinical experiences and regulatory studies. Unfavorable or inconsistent clinical data from current or future clinical trials or procedures conducted by us, our competitors, or third parties, or perceptions regarding this clinical data, could adversely affect our ability to obtain necessary approvals and the market's view of our future prospects. Such clinical trials and procedures are inherently uncertain and there can be no assurance that these trials or procedures will be completed in a timely or cost-effective manner or result in a commercially viable product. Failure to successfully complete

these trials or procedures in a timely and cost-effective manner could have a material adverse effect on our prospects. Clinical trials or procedures may experience significant setbacks even after earlier trials have shown promising results. Further, preliminary results from clinical trials or procedures may be contradicted by subsequent clinical analysis. In addition, results from our clinical trials or procedures may not be supported by actual long-term studies or clinical experience. If preliminary clinical results are later contradicted, or if initial results cannot be supported by actual long-term studies or clinical experience, our business could be adversely affected. Clinical trials or procedures may be suspended or terminated by us, the FDA or other regulatory authorities at any time if it is believed that the trial participants face unacceptable health risks.

*We are subject to risks arising from concerns and/or regulatory actions relating to “mad cow disease.”*

Certain of our products, including pericardial tissue valves, are manufactured using bovine tissue. Concerns relating to the potential transmission of BSE, commonly known as “mad cow disease,” from cows to humans may result in reduced acceptance of products containing bovine materials. Certain medical device regulatory agencies have considered whether to continue to permit the sale of medical devices that incorporate bovine material. We obtain bovine tissue only from closely controlled sources within the United States and Australia. The bovine tissue used in our pericardial tissue valves is from tissue types considered by global health and regulatory organizations to have shown no risk of infectibility for the suspected BSE infectious agent. We have not experienced any significant adverse impact on our sales as a result of concerns regarding BSE, but no assurance can be given that such an impact may not occur in the future.

*If third-party payors decline to reimburse our customers for our products or impose other cost containment measures to reduce reimbursement levels, our ability to profitably sell our products will be harmed.*

We sell our products and technologies to hospitals, doctors, and other health care providers, all of which receive reimbursement for the health care services provided to patients from third-party payors, such as government programs (both domestic and international), private insurance plans, and managed care programs. The ability of customers to obtain appropriate reimbursement for their products from private and governmental third-party payors is critical to the success of medical technology companies. The availability of reimbursement affects which products customers purchase and the prices they are willing to pay. Reimbursement varies from country to country and can significantly impact acceptance of new products.

Third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for medical products and services. There can be no assurance that levels of reimbursement, if any, will not be decreased in the future, or that future legislation, regulation, or reimbursement policies of third-party payors will not otherwise adversely affect the demand for and price levels of our products. The introduction of cost containment incentives, combined with closer scrutiny of health care expenditures by both private health insurers and employers, has resulted in increased discounts and contractual adjustments to hospital charges for services performed. Hospitals or physicians may respond to such cost-containment pressures by substituting lower cost products or other therapies. In addition, the 2010 United States health care law could adversely affect reimbursement levels for our products, or otherwise adversely affect our product pricing and profitability.

Initiatives to limit the growth of health care costs, including price regulation, are underway in several countries around the world. In many countries, customers are reimbursed for our products under a government operated insurance system. Under such a system, the government periodically reviews reimbursement levels and may limit patient access. If a government were to decide to reduce reimbursement levels, our product pricing could be adversely affected.

Third-party payors may deny reimbursement if they determine that a device used in a procedure was not used in accordance with cost-effective treatment methods as determined by such third-party payors, or was used for an unapproved indication. Third-party payors may also deny reimbursement for experimental procedures and devices. We believe that many of our existing products are cost-effective, even though the

one-time cost may be significant, because they are intended to reduce overall health care costs over a long period of time. We cannot be certain that these third-party payors will recognize these cost savings instead of merely focusing on the lower initial costs associated with competing therapies. If our products are not considered cost-effective by third-party payors, our customers may not be reimbursed for them, resulting in lower sales of our products.

*Use of our products in unapproved circumstances could expose us to liabilities.*

The marketing approval from the FDA and other regulators of certain of our products are, or are expected to be, limited to specific indications. We are prohibited by law from marketing or promoting any unapproved use of our products. Physicians, however, can use these products in ways or circumstances other than those strictly within the scope of the regulatory approval. Although the product training we provide to physicians and other health care professionals is limited to approved uses or for clinical trials, no assurance can be given that claims might not be asserted against us if our products are used in ways or for procedures that are not approved.

*Our operations are subject to environmental, health, and safety regulations that could result in substantial costs.*

Our operations are subject to environmental, health, and safety laws, and regulations concerning, among other things, the generation, handling, transportation and disposal of hazardous substances or wastes, the cleanup of hazardous substance releases, and emissions or discharges into the air or water. We have incurred and may incur expenditures in the future in connection with environmental, health and safety laws, and regulations. New laws and regulations, violations of these laws or regulations, stricter enforcement of existing requirements, or the discovery of previously unknown contamination could require us to incur costs or could become the basis for new or increased liabilities that could be material.

*The success of many of our products depends upon strong relationships with certain key physicians.*

The development, marketing, and sale of many of our products requires us to maintain working relationships with physicians upon whom we rely to provide considerable knowledge and experience. These physicians may assist us as researchers, marketing consultants, product trainers and consultants, inventors, and as public speakers. If new laws, regulations, or other developments limit our ability to maintain strong relationships with these professionals or to continue to receive their advice and input, the development and marketing of our products could suffer, which could have a material adverse effect on our business, financial condition, and results of operations.

#### **Item 1B. Unresolved Staff Comments**

None.

## Item 2. Properties

The locations and uses of our major properties are as follows:

### North America

Irvine, California . . . . .	(1)	Corporate Headquarters, Research and Development, Regulatory and Clinical Affairs, Manufacturing
Irvine, California . . . . .	(2)	Administration
Draper, Utah . . . . .	(1)	Administration, Research and Development, Manufacturing
Haina, Dominican Republic . . . . .	(2)	Manufacturing
Añasco, Puerto Rico . . . . .	(2)	Manufacturing

### Europe

Horw, Switzerland . . . . .	(2)	Manufacturing, Administration
Nyon, Switzerland . . . . .	(1)	Administration, Marketing

### Asia

Tokyo, Japan . . . . .	(2)	Administration, Marketing, Distribution
Singapore . . . . .	(1),(2)	Manufacturing, Marketing, Distribution, Administration

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(1) Owned property.

(2) Leased property.

The Irvine, California property has one lease that expires in 2016 and one that expires in 2021; the Dominican Republic property leases expire in 2019; the Puerto Rico property has one lease that expires in 2016 and one that expires in 2018; the Horw, Switzerland lease expires in 2016; the Tokyo, Japan lease expires in 2015; and Singapore has one land lease that expires in 2036 and one that expires in 2041. We believe our properties have been well maintained, are in good operating condition, and are adequate for current needs.

## Item 3. Legal Proceedings

For a description of our material pending legal proceedings, please see Note 17 to the “*Consolidated Financial Statements*” of this Annual Report on Form 10-K, which is incorporated by reference.

## Item 4. Mine Safety Disclosures

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### *Market Price*

The principal market for our common stock is the New York Stock Exchange (the "NYSE"). The table below sets forth, for the calendar quarters indicated, the high and low closing prices of our common stock as reported by the NYSE.

Calendar Quarter Ended:	2014		2013	
	High	Low	High	Low
March 31 . . . . .	\$ 75.62	\$63.04	\$94.98	\$78.10
June 30 . . . . .	88.19	72.79	86.11	62.34
September 30 . . . . .	104.69	84.05	73.73	65.03
December 31 . . . . .	134.29	97.07	78.89	60.62

#### *Number of Stockholders*

On February 10, 2015, there were 15,961 stockholders of record of our common stock.

#### *Dividends*

We have never paid any cash dividends on our capital stock and have no current plans to pay any cash dividends. Our current policy is to retain any future earnings for use in our business.

#### *Issuer Purchases of Equity Securities*

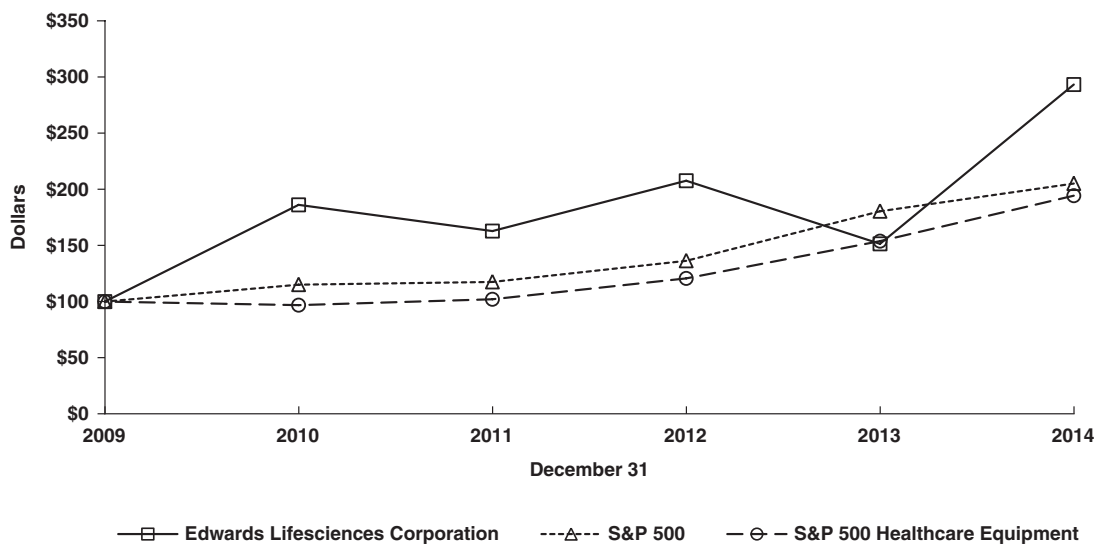
On May 14, 2013, the Board of Directors approved a stock repurchase program authorizing us to purchase on the open market, including pursuant to a Rule 10b5-1 plan, and in privately negotiated transactions up to \$750.0 million of our common stock from time to time until December 31, 2016. On July 10, 2014, the Board of Directors approved a new stock repurchase program providing for an additional \$750.0 million of repurchases of our common stock. We did not purchase any of our common stock during the fourth quarter of 2014 and, as of December 31, 2014, we had remaining authority to purchase \$952.5 million of common stock.



*Performance Graph*

The following graph compares the performance of our common stock with that of the S&P 500 Index and the S&P 500 Healthcare Equipment Index. The cumulative total return listed below assumes an initial investment of \$100 on December 31, 2009 and reinvestment of dividends.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**



<u>Total Cumulative Return</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Edwards Lifesciences . . . . .	\$186.16	\$162.81	\$207.65	\$151.43	\$293.33
S&P 500 . . . . .	115.06	117.49	136.30	180.44	205.14
S&P 500 Healthcare Equipment Index . . . . .	96.84	102.07	120.66	153.85	194.33

## Item 6. Selected Financial Data

The financial data for the prior years presented in the table below have been restated to reflect our change in accounting principle. For further information, see Note 3 to the “*Consolidated Financial Statements*.”

		As of or for the Years Ended December 31,				
		2014	2013	2012	2011	2010
		(in millions, except per share data)				
<b>OPERATING</b>						
<b>RESULTS</b> . . . . .						
	Net sales	\$2,322.9	\$2,045.5	\$1,899.6	\$1,678.6	\$1,447.0
	Gross profit	1,697.3	1,528.9	1,408.6	1,189.2	1,039.5
	Net income(a)	811.1	389.1	291.5	236.6	216.2
<b>BALANCE SHEET</b>						
<b>DATA</b> . . . . .						
	Total assets	\$3,524.3	\$2,709.9	\$2,209.3	\$1,970.0	\$1,756.8
	Long-term debt(b)	598.1	593.1	189.3	150.4	—
<b>COMMON STOCK</b>						
<b>INFORMATION</b> . . . . .						
	Net income per common share(a):					
	Basic	\$ 7.62	\$ 3.48	\$ 2.54	\$ 2.06	\$ 1.90
	Diluted	7.48	3.42	2.46	1.98	1.81
	Cash dividends declared per common share	—	—	—	—	—

- (a) The above results include special charges of \$70.7 million, \$16.3 million, and \$16.0 million during 2014, 2013, and 2012, respectively. In addition, the above results include \$750.0 million (\$487.9 million, net of tax) in 2014 for an upfront payment received under a litigation settlement agreement, and \$83.6 million (\$52.3 million, net of tax) received in 2013 for a litigation award. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and Note 4 and Note 5 to the “*Consolidated Financial Statements*” for additional information.
- (b) In October 2013, we issued \$600.0 million of 2.875% fixed-rate unsecured senior notes due October 15, 2018 (“the Notes”). At December 31, 2010, all amounts outstanding under the credit agreement in effect at that time were classified as short-term obligations as these obligations were due within one year.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis presents the factors that had a material effect on our results of operations during the three years ended December 31, 2014. Also discussed is our financial position as of December 31, 2014. You should read this discussion in conjunction with the historical consolidated financial statements and related notes included elsewhere in this Form 10-K.

### Overview

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

Effective January 1, 2014, we changed our method of accounting for certain intellectual property litigation expenses related to the defense and enforcement of our issued patents. Under the new method of accounting, these legal costs are expensed in the period incurred; previously, these costs were capitalized and

then amortized over the life of the related patent. The financial results below reflect the change in accounting principle. For further information, see Note 3 to the “*Consolidated Financial Statements.*”

### Financial Results

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

	Years Ended December 31,			Change	
	2014	2013	2012	2014	2013
Net sales . . . . .	\$2,322.9	\$2,045.5	\$1,899.6	13.6%	7.7%
Gross profit as a percentage of net sales . . . . .	73.1%	74.7%	74.2%	(1.6) pts.	0.5 pts.
Net income . . . . .	\$ 811.1	\$ 389.1	\$ 291.5	108.5%	33.5%
Earnings per share					
Basic . . . . .	\$ 7.62	\$ 3.48	\$ 2.54	119.0%	37.0%
Diluted . . . . .	\$ 7.48	\$ 3.42	\$ 2.46	118.7%	39.0%

Our sales growth was driven by our Transcatheter Heart Valve Therapy products which, in Europe, benefited from the launch of the *Edwards SAPIEN 3* transcatheter heart valve, and in the United States, benefited from the launch of the *Edwards SAPIEN XT* transcatheter heart valve. Our gross profit margin was negatively impacted in 2014 by foreign currency exchange rate fluctuations, increased incentive compensation due to our strong performance, and higher manufacturing costs, primarily for our operations in Utah. Net income in 2014 and 2013 benefited from special items. In 2014, we received \$750.0 million (\$487.9 million, net of tax) from Medtronic, Inc. (“Medtronic”) for an upfront payment due under a litigation settlement agreement, and in 2013, we received from Medtronic an \$83.6 million (\$52.3 million, net of tax) litigation award.

### Healthcare Environment, Opportunities and Challenges

The medical device industry is highly competitive and continues to evolve. Our success is measured both by the development of innovative products and the value we bring to our stakeholders. We are committed to developing new technologies and providing innovative patient care, and we are committed to defending our intellectual property. To strengthen our leadership and enable future growth opportunities, in 2014 we invested 14.9% of our net sales in research and development. In a consolidating industry, we believe our focus on innovation and a robust product pipeline will continue to help us compete more effectively, sustain our successes, and build long-term value for our shareholders. The following is a summary of important developments during 2014:

- early clinical outcomes in the *Edwards SAPIEN 3* Trial demonstrated outstanding safety, including a low mortality and stroke rate;
- longer-term updates from The PARTNER Trial strengthened the evidence that patients treated with the *SAPIEN* valve demonstrated a mortality benefit, persistent symptom benefit, and a statistically significant reduction in re-hospitalizations compared with standard therapy;
- we received regulatory approval in Europe for our *SAPIEN 3* valve;
- we received regulatory approval in the United States for our *Edwards SAPIEN XT* valve, and we continued to evaluate the *SAPIEN 3* valve as part of the PARTNER II Trial; and
- we received regulatory approval in Europe for the *Edwards INTUITY Elite Valve System*, and in the United States, this valve platform has been studied as part of the TRANSFORM Trial. Three-year clinical outcomes of the *Edwards INTUITY* valve platform studied in the TRITON Trial demonstrated improved cardiac and valvular performance, as well as patient functional status.

We are dedicated to generating robust clinical and economic evidence increasingly expected by patients, clinicians, and payors in the new healthcare environment, with the goal of enhancing the value of delivering comprehensive care.

## Results of Operations

### Net Sales by Major Regions (dollars in millions)

	Years Ended December 31,			Change		Percent Change	
	2014	2013	2012	2014	2013	2014	2013
United States . . . . .	\$1,047.3	\$ 939.6	\$ 812.1	\$107.7	\$127.5	11.5%	15.7%
Europe . . . . .	744.5	616.5	559.7	128.0	56.8	20.8%	10.2%
Japan . . . . .	257.9	243.6	294.1	14.3	(50.5)	5.9%	(17.2)%
Rest of World . . . . .	273.2	245.8	233.7	27.4	12.1	11.2%	5.1%
International . . . . .	1,275.6	1,105.9	1,087.5	169.7	18.4	15.3%	1.7%
Total net sales . . . . .	\$2,322.9	\$2,045.5	\$1,899.6	\$277.4	\$145.9	13.6%	7.7%

The \$107.7 million **increase in net sales in the United States in 2014** was due primarily to:

- Transcatheter Heart Valve Therapy, which increased net sales by \$85.1 million, due primarily to (1) commercial sales of the *Edwards SAPIEN XT* transcatheter heart valve resulting from the product launch in June 2014, (2) an increase in clinical sales of the *Edwards SAPIEN 3* transcatheter heart valve, (3) royalties received under a license agreement with Medtronic (see Note 4 to the “*Consolidated Financial Statements*”), and (4) the reversal of the sales reserve for estimated Transcatheter Heart Valve Therapy product returns upon delivery of next-generation valves. The introduction of the next-generation valves was completed in 2014. These increases were partially offset by decreased sales of the *Edwards SAPIEN* transcatheter heart valve as customers converted to *Edwards SAPIEN XT*, a reduction in net stocking orders as customers converted from direct sales to consignment, and decreased clinical sales of *Edwards SAPIEN XT*;
- Critical Care, which increased net sales by \$12.9 million, due primarily to enhanced surgical recovery products; and
- Surgical Heart Valve Therapy, which increased net sales by \$9.9 million, driven primarily by sales of pericardial aortic tissue valves.

The \$169.7 million **increase in international net sales in 2014** was due primarily to:

- Transcatheter Heart Valve Therapy, which increased net sales by \$152.4 million, driven primarily by the launch of the *Edwards SAPIEN 3* transcatheter heart valve in Europe and the ongoing launch of the *Edwards SAPIEN XT* transcatheter heart valve in Japan, partially offset by lower sales of the *Edwards SAPIEN XT* transcatheter heart valve in Europe as customers converted to *Edwards SAPIEN 3*;
- Surgical Heart Valve Therapy, which increased net sales by \$25.9 million, driven primarily by sales of pericardial aortic tissue valves and *EDWARDS INTUITY Elite* valves; and
- Critical Care, which increased net sales by \$16.1 million, driven primarily by core hemodynamic products and enhanced surgical recovery products;

partially offset by:

- foreign currency exchange rate fluctuations, which decreased net sales by \$23.0 million, due to the weakening of various currencies against the United States dollar, mainly the Japanese yen, partially offset by the strengthening of the Euro against the United States dollar.

The \$127.5 million **increase in net sales in the United States in 2013** was due primarily to:

- Transcatheter Heart Valve Therapy, which increased net sales by \$106.1 million, driven primarily by sales of the *Edwards SAPIEN* transcatheter heart valve. Procedure volume increased following the FDA action in October 2012 to expand the indicated patient population and access routes compared to the original 2011 approval.

The \$18.4 million **increase in international net sales in 2013** was due primarily to:

- Transcatheter Heart Valve Therapy, which increased net sales by \$52.4 million, driven primarily by sales of the *Edwards SAPIEN XT* transcatheter heart valve; and
- surgical heart valve products, which increased net sales by \$15.4 million, driven primarily by sales of pericardial mitral tissue valves and *EDWARDS INTUITY Elite* valves;

partially offset by:

- foreign currency exchange rate fluctuations, which decreased net sales by \$43.9 million, due primarily to the weakening of the Japanese yen against the United States dollar, partially offset by the strengthening of the Euro against the United States dollar.

