

VARIAN MEDICAL SYSTEMS INC  
Form 10-Q  
May 12, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 3, 2015

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 1-7598

VARIAN MEDICAL SYSTEMS, INC.  
(Exact name of registrant as specified in its charter)

Delaware 94-2359345  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

3100 Hansen Way, 94304-1038  
Palo Alto, California (Zip Code)  
(Address of principal executive offices)  
(650) 493-4000  
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 99,797,043 shares of common stock, par value \$1 per share, outstanding as of May 1, 2015.

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VARIAN MEDICAL SYSTEMS, INC.  
 FORM 10-Q for the Quarter Ended April 3, 2015  
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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements

VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
 (Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	April 3, 2015	March 28, 2014	April 3, 2015	March 28, 2014
Revenues:				
Product	\$513,765	\$541,940	\$989,595	\$1,023,376
Service	245,641	236,566	507,665	466,632
Total revenues	759,406	778,506	1,497,260	1,490,008
Cost of revenues:				
Product	330,458	344,512	636,275	643,046
Service	106,410	105,684	211,439	209,073
Total cost of revenues	436,868	450,196	847,714	852,119
Gross margin	322,538	328,310	649,546	637,889
Operating expenses:				
Research and development	59,312	60,677	116,388	118,680
Selling, general and administrative	117,190	114,959	257,672	224,541
Litigation settlement	—	25,130	—	25,130
Total operating expenses	176,502	200,766	374,060	368,351
Operating earnings	146,036	127,544	275,486	269,538
Interest income	3,044	2,458	6,084	4,723
Interest expense	(2,001)	(1,855)	(4,046)	(3,748)
Earnings before taxes	147,079	128,147	277,524	270,513
Taxes on earnings	41,110	35,359	78,241	79,765
Net earnings	\$105,969	\$92,788	\$199,283	\$190,748
Net earnings per share - basic	\$1.06	\$0.89	\$1.99	\$1.82
Net earnings per share - diluted	\$1.05	\$0.88	\$1.97	\$1.79
Shares used in the calculation of net earnings per share:				
Weighted average shares outstanding - basic	100,157	104,152	100,315	105,038
Weighted average shares outstanding - diluted	101,026	105,446	101,341	106,414

See accompanying notes to the condensed consolidated financial statements.

VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS  
 (Unaudited)

(In thousands)	Three Months Ended		Six Months Ended	
	April 3, 2015	March 28, 2014	April 3, 2015	March 28, 2014
Net earnings	\$ 105,969	\$ 92,788	\$ 199,283	\$ 190,748
Other comprehensive earnings (loss), net of tax:				
Defined benefit pension and post-retirement benefit plans:				
Amortization of prior service cost included in net periodic benefit cost, net of tax (expense) benefit of \$39 and \$80 for the three and six months ended April 3, 2015, respectively, and (\$6) and (\$12) for the corresponding periods of fiscal year 2014, respectively	(40	) 37	(78	) 75
Amortization of net actuarial loss included in net periodic benefit cost, net of tax expense of (\$115) and (\$231) for the three and six months ended April 3, 2015, respectively, and (\$100) and (\$201) for the corresponding periods of fiscal year 2014, respectively	505	435	1,009	870
	465	472	931	945
Unrealized gain (loss) on derivatives:				
Increase (decrease) in unrealized gain, net of tax (expense) benefit of (\$455) and (\$739) for the three and six months ended April 3, 2015, respectively, and \$419 and (\$779) for the corresponding periods of fiscal year 2014, respectively	763	(685	) 1,238	1,299
Reclassification adjustments, net of tax benefit of \$701 and \$1,027 for the three and six months ended April 3, 2015, respectively, and \$610 and \$479 for the corresponding periods of fiscal year 2014, respectively	(1,176	) (1,017	) (1,721	) (798
	(413	) (1,702	) (483	) 501
Currency translation adjustment	(18,170	) (479	) (30,460	) 990
Other comprehensive earnings (loss)	(18,118	) (1,709	) (30,012	) 2,436
Comprehensive earnings	\$ 87,851	\$ 91,079	\$ 169,271	\$ 193,184

See accompanying notes to the condensed consolidated financial statements.

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VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

(In thousands, except par values)	April 3, 2015	September 26, 2014 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$862,223	\$849,275
Short-term investment	70,075	66,176
Accounts receivable, net of allowance for doubtful accounts of \$26,973 at April 3, 2015 and \$20,317 at September 26, 2014	707,927	731,929
Inventories	651,779	572,261
Prepaid expenses and other current assets	177,770	148,562
Deferred tax assets	120,577	125,962
Total current assets	2,590,351	2,494,165
Property, plant and equipment, net	334,807	337,999
Goodwill	232,633	240,626
Other assets	301,745	284,500
Total assets	\$3,459,536	\$3,357,290
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$164,075	\$187,377
Accrued expenses	285,377	324,409
Deferred revenues	447,755	421,845
Advance payments from customers	182,256	170,724
Product warranty	41,305	47,299
Short-term borrowings	100,000	—
Current maturities of long-term debt	50,000	50,000
Total current liabilities	1,270,768	1,201,654
Long-term debt	362,500	387,500
Other long-term liabilities	147,945	151,716
Total liabilities	1,781,213	1,740,870
Commitments and contingencies (Note 8)		
Equity:		
Varian stockholders' equity:		
Preferred stock of \$1 par value: 1,000 shares authorized; none issued and outstanding	—	—
Common stock of \$1 par value: 189,000 shares authorized; 100,201 and 100,942 shares issued and outstanding at April 3, 2015 and at September 26, 2014, respectively	100,201	100,942
Capital in excess of par value	687,348	642,848
Retained earnings	975,383	931,241
Accumulated other comprehensive loss	(88,623)	(58,611)
Total Varian stockholders' equity	1,674,309	1,616,420
Noncontrolling interest	4,014	—
Total equity	1,678,323	1,616,420
Total liabilities and equity	\$3,459,536	\$3,357,290

(1) The condensed consolidated balance sheet as of September 26, 2014 was derived from audited financial statements as of that date, but does not include all disclosures required by accounting principles generally accepted in the United

States of America.

See accompanying notes to the condensed consolidated financial statements.

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VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

(In thousands)	Six Months Ended	
	April 3, 2015	March 28, 2014
Cash flows from operating activities:		
Net earnings	\$ 199,283	\$ 190,748
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	25,238	18,640
Tax benefits from exercises of share-based payment awards	11,144	8,544
Excess tax benefits from share-based compensation	(11,138)	(8,482)
Depreciation	30,111	28,701
Amortization of intangible assets	3,286	1,938
Deferred taxes	16,399	(14,567)
Provision for doubtful accounts receivable	6,682	5,633
(Income) loss from equity investment in affiliate	(525)	600
Other, net	2,039	(1,553)
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(17,457)	(99,465)
Inventories		