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

### Net Sales by Product Group

(dollars in millions)

	Years Ended December 31,			Change		Percent Change	
	2014	2013	2012	2014	2013	2014	2013
Transcatheter Heart Valve Therapy . . . . .	\$ 943.6	\$ 707.7	\$ 552.1	\$235.9	\$155.6	33.3%	28.2%
Surgical Heart Valve Therapy . . . . .	826.1	801.2	787.5	24.9	13.7	3.1%	1.7%
Critical Care . . . . .	553.2	536.6	560.0	16.6	(23.4)	3.1%	(4.2)%
Total net sales . . . . .	<u>\$2,322.9</u>	<u>\$2,045.5</u>	<u>\$1,899.6</u>	<u>\$277.4</u>	<u>\$145.9</u>	13.6%	7.7%

### *Transcatheter Heart Valve Therapy*

The \$235.9 million increase in net sales of Transcatheter Heart Valve Therapy products in 2014 was due primarily to:

- the *Edwards SAPIEN 3* transcatheter heart valve, driven primarily by the launch in Europe and clinical sales in the United States; and
- the *Edwards SAPIEN XT* transcatheter heart valve, driven primarily by the launches in the United States and Japan;



partially offset by:

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

The \$155.6 million increase in net sales of Transcatheter Heart Valve Therapy products in 2013 was due primarily to:

- the *Edwards SAPIEN* transcatheter heart valve in the United States, which increased net sales by \$97.2 million;
- the *Edwards SAPIEN XT* transcatheter heart valve, which increased net sales by \$61.8 million, due primarily to an increase in international sales; and
- foreign currency exchange rate fluctuations, which increased net sales by \$5.2 million, due primarily to the strengthening of the Euro against the United States dollar;

partially offset by:

- a \$14.1 million sales reserve for estimated Transcatheter Heart Valve Therapy product returns expected in 2014 upon introduction of the *Edwards SAPIEN 3* transcatheter valve system in Europe and the *Edwards SAPIEN XT* transcatheter heart valve in the United States.

During the first quarter of 2014, we completed enrollment in the 500 patient cohort of The PARTNER II Trial studying the *Edwards SAPIEN 3* transcatheter valve system in high risk and inoperable patients. In January 2014, we received FDA approval to expand The PARTNER II Trial to include a 1,000 patient single-arm, non-randomized cohort to study the *Edwards SAPIEN 3* transcatheter valve system in the treatment of intermediate-risk patients with severe symptomatic aortic stenosis. Enrollment was completed in September 2014. At the end of 2014, we submitted our pre-market approval application for *SAPIEN 3* in the United States.

In January 2014, we received CE Mark for the *Edwards SAPIEN 3* transcatheter valve system in Europe. In June 2014, we received FDA approval for the *Edwards SAPIEN XT* transcatheter heart valve in the United States for the treatment of high-risk and inoperable patients with severe symptomatic aortic stenosis.

### ***Surgical Heart Valve Therapy***

The \$24.9 million increase in net sales of Surgical Heart Valve Therapy products in 2014 was due primarily to:

- surgical heart valve products, which increased net sales by \$36.4 million, driven by sales in the United States and Europe of pericardial aortic tissue valves and *EDWARDS INTUITY Elite* valves;

partially offset by:

- foreign currency exchange rate fluctuations, which decreased net sales by \$10.5 million, due to the weakening of various currencies against the United States dollar, mainly the Japanese yen, partially offset by the strengthening of the Euro against the United States dollar.

The \$13.7 million increase in net sales of Surgical Heart Valve Therapy products in 2013 was due primarily to:

- surgical heart valve products, which increased net sales by \$30.1 million, driven by sales of pericardial aortic and mitral tissue valves, and *EDWARDS INTUITY Elite* valves;

partially offset by:

- foreign currency exchange rate fluctuations, which decreased net sales by \$20.2 million, due primarily to the weakening of the Japanese yen against the United States dollar.

In April 2014, we received CE Mark for our advanced *EDWARDS INTUITY Elite* valve system. This next-generation, rapid deployment system facilitates smaller incisions in surgical aortic valve replacement procedures. In the United States, we completed enrollment of patients in our TRANSFORM Trial for *EDWARDS INTUITY Elite*, and we continued enrolling patients in our COMMENCE clinical trial, which is studying our next-generation *GLX* advanced tissue platform applied to the *Magna Ease* aortic surgical valve and the *Magna Mitral Ease* valve.

### **Critical Care**

The \$16.6 million increase in net sales of Critical Care products in 2014 was due primarily to enhanced surgical recovery products, and core hemodynamic products outside the United States, partially offset by foreign currency exchange rate fluctuations, which decreased net sales by \$12.0 million, due primarily to the weakening of the Japanese yen against the United States dollar.

The \$23.4 million decrease in net sales of Critical Care products in 2013 was due primarily to foreign currency exchange rate fluctuations, which decreased net sales by \$28.9 million, due primarily to the weakening of the Japanese yen against the United States dollar.

In June 2014, we received FDA clearance for the *ClearSight* system, a noninvasive monitor that provides clinicians access to blood volume and blood flow information for patients at moderate or high risk of post-surgical complications, in whom invasive monitoring would not be used. The *ClearSight* system is part of our enhanced surgical recovery product portfolio. In September 2014, due to a strategic shift of our investment initiatives, we decided to discontinue our automated glucose monitoring program.

### **Gross Profit**

	Years Ended December 31,			Change	
	2014	2013	2012	2014	2013
Gross profit as a percentage of net sales . . . . .	73.1%	74.7%	74.2%	(1.6) pts.	0.5 pts.

The 1.6 percentage point decrease in gross profit as a percentage of net sales in 2014 was driven by:

- a 0.7 percentage point decrease due to the impact of foreign currency exchange rate fluctuations, including the settlement of foreign currency hedging contracts;
- a 0.7 percentage point decrease due to higher performance-based incentive compensation; and
- higher manufacturing costs, primarily for our operations in Utah;

partially offset by:

- a 0.8 percentage point increase due to an improved product mix in the United States, driven by Transcatheter Heart Valve Therapy products.

The 0.5 percentage point increase in gross profit as a percentage of net sales in 2013 was driven by:

- a 1.0 percentage point increase due to an improved product mix in the United States, driven by Transcatheter Heart Valve Therapy products; and
- a 0.5 percentage point increase in international markets due to a more profitable product mix, primarily higher sales of Transcatheter Heart Valve Therapy products;

partially offset by:

- a 1.3 percentage point decrease due primarily to higher manufacturing costs due to capacity expansion in preparation for multiple Transcatheter Heart Valve Therapy product introductions.

### **Selling, General, and Administrative (“SG&A”) Expenses**

(dollars in millions)

	Years Ended December 31,			Change	
	2014	2013	2012	2014	2013
SG&A expenses . . . . .	\$858.0	\$733.4	\$697.4	\$124.6	\$36.0
SG&A expenses as a percentage of net sales . . . . .	36.9%	35.9%	36.7%	1.0 pts.	(0.8) pts.

The \$124.6 million increase in SG&A expenses in 2014 was due primarily to (1) higher sales and marketing expenses in the United States, Europe, and Japan, mainly to support the Transcatheter Heart Valve Therapy program, and (2) higher performance-based incentive compensation.

The \$36.0 million increase in SG&A expenses in 2013 was due primarily to (1) higher sales and marketing expenses in the United States and Japan, mainly to support the Transcatheter Heart Valve Therapy program and (2) the 2.3% United States medical device excise tax, or \$15.8 million, which became effective in 2013. These increases were partially offset by the impact of foreign currency, which reduced expenses by \$12.4 million due primarily to the weakening of the Japanese yen against the United States dollar. The decrease in SG&A expenses as a percentage of net sales in 2013 was due primarily to decreased SG&A expenses in Europe as a percentage of net sales.

### **Research and Development Expenses**

(dollars in millions)

	Years Ended December 31,			Change	
	2014	2013	2012	2014	2013
Research and development expenses . . . . .	\$346.5	\$323.0	\$291.3	\$23.5	\$31.7
Research and development expenses as a percentage of net sales . . . . .	14.9%	15.8%	15.3%	(0.9) pts.	0.5 pts.

The increase in research and development expenses in 2014 was due primarily to new aortic and mitral Transcatheter Heart Valve Therapy product development efforts, additional investments in clinical studies in the Surgical Heart Valve Therapy program, and higher performance-based incentive compensation. The decrease in research and development expenses as a percentage of net sales was due primarily to higher net sales.

The increase in research and development expenses in 2013 was due primarily to additional investments in clinical studies and new product development efforts in the Transcatheter Heart Valve Therapy program.

### ***Intellectual Property Litigation (Income) Expense, Net***

In May 2014, we entered into an agreement with Medtronic to settle all outstanding patent litigation between the companies, including all cases related to transcatheter heart valves. Pursuant to the agreement, we received an upfront payment from Medtronic in the amount of \$750.0 million. For further information, see Note 4 to the “*Consolidated Financial Statements*.”

In February 2013, we received \$83.6 million from Medtronic in satisfaction of the initial April 2010 jury award of damages for infringement of the United States Andersen transcatheter heart valve patent, including accrued interest.

We incurred external legal costs related to intellectual property litigation of \$9.6 million, \$22.1 million, and \$14.4 million during 2014, 2013, and 2012, respectively.

### Special Charges

Special charges were \$70.7 million, \$16.3 million, and \$16.0 million for the years ended December 31, 2014, 2013, and 2012, respectively. For additional details, see Note 5 to the “*Consolidated Financial Statements*.”

### Interest Expense

Interest expense was \$17.2 million, \$9.8 million, and \$4.4 million in 2014, 2013, and 2012, respectively. The increase in interest expense for 2014 and 2013 resulted primarily from higher average interest rates and a higher average debt balance as compared to the prior year due to the issuance in October 2013 of \$600.0 million of 2.875% fixed-rate unsecured senior notes.

### Interest Income

Interest income was \$6.4 million, \$4.6 million, and \$4.8 million in 2014, 2013, and 2012, respectively. The increase in interest income for 2014 resulted primarily from higher average investment balances. The decrease in interest income for 2013 resulted primarily from lower average interest rates, partially offset by higher average investment balances.

### Other Expense, net

(in millions)

	Years Ended December 31,		
	2014	2013	2012
Promissory note impairment . . . . .	\$ 4.0	\$ —	\$ —
Loss on investments . . . . .	4.5	0.4	0.7
Insurance settlement gain . . . . .	(3.7)	—	—
Foreign exchange losses, net . . . . .	2.0	1.5	1.2
Lease contract termination costs . . . . .	1.0	—	—
Other . . . . .	(0.1)	(0.6)	(0.2)
Total other expense, net . . . . .	<u>\$ 7.7</u>	<u>\$ 1.3</u>	<u>\$ 1.7</u>

In December 2014, we recorded a \$4.0 million impairment charge related to our promissory note receivable because it was likely that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the promissory note agreement.

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

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

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

In September 2014, we committed to purchase our Draper, Utah facility for \$17.0 million under a purchase option provided in the lease agreement. Under the terms of the lease agreement, we paid \$1.0 million in December 2014 for certain lease contract termination costs.

### Provision for Income Taxes

Our effective income tax rates for 2014, 2013, and 2012 were impacted as follows (in millions):

	Years Ended December 31,		
	2014	2013	2012
Income tax expense at U.S. federal statutory rate . . . . .	\$400.4	\$178.9	\$135.9
Foreign income taxed at different rates . . . . .	(67.1)	(60.6)	(41.5)
State and local taxes, net of federal tax benefit . . . . .	19.3	5.8	3.7
Tax credits, federal and state . . . . .	(13.5)	(19.8)	(4.9)
Release of reserve for uncertain tax positions for prior years . . . . .	(4.8)	(3.9)	(0.8)
U.S. tax on foreign earnings, net of credits . . . . .	(3.1)	18.9	0.7
Nondeductible stock-based compensation . . . . .	2.1	2.6	1.9
Other . . . . .	(0.4)	0.2	1.7
Income tax provision . . . . .	<u>\$332.9</u>	<u>\$122.1</u>	<u>\$ 96.7</u>

### Reserve for Uncertain Tax Positions

As of December 31, 2014 and 2013, the liability for income taxes associated with uncertain tax positions was \$192.3 million and \$127.7 million, respectively. We estimate that these liabilities would be reduced by \$34.3 million and \$30.9 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 \$158.0 million and \$96.8 million, respectively, if not required, would favorably affect our effective tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest, penalties, and foreign exchange, is as follows (in millions):

	December 31,		
	2014	2013	2012
Unrecognized tax benefits, January 1 . . . . .	\$127.7	\$113.6	\$ 78.0
Current year tax positions . . . . .	75.9	17.8	41.7
Increase prior year tax positions . . . . .	0.6	5.7	2.6
Decrease prior year tax positions . . . . .	(10.5)	(9.0)	(4.3)
Settlements . . . . .	(1.0)	(0.1)	(4.3)
Lapse of statutes of limitations . . . . .	(0.4)	(0.3)	(0.1)
Unrecognized tax benefits, December 31 . . . . .	<u>\$192.3</u>	<u>\$127.7</u>	<u>\$113.6</u>

We recognize interest and penalties, if any, related to uncertain tax positions in the provision for income taxes. As of December 31, 2014, we had accrued \$6.8 million (net of \$5.0 million tax benefit) of interest related to uncertain tax positions, and as of December 31, 2013, we had accrued \$4.5 million (net of \$3.3 million tax benefit) of interest related to uncertain tax positions. During 2014, 2013, and 2012, we recognized interest expense, net of tax benefit, of \$2.3 million, \$1.4 million, and \$1.0 million, respectively, in "Provision for Income Taxes" on the consolidated statements of operations.

We strive to resolve open matters with each tax authority at the examination level and could reach agreement with a tax authority at any time. While we have accrued for matters we believe are more likely than not to require settlement, the final outcome with a tax authority may result in a tax liability that is more or less than that reflected in the consolidated financial statements. Furthermore, we may later decide to



challenge any assessments, if made, and may exercise our right to appeal. The uncertain tax positions are reviewed quarterly and adjusted as events occur that affect potential liabilities for additional taxes, such as lapsing of applicable statutes of limitations, proposed assessments by tax authorities, negotiations between tax authorities, identification of new issues, and issuance of new legislation, regulations, or case law. Management believes that adequate amounts of tax and related penalty and interest have been provided in income tax expense for any adjustments that may result from these uncertain tax positions.

At December 31, 2014, all material state, local, and foreign income tax matters have been concluded for years through 2008. During the third quarter of 2013, the Internal Revenue Service (“IRS”) completed its fieldwork for the 2009 and 2010 tax years. The case is currently in suspense pending finalization of an Advance Pricing Agreement (“APA”) and Joint Committee of Taxation approval. The IRS began its examination of the 2011 and 2012 tax years during the fourth quarter of 2013.

We have also entered into an APA process between the Switzerland and the United States governments for the years 2009 through 2015 covering transfer pricing matters. These transfer pricing matters are significant to our consolidated financial statements, and the final outcome of the negotiations between the two governments is uncertain.

During 2014, we also filed with the IRS a request for a pre-filing agreement associated with a tax return filing position on a portion of the litigation settlement payment received from Medtronic in May 2014 (see Note 4 to the “*Consolidated Financial Statements*”).

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 for our uncertain tax positions. Based upon the information currently available and numerous possible outcomes, we cannot reasonably estimate what, if any, changes in our existing uncertain tax positions may occur in the next 12 months and thus have recorded the gross uncertain tax positions as a long-term liability. However, if the APA and/or pre-filing agreement is finalized in the next 12 months, it is reasonably possible that these events could result in a significant change in our uncertain tax positions within the next 12 months.

The effective income tax rate for the year ended December 31, 2014 included (1) \$262.1 million of tax expense associated with a \$750.0 million litigation settlement payment received from Medtronic in May 2014 (see Note 4 to the “*Consolidated Financial Statements*”) and (2) \$4.8 million of tax benefits from the remeasurement of uncertain tax positions.

The federal research credit expired on December 31, 2011 and was reinstated on January 2, 2013. As a result, the effective income tax rate for the year ended December 31, 2012 was calculated without a benefit for the federal research credit. The effective income tax rate for the year ended December 31, 2013 included (1) an \$8.4 million benefit for the full year 2012 federal research credit and (2) \$31.3 million of tax expense associated with the \$83.6 million litigation award received from Medtronic in February 2013 (see Note 4 to the “*Consolidated Financial Statements*”).

We have received tax incentives in Puerto Rico, the Dominican Republic, Singapore, and Switzerland. The tax reductions as compared to the local statutory rates favorably impacted earnings per diluted share for the years ended December 31, 2014, 2013, and 2012 by \$0.63, \$0.44, and \$0.39, respectively. The Puerto Rico, Dominican Republic, Singapore, and Switzerland grants provide our manufacturing operations partial or full exemption from local taxes until the years 2028, 2030 (subject to review beginning in 2015), 2024, and 2015, respectively.

## **Liquidity and Capital Resources**

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

time, seek to take advantage of favorable interest rate environments or other market conditions. We believe that we have 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 us on favorable terms, or at all.

We believe that cash held in the United States, in addition to amounts available under credit facilities and cash from operations, are sufficient to fund our United States operating requirements for the next twelve months. Cash and cash equivalents and short-term investments held outside the United States have historically been used to fund international operations and acquire businesses outside of the United States, although a portion of those amounts may, from time to time, be subject to temporary intercompany loans into the United States. As of December 31, 2014, cash and cash equivalents and short-term investments held in the United States and outside the United States were \$651.7 million and \$787.1 million, respectively. The majority of cash and cash equivalents and short-term investments held outside the United States relates to undistributed earnings of certain of our foreign subsidiaries, which are considered by us to be indefinitely reinvested. Repatriations of cash and cash equivalents and short-term investments held outside the United States are subject to restrictions in certain jurisdictions, and may be subject to withholding and other taxes. The potential tax liability related to any repatriation would be dependent on the facts and circumstances that exist at the time such repatriation is made and the complexities of the tax laws of the United States and the respective foreign jurisdictions.

We have a Five-Year Credit Agreement (“the Credit Agreement”) which provides up to an aggregate of \$750.0 million in borrowings in multiple currencies. As of December 31, 2014, there were no borrowings outstanding under the Credit Agreement. In October 2013, we issued \$600.0 million of 2.875% fixed-rate unsecured senior notes due October 15, 2018. For further information on our long-term debt, see Note 9 to the “*Consolidated Financial Statements*.”

From time to time, we repurchase shares of our common stock under share repurchase programs authorized by the Board of Directors. We consider several factors in determining when to execute share repurchases, including, among other things, expected dilution from stock plans, cash capacity, and the market price of our common stock. During 2014, we repurchased a total of 4.4 million shares at an aggregate cost of \$300.0 million, and as of December 31, 2014, had remaining authority to purchase \$952.5 million of our common stock. For further information, see Note 13 to the “*Consolidated Financial Statements*.”

Net cash flows provided by **operating activities** of \$1,022.3 million for 2014 increased \$549.6 million from 2013 due primarily to (1) the \$750.0 million upfront payment received from Medtronic under a litigation settlement agreement, (2) a lower bonus payout in 2014 associated with 2013 bonuses, and (3) improved operating performance. These increases were partially offset by (1) income tax payments of \$224.5 million related to the Medtronic settlement, (2) the prior year receipt of \$83.6 million from Medtronic in satisfaction of the initial April 2010 jury award of damages for infringement of the United States Andersen transcatheter heart valve patent, and (3) the \$50.0 million charitable contribution to the Edwards Lifesciences Foundation in 2014.

Net cash flows provided by operating activities of \$472.7 million for 2013 increased \$110.6 million from 2012 due primarily to (1) the receipt of \$83.6 million from Medtronic, Inc. in satisfaction of the April 2010 jury award of damages for infringement of the U.S. Andersen transcatheter heart valve patent, (2) increased collection of accounts receivable, and (3) improved operating performance. These increases were partially offset by (1) a \$22.7 million increase in inventory purchases to support future product launches and (2) a \$17.0 million impact from excess tax benefits from stock plans, primarily as a result of the realization of excess tax benefits that had been previously unrealized due to credit carryforwards and net operating losses in the United States in 2011 and 2012.

Net cash used in **investing activities** of \$633.0 million in 2014 consisted primarily of net purchases of investments of \$527.4 million and capital expenditures of \$82.9 million.

Net cash used in investing activities of \$412.7 million in 2013 consisted primarily of net purchases of investments of \$300.9 million and capital expenditures of \$109.0 million.

Net cash used in **financing activities** of \$153.0 million in 2014 consisted primarily of purchases of treasury stock of \$300.9 million, partially offset by proceeds from stock plans of \$113.3 million, and the excess tax benefit from stock plans of \$49.4 million (including the realization of previously unrealized excess tax benefits).

Net cash provided by financing activities of \$34.9 million in 2013 consisted primarily of net proceeds from debt of \$409.6 million, the excess tax benefit from stock plans of \$73.5 million (including the realization of previously unrealized excess tax benefits), and proceeds from stock plans of \$45.5 million, partially offset by repurchases of common stock of \$496.9 million.

A summary of all of our contractual obligations and commercial commitments as of December 31, 2014 were as follows (in millions):

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>
Debt . . . . .	\$600.0	\$ —	\$ —	\$600.0	\$ —
Operating leases . . . . .	80.4	20.6	27.7	13.6	18.5
Interest on debt . . . . .	53.0	13.8	27.6	11.6	—
Pension obligations(a) . . . . .	5.8	5.8	—	—	—
Capital commitment obligations(b) . . . . .	3.1	0.8	2.3	—	—
Purchase and other commitments . . . . .	3.7	2.6	1.1	—	—
Total contractual cash obligations(c) . . . . .	<u>\$746.0</u>	<u>\$43.6</u>	<u>\$58.7</u>	<u>\$625.2</u>	<u>\$18.5</u>

- (a) The amount included in “Less Than 1 Year” reflects anticipated contributions to our various pension plans. Anticipated contributions beyond one year are not determinable. The total accrued benefit liability for our pension plans recognized as of December 31, 2014 was \$49.3 million. This amount is impacted by, among other items, pension expense funding levels, changes in plan demographics and assumptions, and investment return on plan assets. Therefore, we are unable to make a reasonably reliable estimate of the amount and period in which the liability might be paid, and did not include this amount in the contractual obligations table. See Note 12 to the “*Consolidated Financial Statements*” for further information.
- (b) Capital commitment obligations consist primarily of cash that we are obligated to pay to our limited partnership and limited liability corporation investees. These investees make equity investments in various development stage biopharmaceutical and medical device companies, and it is not certain if and/or when these payments will be made.
- (c) As of December 31, 2014, the liability for uncertain tax positions including interest was \$204.1 million. We have entered into an APA process between the Switzerland and the United States governments for the years 2009 through 2015 covering transfer pricing matters. These transfer pricing matters are significant to our consolidated financial statements, and the final outcome of the negotiations between the two governments is uncertain. 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 for our uncertain tax positions. We are unable to make a reasonably reliable estimate of the amount and period in which the liability might be paid, and did not include this amount in the contractual obligations table.

We acquire assets still in development, enter into research and development arrangements, and sponsor certain clinical trials that often require milestone, royalty, or other future payments to third-parties,

contingent upon the occurrence of certain future events. In situations where we have no ability to influence the achievement of the milestone or otherwise avoid the payment, we have included those payments in the table above. However, we have excluded from the table contingent milestone payments and other contingent liabilities for which we cannot reasonably predict future payments or for which we can avoid making payment by unilaterally deciding to stop development of a product or cease progress of a clinical trial. We estimate that these contingent payments could be up to approximately \$110.0 million if all milestones or other contingent obligations were met.

### **Critical Accounting Policies and Estimates**

Our results of operations and financial position are determined based upon the application of our accounting policies, as discussed in the notes to the “*Consolidated Financial Statements*.” Certain of our accounting policies represent a selection among acceptable alternatives under Generally Accepted Accounting Principles in the United States (“GAAP”). In evaluating our transactions, management assesses all relevant GAAP and chooses the accounting policy that most accurately reflects the nature of the transactions.

The application of accounting policies requires the use of judgment and estimates. These matters that are subject to judgments and estimation are inherently uncertain, and different amounts could be reported using different assumptions and estimates. Management uses its best estimates and judgments in determining the appropriate amount to reflect in the consolidated financial statements, using historical experience and all available information. We also use outside experts where appropriate. We apply estimation methodologies consistently from year to year.

We believe the following are the critical accounting policies which could have the most significant effect on our reported results and require subjective or complex judgments by management.

#### ***Revenue Recognition***

When we recognize revenue from the sale of our products, we record an estimate of various sales returns and allowances which reduces product sales and accounts receivable. These adjustments include estimates for rebates, returns, and other sales allowances. These provisions are estimated based upon historical payment experience, historical relationship to revenues, estimated customer inventory levels, and current contract sales terms with direct and indirect customers. Product returns are not significant because returns are generally not allowed unless the product is damaged at time of receipt. If the historical data and inventory estimates used to calculate these provisions do not approximate future activity, our financial position, results of operations, and cash flows could be impacted.

In addition, we may allow customers to return previously purchased products for next-generation product offerings. For these transactions, we defer recognition of revenue on the sale of the earlier generation product based upon an estimate of the amount to be returned when the next-generation products are shipped to the customer. Uncertain timing of next-generation product approvals, variability in product launch strategies, product recalls, and variation in product utilization all affect the estimates related to sales returns and could cause actual returns to differ from these estimates.

Our sales adjustment related to distributor rebates given to our United States distributors represents the difference between our sales price to the distributor (at our distributor “list price”) and the negotiated price to be paid by the end-customer. We validate the distributor rebate accrual quarterly through either a review of the inventory reports obtained from our distributors or an estimate of the distributor’s inventory. This distributor inventory information is used to verify the estimated liability for future distributor rebate claims based on historical rebates and contract rates. We periodically monitor current pricing trends and distributor inventory levels to ensure the credit for future distributor rebates is fairly stated.

### ***Excess and Obsolete Inventory***

The valuation of our inventory requires us to estimate excess, obsolete, and expired inventory. We base our provisions for excess, obsolete, and expired inventory on our estimates of forecasted net sales. A significant change in the timing or level of demand for our products as compared to forecasted amounts may result in recording additional allowances for excess, obsolete, and expired inventory in the future. In addition, our industry is characterized by rapid product development and frequent new product introductions. Uncertain timing of next-generation product approvals, variability in product launch strategies, product recalls, increasing levels of consigned inventory, and variation in product utilization all affect our estimates related to excess, obsolete, and expired inventory.

### ***Intangible Assets and Long-lived Assets***

We acquire intangible assets in connection with business combinations and asset purchases. The acquired intangible assets are recorded at fair value, which is determined based on a discounted cash flow analysis. The determination of fair value requires significant estimates, including, but not limited to, the amount and timing of projected future cash flows, the discount rate used to discount those cash flows, the assessment of the asset's life cycle, including the timing and expected costs to complete in-process projects, and the consideration of legal, technical, regulatory, economic, and competitive risks.

Indefinite-lived intangible assets, which relate to IPR&D acquired in business combinations, are reviewed for impairment annually, or whenever an event occurs or circumstances change that would indicate the carrying amount may be impaired. Additionally, management reviews the carrying amounts of other intangible and long-lived assets whenever events or circumstances indicate that the carrying amounts of an asset may not be recoverable. The impairment reviews require significant estimates about fair value, including estimation of future cash flows, selection of an appropriate discount rate, and estimates of long-term growth rates.

### ***Income Taxes***

The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Realization of certain deferred tax assets, primarily net operating loss and other carryforwards, is dependent upon generating sufficient taxable income in the appropriate jurisdiction prior to the expiration of the carryforward periods. Failure to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in our effective tax rate on future earnings.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our income tax returns are periodically audited by domestic and foreign tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income amongst various tax jurisdictions. We evaluate our tax positions and establish liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. Significant judgment is required in evaluating our uncertain tax positions, including estimating the ultimate resolution to intercompany pricing controversies between countries when there are numerous possible outcomes. We review these tax uncertainties quarterly and adjust the liability as events occur that affect potential liabilities for additional taxes, such as the progress of tax audits, lapsing of applicable statutes of limitations, negotiations between tax authorities, identification of new issues, and issuance of new legislation, regulations, or case law.

For additional details on our income taxes, see Note 2 and Note 16 to the "*Consolidated Financial Statements.*"



### ***Stock-based Compensation***

We measure and recognize compensation expense for all stock-based awards based on estimated fair values. Stock-based awards consist of stock options, restricted stock units, market-based restricted stock units, and employee stock purchase subscriptions. The fair value of each option award and employee stock purchase subscription is estimated on the date of grant using the Black-Scholes option valuation model. The fair value of market-based restricted stock units is determined using a Monte Carlo simulation model, which uses multiple input variables to determine the probability of satisfying the market condition requirements. The Black-Scholes and Monte Carlo models require various highly judgmental assumptions, including stock price volatility, risk-free interest rate, and expected option term. Stock-based compensation expense is recorded net of estimated forfeitures. Judgment is required in estimating the stock awards that will ultimately be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be impacted.

### **New Accounting Standards**

Information regarding new accounting standards is included in Note 2 to the “*Consolidated Financial Statements.*”

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Our business and financial results are affected by fluctuations in world financial markets, including changes in currency exchange rates and interest rates. We manage these risks through a combination of normal operating and financing activities and derivative financial instruments. We do not use derivative financial instruments for trading or speculative purposes.

#### **Interest Rate Risk**

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and our long-term debt. Our investment strategy is focused on preserving capital and supporting our liquidity requirements, while earning a reasonable market return. We invest in a variety of fixed-rate debt securities, primarily time deposits, commercial paper, U.S. government and agency securities, municipal securities, asset-backed securities, corporate debt securities, and municipal securities. Our investment policy limits the amount of credit exposure to any one issuer. The market value of our investments may decline if current market interest rates rise, which could result in a realized loss if we choose or are forced to sell an investment before its scheduled maturity, which we currently do not anticipate. As of December 31, 2014, we had \$999.5 million of investments in fixed-rate debt securities which had an average remaining term to maturity of approximately 0.5 years. A hypothetical 25 basis point increase in interest rates at December 31, 2014 would have resulted in a \$1.2 million decrease in the fair value of these investments.

We are also exposed to interest rate risk on our debt obligations. As of December 31, 2014, we had \$600.0 million of Notes outstanding that carry a fixed rate, and also had available a \$750.0 million Credit Agreement that carries a variable interest rate based on the London interbank offered rate (“LIBOR”). As of December 31, 2014, there were no borrowings outstanding under the Credit Agreement. To diversify our interest rate risk, we entered into interest rate swaps with an aggregate notional amount of \$300.0 million. The critical terms of the swaps match the critical terms of \$300.0 million of the debt issuance, effectively converting that portion of the fixed-rate issue to a floating variable rate based on a 6-month LIBOR benchmark. Based on our year end 2014 and 2013 variable debt levels, a hypothetical 10% increase in our weighted-average interest rate would have an immaterial effect on our financial condition and results of operations. As of December 31, 2014 and 2013, a hypothetical 10% increase in market interest rates would decrease the fair value of the fixed-rate debt by approximately \$5.2 million and \$6.0 million, respectively. This hypothetical change in interest rates would not impact the interest expense on the fixed-rate debt.

For more information related to outstanding debt obligations, see Note 9 to the “*Consolidated Financial Statements.*”

### **Currency Risk**

We are exposed to foreign currency risks that arise from normal business operations. These risks include the translation of local currency balances and results of our non-United States subsidiaries into United States dollars, currency gains and losses related to intercompany and third-party transactions denominated in currencies other than a location’s functional currency, and currency gains and losses associated with intercompany loans. Our principal currency exposures relate to the Euro and the Japanese yen. Our objective is to minimize the volatility of our exposure to these risks through a combination of normal operating and financing activities and the use of derivative financial instruments in the form of foreign currency forward exchange contracts and foreign currency options contracts. We do not hedge our exposure related to our net investments in our non-United States subsidiaries. The total notional amounts of our derivative financial instruments entered into for foreign currency management purposes at December 31, 2014 and 2013 were \$770.4 million and \$805.5 million, respectively. A hypothetical 10% increase/decrease in the value of the United States dollar against all hedged currencies would increase/decrease the fair value of these derivative contracts by \$46.3 million and \$51.1 million, respectively. Any gains or losses on the fair value of derivative contracts would generally be offset by gains and losses on the underlying transactions, so the net impact would not be significant to our financial condition or results of operations.

For more information related to outstanding foreign exchange contracts, see Note 2 and Note 11 to the “*Consolidated Financial Statements.*”

### **Credit Risk**

Derivative financial instruments involve credit risk in the event the financial institution counterparty should default. It is our policy to execute such instruments with major financial institutions that we believe to be creditworthy. At December 31, 2014, all derivative financial instruments were with bank counterparties assigned investment grade ratings by national rating agencies. We further diversify our derivative financial instruments among counterparties to minimize exposure to any one of these entities. We have not experienced a counterparty default and do not anticipate any non-performance by our current derivative counterparties.

### **Concentrations of Risk**

We invest excess cash in a variety of fixed-rate debt securities, and diversify the investments between financial institutions.

In the normal course of business, we provide credit to customers in the health care industry, perform credit evaluations of these customers, and maintain allowances for potential credit losses, which have historically been adequate compared to actual losses. In 2014, we had no customers that represent 10% or more of our total net sales or accounts receivable, net.

We continue 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 in value and an increase in the average length of time that it takes to collect accounts receivable outstanding in these countries. In addition, we may also be impacted by declines in sovereign credit ratings or sovereign defaults in these countries. As of December 31, 2014, our accounts receivables, net of the allowance for doubtful accounts, from customers in certain European countries were \$69.7 million.

## Investment Risk

We are exposed to investment risks related to changes in the fair values of our investments. As of December 31, 2014, we had \$839.4 million of investments in fixed-rate debt securities designated as held-to-maturity, of which \$72.3 million were long-term, and \$160.1 million of investments in fixed-rate debt securities designated as available-for-sale, of which \$142.2 million were long-term. As of December 31, 2014, we had recorded unrealized losses of \$0.4 million on the available-for-sale investments in “*Accumulated Other Comprehensive Loss*,” net of tax. Should we choose or be forced to sell an investment that has declined in market value prior to its maturity, we may be required to realize losses in principal. In addition, we invest in equity instruments of public and private companies. As of December 31, 2014, we had \$26.4 million of investments in equity instruments of other companies and had recorded unrealized gains of \$0.4 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’ values may be considered other than temporary and impairment charges may be necessary.

**Item 8. Financial Statements and Supplementary Data**

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DECEMBER 31, 2014**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Edwards Lifesciences Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Edwards Lifesciences Corporation and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
Irvine, California  
February 20, 2015



**EDWARDS LIFESCIENCES CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(in millions, except par value)

	December 31,	
	2014	2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents . . . . .	\$ 653.8	\$ 420.4
Short-term investments (Note 7) . . . . .	785.0	516.5
Accounts receivable, net (Note 6) . . . . .	288.0	302.5
Other receivables . . . . .	37.0	25.5
Inventories (Note 6) . . . . .	296.8	308.9
Deferred income taxes . . . . .	63.5	33.4
Prepaid expenses . . . . .	48.8	46.8
Other current assets . . . . .	121.7	71.8
Total current assets . . . . .	2,294.6	1,725.8
Long-term accounts receivable, net (Note 6) . . . . .	5.8	7.3
Long-term investments (Note 7) . . . . .	240.9	21.9
Property, plant, and equipment, net (Note 6) . . . . .	442.9	421.6
Goodwill (Note 8) . . . . .	376.0	385.4
Other intangible assets, net (Note 8) . . . . .	23.4	33.5
Deferred income taxes . . . . .	91.5	79.0
Other assets . . . . .	49.2	35.4
Total assets . . . . .	\$ 3,524.3	\$ 2,709.9
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable . . . . .	\$ 58.2	\$ 48.4
Accrued and other liabilities (Note 6) . . . . .	376.2	297.2
Total current liabilities . . . . .	434.4	345.6
Long-term debt (Note 9) . . . . .	598.1	593.1
Uncertain tax positions . . . . .	194.8	126.4
Other long-term liabilities . . . . .	105.6	100.4
Commitments and contingencies (Notes 9 and 17)		
<b>Stockholders' equity</b> (Note 13)		
Preferred stock, \$.01 par value, authorized 50.0 shares, no shares outstanding . . . . .	—	—
Common stock, \$1.00 par value, 350.0 shares authorized, 128.9 and 126.0 shares issued, and 107.8 and 109.3 shares outstanding, respectively . . . . .	128.9	126.0
Additional paid-in capital . . . . .	878.4	671.2
Retained earnings . . . . .	2,841.9	2,030.8
Accumulated other comprehensive loss . . . . .	(100.9)	(27.6)
Treasury stock, at cost, 21.1 and 16.7 shares, respectively . . . . .	(1,556.9)	(1,256.0)
Total stockholders' equity . . . . .	2,191.4	1,544.4
Total liabilities and stockholders' equity . . . . .	\$ 3,524.3	\$ 2,709.9

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

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

	<u>Years Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales . . . . .	\$2,322.9	\$2,045.5	\$1,899.6
Cost of sales . . . . .	625.6	516.6	491.0
Gross profit . . . . .	1,697.3	1,528.9	1,408.6
Selling, general, and administrative expenses . . . . .	858.0	733.4	697.4
Research and development expenses . . . . .	346.5	323.0	291.3
Intellectual property litigation (income) expense, net (Note 4) . . . . .	(740.4)	(61.5)	14.4
Special charges (Note 5) . . . . .	70.7	16.3	16.0
Interest expense . . . . .	17.2	9.8	4.4
Interest income . . . . .	(6.4)	(4.6)	(4.8)
Other expense, net (Note 15) . . . . .	7.7	1.3	1.7
Income before provision for income taxes . . . . .	1,144.0	511.2	388.2
Provision for income taxes (Note 16) . . . . .	332.9	122.1	96.7
Net income . . . . .	<u>\$ 811.1</u>	<u>\$ 389.1</u>	<u>\$ 291.5</u>
<b>Share information</b> (Note 2):			
Earnings per share:			
Basic . . . . .	\$ 7.62	\$ 3.48	\$ 2.54
Diluted . . . . .	\$ 7.48	\$ 3.42	\$ 2.46
Weighted-average number of common shares outstanding:			
Basic . . . . .	106.5	111.7	114.9
Diluted . . . . .	108.5	113.8	118.3

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

**EDWARDS LIFESCIENCES CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in millions)

	<u>Years Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net income . . . . .	\$811.1	\$389.1	\$291.5
Other comprehensive (loss) income, net of tax (Note 14):			
Foreign currency translation adjustments . . . . .	(96.2)	5.6	4.2
Unrealized gain (loss) on cash flow hedges . . . . .	28.8	(3.5)	1.1
Defined benefit pension plans—net actuarial (loss) gain and other . . . . .	(5.6)	9.3	(6.0)
Unrealized loss on available-for-sale investments for the period . . . . .	(0.3)	(1.1)	—
Reclassification of net realized investment loss to earnings . . . . .	—	—	0.3
Other comprehensive (loss) income, net of tax . . . . .	<u>(73.3)</u>	<u>10.3</u>	<u>(0.4)</u>
Comprehensive income . . . . .	<u>\$737.8</u>	<u>\$399.4</u>	<u>\$291.1</u>

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

**EDWARDS LIFESCIENCES CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	Years Ended December 31,		
	2014	2013	2012
<b>Cash flows from operating activities</b>			
Net income	\$ 811.1	\$ 389.1	\$ 291.5
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	68.6	62.9	53.7
Stock-based compensation (Notes 2 and 13)	48.3	47.4	42.1
Excess tax benefit from stock plans (Notes 2 and 13)	(49.4)	(73.5)	(56.5)
Deferred income taxes	(71.1)	(12.4)	(26.4)
Purchased in-process research and development (Note 5)	10.6	—	7.0
Other	13.9	6.7	3.2
Changes in operating assets and liabilities:			
Accounts and other receivables, net	(26.8)	8.5	(26.5)
Inventories	(30.5)	(44.4)	(21.7)
Accounts payable and accrued liabilities	112.9	0.2	(2.7)
Income taxes	128.1	80.6	85.4
Prepaid expenses and other current assets	(0.9)	(6.3)	1.6
Other	7.5	13.9	11.4
Net cash provided by operating activities	1,022.3	472.7	362.1
<b>Cash flows from investing activities</b>			
Capital expenditures	(82.9)	(109.0)	(109.0)
Purchases of held-to-maturity investments (Note 7)	(1,956.4)	(823.2)	(592.6)
Proceeds from held-to-maturity investments (Note 7)	1,611.2	526.4	662.3
Purchases of available-for-sale investments (Note 7)	(160.4)	—	—
Proceeds from available-for-sale investments (Note 7)	1.7	—	—
Investments in unconsolidated affiliates (Note 7)	(11.2)	(3.0)	(2.0)
Proceeds from unconsolidated affiliates (Note 7)	2.1	0.3	2.8
Investments in trading securities, net	(14.4)	(1.4)	(0.6)
Acquisitions (Notes 7 and 8)	(15.0)	—	(36.6)
Investments in intangible assets and in-process research and development	(10.8)	(1.1)	(7.0)
Proceeds from sale of assets	3.1	2.3	3.0
Other	—	(4.0)	0.9
Net cash used in investing activities	(633.0)	(412.7)	(78.8)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of debt	226.3	1,305.0	407.0
Payments on debt and capital lease obligations	(239.0)	(895.4)	(367.5)
Purchases of treasury stock	(300.9)	(496.9)	(344.1)
Equity forward contract related to accelerated share repurchase agreement (Note 13)	—	—	(9.1)
Proceeds from stock plans	113.3	45.5	100.1
Excess tax benefit from stock plans (Notes 2 and 13)	49.4	73.5	56.5
Other	(2.1)	3.2	1.5
Net cash (used in) provided by financing activities	(153.0)	34.9	(155.6)
Effect of currency exchange rate changes on cash and cash equivalents	(2.9)	14.6	12.0
Net increase in cash and cash equivalents	233.4	109.5	139.7
Cash and cash equivalents at beginning of year	420.4	310.9	171.2
Cash and cash equivalents at end of year	\$ 653.8	\$ 420.4	\$ 310.9
<b>Supplemental disclosures:</b>			
Cash paid during the year for:			
Interest	\$ 15.5	\$ 4.3	\$ 4.4
Income taxes	\$ 274.7	\$ 54.0	\$ 38.0
Non-cash investing and financing transactions:			
Capital lease obligations incurred	\$ 13.3	\$ —	\$ —
Capital expenditures accruals	\$ 8.3	\$ 8.4	\$ 20.9
Capital additions transferred from inventory	\$ 4.0	\$ 7.8	\$ —

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

**EDWARDS LIFESCIENCES CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in millions)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Par Value	Shares	Amount				
<b>BALANCE AT DECEMBER 31,</b>								
<b>2011</b> . . . . .	120.0	120.0	5.9	(405.8)	300.5	1,350.2	(37.5)	1,327.4
Net income . . . . .						291.5		291.5
Other comprehensive income, net of tax . . . . .							(0.4)	(0.4)
Common stock issued under equity plans, including tax benefits . . . .	4.2	4.2			155.5			159.7
Stock-based compensation expense .					42.1			42.1
Purchases of treasury stock . . . . .			4.0	(344.1)	(9.1)			(353.2)
<b>BALANCE AT DECEMBER 31,</b>								
<b>2012</b> . . . . .	124.2	124.2	9.9	(749.9)	489.0	1,641.7	(37.9)	1,467.1
Net income . . . . .						389.1		389.1
Other comprehensive loss, net of tax							10.3	10.3
Common stock issued under equity plans, including tax benefits . . . .	1.8	1.8			125.7			127.5
Stock-based compensation expense .					47.4			47.4
Purchases of treasury stock . . . . .			6.8	(506.1)	9.1			(497.0)
<b>BALANCE AT DECEMBER 31,</b>								
<b>2013</b> . . . . .	126.0	126.0	16.7	(1,256.0)	671.2	2,030.8	(27.6)	1,544.4
Net income . . . . .						811.1		811.1
Other comprehensive income, net of tax . . . . .							(73.3)	(73.3)
Common stock issued under equity plans, including tax benefits . . . .	2.9	2.9			158.9			161.8
Stock-based compensation expense .					48.3			48.3
Purchases of treasury stock . . . . .			4.4	(300.9)				(300.9)
<b>BALANCE AT DECEMBER 31,</b>								
<b>2014</b> . . . . .	<u>128.9</u>	<u>\$128.9</u>	<u>21.1</u>	<u>\$(1,556.9)</u>	<u>\$878.4</u>	<u>\$2,841.9</u>	<u>\$(100.9)</u>	<u>\$2,191.4</u>

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



**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS**

Edwards Lifesciences Corporation (“Edwards Lifesciences” or the “Company”) conducts operations worldwide and is managed in the following geographical regions: United States, Europe, Japan, and Rest of World. Edwards Lifesciences is focused on technologies that treat structural heart disease and critically ill patients. The products and technologies provided by Edwards Lifesciences are categorized into the following main areas: Transcatheter Heart Valve Therapy, Surgical Heart Valve Therapy, and Critical Care.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Edwards Lifesciences and its majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The Company reviews its investments in other entities to determine whether the Company is the primary beneficiary of a variable interest entity (“VIE”). The Company would be the primary beneficiary of the VIE, and would be required to consolidate the VIE, if it has the power to direct the significant activities of the entity and the obligation to absorb losses or receive benefits from the entity that may be significant to the VIE. Based on the Company’s analysis, it determined it is not the primary beneficiary of any VIEs; however, future events may require VIEs to be consolidated if the Company becomes the primary beneficiary.

Due to the Company’s change in accounting principle (see Note 3), certain legal costs previously reported on the consolidated statements of operations in “*Selling, General, and Administrative Expenses*” and “*Special Charges*” have been reclassified to “*Intellectual Property Litigation (Income) Expense, net*” to conform to the current year presentation. In addition, certain reclassifications related to the presentation of income taxes and special charges have been made in the prior years’ consolidated statements of cash flows to conform to the current year presentation. These reclassifications had no impact on net income or on the cash flows from operating, investing, and financing activities.

**Use of Estimates**

The consolidated financial statements of Edwards Lifesciences have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (“GAAP”) which have been applied consistently in all material respects. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

**Foreign Currency Translation**

When the local currency of the Company’s foreign entities is the functional currency, all assets and liabilities are translated into United States dollars at the rate of exchange in effect at the balance sheet date. Income and expense items are translated at the weighted-average exchange rate prevailing during the period. The effects of foreign currency translation adjustments for these entities are deferred and reported in stockholders’ equity as a component of “*Accumulated Other Comprehensive Loss.*” The effects of foreign currency transactions denominated in a currency other than an entity’s functional currency are included in “*Other Expense, net.*”

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition**

The Company recognizes revenue when it is realized or realizable and earned. Revenue is considered realized or realizable and earned upon delivery of the product, provided that an agreement of sale exists, the sales price is fixed or determinable, and collection is reasonably assured. In the case of certain products where the Company maintains consigned inventory at customer locations, revenue is recognized at the time the customer has used the inventory.

The Company's principal sales terms provide for title and risk of loss transferring upon delivery to the customer, limited right of return, and no unusual provisions or conditions. When the Company recognizes revenue from the sale of its products, an estimate of various sales returns and allowances is recorded which reduces product sales and accounts receivable. These adjustments include estimates for rebates, returns, and other sales allowances. These provisions are estimated and recorded at the time of sale based upon historical payment experience, historical relationship to revenues, estimated customer inventory levels, and current contract sales terms with direct and indirect customers. Other than in limited circumstances, product returns are not significant because returns are generally not allowed unless the product is damaged at time of receipt. In addition, the Company may allow customers to return previously purchased products for next-generation product offerings. For these transactions, the Company defers recognition of revenue on the sale of the earlier generation product based upon an estimate of the amount of product to be returned when the next-generation products are shipped to the customer.

The Company's sales adjustment related to distributor rebates given to the Company's United States distributors represents the difference between the Company's sales price to the distributor (at the Company's distributor "list price") and the negotiated price to be paid by the end-customer. This distributor rebate is recorded by the Company as a reduction to sales and a reduction to the distributor's accounts receivable at the time of sale to a distributor. The Company validates the distributor rebate accrual quarterly through either a review of the inventory reports obtained from its distributors or an estimate of its distributor's inventory. This distributor inventory information is used to verify the estimated liability for future distributor rebate claims based on historical rebates and contract rates. The Company periodically monitors current pricing trends and distributor inventory levels to ensure the credit for future distributor rebates is fairly stated.

The Company also offers volume rebates to certain group purchasing organizations ("GPOs") and customers based upon target sales levels. For volume rebates offered to GPOs, the rebates are recorded as a reduction to sales and an obligation to the GPO, as the Company expects to pay in cash. For volume rebates offered to customers, the rebates are recorded as a reduction to sales and accounts receivable, as the Company expects a net payment from the customer. The provision for volume rebates is estimated based on customers' contracted rebate programs and historical experience of rebates paid. The Company periodically monitors its customer rebate programs to ensure that the allowance and liability for accrued rebates is fairly stated.

**Shipping and Handling Costs**

Shipping costs, which are costs incurred to physically move product from the Company's premises to the customer's premises, are included in "*Selling, General, and Administrative Expenses.*" Handling costs, which are costs incurred to store, move, and prepare products for shipment, are included in "*Cost of Sales.*" For the years ended December 31, 2014, 2013, and 2012, shipping costs of \$60.5 million, \$56.6 million, and \$54.9 million, respectively, were included in "*Selling, General, and Administrative Expenses.*"

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash Equivalents**

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents. These investments are valued at cost, which approximates fair value.

**Investments**

The Company invests its excess cash in fixed-rate debt securities, including time deposits, commercial paper, U.S. government and agency securities, municipal securities, asset-backed securities, corporate debt securities, and municipal securities. Investments with maturities of one year or less are classified as short-term, and investments with maturities greater than one year are classified as long-term. Investments that the Company has the ability and intent to hold until maturity are classified as held-to-maturity and carried at amortized cost. Investments that are classified as available-for-sale are carried at fair value with unrealized gains and losses included in "*Accumulated Other Comprehensive Loss*." The Company determines the appropriate classification of its investments in fixed-rate debt securities at the time of purchase and reevaluates such designation at each balance sheet date.

The Company also has long-term equity investments in companies that are in various stages of development. Certain of these investments are designated as available-for-sale. Other investments in unconsolidated affiliates are accounted for under the cost or the equity method of accounting, as appropriate. The Company accounts for investments in limited partnerships or limited liability corporations, whereby the Company owns a minimum of 5% of the investee's outstanding voting stock, under the equity method of accounting. These investments are recorded at the amount of the Company's investment and adjusted each period for the Company's share of the investee's income or loss and dividends paid. As investments accounted for under the cost method do not have readily determinable fair values, the Company only estimates fair value if there are identified events or changes in circumstances that could have a significant adverse effect on the investment's fair value.

Realized gains and losses on investments that are sold are determined using the specific identification method and recorded to "*Other Expense, net*." Income relating to investments in fixed-rate debt securities is recorded to "*Interest Income*."

The Company periodically reviews its investments for impairment. When the fair value of an investment declines below cost, management uses the following criteria to determine if such a decline should be considered other-than-temporary and result in a recognized loss:

- the duration and extent to which the market value has been less than cost;
- the financial condition and near term prospects of the investee/issuer;
- the reasons for the decline in market value;
- the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value; and
- the investee's performance against product development milestones.

**Allowance for Doubtful Accounts**

The Company records allowances for doubtful accounts based on customer-specific analysis and general matters such as current assessments of past due balances and economic conditions. When evaluating its

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

allowances for doubtful accounts related to receivables from customers in certain European countries that have historically paid beyond the stated terms, the Company's analysis considers a number of factors including evidence of the customer's ability to comply with credit terms, economic conditions, and procedures implemented by the Company to collect the historical receivables. Additional allowances for doubtful accounts may be required if there is deterioration in past due balances, if economic conditions are less favorable than the Company has anticipated, or for customer-specific circumstances, such as financial difficulty. The allowance for doubtful accounts was \$11.3 million and \$12.2 million at December 31, 2014 and 2013, respectively.

**Inventories**

Inventories are stated at the lower of cost (first-in, first-out method) or market value. Market value for raw materials is based on replacement costs, and for other inventory classifications is based on net realizable value.

A write-down for excess or inactive inventory is recorded for inventory which is obsolete, nearing its expiration date (generally triggered at six months prior to expiration), is damaged, or slow moving (generally defined as quantities in excess of a two-year supply). The allowance for excess and obsolete inventory was \$32.2 million and \$29.6 million at December 31, 2014 and 2013, respectively.

The Company allocates to inventory general and administrative costs that are related to the production process. These costs include insurance, manufacturing accounting personnel, human resources personnel, and information technology. During the years ended December 31, 2014, 2013, and 2012, the Company allocated \$29.1 million, \$25.9 million, and \$26.2 million, respectively, of general and administrative costs to inventory. General and administrative costs included in inventory at December 31, 2014 and 2013 were \$17.5 million and \$15.0 million, respectively.

At December 31, 2014 and 2013, approximately \$46.2 million and \$40.0 million, respectively, of the Company's finished goods inventories were held on consignment.

**Property, Plant, and Equipment**

Property, plant, and equipment are recorded at cost. Depreciation is principally calculated for financial reporting purposes on the straight-line method over the estimated useful lives of the related assets, which range from 10 to 40 years for buildings and improvements, from 3 to 15 years for machinery and equipment, and from 3 to 10 years for software. Leasehold improvements are amortized over the life of the related facility leases or the asset, whichever is shorter. Straight-line and accelerated methods of depreciation are used for income tax purposes.

Depreciation expense for property, plant, and equipment was \$57.5 million, \$53.1 million, and \$44.0 million for the years ended December 31, 2014, 2013, and 2012, respectively. Repairs and maintenance expense was \$25.9 million, \$21.7 million, and \$20.6 million for the years ended December 31, 2014, 2013, and 2012, respectively.

**Impairment of Goodwill and Long-lived Assets**

Goodwill is reviewed for impairment annually in the fourth quarter of each fiscal year or whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. The Company identifies its reporting units and determines the carrying value of each reporting unit by assigning

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

the assets and liabilities, including existing goodwill, to those reporting units. The fair value of the reporting unit is estimated based on the Company's market capitalization and a market revenue multiple. If the carrying value of the reporting unit exceeds its estimated fair value, then the Company measures the amount of the impairment loss by comparing the implied fair value of goodwill to its carrying value. In 2014, 2013, and 2012, the Company did not record any impairment loss as the fair value of each reporting unit significantly exceeded its respective carrying value.

Indefinite-lived intangible assets relate to in-process research and development ("IPR&D") acquired in business combinations. The estimated fair values of IPR&D projects acquired in a business combination which have not reached technological feasibility are capitalized and accounted for as indefinite-lived intangible assets subject to impairment testing until completion or abandonment of the projects. Upon successful completion of the project, the capitalized amount is amortized over its estimated useful life. If the project is abandoned, all remaining capitalized amounts are written off immediately. Indefinite-lived intangible assets are reviewed for impairment annually, or whenever an event occurs or circumstances change that would indicate the carrying amount may be impaired. An impairment loss is recognized when the asset's carrying value exceeds its fair value. IPR&D projects acquired in an asset acquisition are expensed unless the project has an alternative future use.

Management reviews the carrying amounts of other finite-lived intangible assets and long-lived tangible assets whenever events or circumstances indicate that the carrying amounts of an asset may not be recoverable. Impairment indicators include, among other conditions, cash flow deficits, historic or anticipated declines in revenue or operating profit, and adverse legal or regulatory developments. If it is determined that such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair market value. Estimated fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. For the purposes of identifying and measuring impairment, long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

**Income Taxes**

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The Company evaluates quarterly the realizability of its deferred tax assets by assessing its valuation allowance and adjusting the amount, if necessary. The factors used to assess the likelihood of realization are both historical experience and the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

When assessing whether a windfall tax benefit relating to stock-based compensation has been realized, the Company follows the with and without approach, under which the windfall benefit is recognized only if an incremental benefit is provided after considering all other tax attributes presently available to the Company. Consideration is given only to the direct impacts of stock awards when calculating the amount of windfalls and shortfalls.

The Company is subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating the Company's uncertain tax positions and determining its

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

provision for income taxes. The Company recognizes the financial statement benefit of a tax position only after determining that a position would more likely than not be sustained based upon its technical merit if challenged by the relevant taxing authority and taken by management to the court of last resort. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the relevant tax authority. The Company recognizes interest and penalties related to income tax matters in income tax expense.

**Research and Development Costs**

Research and development costs are charged to expense when incurred.

**Earnings per Share**

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

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

	<b>Years ended December 31,</b>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Basic:			
Net income . . . . .	\$811.1	\$389.1	\$291.5
Weighted-average shares outstanding . . . . .	106.5	111.7	114.9
Basic earnings per share . . . . .	<u>\$ 7.62</u>	<u>\$ 3.48</u>	<u>\$ 2.54</u>
Diluted:			
Net income . . . . .	\$811.1	\$389.1	\$291.5
Weighted-average shares outstanding . . . . .	106.5	111.7	114.9
Dilutive effect of stock plans . . . . .	2.0	2.1	3.4
Dilutive weighted-average shares outstanding . . . . .	<u>108.5</u>	<u>113.8</u>	<u>118.3</u>
Diluted earnings per share . . . . .	<u>\$ 7.48</u>	<u>\$ 3.42</u>	<u>\$ 2.46</u>

Stock options, restricted stock units, and market-based restricted stock units to purchase approximately 2.4 million, 3.3 million, and 1.7 million shares for the years ended December 31, 2014, 2013, and 2012,



**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

respectively, were outstanding, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

**Stock-based Compensation**

The Company measures and recognizes compensation expense for all stock-based awards based on estimated fair values. Stock-based awards consist of stock options, restricted stock units, market-based restricted stock units, and employee stock purchase subscriptions. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period (vesting period) on a straight-line basis. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Upon exercise of stock options or vesting of restricted stock units and market-based restricted stock units, the Company issues common stock.

Total stock-based compensation expense for the years ended December 31, 2014, 2013, and 2012 was as follows (in millions):

	December 31,		
	2014	2013	2012
Cost of sales . . . . .	\$ 6.1	\$ 5.9	\$ 5.0
Selling, general, and administrative expenses . . . . .	34.9	34.7	31.2
Research and development expenses . . . . .	7.3	6.8	5.9
Total stock-based compensation expense . . . . .	\$48.3	\$47.4	\$42.1

Upon retirement, all unvested stock options are immediately forfeited. In addition, upon retirement, a participant will immediately vest in 25% of restricted stock units for each full year of employment with the Company measured from the grant date. All remaining unvested restricted stock units are immediately forfeited. For market-based restricted stock units, upon retirement and in certain other specified cases, a participant will receive a pro-rated portion of the shares that would ultimately be issued based on attainment of the performance goals as determined on the vesting date. The pro-rated portion is based on the participant's whole months of service with the Company during the performance period prior to the date of termination.

**Derivatives**

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

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

transactions. The Company uses foreign currency forward exchange contracts and foreign currency option contracts that are not designated as hedging instruments to offset the transaction gains and losses associated with certain of these assets and liabilities. All foreign currency forward exchange contracts are denominated in currencies of major industrial countries, principally the Euro and the Japanese yen.

All derivative financial instruments are recognized at fair value in the consolidated balance sheets. For each derivative instrument that is designated and effective as a fair value hedge, the gain or loss on the derivative is recognized immediately to earnings, and offsets the loss or gain on the underlying hedged item. The gain or loss on fair value hedges is classified in net interest expense, as they hedge the interest rate risk associated with the Company's fixed-rate debt. The Company reports in "*Accumulated Other Comprehensive Loss*" the effective portion of the gain or loss on derivative financial instruments that are designated, and that qualify, as cash flow hedges. The Company reclassifies these gains and losses into earnings in the same period in which the underlying hedged transactions affect earnings. Any hedge ineffectiveness (which represents the amount by which the changes in fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. During 2014, 2013, and 2012, the Company did not record any gains or losses due to hedge ineffectiveness. The gains and losses on derivative financial instruments for which the Company does not elect hedge accounting treatment are recognized in the consolidated 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 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.

**Recently Adopted Accounting Standards**

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

**New Accounting Standards Not Yet Adopted**

In May 2014, the FASB issued an update to the accounting guidance on revenue recognition. The new guidance provides a comprehensive, principles-based approach to revenue recognition, and supersedes most previous revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires improved disclosures on the nature, amount, timing, and uncertainty of revenue that is recognized. The guidance is effective for annual reporting periods beginning after December 15, 2016 and

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

interim periods therein. The new guidance can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the change recognized at the date of the initial application. The Company is currently assessing the impact this guidance will have on its consolidated financial statements, and has not yet selected a transition method.

**3. CHANGE IN ACCOUNTING PRINCIPLE**

Effective January 1, 2014, the Company changed its method of accounting for certain intellectual property litigation expenses related to the defense and enforcement of its issued patents. Previously, the Company capitalized these legal costs if a favorable outcome in the patent defense was determined to be probable, and amortized the capitalized legal costs over the life of the related patent. As of December 31, 2013, the Company had remaining unamortized capitalized legal costs of \$23.7 million, which, under the previous accounting method, would have been amortized through 2021. Under the new method of accounting, these legal costs are expensed in the period they are incurred. The Company has retrospectively adjusted the comparative financial statements of prior periods to apply this new method of accounting.

The Company believes this change in accounting principle is preferable because (1) as more competitors enter the Company's key product markets and the threat of complex intellectual property litigation across multiple jurisdictions increases, it will become more difficult for the Company to accurately assess the probability of a favorable outcome in such litigation, and (2) it will enhance the comparability of the Company's financial results with those of its peer group because it is the predominant accounting practice in the Company's industry.

The accompanying consolidated financial statements and related notes have been adjusted to reflect the impact of this change retrospectively to all prior periods presented. The cumulative effect of the change in accounting principle was a decrease in retained earnings of \$10.5 million as of January 1, 2012. The following tables present the effects of the retrospective application of the change in accounting principle (in millions):

<u>Consolidated Balance Sheet</u>	<u>As of December 31, 2013</u>	
	<u>As Reported</u>	<u>As Adjusted</u>
Other intangible assets, net . . . . .	\$ 57.2	\$ 33.5
Deferred income taxes . . . . .	70.1	79.0
Total assets . . . . .	2,724.7	2,709.9
Retained earnings . . . . .	2,045.6	2,030.8
Total stockholders' equity . . . . .	1,559.2	1,544.4
Total liabilities and stockholders' equity . . . . .	2,724.7	2,709.9

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. CHANGE IN ACCOUNTING PRINCIPLE (Continued)**

	Years Ended December 31,			
	2013		2012	
	As Reported	As Adjusted	As Reported	As Adjusted
<b>Consolidated Statement of Operations</b>				
Cost of sales . . . . .	\$ 522.4	\$ 516.6	\$ 494.6	\$ 491.0
Gross profit . . . . .	1,523.1	1,528.9	1,405.0	1,408.6
Selling, general, and administrative expenses(a) . . . . .	745.6	733.4	705.3	697.4
Intellectual property litigation (income) expense, net(a) . .	—	(61.5)	—	14.4
Special (gains) charges(a) . . . . .	(67.3)	16.3	16.0	16.0
Income before provision for income taxes . . . . .	515.3	511.2	391.1	388.2
Provision for income taxes . . . . .	123.6	122.1	97.9	96.7
Net income . . . . .	391.7	389.1	293.2	291.5
Earnings per share:				
Basic . . . . .	\$ 3.51	\$ 3.48	\$ 2.55	\$ 2.54
Diluted . . . . .	\$ 3.44	\$ 3.42	\$ 2.48	\$ 2.46

	Years Ended December 31,			
	2013		2012	
	As Reported	As Adjusted	As Reported	As Adjusted
<b>Consolidated Statement of Comprehensive Income</b>				
Net income . . . . .	\$391.7	\$389.1	\$293.2	\$291.5
Comprehensive income . . . . .	402.0	399.4	292.8	291.1

	Years Ended December 31,			
	2013		2012	
	As Reported	As Adjusted	As Reported	As Adjusted
<b>Consolidated Statement of Cash Flows</b>				
Net income . . . . .	\$391.7	\$389.1	\$293.2	\$291.5
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization . . . . .	68.7	62.9	57.3	53.7
Deferred income taxes(a) . . . . .	0.1	(12.4)	8.1	(26.4)
Other . . . . .	3.2	6.7	3.9	3.2
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets . . . . .	4.6	(6.3)	12.8	1.6
Other . . . . .	2.5	13.9	5.0	11.4

(a) The above amounts also reflect certain reclassifications of previously reported amounts to conform to classifications used in the current year. See Note 2 for further information.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. INTELLECTUAL PROPERTY LITIGATION (INCOME) EXPENSE, NET**

In May 2014, the Company entered into an agreement with Medtronic, Inc. and its affiliates (“Medtronic”) to settle all outstanding patent litigation between the companies, including all cases related to transcatheter heart valves. Pursuant to the agreement, all pending cases or appeals in courts and patent offices worldwide have been dismissed, and the parties will not litigate patent disputes with each other in the field of transcatheter valves for the eight-year term of the agreement. Under the terms of a patent cross-license that is part of the agreement, Medtronic made a one-time, upfront payment to the Company in the amount of \$750.0 million. In addition, Medtronic will pay the Company quarterly license royalty payments through April 2022. For sales in the United States, the royalty payments will be based on a percentage of Medtronic’s sales of transcatheter aortic valves, subject to a minimum annual payment of \$40.0 million and a maximum annual payment of \$60.0 million. A separate royalty payment will be calculated based on sales of Medtronic transcatheter aortic valves manufactured in the United States but sold elsewhere.

The Company accounted for the settlement agreement as a multiple-element arrangement and allocated the total consideration to the identifiable elements based upon their relative fair value. The consideration assigned to each element was as follows (in millions):

Past damages . . . . .	\$ 754.3
License agreement . . . . .	238.0
Covenant not to sue . . . . .	<u>77.7</u>
Total . . . . .	<u>\$1,070.0</u>

The Company recognized the upfront payment of \$750.0 million in “*Intellectual Property Litigation (Income) Expense, net*” during the second quarter of 2014. The accounting guidance limits the amount to be recognized upfront to the amount of cash received. The remaining fair value associated with the past damages element, as well as the license agreement and the covenant not to sue, will be recognized in “*Net Sales*” over the term of the license agreement as delivery occurs since the Company considers the future royalties to be part of its revenue-earning activities that constitute its ongoing major or central operations.

In February 2013, the Company received \$83.6 million from Medtronic in satisfaction of the initial April 2010 jury award of damages for infringement of the United States Andersen transcatheter heart valve patent, including accrued interest.

The Company incurred external legal costs related to intellectual property litigation of \$9.6 million, \$22.1 million, and \$14.4 million during 2014, 2013, and 2012, respectively.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. SPECIAL CHARGES**

	Years Ended December 31,		
	2014	2013	2012
	(in millions)		
Charitable foundation contribution . . . . .	\$50.0	\$ —	\$ —
Acquisition of IPR&D . . . . .	10.2	—	—
Settlement . . . . .	7.5	—	—
Asset write-down . . . . .	3.0	—	—
Realignment expenses . . . . .	—	10.4	9.0
IPR&D impairment . . . . .	—	5.9	—
Licensing of intellectual property . . . . .	—	—	7.0
Total special charges . . . . .	<u>\$70.7</u>	<u>\$16.3</u>	<u>\$16.0</u>

Charitable Foundation Contribution

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

Acquisition of IPR&D

In December 2014, the Company acquired technology for use in its transcatheter mitral valve program. In connection with this acquisition, the Company recorded a \$10.2 million IPR&D charge, including related expenses. The acquired technology has no alternative uses. Additional design developments, bench testing, pre-clinical studies, and human clinical studies must be successfully completed prior to selling any product. Under the terms of the purchase agreement, the Company must pay an additional \$10.0 million if, within 9 years of the acquisition closing date, the Company receives CE Mark for a transcatheter mitral valve repair or replacement product that incorporates the acquired technology.

Settlement

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

Asset Write-down

In September 2014, due to a strategic shift of the Company's investment initiatives, the Company decided to refocus resources from its automated glucose monitoring program. As a result, the Company recorded a charge of \$3.0 million to write down an intangible asset and fixed assets, and to record severance costs. In addition, the Company recorded a \$2.0 million charge to "Cost of Sales," primarily related to the disposal of inventory and equipment held by customers.

Realignment Expenses

In December 2013, the Company recorded a \$10.4 million charge related primarily to severance expenses associated with a global workforce realignment impacting 118 employees. As of December 31, 2014, the



**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. SPECIAL CHARGES (Continued)**

Company's remaining severance obligations of \$3.3 million are expected to be substantially paid by the end of 2015.

In December 2012, the Company recorded a \$9.0 million charge related primarily to severance expenses associated with a global workforce realignment impacting 92 employees. As of December 31, 2014, payments related to the realignment were complete.

*IPR&D Impairment*

In December 2013, the Company recorded a \$5.9 million write-off of IPR&D assets acquired from Embrella Cardiovascular, Inc. For further information, see Note 8.

*Licensing of Intellectual Property*

In April 2012, the Company obtained an exclusive license to a suturing device for minimally invasive surgery applications. At the time, the intellectual property was under development, and there was uncertainty as to whether the product would 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. At the time, the intellectual property was under development and there was uncertainty as to whether the product would ultimately be approved. The Company recorded a charge of \$5.0 million related to the upfront licensing fee.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

Components of selected captions in the consolidated balance sheets at December 31 are as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
	(in millions)	
<b>Accounts receivable, net(a)</b>		
Trade accounts receivable . . . . .	\$ 293.1	\$ 307.9
Allowance for doubtful accounts . . . . .	(5.1)	(5.4)
	<u>\$ 288.0</u>	<u>\$ 302.5</u>
<b>Inventories</b>		
Raw materials . . . . .	\$ 67.4	\$ 57.8
Work in process . . . . .	59.3	82.2
Finished products . . . . .	170.1	168.9
	<u>\$ 296.8</u>	<u>\$ 308.9</u>
<b>Property, plant, and equipment, net</b>		
Land . . . . .	\$ 25.4	\$ 21.6
Buildings and leasehold improvements . . . . .	270.6	268.2
Machinery and equipment . . . . .	320.8	307.6
Equipment with customers . . . . .	41.0	40.2
Software . . . . .	99.6	99.2
Construction in progress . . . . .	50.9	27.9
	808.3	764.7
Accumulated depreciation . . . . .	(365.4)	(343.1)
	<u>\$ 442.9</u>	<u>\$ 421.6</u>
<b>Long-term accounts receivable, net(a)</b>		
Long-term trade accounts receivable . . . . .	\$ 12.0	\$ 14.1
Allowance for doubtful accounts . . . . .	(6.2)	(6.8)
	<u>\$ 5.8</u>	<u>\$ 7.3</u>
<b>Accrued and other liabilities</b>		
Employee compensation and withholdings . . . . .	\$ 190.5	\$ 101.1
Clinical trial accruals . . . . .	36.6	37.2
Property, payroll and other taxes . . . . .	32.7	31.6
Accrued rebates . . . . .	11.7	15.0
Taxes payable . . . . .	9.1	7.1
Deferred income taxes . . . . .	8.3	7.2
Realignment reserves . . . . .	7.7	9.5
Litigation reserves (Note 17) . . . . .	4.4	4.5
Fair value of derivatives . . . . .	2.6	13.1
Other accrued liabilities . . . . .	72.6	70.9
	<u>\$ 376.2</u>	<u>\$ 297.2</u>

(a) As of December 31, 2014 and 2013, the Company's accounts receivables, net of the allowance for doubtful accounts, from customers in certain European countries were \$69.7 million and \$104.7 million, respectively. Balances from customers located in these countries that are expected to be collected beyond one year have been discounted to present value based on the estimated collection date.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. INVESTMENTS**

Debt Securities

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

	December 31, 2014				December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Held-to-maturity</b>								
Bank time deposits . . . . .	\$661.5	\$ —	\$ —	\$661.5	\$516.5	\$—	\$—	\$516.5
Commercial paper . . . . .	80.0	—	—	80.0	—	—	—	—
U.S. government and agency securities . . .	58.9	0.1	(0.1)	58.9	—	—	—	—
Asset-backed securities . . . . .	8.2	—	—	8.2	—	—	—	—
Corporate debt securities . . . . .	24.7	—	—	24.7	—	—	—	—
Municipal securities . . . . .	6.1	—	—	6.1	—	—	—	—
Total . . . . .	<u>\$839.4</u>	<u>\$0.1</u>	<u>\$(0.1)</u>	<u>\$839.4</u>	<u>\$516.5</u>	<u>\$—</u>	<u>\$—</u>	<u>\$516.5</u>
<b>Available-for-sale</b>								
Commercial paper . . . . .	\$ 13.0	\$ —	\$ —	\$ 13.0	\$ —	\$—	\$—	\$ —
U.S. government and agency securities . . .	1.0	—	—	1.0	—	—	—	—
Asset-backed securities . . . . .	42.9	—	—	42.9	—	—	—	—
Corporate debt securities . . . . .	103.6	—	(0.4)	103.2	—	—	—	—
Total . . . . .	<u>\$160.5</u>	<u>\$ —</u>	<u>\$(0.4)</u>	<u>\$160.1</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ —</u>

The cost and fair value of investments in debt securities, by contractual maturity, as of December 31, 2014 were as follows:

	Held-to-Maturity		Available-for-Sale	
	Cost	Fair Value	Cost	Fair Value
	(in millions)			
Due in 1 year or less . . . . .	\$767.1	\$767.1	\$ 17.9	\$ 17.9
Due after 1 year through 5 years . . . . .	49.2	49.2	99.7	99.3
Instruments not due at a single maturity date . . . . .	23.1	23.1	42.9	42.9
	<u>\$839.4</u>	<u>\$839.4</u>	<u>\$160.5</u>	<u>\$160.1</u>

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

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. INVESTMENTS (Continued)**

*Investments in Unconsolidated Affiliates*

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

	December 31,	
	2014	2013
	(in millions)	
<b>Available-for-sale investments</b>		
Cost . . . . .	\$ —	\$ 0.4
Unrealized gains . . . . .	0.4	0.4
Fair value of available-for-sale investments . . . . .	0.4	0.8
<b>Equity method investments</b>		
Cost . . . . .	12.8	14.1
Equity in losses . . . . .	(3.5)	(2.7)
Carrying value of equity method investments . . . . .	9.3	11.4
<b>Cost method investments</b>		
Carrying value of cost method investments . . . . .	16.7	9.7
<b>Total investments in unconsolidated affiliates . . . . .</b>	<b>\$26.4</b>	<b>\$21.9</b>

In December 2014, the Company made a \$10.0 million investment in one of its existing cost method investees, CardioKinetix, Inc. (“CardioKinetix”), for a total investment carrying value of \$14.4 million. As part of the agreement, the Company also paid \$15.0 million, included in “*Other Assets*,” for an exclusive option to acquire CardioKinetix for up to \$375.0 million, depending upon the achievement of certain milestones and regulatory approvals. CardioKinetix is pioneering a catheter-based treatment for heart failure that is currently in the clinical testing phase, and is financed primarily through equity investments. CardioKinetix is a VIE; however, the Company has determined that it is not CardioKinetix’s primary beneficiary since the Company does not have the power to direct CardioKinetix’s activities that most significantly impact its economic performance. The Company made this determination based on the development stage of CardioKinetix’s product; the Company’s inability to exercise influence over CardioKinetix, based on the Company’s ownership percentage and voting rights, as well as its lack of involvement in day-to-day operations and management decisions; and the fact that the option to acquire CardioKinetix is currently significantly out of the money. Accordingly, the Company accounts for this investment as a cost method investment. The Company’s maximum exposure to loss as a result of its involvement with CardioKinetix is limited to the carrying amount of its investment and the cost of the option to acquire CardioKinetix.

During 2014, 2013, and 2012, the gross realized gains or losses from sales of available-for-sale investments were not material.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. GOODWILL AND OTHER INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill, by segment, during the years ended December 31, 2014 and 2013 were as follows:

	<u>United States</u>	<u>Europe</u>	<u>Total</u>
	(in millions)		
Goodwill at December 31, 2012 . . . . .	\$308.3	\$76.4	\$384.7
Currency translation adjustment . . . . .	—	0.7	0.7
Goodwill at December 31, 2013 . . . . .	308.3	77.1	385.4
Currency translation adjustment . . . . .	—	(9.4)	(9.4)
Goodwill at December 31, 2014 . . . . .	<u>\$308.3</u>	<u>\$67.7</u>	<u>\$376.0</u>

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

	December 31,					
	2014			2013		
	Cost	Accumulated Amortization	Net Carrying Value	Cost	Accumulated Amortization	Net Carrying Value
<b>Amortizable intangible assets</b>						
Patents . . . . .	\$181.1	\$(168.6)	\$12.5	\$181.6	\$(163.5)	\$18.1
Developed technology . . . . .	45.6	(36.7)	8.9	43.3	(35.1)	8.2
Other . . . . .	10.4	(8.4)	2.0	10.7	(8.1)	2.6
	<u>237.1</u>	<u>(213.7)</u>	<u>23.4</u>	<u>235.6</u>	<u>(206.7)</u>	<u>28.9</u>
<b>Unamortizable intangible assets</b>						
IPR&D . . . . .	—	—	—	4.6	—	4.6
	<u>\$237.1</u>	<u>\$(213.7)</u>	<u>\$23.4</u>	<u>\$240.2</u>	<u>\$(206.7)</u>	<u>\$33.5</u>

The net carrying value of patents as of December 31, 2013 has been adjusted to reflect the Company's change in its method of accounting for certain legal costs related to the defense and enforcement of issued patents. For further information, see Note 3.

Goodwill and IPR&D resulting from purchase business combinations are not subject to amortization. Other acquired intangible assets with definite lives are amortized on a straight-line basis over their expected useful lives. The Company expenses costs incurred to renew or extend the term of acquired intangible assets.

On March 11, 2011, the Company acquired all the outstanding shares of Embrella. IPR&D acquired as part of the acquisition was capitalized at fair value, which was determined using the income approach. At the time of the valuation, it was assumed that approximately \$4.4 million of additional research and development expenditures would be incurred prior to the date of product introduction and that net cash inflows would commence in late 2013. In the fourth quarter of 2013, the Company recorded a \$5.9 million impairment charge because the carrying amount of the IPR&D was determined to be in excess of its estimated fair value due to a significant decrease in estimated future unit sales. The impaired IPR&D was reported in the Company's Europe segment. The decrease in estimated future unit sales was due to recent medical findings that diminished concern surrounding embolic protection devices with transcatheter aortic valve replacement procedures.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)**

On October 9, 2012, the Company acquired all the outstanding shares of BMEYE, B.V. IPR&D acquired as part of the acquisition was capitalized at fair value, which was determined using the income approach. The valuation assumed approximately \$8.4 million of additional research and development expenditures would be incurred prior to the date of product introduction. In the valuation, net cash inflows were forecasted to commence in 2014. During the fourth quarter of 2013, the Company transferred \$0.8 million of the IPR&D to developed technology because the Company received CE Mark for the product in Europe. In June 2014, the Company transferred the remaining IPR&D to developed technology because the Company had received United States Food and Drug Administration approval for the product.

Amortization expense related to other intangible assets for the years ended December 31, 2014, 2013, and 2012 was \$8.4 million, \$9.9 million, and \$9.7 million, respectively. Estimated amortization expense for each of the years ending December 31 is as follows (in millions):

2015	\$7.3
2016	7.2
2017	6.6
2018	1.3
2019	0.8

**9. DEBT, CREDIT FACILITIES AND LEASE OBLIGATIONS**

In October 2013, the Company issued \$600.0 million of fixed-rate unsecured senior notes (the “Notes”). Interest is payable semi-annually in arrears, with payment due in April and October. The Company may redeem the Notes, in whole or in part, at any time and from time to time at specified redemption prices. In addition, upon the occurrence of certain change of control triggering events, the Company may be required to repurchase all or a portion of the Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest. The Notes also include covenants that limit the Company’s ability to incur secured indebtedness, enter into sale and leaseback transactions, and consolidate, merge or transfer all or substantially all of its assets. The following is a summary of the Notes as of December 31, 2014 and 2013:

	December 31,			
	2014		2013	
	<u>Amount</u>	<u>Effective Interest Rate</u>	<u>Amount</u>	<u>Effective Interest Rate</u>
Fixed-rate 2.875% notes due October 15, 2018	\$600.0	2.983%	\$600.0	2.983%
Unamortized discount	(2.3)		(2.9)	
Hedge accounting fair value adjustments (see Note 11)	0.4		(4.0)	
Total carrying amount	<u>\$598.1</u>		<u>\$593.1</u>	

As of December 31, 2014, the fair value of the Notes, based on Level 2 inputs, was \$610.4 million. As of December 31, 2013, the fair value of the Notes approximated the face value of the Notes. Issuance costs of \$5.4 million, as well as the issuance discount on the Notes, are being amortized to interest expense over the term of the Notes.

In July 2014, the Company entered into a Five-Year Credit Agreement (“the Credit Agreement”) which matures on July 18, 2019, and the previous Four-Year Credit Agreement was terminated. The Credit Agreement provides up to an aggregate of \$750.0 million in borrowings in multiple currencies. The Company



**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. DEBT, CREDIT FACILITIES AND LEASE OBLIGATIONS (Continued)**

may increase the amount available under the Credit Agreement, subject to agreement of the lenders, by up to an additional \$250.0 million in the aggregate. Borrowings generally bear interest at the London interbank offered rate (“LIBOR”) plus a spread ranging from 1.0% to 1.5%, depending on the leverage ratio, as defined in the Credit Agreement. The Company also pays a facility fee ranging from 0.125% to 0.25%, depending on the leverage ratio, on the entire credit commitment available, whether or not drawn. The facility fee is expensed as incurred. During 2014, there were no borrowings under the Credit Agreement, and the facility fee was 0.15%. Issuance costs of \$3.0 million are being amortized to interest expense over the term of the Credit Agreement. The Credit Agreement 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 Agreement. The Company was in compliance with all covenants at December 31, 2014.

During 2014, the spread over LIBOR for borrowings under the previous Four-Year Credit Agreement ranged from 0.975% to 1.2%, and the facility fee ranged from 0.15% to 0.175%.

The weighted-average interest rate under all debt obligations was 2.7% at both December 31, 2014 and 2013, respectively.

Certain facilities and equipment are leased under operating leases expiring at various dates. Most of the operating leases contain renewal options. Total expense for all operating leases was \$22.9 million, \$25.9 million, and \$23.9 million for the years 2014, 2013, and 2012, respectively.

Future minimum lease payments (including interest) under non-cancelable operating leases and aggregate debt maturities at December 31, 2014 were as follows (in millions):

	Operating Leases	Aggregate Debt Maturities
2015 .....	\$20.6	\$ —
2016 .....	16.4	—
2017 .....	11.3	—
2018 .....	8.0	600.0
2019 .....	5.6	—
Thereafter .....	18.5	—
Total obligations and commitments .....	<u>\$80.4</u>	<u>\$600.0</u>

**10. FAIR VALUE MEASUREMENTS**

The consolidated financial statements include financial instruments for which the fair market value of such instruments may differ from amounts reflected on a historical cost basis. Financial instruments of the Company consist of cash deposits, accounts and other receivables, investments, accounts payable, certain accrued liabilities, and borrowings under the Credit Agreement. The carrying value of these financial instruments generally approximates fair value due to their short-term nature. Financial instruments also include notes payable. See Note 9 for further information on the fair value of the Notes.

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.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. FAIR VALUE MEASUREMENTS (Continued)**

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 as of December 31, 2014 and 2013 (in millions):

<u>December 31, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Cash equivalents . . . . .	\$32.6	\$ 12.0	\$—	\$ 44.6
Available-for-sale investments:				
Corporate debt securities . . . . .	—	103.2	—	103.2
Asset-backed securities . . . . .	—	42.9	—	42.9
U.S. government and agency securities . . . . .	—	1.0	—	1.0
Commercial paper . . . . .	—	13.0	—	13.0
Equity investments in unconsolidated affiliates . . . . .	0.4	—	—	0.4
Investments held for deferred compensation plan . . . . .	28.2	—	—	28.2
Derivatives . . . . .	—	50.7	—	50.7
	<u>\$61.2</u>	<u>\$222.8</u>	<u>\$—</u>	<u>\$284.0</u>
<b>Liabilities</b>				
Derivatives . . . . .	\$ —	\$ 2.6	\$—	\$ 2.6
Deferred compensation plan . . . . .	28.7	—	—	28.7
	<u>\$28.7</u>	<u>\$ 2.6</u>	<u>\$—</u>	<u>\$ 31.3</u>
 <u>December 31, 2013</u>				
<b>Assets</b>				
Investments held for deferred compensation plan . . . . .	\$15.1	\$ —	\$—	\$ 15.1
Available-for-sale investments:				
Equity investments in unconsolidated affiliates . . . . .	0.8	—	—	0.8
Derivatives . . . . .	—	13.8	—	13.8
	<u>\$15.9</u>	<u>\$ 13.8</u>	<u>\$—</u>	<u>\$ 29.7</u>
<b>Liabilities</b>				
Derivatives . . . . .	\$ —	\$ 17.2	\$—	\$ 17.2
Deferred compensation plan . . . . .	15.5	—	—	15.5
	<u>\$15.5</u>	<u>\$ 17.2</u>	<u>\$—</u>	<u>\$ 32.7</u>

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. FAIR VALUE MEASUREMENTS (Continued)**

*Cash Equivalents and Available-for-sale Investments*

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

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

*Deferred Compensation Plan*

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

*Derivative Instruments*

The Company uses derivative financial instruments in the form of foreign currency forward exchange contracts and foreign currency option contracts to manage foreign currency exposures, and interest rate swap agreements to manage its interest rate exposures. All derivatives contracts are recognized on the balance sheet at their fair value. The fair value of foreign currency derivative financial instruments was estimated based on quoted market foreign exchange rates and market discount rates as of December 31, 2014 and 2013. The fair value of the interest rate swap agreements was determined based on a discounted cash flow analysis reflecting the contractual terms of the agreements and the 6-month LIBOR forward interest rate curve. Judgment was employed in interpreting market data to develop estimates of fair value; accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions or valuation methodologies could have a material effect on the estimated fair value amounts.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company uses derivative financial instruments to manage its currency exchange rate risk and its interest rate risk as summarized below. Notional amounts are stated in United States dollar equivalents at spot exchange rates at the respective dates. The Company does not enter into these arrangements for trading or speculation purposes.

	Notional Amount	
	December 31, 2014	December 31, 2013
	(in millions)	
Foreign currency forward exchange contracts . . . . .	\$761.2	\$805.5
Interest rate swap agreements . . . . .	300.0	300.0
Foreign currency option contracts . . . . .	9.2	—

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

	Balance Sheet Location	Fair Value	
		December 31, 2014	December 31, 2013
<b>Derivatives designated as hedging instruments</b>			
<b>Assets</b>			
Foreign currency contracts . . . . .	Other current assets	\$45.2	\$13.8
Interest rate swap agreements . . . . .	Other assets	\$ 0.4	\$ —
<b>Liabilities</b>			
Foreign currency contracts . . . . .	Accrued and other liabilities	\$ 2.6	\$13.2
Interest rate swap agreements . . . . .	Other long-term liabilities	\$ —	\$ 4.0
<b>Derivatives not designated as hedging instruments</b>			
<b>Assets</b>			
Foreign currency contracts . . . . .	Other assets	\$ 5.1	\$ —

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)**

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

<u>December 31, 2014</u>	<u>Gross Amounts</u>	<u>Gross Amounts Offset in the Consolidated Balance Sheet</u>	<u>Net Amounts Presented in the Consolidated Balance Sheet</u>	<u>Gross Amounts Not Offset in the Consolidated Balance Sheet</u>		<u>Net Amount</u>
				<u>Financial Instruments</u>	<u>Cash Collateral Received</u>	
<b>Derivative Assets</b>						
Foreign currency contracts . . . . .	\$50.3	\$—	\$50.3	\$(2.6)	\$—	\$47.7
Interest rate swap agreements . . . . .	\$ 0.4	\$—	\$ 0.4	\$ —	\$—	\$ 0.4
<b>Derivative Liabilities</b>						
Foreign currency contracts . . . . .	\$ 2.6	\$—	\$ 2.6	\$(2.6)	\$—	\$ —
<u>December 31, 2013</u>						
<b>Derivative Assets</b>						
Foreign currency contracts . . . . .	\$13.8	\$—	\$13.8	\$(9.5)	\$—	\$ 4.3
<b>Derivative Liabilities</b>						
Foreign currency contracts . . . . .	\$13.2	\$—	\$13.2	\$(9.5)	\$—	\$ 3.7
Interest rate swap agreements . . . . .	\$ 4.0	\$—	\$ 4.0	\$ —	\$—	\$ 4.0

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

	<u>Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)</u>		<u>Location of Gain or (Loss) Reclassified from Accumulated OCI into Income</u>	<u>Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income</u>	
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
	<b>Derivatives in cash flow hedging relationships</b>				
Foreign currency contracts . . . . .	\$54.3	\$16.3	Cost of sales	\$7.6	\$21.5
<b>Derivatives in fair value hedging relationships</b>					
Interest rate swap agreements . . . . .			Interest expense	\$4.4	\$(4.0) \$—

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)**

The gains and losses on the interest rate swap agreements are fully offset by the changes in the fair value of the fixed-rate debt being hedged.

	<u>Location of Gain or (Loss) Recognized in Income on Derivative</u>	<u>Amount of Gain or (Loss) Recognized in Income on Derivative</u>		
		2014	2013	2012
<b>Derivatives not designated as hedging instruments</b>				
Foreign currency contracts . . . . .	Other expense, net	\$13.7	\$18.4	\$4.4

The Company expects that during 2015 it will reclassify to earnings a \$9.9 million gain currently recorded in “*Accumulated Other Comprehensive Loss*.”

For the years ended December 31, 2014, 2013, and 2012, the Company did not record any gains or losses due to hedge ineffectiveness.



**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. EMPLOYEE BENEFIT PLANS**

**Defined Benefit Plans**

Edwards Lifesciences maintains defined benefit pension plans in Japan and certain European countries. Information regarding the Company's defined benefit pension plans is as follows (in millions):

	<u>Years Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
<b>Change in projected benefit obligation:</b>		
Beginning of year . . . . .	\$ 111.2	\$ 108.0
Service cost . . . . .	6.3	7.6
Interest cost . . . . .	2.2	2.0
Participant contributions . . . . .	1.9	1.9
Actuarial loss (gain) . . . . .	12.0	(5.6)
Benefits paid . . . . .	0.3	—
Plan amendment . . . . .	(1.0)	—
Currency exchange rate changes and other . . . . .	(9.8)	(2.7)
End of year . . . . .	<u>\$ 123.1</u>	<u>\$ 111.2</u>
<b>Change in fair value of plan assets:</b>		
Beginning of year . . . . .	\$ 68.5	\$ 57.2
Actual return on plan assets . . . . .	4.2	4.4
Employer contributions . . . . .	5.0	6.7
Participant contributions . . . . .	1.9	1.9
Benefits paid . . . . .	0.3	—
Currency exchange rate changes and other . . . . .	(6.1)	(1.7)
End of year . . . . .	<u>\$ 73.8</u>	<u>\$ 68.5</u>
<b>Funded Status</b>		
Projected benefit obligation . . . . .	\$(123.1)	\$(111.2)
Plan assets at fair value . . . . .	73.8	68.5
Underfunded status . . . . .	<u>\$ (49.3)</u>	<u>\$ (42.7)</u>
<b>Net amounts recognized on the consolidated balance sheet:</b>		
Other long-term liabilities . . . . .	<u>\$ 49.3</u>	<u>\$ 42.7</u>
Accumulated other comprehensive loss, net of tax:		
Net actuarial loss . . . . .	\$ (24.1)	\$ (16.7)
Net prior service credit . . . . .	2.6	2.1
Deferred income tax benefit . . . . .	4.7	3.4
Total . . . . .	<u>\$ (16.8)</u>	<u>\$ (11.2)</u>

The accumulated benefit obligation ("ABO") for all defined benefit pension plans was \$109.3 million and \$99.3 million as of December 31, 2014 and 2013, respectively. The projected benefit obligation and ABO were in excess of plan assets for all pension plans as of December 31, 2014 and 2013.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. EMPLOYEE BENEFIT PLANS (Continued)**

The components of net periodic benefit cost are as follows (in millions):

	Years Ended December 31,		
	2014	2013	2012
Service cost, net . . . . .	\$ 6.3	\$ 7.6	\$ 7.2
Interest cost . . . . .	2.2	2.0	2.3
Expected return on plan assets . . . . .	(1.6)	(1.2)	(1.4)
Curtailement gain . . . . .	—	—	(0.2)
Amortization of actuarial loss . . . . .	0.5	1.3	0.8
Amortization of prior service credit . . . . .	(0.3)	(0.3)	(0.3)
Amortization of transition obligation . . . . .	—	—	0.1
Net periodic pension benefit cost . . . . .	<u>\$ 7.1</u>	<u>\$ 9.4</u>	<u>\$ 8.5</u>

The net actuarial loss and prior service credit that will be amortized from “*Accumulated Other Comprehensive Loss*” into net periodic benefits cost in 2015 are expected to be \$1.1 million and \$(0.4) million, respectively.

Expected long-term returns for each of the plans’ strategic asset classes were developed through consultation with investment advisors. Several factors were considered, including survey of investment managers’ expectations, current market data, minimum guaranteed returns in certain insurance contracts, and historical market returns over long periods. Using policy target allocation percentages and the asset class expected returns, a weighted-average expected return was calculated.

To select the discount rates for the defined benefit pension plans, the Company uses a modeling process that involves matching the expected duration of its benefit plans to a yield curve constructed from a portfolio of AA-rated fixed-income debt instruments, or their equivalent. For each country, the Company uses the implied yield of this hypothetical portfolio at the appropriate duration as a discount rate benchmark.

The weighted-average assumptions used to determine the benefit obligations are as follows:

	December 31,	
	2014	2013
Discount rate . . . . .	1.4%	2.2%
Rate of compensation increase . . . . .	3.0%	3.1%
Social securities increase . . . . .	1.6%	1.8%
Pension increase . . . . .	2.0%	2.0%

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. EMPLOYEE BENEFIT PLANS (Continued)**

The weighted-average assumptions used to determine the net periodic benefit cost are as follows:

	Years ended December 31,		
	2014	2013	2012
Discount rate . . . . .	2.2%	1.9%	2.5%
Expected return on plan assets . . . . .	2.6%	2.1%	2.6%
Rate of compensation increase . . . . .	3.1%	3.1%	3.1%
Social securities increase . . . . .	1.8%	1.8%	1.8%
Pension increase . . . . .	2.0%	2.0%	2.0%

*Plan Assets*

The Company's investment strategy for plan assets is to seek a competitive rate of return relative to an appropriate level of risk and to earn performance rates of return in accordance with the benchmarks adopted for each asset class. Risk management practices include diversification across asset classes and investment styles, and periodic rebalancing toward asset allocation targets.

The Administrative and Investment Committee decides on the defined benefit plan provider in each location and that provider decides the target allocation for the Company's defined benefit plan at that location. The target asset allocation selected reflects a risk/return profile the Company feels is appropriate relative to the plans' liability structure and return goals. In certain plans, asset allocations may be governed by local requirements. Target weighted-average asset allocations at December 31, 2014, by asset category, are as follows:

Insurance contracts . . . . .	80.7%
Equity securities . . . . .	10.4%
Debt securities . . . . .	8.9%
Total . . . . .	<u>100.0%</u>

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. EMPLOYEE BENEFIT PLANS (Continued)**

The fair values of the Company's defined benefit plan assets at December 31, 2014 and 2013, by asset category, are as follows (in millions):

<u>December 31, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Category</b>				
Cash . . . . .	\$ 0.5	\$—	\$ —	\$ 0.5
Equity securities:				
United States equities . . . . .	2.8	—	—	2.8
International equities . . . . .	6.8	—	—	6.8
Debt securities:				
United States government bonds . . . . .	0.6	—	—	0.6
International government bonds . . . . .	4.7	—	—	4.7
Insurance contracts . . . . .	—	—	58.4	58.4
	<u>\$15.4</u>	<u>\$—</u>	<u>\$58.4</u>	<u>\$73.8</u>
 <u>December 31, 2013</u>				
<b>Asset Category</b>				
Cash . . . . .	\$ 0.8	\$—	\$ —	\$ 0.8
Equity securities:				
United States equities . . . . .	2.1	—	—	2.1
International equities . . . . .	5.9	—	—	5.9
Debt securities:				
United States government bonds . . . . .	0.6	—	—	0.6
International government bonds . . . . .	4.5	—	—	4.5
Insurance contracts . . . . .	—	—	54.6	54.6
	<u>\$13.9</u>	<u>\$—</u>	<u>\$54.6</u>	<u>\$68.5</u>

The following table summarizes the changes in fair value of the Company's defined benefit plan assets that have been classified as Level 3 for the years ended December 31, 2014 and 2013 (in millions):

	<u>Insurance Contracts</u>
Balance at December 31, 2012 . . . . .	\$45.7
Actual return on plan assets:	
Relating to assets still held at December 31, 2013 . . . . .	0.9
Relating to assets sold during 2013 . . . . .	0.1
Purchases, sales and settlements . . . . .	6.9
Currency exchange rate impact . . . . .	1.0
Balance at December 31, 2013 . . . . .	54.6
Actual return on plan assets:	
Relating to assets still held at December 31, 2014 . . . . .	3.0
Purchases, sales and settlements . . . . .	4.9
Currency exchange rate impact . . . . .	(4.1)
Balance at December 31, 2014 . . . . .	<u>\$58.4</u>

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. EMPLOYEE BENEFIT PLANS (Continued)**

Equity and debt securities are valued at fair value based on quoted market prices reported on the active markets on which the individual securities are traded. The insurance contracts are valued at the cash surrender value of the contracts, which is deemed to approximate its fair value.

The following benefit payments, which reflect expected future service, as appropriate, at December 31, 2014, are expected to be paid (in millions):

2015 .....	\$ 3.7
2016 .....	5.5
2017 .....	4.2
2018 .....	4.2
2019 .....	4.1
2020-2024 .....	32.3

As of December 31, 2014, expected employer contributions for 2015 are \$5.8 million.

**Defined Contribution Plans**

The Company's employees in the United States and Puerto Rico are eligible to participate in a qualified 401(k) and 1165(e) plan, respectively. In the United States, participants may contribute up to 25% of their eligible compensation (subject to tax code limitation) to the plan. Edwards Lifesciences matches the first 3% of the participant's annual eligible compensation contributed to the plan on a dollar-for-dollar basis. Edwards Lifesciences matches the next 2% of the participant's annual eligible compensation to the plan on a 50% basis. In Puerto Rico, participants may contribute up to 25% of their annual compensation (subject to tax code limitation) to the plan. Edwards Lifesciences matches the first 4% of participant's annual eligible compensation contributed to the plan on a 50% basis. The Company also provides a 2% profit sharing contribution calculated on eligible earnings for each employee. Matching contributions relating to Edwards Lifesciences employees were \$12.8 million, \$12.0 million, and \$10.8 million in 2014, 2013, and 2012, respectively.

The Company also has nonqualified deferred compensation plans for a select group of employees. The plans provide eligible participants the opportunity to defer eligible compensation to future dates specified by the participant with a return based on investment alternatives selected by the participant. The amount accrued under these nonqualified plans was \$28.7 million and \$25.9 million at December 31, 2014 and 2013, respectively.

**13. COMMON STOCK**

**Treasury Stock**

In May 2013, the Board of Directors approved a stock repurchase program authorizing the Company to purchase up to \$750.0 million of the Company's common stock from time to time until December 31, 2016. In July 2014, the Board of Directors approved a new stock repurchase program providing for an additional \$750.0 million of repurchases without a specified end date. Stock repurchased under these programs will be used to offset obligations under the Company's employee stock option programs and reduce the total shares outstanding.

During 2014, 2013, and 2012, the Company repurchased 4.4 million, 6.8 million, and 4.0 million shares, respectively, at an aggregate cost of \$300.9 million, \$497.0 million, and \$353.2 million, respectively, including shares purchased under the accelerated share repurchase ("ASR") agreements described below and shares

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. COMMON STOCK (Continued)**

acquired to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees. The timing and size of any future stock repurchases are subject to a variety of factors, including market conditions, stock prices, and other cash requirements.

*Accelerated Share Repurchase*

During 2013 and 2012, the Company entered into ASR agreements providing 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 terms of the agreements, less a discount. The ASR agreements were subject to collar provisions that established minimum and maximum number of shares to be repurchased. The following table summarizes the terms of the ASR agreements (dollars and shares in millions, except per-share data):

<u>Agreement Date</u>	<u>Initial Delivery</u>				<u>Final Settlement</u>		
	<u>Amount Paid</u>	<u>Shares Received</u>	<u>Price per Share</u>	<u>Value of Shares as % of Contract Value</u>	<u>Settlement Date</u>	<u>Total Shares Received</u>	<u>Average Price per Share</u>
February 2012 . . . . .	\$ 54.0	0.6	\$72.40	80%	May 2012	0.7	\$75.12
May 2012 . . . . .	\$ 50.0	0.5	\$84.81	80%	August 2012	0.5	\$97.50
November 2012 . . . . .	\$100.0	1.1	\$85.73	90%	February 2013	1.2	\$88.93
August 2013 . . . . .	\$250.0	3.1	\$72.39	90%	October 2013	3.5	\$71.24

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

**Employee and Director Stock Plans**

The Edwards Lifesciences Corporation Long-term Stock Incentive Compensation Program (the "Program") provides for the grant of incentive and non-qualified stock options, restricted stock, and restricted stock units for eligible employees and contractors of the Company. Under the Program, these grants are awarded at a price equal to the fair market value at the date of grant based upon the closing price on that date. Options to purchase shares of the Company's common stock granted under the Program generally vest over predetermined periods of between three to four years and expire seven years after the date of grant. Restricted stock units of the Company's common stock granted under the Program generally vest over predetermined periods ranging from three to five years after the date of grant. Market-based restricted stock units of the Company's common stock granted under the Program vest based on a combination of certain service and market conditions. The actual number of shares issued will be determined based on the Company's total shareholder return relative to a selected industry peer group over a three-year performance period, and may range from 0% to 175% of the targeted number of shares granted. On May 8, 2014, an amendment and restatement of the Program was approved by the Company's stockholders. Under the amended Program, the number of shares of common stock available for issuance under the Program was 50.9 million shares. No more than 4.6 million shares reserved for issuance may be granted in the form of restricted stock or restricted stock units.



**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. COMMON STOCK (Continued)**

The Company also maintains the Nonemployee Directors Stock Incentive Compensation Program (the “Nonemployee Directors Program”). Under the Nonemployee Directors Program, each nonemployee director may receive annually up to 20,000 stock options or 8,000 restricted stock units of the Company’s common stock, or a combination thereof, provided that in no event may the total value of the combined annual award exceed \$0.2 million. Each option and restricted stock unit award granted in 2011 or prior generally vests in three equal annual installments. Each option and restricted stock unit award granted after 2011 generally vests after one year. Additionally, each nonemployee director may elect to receive all or a portion of the annual cash retainer to which the director is otherwise entitled through the issuance of stock options or restricted shares. Each option received as a deferral of the cash retainer immediately vests on the grant date, and each restricted share award vests after one year. Upon a director’s initial election to the Board, the director receives an initial grant of stock options equal to a fair market value on grant date of \$0.2 million, not to exceed 10,000 shares. These grants vest over three years from the date of grant. Under the Nonemployee Directors Program, an aggregate of 1.4 million shares of the Company’s common stock has been authorized for issuance.

The Company has an employee stock purchase plan for United States employees and a plan for international employees (collectively “ESPP”). Under the ESPP, eligible employees may purchase shares of the Company’s common stock at 85% of the lower of the fair market value of Edwards Lifesciences common stock on the effective date of subscription or the date of purchase. Under the ESPP, employees can authorize the Company to withhold up to 12% of their compensation for common stock purchases, subject to certain limitations. The ESPP is available to all active employees of the Company paid from the United States payroll and to eligible employees of the Company outside the United States, to the extent permitted by local law. The ESPP for United States employees is qualified under Section 423 of the Internal Revenue Code. The number of shares of common stock authorized for issuance under the ESPP was 6.9 million shares.

The fair value of each option award and employee stock purchase subscription is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following tables. The risk-free interest rate is estimated using the U.S. Treasury yield curve and is based on the expected term of the award. Expected volatility is estimated based on a blend of the weighted-average of the historical volatility of Edwards Lifesciences’ stock and the implied volatility from traded options on Edwards Lifesciences’ stock. The expected term of awards granted is estimated from the vesting period of the award, as well as historical exercise behavior, and represents the period of time that awards granted are expected to be outstanding. The Company uses historical data to estimate forfeitures and has estimated an annual forfeiture rate of 5.4%.

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

***Option Awards***

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Average risk-free interest rate . . . . .	1.5%	0.8%	0.7%
Expected dividend yield . . . . .	None	None	None
Expected volatility . . . . .	31%	31%	31%
Expected life (years) . . . . .	4.6	4.6	4.6
Fair value, per share . . . . .	\$23.50	\$19.47	\$23.93

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. COMMON STOCK (Continued)**

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

**ESPP**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Average risk-free interest rate . . . . .	0.1%	0.1%	0.1%
Expected dividend yield . . . . .	None	None	None
Expected volatility . . . . .	30%	33%	33%
Expected life (years) . . . . .	0.6	0.6	0.6
Fair value, per share . . . . .	\$17.19	\$19.87	\$21.30

The fair value of market-based restricted stock units was determined using a Monte Carlo simulation model, which uses multiple input variables to determine the probability of satisfying the market condition requirements. The weighted-average assumptions used to determine the fair value of the market-based restricted stock units during the years ended December 31, 2014, 2013, and 2012 included a risk-free interest rate of 0.9%, 0.4%, and 0.3%, respectively, and an expected volatility rate of 31.7%, 33.4%, and 30.4%, respectively.

Stock option activity during the year ended December 31, 2014 under the Program and the Nonemployee Directors Program was as follows (in millions, except years and per-share amounts):

	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
<b>Outstanding as of December 31, 2013</b> . . . . .	7.7	\$56.37		
Options granted . . . . .	1.4	83.13		
Options exercised . . . . .	(2.4)	38.47		
Options forfeited . . . . .	(0.3)	78.20		
<b>Outstanding as of December 31, 2014</b> . . . . .	<u>6.4</u>	67.86	3.9 years	\$381.3
<b>Exercisable as of December 31, 2014</b> . . . . .	<u>3.9</u>	59.84	2.9 years	264.5
<b>Vested and expected to vest as of December 31, 2014</b> . . . . .	<u>6.1</u>	67.30	3.9 years	368.4

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. COMMON STOCK (Continued)**

The following table summarizes nonvested restricted stock unit activity during the year ended December 31, 2014 under the Program and the Nonemployee Directors Program (in millions, except per-share amounts):

	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
<b>Nonvested as of December 31, 2013</b> .....	0.8	\$75.87
Granted(a) .....	0.3	85.01
Vested .....	<u>(0.2)</u>	68.97
<b>Nonvested as of December 31, 2014</b> .....	<u>0.9</u>	80.55

(a) Includes 39,000 shares of market-based restricted stock units granted during 2014, which represents the targeted number of shares to be issued. As described above, the actual number of shares ultimately issued will be determined based on the Company's total shareholder return relative to a selected industry peer group.

The intrinsic value of stock options exercised and restricted stock units vested during the years ended December 31, 2014, 2013, and 2012 were \$158.8 million, \$73.9 million, and \$252.8 million, respectively. The intrinsic value of stock options is calculated as the amount by which the market price of the Company's common stock exceeds the exercise price of the option. During the years ended December 31, 2014, 2013, and 2012, the Company received cash from exercises of stock options of \$93.2 million, \$26.3 million, and \$80.5 million, respectively, and realized tax benefits from exercises of stock options and vesting of restricted stock units of \$51.9 million, \$24.7 million, and \$82.6 million, respectively. The total grant-date fair value of stock options vested during the years ended December 31, 2014, 2013, and 2012 were \$12.5 million, \$21.8 million, and \$19.5 million, respectively.

As of December 31, 2014, the total remaining unrecognized compensation expense related to nonvested stock options, restricted stock units, market-based restricted stock units, and employee stock purchase subscriptions amounted to \$83.6 million, which will be amortized over the weighted-average remaining requisite service period of 30 months.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. ACCUMULATED OTHER COMPREHENSIVE LOSS**

Presented below is a summary of activity for each component of “*Accumulated Other Comprehensive Loss*” for the years ended December 31, 2014, 2013, and 2012. Foreign currency translation adjustments are generally not adjusted for income taxes as they relate to indefinite investments in non-United States subsidiaries.

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Cash Flow Hedges	Unrealized Gain (Loss) on Available-for-sale Investments  (in millions)	Unrealized Pension Costs(a)	Total Accumulated Other Comprehensive Loss
December 31, 2011 . . . . .	\$ (30.0)	\$ 5.9	\$ 1.1	\$(14.5)	\$ (37.5)
Other comprehensive income (loss) before reclassifications . . . . .	4.2	13.7	0.1	(7.8)	10.2
Amounts reclassified from accumulated other comprehensive loss . . . . .	—	(12.2)	0.3	0.6	(11.3)
Deferred income tax (expense) benefit . .	—	(0.4)	(0.1)	1.2	0.7
December 31, 2012 . . . . .	(25.8)	7.0	1.4	(20.5)	(37.9)
Other comprehensive income (loss) before reclassifications . . . . .	5.6	16.3	(1.2)	9.9	30.6
Amounts reclassified from accumulated other comprehensive loss . . . . .	—	(21.5)	—	1.0	(20.5)
Deferred income tax benefit (expense) . .	—	1.7	0.1	(1.6)	0.2
December 31, 2013 . . . . .	(20.2)	3.5	0.3	(11.2)	(27.6)
Other comprehensive (loss) income before reclassifications . . . . .	(96.2)	54.3	(0.8)	(7.1)	(49.8)
Amounts reclassified from accumulated other comprehensive loss . . . . .	—	(7.6)	0.4	0.2	(7.0)
Deferred income tax (expense) benefit . .	—	(17.9)	0.1	1.3	(16.5)
December 31, 2014 . . . . .	<u>\$(116.4)</u>	<u>\$ 32.3</u>	<u>\$ —</u>	<u>\$(16.8)</u>	<u>\$(100.9)</u>

(a) For the years ended December 31, 2014, 2013, and 2012, the change in unrealized pension costs consisted of the following (in millions):

	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
<b>2014</b>			
Prior service credit arising during period . . . . .	\$ 0.8	\$ —	\$ 0.8
Amortization of prior service credit . . . . .	(0.3)	—	(0.3)
Net prior service credit arising during period . . . . .	0.5	—	0.5
Net actuarial loss arising during period . . . . .	(7.4)	1.3	(6.1)
Unrealized pension costs, net . . . . .	<u>\$(6.9)</u>	<u>\$ 1.3</u>	<u>\$(5.6)</u>

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)**

	<u>Pre-Tax Amount</u>	<u>Tax Benefit (Expense)</u>	<u>Net of Tax Amount</u>
<b>2013</b>			
Prior service cost arising during period . . . . .	\$ —	\$ —	\$ —
Amortization of prior service credit . . . . .	(0.3)	—	(0.3)
Net prior service cost arising during period . . . . .	(0.3)	—	(0.3)
Net actuarial gain arising during period . . . . .	11.2	(1.6)	9.6
Unrealized pension costs, net . . . . .	<u>\$10.9</u>	<u>\$(1.6)</u>	<u>\$ 9.3</u>
<b>2012</b>			
Prior service cost arising during period . . . . .	\$ (0.2)	\$ —	\$(0.2)
Amortization of prior service credit . . . . .	(0.3)	—	(0.3)
Net prior service cost arising during period . . . . .	(0.5)	—	(0.5)
Net transition obligation amortized during period . . . . .	0.1	—	0.1
Net actuarial loss arising during period . . . . .	(6.8)	1.2	(5.6)
Unrealized pension costs, net . . . . .	<u>\$(7.2)</u>	<u>\$ 1.2</u>	<u>\$(6.0)</u>

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

<u>Details about Accumulated Other Comprehensive Loss Components</u>	<u>Years Ended December 31,</u>		<u>Affected Line on Consolidated Statements of Operations</u>
	<u>2014</u>	<u>2013</u>	
Gain on cash flow hedges . . . . .	\$ 7.6	\$21.5	Cost of sales
	(2.9)	(8.4)	Provision for income taxes
	<u>\$ 4.7</u>	<u>\$13.1</u>	Net of tax
Loss on available-for-sale investments . . . . .	\$(0.4)	\$ —	Other expense, net
	—	—	Provision for income taxes
	<u>\$(0.4)</u>	<u>\$ —</u>	Net of tax
Amortization of pension adjustments . . . . .	\$(0.2)	\$(1.0)	(a)
	0.1	0.2	Provision for income taxes
	<u>\$(0.1)</u>	<u>\$(0.8)</u>	Net of tax

(a) This item is included in the components of net periodic benefit costs. See Note 12 for additional information.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. OTHER EXPENSE, NET**

	Years Ended December 31,		
	2014	2013	2012
	(in millions)		
Promissory note impairment . . . . .	\$ 4.0	\$ —	\$ —
Loss on investments . . . . .	4.5	0.4	0.7
Insurance settlement gain . . . . .	(3.7)	—	—
Foreign exchange losses, net . . . . .	2.0	1.5	1.2
Lease contract termination costs . . . . .	1.0	—	—
Other . . . . .	(0.1)	(0.6)	(0.2)
Total other expense, net . . . . .	<u>\$ 7.7</u>	<u>\$ 1.3</u>	<u>\$ 1.7</u>

**16. INCOME TAXES**

The Company's income before provision for income taxes was generated from United States and international operations as follows (in millions):

	Years Ended December 31,		
	2014	2013	2012
United States . . . . .	\$ 791.1	\$215.5	\$140.8
International, including Puerto Rico . . . . .	352.9	295.7	247.4
	<u>\$1,144.0</u>	<u>\$511.2</u>	<u>\$388.2</u>

The provision for income taxes consists of the following (in millions):

	Years Ended December 31,		
	2014	2013	2012
<b>Current</b>			
United States:			
Federal . . . . .	\$341.5	\$ 42.5	\$ 87.2
State and local . . . . .	23.3	5.7	5.9
International, including Puerto Rico . . . . .	34.8	27.9	31.6
Current income tax expense . . . . .	<u>399.6</u>	<u>76.1</u>	<u>124.7</u>
<b>Deferred</b>			
United States:			
Federal . . . . .	(46.4)	39.8	(24.9)
State and local . . . . .	(8.1)	0.8	(2.1)
International, including Puerto Rico . . . . .	(12.2)	5.4	(1.0)
Deferred income tax (benefit) expense . . . . .	<u>(66.7)</u>	<u>46.0</u>	<u>(28.0)</u>
<b>Total income tax provision</b> . . . . .	<u>\$332.9</u>	<u>\$122.1</u>	<u>\$ 96.7</u>



**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16. INCOME TAXES (Continued)**

The components of deferred tax assets and liabilities are as follows (in millions):

	December 31,	
	2014	2013
<b>Deferred tax assets</b>		
Compensation and benefits . . . . .	\$ 82.3	\$ 58.2
Benefits from uncertain tax positions . . . . .	41.4	32.6
Net tax credit carryforwards . . . . .	32.1	25.1
Net operating loss carryforwards . . . . .	31.8	33.6
Accrued liabilities . . . . .	25.3	23.0
Inventories . . . . .	11.7	8.7
Cash flow hedges . . . . .	—	3.2
State income taxes . . . . .	6.8	1.4
Investments . . . . .	2.6	2.1
Other . . . . .	4.8	1.8
Total deferred tax assets . . . . .	<u>238.8</u>	<u>189.7</u>
<b>Deferred tax liabilities</b>		
Property, plant, and equipment . . . . .	(25.8)	(23.6)
Cash flow hedges . . . . .	(11.9)	—
Deferred tax on foreign earnings . . . . .	(4.9)	(15.6)
Inventories . . . . .	(3.1)	—
Other intangible assets . . . . .	(0.5)	(1.2)
Other . . . . .	(1.7)	(1.6)
Total deferred tax liabilities . . . . .	<u>(47.9)</u>	<u>(42.0)</u>
<b>Valuation allowance</b> . . . . .	<u>(47.7)</u>	<u>(46.4)</u>
<b>Net deferred tax assets</b> . . . . .	<u>\$143.2</u>	<u>\$101.3</u>

During 2014, net deferred tax assets increased \$41.9 million, including items that were recorded to stockholders' equity and which did not impact the Company's income tax provision.

The valuation allowance of \$47.7 million as of December 31, 2014 reduces certain deferred tax assets to amounts that are more likely than not to be realized. This allowance primarily relates to the net operating loss and capital loss carryforwards of certain United States and non-United States subsidiaries, and to the deferred tax assets established for impairment losses on certain investments and for certain non-United States credit carryforwards.

A valuation allowance of \$2.6 million has been provided for other-than-temporary impairments and unrealized losses related to certain investments that may not be recognized due to the uncertainty of the ready marketability of certain impaired investments.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16. INCOME TAXES (Continued)**

Net operating loss carryforwards and the related carryforward periods at December 31, 2014 are summarized as follows (in millions):

	<u>Carryforward Amount</u>	<u>Tax Benefit Amount</u>	<u>Valuation Allowance</u>	<u>Net Tax Benefit</u>	<u>Carryforward Period Ends</u>
United States state net operating losses . . . . .	\$ 16.0	\$ 1.0	\$ (0.8)	\$0.2	2015-2032
Non-United States net operating losses . . . . .	57.5	14.4	(13.8)	0.6	2015-2023
Non-United States net operating losses . . . . .	<u>49.0</u>	<u>16.6</u>	<u>(16.5)</u>	<u>0.1</u>	Indefinite
Total . . . . .	<u>\$122.5</u>	<u>\$32.0</u>	<u>\$(31.1)</u>	<u>\$0.9</u>	

Tax credit carryforwards and the related carryforward periods at December 31, 2014 are summarized as follows (in millions):

	<u>Carryforward Amount</u>	<u>Valuation Allowance</u>	<u>Net Tax Benefit</u>	<u>Carryforward Period Ends</u>
California research expenditure tax credits . . . . .	\$52.5	\$ —	\$52.5	Indefinite
Puerto Rico purchases credit . . . . .	<u>13.0</u>	<u>(13.0)</u>	<u>—</u>	Indefinite
Total . . . . .	<u>\$65.5</u>	<u>\$(13.0)</u>	<u>\$52.5</u>	

The Company has \$52.5 million of California research expenditure tax credits it expects to use in future periods. The credits may be carried forward indefinitely. Based upon anticipated future taxable income, the Company expects that it is more likely than not that all California research expenditure tax credits will be utilized, although the utilization of the full benefit is expected to occur over a number of years and into the far distant future. Accordingly, no valuation allowance has been provided.

The United States state net operating loss carryforwards include \$2.7 million of losses attributable to windfall stock option deductions. A net benefit of \$0.2 million will be recorded to “*Additional Paid-in Capital*” when realized as a reduction to income taxes payable.

Approximately \$7.7 million of the total \$52.5 million California research expenditure tax credit carryforwards are attributable to windfall stock option deductions and will be recorded as a benefit to “*Additional Paid-in Capital*” when realized as a reduction to income taxes payable.

Deferred income taxes have not been provided on the undistributed earnings of certain of the Company’s foreign subsidiaries of approximately \$1,652.8 million as of December 31, 2014 since these amounts are intended to be indefinitely reinvested in foreign operations. It is not practicable to calculate the deferred taxes associated with these earnings because of the variability of multiple factors that would need to be assessed at the time of any assumed repatriation; however, foreign tax credits would likely be available to reduce federal income taxes in the event of distribution. In making this assertion, the Company evaluates, among other factors, the profitability of its United States and foreign operations and the need for cash within and outside the United States, including cash requirements for capital improvement, acquisitions, market expansion, and stock repurchase programs. The Company does not expect any earnings for certain of its foreign subsidiaries to be indefinitely reinvested and records the tax impact in net income currently.

The Company has received tax incentives in Puerto Rico, the Dominican Republic, Singapore, and Switzerland. The tax reductions as compared to the local statutory rates favorably impacted earnings per diluted share for the years ended December 31, 2014, 2013, and 2012 by \$0.63, \$0.44, and \$0.39,

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16. INCOME TAXES (Continued)**

respectively. The Puerto Rico, Dominican Republic, Singapore and Switzerland grants provide the Company's manufacturing operations partial or full exemption from local taxes until the years 2028, 2030 (subject to review beginning in 2015), 2024, and 2015, respectively.

A reconciliation of the United States federal statutory income tax rate to the Company's effective income tax rate is as follows (in millions):

	<u>Years Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Income tax expense at U.S. federal statutory rate . . . . .	\$400.4	\$178.9	\$135.9
Foreign income taxed at different rates . . . . .	(67.1)	(60.6)	(41.5)
State and local taxes, net of federal tax benefit . . . . .	19.3	5.8	3.7
Tax credits, federal and state . . . . .	(13.5)	(19.8)	(4.9)
Release of reserve for uncertain tax positions for prior years . . . . .	(4.8)	(3.9)	(0.8)
U.S. tax on foreign earnings, net of credits . . . . .	(3.1)	18.9	0.7
Nondeductible stock-based compensation . . . . .	2.1	2.6	1.9
Other . . . . .	(0.4)	0.2	1.7
Income tax provision . . . . .	<u>\$332.9</u>	<u>\$122.1</u>	<u>\$ 96.7</u>

The effective income tax rate for the year ended December 31, 2014 included (1) \$262.1 million of tax expense associated with a \$750.0 million litigation settlement payment received from Medtronic in May 2014 (see Note 4) and (2) \$4.8 million of tax benefits from the remeasurement of uncertain tax positions.

The federal research credit expired on December 31, 2011 and was reinstated on January 2, 2013. As a result, the effective income tax rates for the year ended December 31, 2012 was calculated without a benefit for the federal research credit. The effective income tax rate for the year ended December 31, 2013 included (1) an \$8.4 million benefit for the full year 2012 federal research credit and (2) \$31.3 million of tax expense associated with the \$83.6 million litigation award received from Medtronic in February 2013 (see Note 4).

Reserve for Uncertain Tax Positions

As of December 31, 2014 and 2013, the liability for income taxes associated with uncertain tax positions was \$192.3 million and \$127.7 million, respectively. The Company estimates that these liabilities would be reduced by \$34.3 million and \$30.9 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 \$158.0 million and \$96.8 million, respectively, if not required, would favorably affect our effective tax rate.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16. INCOME TAXES (Continued)**

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest, penalties, and foreign exchange, is as follows (in millions):

	December 31,		
	2014	2013	2012
Unrecognized tax benefits, January 1 . . . . .	\$127.7	\$113.6	\$ 78.0
Current year tax positions . . . . .	75.9	17.8	41.7
Increase prior year tax positions . . . . .	0.6	5.7	2.6
Decrease prior year tax positions . . . . .	(10.5)	(9.0)	(4.3)
Settlements . . . . .	(1.0)	(0.1)	(4.3)
Lapse of statutes of limitations . . . . .	(0.4)	(0.3)	(0.1)
Unrecognized tax benefits, December 31 . . . . .	<u>\$192.3</u>	<u>\$127.7</u>	<u>\$113.6</u>

The Company recognizes interest and penalties, if any, related to uncertain tax positions in the provision for income taxes. As of December 31, 2014, the Company had accrued \$6.8 million (net of \$5.0 million tax benefit) of interest related to uncertain tax positions, and as of December 31, 2013, the Company had accrued \$4.5 million (net of \$3.3 million tax benefit) of interest related to uncertain tax positions. During 2014, 2013, and 2012, the Company recognized interest expense, net of tax benefit, of \$2.3 million, \$1.4 million, and \$1.0 million, respectively, in “*Provision for Income Taxes*” on the consolidated statements of operations.

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 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.

At December 31, 2014, all material state, local, and foreign income tax matters have been concluded for years through 2008. During the third quarter of 2013, the Internal Revenue Service (“IRS”) completed its fieldwork for the 2009 and 2010 tax years. The case is currently in suspense pending finalization of an Advance Pricing Agreement (“APA”) and Joint Committee of Taxation approval. The IRS began its examination of the 2011 and 2012 tax years during the fourth quarter of 2013.

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

During 2014, the Company also filed with the IRS a request for a pre-filing agreement associated with a tax return filing position on a portion of the litigation settlement payment received from Medtronic in May 2014 (see Note 4).

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16. INCOME TAXES (Continued)**

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 for our uncertain tax positions. Based upon the information currently available and numerous possible outcomes, the Company cannot reasonably estimate what, if any, changes in its existing uncertain tax positions may occur in the next 12 months and thus has recorded the gross uncertain tax positions as a long-term liability. However, if the APA and/or pre-filing agreement is finalized in the next 12 months, it is reasonably possible that these events could result in a significant change in the Company's uncertain tax positions within the next 12 months.

**17. LEGAL PROCEEDINGS**

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

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

**18. SEGMENT INFORMATION**

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

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

Certain items are maintained at the corporate level and are not allocated to the segments. The non-allocated items include net interest expense, global marketing expenses, corporate research and

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. SEGMENT INFORMATION (Continued)**

development expenses, manufacturing variances, corporate headquarters costs, special gains and charges, stock-based compensation, foreign currency hedging activities, certain litigation costs, and most of the Company's amortization expense. Although most of the Company's depreciation expense is included in segment pre-tax income, due to the Company's methodology for cost build-up, it is impractical to determine the amount of depreciation expense included in each segment, and, therefore, a portion is maintained at the corporate level. The Company neither discretely allocates assets to its operating segments, nor evaluates the operating segments using discrete asset information.

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

	Years Ended December 31,		
	2014	2013	2012
<b>Segment Net Sales</b>			
United States . . . . .	\$1,047.3	\$ 939.6	\$ 812.1
Europe . . . . .	741.4	622.2	577.0
Japan . . . . .	270.8	293.7	293.4
Rest of World . . . . .	285.1	252.8	236.0
Total segment net sales . . . . .	<u>\$2,344.6</u>	<u>\$2,108.3</u>	<u>\$1,918.5</u>
<b>Segment Pre-tax Income</b>			
United States . . . . .	\$ 605.6	\$ 550.5	\$ 465.0
Europe . . . . .	328.1	287.7	250.9
Japan . . . . .	125.2	145.6	153.1
Rest of World . . . . .	78.6	68.3	68.8
Total segment pre-tax income . . . . .	<u>\$1,137.5</u>	<u>\$1,052.1</u>	<u>\$ 937.8</u>

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):

	Years Ended December 31,		
	2014	2013	2012
<b>Net Sales Reconciliation</b>			
Segment net sales . . . . .	\$2,344.6	\$2,108.3	\$1,918.5
Foreign currency . . . . .	(21.7)	(62.8)	(18.9)
Consolidated net sales . . . . .	<u>\$2,322.9</u>	<u>\$2,045.5</u>	<u>\$1,899.6</u>
<b>Pre-tax Income Reconciliation</b>			
Segment pre-tax income . . . . .	\$1,137.5	\$1,052.1	\$ 937.8
Unallocated amounts:			
Corporate items . . . . .	(659.2)	(568.5)	(524.7)
Special charges . . . . .	(70.7)	(16.3)	(16.0)
Intellectual property income (expense), net . . . . .	740.4	61.5	(14.4)
Interest (expense) income, net . . . . .	(10.8)	(5.2)	0.4
Foreign currency . . . . .	6.8	(12.4)	5.1
Consolidated pre-tax income . . . . .	<u>\$1,144.0</u>	<u>\$ 511.2</u>	<u>\$ 388.2</u>



**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. SEGMENT INFORMATION (Continued)**

**Enterprise-Wide Information**

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

	As of or for the Years Ended December 31,		
	2014	2013	2012
	(in millions)		
<b>Net Sales by Geographic Area</b>			
United States . . . . .	\$1,047.3	\$ 939.6	\$ 812.1
Europe . . . . .	744.5	616.5	559.7
Japan . . . . .	257.9	243.6	294.1
Rest of World . . . . .	273.2	245.8	233.7
	<u>\$2,322.9</u>	<u>\$2,045.5</u>	<u>\$1,899.6</u>
<b>Net Sales by Major Product Area</b>			
Transcatheter Heart Valve Therapy . . . . .	\$ 943.6	\$ 707.7	\$ 552.1
Surgical Heart Valve Therapy . . . . .	826.1	801.2	787.5
Critical Care . . . . .	553.2	536.6	560.0
	<u>\$2,322.9</u>	<u>\$2,045.5</u>	<u>\$1,899.6</u>
<b>Long-lived Tangible Assets by Geographic Area</b>			
United States . . . . .	\$ 347.6	\$ 308.2	\$ 263.4
Europe . . . . .	42.1	40.9	38.8
Japan . . . . .	8.5	10.8	13.2
Rest of World . . . . .	93.9	97.1	84.2
	<u>\$ 492.1</u>	<u>\$ 457.0</u>	<u>\$ 399.6</u>

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19. QUARTERLY FINANCIAL RESULTS AND MARKET FOR THE COMPANY'S STOCK (UNAUDITED)**

<u>Years Ended December 31,</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total Year</u>
	(in millions, except per share data)				
<b>2014</b>					
Net sales . . . . .	\$522.4	\$575.1	\$ 607.4	\$ 618.0	\$2,322.9
Gross profit . . . . .	376.5	423.9	439.3	457.6	1,697.3
Net income(a) . . . . .	60.3	547.0	94.6	109.2	811.1
Earnings per common share(a):					
Basic . . . . .	0.57	5.18	0.89	1.02	7.62
Diluted . . . . .	0.56	5.09	0.87	1.00	7.48
Market price:					
High . . . . .	\$75.62	\$88.19	\$104.69	\$134.29	\$ 134.29
Low . . . . .	63.04	72.79	84.05	97.07	63.04
<b>2013</b>					
Net sales . . . . .	\$496.7	\$517.2	\$ 495.6	\$ 536.0	\$2,045.5
Gross profit . . . . .	375.7	393.6	367.4	392.2	1,528.9
Net income(b) . . . . .	143.9	93.3	76.8	75.1	389.1
Earnings per common share(b):					
Basic . . . . .	1.26	0.83	0.69	0.69	3.48
Diluted . . . . .	1.24	0.81	0.68	0.68	3.42
Market price:					
High . . . . .	\$94.98	\$86.11	\$ 73.73	\$ 78.89	\$ 94.98
Low . . . . .	78.10	62.34	65.03	60.62	60.62

(a) The first quarter of 2014 includes a \$7.5 million charge to settle past and future obligations related to one of the Company's intellectual property agreements; a \$15.6 million charge to record a sales returns reserve and related costs for estimated Transcatheter Heart Valve Therapy product returns expected upon introduction of next-generation Transcatheter Heart Valve Therapy products; and \$5.5 million of external legal costs related to intellectual property litigation.

The second quarter of 2014 includes a \$750.0 million gain for an upfront payment received under a litigation settlement agreement; a \$50.0 million charge for the contribution to the Edwards Lifesciences Foundation; a \$6.1 million charge to increase the Transcatheter Heart Valve Therapy sales returns reserve; and \$2.6 million of external legal costs related to intellectual property litigation.

The third quarter of 2014 includes a \$16.0 million gain for the reversal of the Transcatheter Heart Valve Therapy sales returns reserve upon delivery of next-generation products and a \$5.0 million charge related to the write down of an intangible asset, fixed assets, and inventory, and to record severance costs related to the Company's automated glucose monitoring program.

The fourth quarter of 2014 includes a \$10.2 million charge related to the acquisition of IPR&D and a \$3.5 million gain for the reversal of the Transcatheter Heart Valve Therapy sales returns reserve.

(b) The first quarter of 2013 includes \$83.6 million received in satisfaction of a jury award of damages for infringement of the Company's U.S. Andersen transcatheter heart valve patent, including interest; and \$5.5 million of external legal costs related to intellectual property litigation.

**EDWARDS LIFESCIENCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19. QUARTERLY FINANCIAL RESULTS AND MARKET FOR THE COMPANY'S STOCK (UNAUDITED) (Continued)**

The second quarter of 2013 includes \$5.5 million of external legal costs related to intellectual property litigation.

The third quarter of 2013 includes \$4.3 million of external legal costs related to intellectual property litigation.

The fourth quarter of 2013 includes a \$15.2 million charge to record a sales returns reserve and related costs for estimated Transcatheter Heart Valve Therapy product returns expected upon introduction of next-generation Transcatheter Heart Valve Therapy products; a \$10.4 million charge related primarily to severance associated with a global workforce realignment; a \$5.9 million charge to write off certain acquired IPR&D assets; and \$6.8 million of external legal costs related to intellectual property litigation.

**20. VALUATION AND QUALIFYING ACCOUNTS**

	Balance at Beginning of Period	Additions		Deductions From Reserves	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
			(in millions)		
Year ended December 31, 2014					
Allowance for doubtful accounts(a) . . . . .	\$12.2	\$ 0.8	\$ —	\$ (1.7)	\$11.3
Inventory reserves(b) . . . . .	29.6	43.2	—	(40.6)	32.2
Tax valuation allowance(c) . . . . .	46.4	2.0	—	(0.7)	47.7
Year ended December 31, 2013					
Allowance for doubtful accounts(a) . . . . .	\$12.0	\$ 2.4	\$ —	\$ (2.2)	\$12.2
Inventory reserves(b) . . . . .	16.3	27.5	—	(14.2)	29.6
Tax valuation allowance(c) . . . . .	38.6	8.2	—	(0.4)	46.4
Year ended December 31, 2012					
Allowance for doubtful accounts(a) . . . . .	\$19.0	\$ 3.0	\$0.4	\$(10.4)	\$12.0
Inventory reserves(b) . . . . .	12.9	21.8	—	(18.4)	16.3
Tax valuation allowance(c) . . . . .	32.4	3.1	5.2	(2.1)	38.6

- (a) The deductions related to allowances for doubtful accounts represent accounts receivable which are written off and product which is returned from customers.
- (b) Inventory reserves result from inventory which is obsolete, nearing its expiration date, damaged, or slow moving. The deductions related to inventory reserves represent inventory that has been disposed.
- (c) The tax valuation allowances are provided for other-than-temporary impairments and unrealized losses related to certain investments that may not be recognized due to the uncertainty of the ready marketability of certain impaired investments, and net operating loss and credit carryforwards that may not be recognized due to insufficient taxable income.

## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures.** The Company's management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2014.

Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded as of December 31, 2014 that the Company's disclosure controls and procedures are designed at a reasonable assurance level and are effective in providing reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control Over Financial Reporting.** The Company's management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, the Company's management concluded that its internal control over financial reporting was effective as of December 31, 2014. The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

**Changes in Internal Control Over Financial Reporting.** There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's fourth fiscal quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Item 9B. Other Information**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

Certain information required by this Item is set forth under the headings “Corporate Governance,” “Executive Compensation and Other Information—Executive Officers,” and “Other Matters and Business—Additional Information” and “—Section 16(a) Beneficial Ownership Reporting Compliance” in the definitive proxy materials to be filed in connection with its 2015 Annual Meeting of Stockholders (the “Proxy Statement”) (which Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of December 31, 2014). The information required by this Item to be contained in the Proxy Statement is incorporated herein by reference. To the extent required by applicable rules of the Securities and Exchange Commission and the New York Stock Exchange, the Company has adopted a code of ethics that applies to all directors and employees, including the Company’s principal executive officer, principal financial officer and controller or persons performing similar functions. The code of ethics (business practice standards) is posted on the Company’s website, which is found at [www.edwards.com](http://www.edwards.com) under “Investors.” To the extent required by applicable rules of the Securities and Exchange Commission and the New York Stock Exchange, the Company intends to disclose on its website any amendments to, or waivers from, any provision of its code of ethics that apply to the Company’s directors and executive officers, including the principal executive officer, principal financial officer or controller or persons performing similar functions.

### **Item 11. Executive Compensation**

The information contained under the heading “Executive Compensation and Other Information” in the Proxy Statement is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information contained under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Proxy Statement is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information contained under the heading “Other Matters and Business—Related Party Transactions” and under the heading “Corporate Governance—Director Independence” in the Proxy Statement is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

The information contained under the heading “Audit Matters—Fees Paid to Principal Accountants” in the Proxy Statement is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

#### EXHIBITS FILED WITH SECURITIES AND EXCHANGE COMMISSION

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of Edwards Lifesciences Corporation dated May 16, 2013 (incorporated by reference to Exhibit 3.1 in Edwards Lifesciences' report on Form 8-K dated May 17, 2013)
3.2	Bylaws of Edwards Lifesciences Corporation amended and restated as of February 20, 2014 (incorporated by reference to Exhibit 3.1 in Edwards Lifesciences' report on Form 8-K dated February 26, 2014)
4.1	Specimen form of certificate representing Edwards Lifesciences Corporation common stock (incorporated by reference to Exhibit 4.1 in Edwards Lifesciences' Registration Statement on Form 10 (File No. 001-15525) filed on March 15, 2000)
4.2	Indenture, dated as of September 6, 2013, between Edwards Lifesciences Corporation and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.5 in Edwards Lifesciences' Registration Statement on Form S-3 (File No. 333-191022) filed on September 6, 2013) (the "Indenture")
4.3	First Supplemental Indenture, dated as of October 3, 2013, to the Indenture (incorporated by reference to Exhibit 4.1 in Edwards Lifesciences' report on Form 8-K, filed October 3, 2013) ("First Supplemental Indenture")
4.4	Form of Global Note for the 2.875% Senior Notes due 2018 (incorporated by reference to Exhibit A in the First Supplemental Indenture filed as Exhibit 4.1 in Edwards Lifesciences' report on Form 8-K, filed October 3, 2013)
10.1	Five-Year Credit Agreement, dated as of July 18, 2014, among Edwards Lifesciences Corporation and certain of its subsidiaries, as Borrowers; the lenders signatory thereto, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Issuing Bank; JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as Co-Syndication Agents; and Deutsche Bank Securities Inc., HSBC Bank USA, National Association, PNC Bank, National Association, The Bank of Tokyo-Mitsubishi UFJ, Ltd., and U.S. Bank National Association, as Co-Documentation Agents (incorporated by reference to Exhibit 10.1 in Edwards Lifesciences' report on Form 8-K, filed July 24, 2014)
+10.2	Settlement Agreement, dated May 19, 2014, between Edwards Lifesciences and Medtronic, Inc. (incorporated by reference to Exhibit 10.2 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended June 30, 2014)
*10.3	Form of Employment Agreement (incorporated by reference to Exhibit 10.8 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended March 31, 2003)
*10.4	Edwards Lifesciences Corporation Amended and Restated Employment Agreement for Michael A. Mussallem dated March 30, 2009 (incorporated by reference to Exhibit 10.2 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended March 31, 2009)
*10.5	Edwards Lifesciences Corporation Amended and Restated Chief Executive Officer Change-in-Control Severance Agreement, dated October 9, 2012 (incorporated by reference to Exhibit 10.1 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended September 30, 2012)



Exhibit No.	Description
*10.6	Edwards Lifesciences Corporation Form of Change-in-Control Severance Agreement (incorporated by reference to Exhibit 10.2 in Edward Lifesciences' report on Form 10-Q for the quarterly period ended September 30, 2012)
*10.7	Long-Term Stock Incentive Compensation Program, as amended and restated as of February 20, 2014 (the "Long-Term Stock Program") (incorporated by reference to Appendix A in Edwards Lifesciences' Definitive Proxy Statement filed on March 28, 2014)
*10.8	Amendment No. 1 to Long-Term Stock Program, dated November 13, 2014
*10.9	Edwards Lifesciences Corporation Form of Participant Stock Option Statement and related Long-Term Stock Incentive Compensation Program Global Nonqualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.1 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended March 31, 2011)
*10.10	Edwards Lifesciences Corporation Form of Participant Restricted Stock Unit Statement and related Long-Term Stock Incentive Compensation Program Global Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended March 31, 2011)
*10.11	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 (incorporated by reference to Exhibit 10.1 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended June 30, 2012)
*10.12	Nonemployee Directors Stock Incentive Program, as amended and restated as of May 14, 2013 (incorporated by reference to Exhibit 10.1 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended June 30, 2013)
*10.13	Edwards Lifesciences Corporation Form of Participant Stock Option Statement and related Nonemployee Directors Stock Incentive Program Nonqualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.2 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended June 30, 2013)
*10.14	Edwards Lifesciences Corporation Form of Nonemployee Directors Stock Incentive Program Restricted Stock Units Agreement (incorporated by reference to Exhibit 10.4 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended March 31, 2011)
*10.15	Edwards Lifesciences Corporation Form of Nonemployee Directors Stock Incentive Program Restricted Stock Agreement (incorporated by reference to Exhibit 10.5 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended March 31, 2011)
*10.16	Edwards Lifesciences Corporation Severance Pay Plan, restated effective January 1, 2013 (incorporated by reference to Exhibit 10.1 in Edwards Lifesciences' report on Form 10-Q for the quarterly period ended March 31, 2013)
*10.17	Edwards Lifesciences Corporation Executive Deferred Compensation Plan, as amended and restated effective November 9, 2011 (incorporated by reference to Exhibit 10.7 in Edwards Lifesciences' report on Form 10-K for the fiscal year ended December 31, 2011)
*10.18	Edwards Lifesciences Corporation of Puerto Rico Savings and Investment Plan, as amended and restated January 1, 2011 (incorporated by reference to Exhibit 10.17 in Edwards Lifesciences' report on Form 10-K for the fiscal year ended December 31, 2012)

Exhibit No.	Description
*10.19	Edwards Lifesciences Corporation 401(k) Savings and Investment Plan, as amended and restated January 1, 2009 (incorporated by reference to Exhibit 10.18 in Edwards Lifesciences' report on Form 10-K for the fiscal year ended December 31, 2012)
*10.20	Amendment #1 to the Edwards Lifesciences Corporation 401(k) Savings and Investment Plan, dated April 1, 2011 (incorporated by reference to Exhibit 10.19 in Edwards Lifesciences' report on Form 10-K for the fiscal year ended December 31, 2012)
*10.21	Amendment #2 to the Edwards Lifesciences Corporation 401(k) Savings and Investment Plan, dated September 13, 2011 (incorporated by reference to Exhibit 10.20 in Edwards Lifesciences' report on Form 10-K for the fiscal year ended December 31, 2012)
*10.22	Amendment #3 to the Edwards Lifesciences Corporation 401(k) Savings and Investment Plan, dated October 21, 2011 (incorporated by reference to Exhibit 10.21 in Edwards Lifesciences' report on Form 10-K for the fiscal year ended December 31, 2012)
*10.23	Amendment #4 to the Edwards Lifesciences Corporation 401(k) Savings and Investment Plan, dated November 12, 2014
*10.24	2001 Employee Stock Purchase Plan for United States Employees, as amended and restated November 10, 2009 (incorporated by reference to Appendix B in Edwards Lifesciences' Definitive Proxy Statement filed on March 29, 2013)
*10.25	2001 Employee Stock Purchase Plan for International Employees, as amended and restated February 20, 2014 (incorporated by reference to Appendix B in Edwards Lifesciences' Definitive Proxy Statement filed on March 28, 2014)
*10.26	Edwards Lifesciences Corporation 2010 Edwards Incentive Plan (incorporated by reference to Appendix C in Edwards Lifesciences' Definitive Proxy Statement filed March 31, 2010)
*10.27	Edwards Lifesciences' Officer Perquisite Program Guidelines, as of February 20, 2013 (incorporated by reference to Exhibit 10.25 in Edwards Lifesciences' report on Form 10-K for the fiscal year ended December 31, 2012)
*10.28	Edwards Lifesciences Corporation Form of Indemnification Agreement (incorporated by reference to Exhibit 10.20 in Edwards Lifesciences' report on Form 10-K for the fiscal year ended December 31, 2011)
12.1	Ratio of Earnings to Fixed Charges
21.1	Subsidiaries of Edwards Lifesciences Corporation
23	Consent of Independent Registered Public Accounting Firm
24	Power of Attorney (see the signature page of this Annual Report on Form 10-K)
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

Exhibit No.	Description
101	The following financial statements from Edwards Lifesciences' Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity and (vi) Notes to Consolidated Financial Statements.
+	Pursuant to a request for confidential treatment, confidential portions of this exhibit have been redacted and have been filed separately with the Securities and Exchange Commission
*	Represents management contract or compensatory plan



<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ KIERAN T. GALLAHUE Kieran T. Gallahue	Director	February 20, 2015
/s/ ROBERT A. INGRAM Robert A. Ingram	Director	February 20, 2015
/s/ WILLIAM J. LINK, PH.D. William J. Link, Ph.D.	Director	February 20, 2015
/s/ BARBARA J. MCNEIL, M.D., PH.D. Barbara J. McNeil, M.D., Ph.D.	Director	February 20, 2015
/s/ NICHOLAS J. VALERIANI Nicholas J. Valeriani	Director	February 20, 2015
/s/ WESLEY W. VON SCHACK Wesley W. von Schack	Director	February 20, 2015

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-33054, 333-33056, 333-40434, 333-52332, 333-52334, 333-52346, 333-60670, 333-98219, 333-105961, 333-127260, 333-150810, 333-154242, 333-168462, and 333-183106) of Edwards Lifesciences Corporation of our report dated February 20, 2015 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K..

/s/ PricewaterhouseCoopers LLP  
Irvine, California  
February 20, 2015





**EDWARDS LIFESCIENCES CORPORATION  
CERTIFICATIONS PURSUANT TO  
SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002  
CERTIFICATION**

I, Scott B. Ullem, certify that:

1. I have reviewed this annual report on Form 10-K of Edwards Lifesciences Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: \_\_\_\_\_ /s/ SCOTT B. ULLEM

Scott B. Ullem  
*Corporate Vice President,  
Chief Financial Officer*

February 20, 2015

**EDWARDS LIFESCIENCES CORPORATION  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Edwards Lifesciences Corporation (the "Company") on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Michael A. Mussallem, Chairman of the Board and Chief Executive Officer of the Company, and Scott B. Ullem, Corporate Vice President, Chief Financial Officer, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL A. MUSSALLEM

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Michael A. Mussallem

*Chairman of the Board and Chief Executive Officer*

February 20, 2015

/s/ SCOTT B. ULLEM

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Scott B. Ullem

*Corporate Vice President,  
Chief Financial Officer*

February 20, 2015

# Corporate Information

## Corporate Headquarters

Edwards Lifesciences Corporation  
One Edwards Way, Irvine, California 92614  
(800) 4-A-HEART or (949) 250-2500

## Annual Meeting

The Annual Meeting of Stockholders will be held on May 14, 2015 at 10:00 a.m. (Pacific) at the offices of Edwards Lifesciences Corporation.

## Stock Symbol



Edwards Lifesciences' stock is traded on The New York Stock Exchange (NYSE) under the symbol EW.

## Information on the Internet

Edwards Lifesciences' web site at [ir.edwards.com](http://ir.edwards.com) provides access to a wide range of information for our stakeholders who are encouraged to visit the "Investor Relations" section of our web site to access our press releases, SEC filings and other company information.

## Corporate Public Relations

Members of the news media should call (949) 250-5070.

## Investor Information

Members of the investing public should contact Investor Relations at (949) 250-2806 or [investor\\_relations@edwards.com](mailto:investor_relations@edwards.com)

## Transfer Agent

Correspondence about shares, stock certificates and account information may be directed to:

Computershare Investor Services  
P.O. Box 43069  
Providence, Rhode Island 02940-3069  
(800) 446-2617  
[computershare.com](http://computershare.com)

## Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP  
Orange County, CA

## Executive Management

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Chairman & Chief Executive Officer

**Donald E. Bobo, Jr.**  
Corporate Vice President,  
Heart Valve Therapy

**John H. Kehl, Jr.**  
Corporate Vice President,  
Strategy & Corporate Development

**Dirksen J. Lehman**  
Corporate Vice President,  
Public Affairs

**Rich Lunsford**  
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Corporate Vice President,  
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**John P. McGrath, Ph.D.**  
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**Patrick B. Verguet**  
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Corporate Vice President,  
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**Aimee S. Weisner**  
Corporate Vice President,  
General Counsel

**Larry L. Wood**  
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Transcatheter Heart Valves

## Board of Directors

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**Nicholas J. Valeriani**  
Chief Executive Officer  
Gary and Mary West Health Institute

# Our Credo

At Edwards Lifesciences, we are dedicated to providing innovative solutions for people fighting cardiovascular disease.

Through our actions, we will become trusted partners with customers, colleagues and patients creating a community unified in its mission to improve the quality of life around the world. Our results will benefit customers, patients, employees and shareholders.

We will celebrate our successes, thrive on discovery and continually expand our boundaries. We will act boldly, decisively and with determination on behalf of people fighting cardiovascular disease.

Helping patients is our life's work, and

*life is now*

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