

VARIAN MEDICAL SYSTEMS INC
Form 10-Q
May 10, 2016

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 1, 2016

or

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

For the transition period from _____ to _____
Commission File Number 1-7598

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 (Address of principal executive offices) (Zip Code)
(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

Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 95,214,552 shares of common stock, par value \$1 per share, outstanding as of April 29, 2016.

VARIAN MEDICAL SYSTEMS, INC.
 FORM 10-Q for the Quarter Ended April 1, 2016
 INDEX

| | | |
|----------|--|-----------|
| Part I. | <u>Financial Information</u> | <u>3</u> |
| Item 1. | <u>Unaudited Financial Statements</u> | <u>3</u> |
| | <u>Condensed Consolidated Statements of Earnings</u> | <u>3</u> |
| | <u>Condensed Consolidated Statements of Comprehensive Earnings</u> | <u>4</u> |
| | <u>Condensed Consolidated Balance Sheets</u> | <u>5</u> |
| | <u>Condensed Consolidated Statements of Cash Flows</u> | <u>6</u> |
| | <u>Notes to the Condensed Consolidated Financial Statements</u> | <u>7</u> |
| Item 2. | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>31</u> |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>53</u> |
| Item 4. | <u>Controls and Procedures</u> | <u>55</u> |
| Part II. | <u>Other Information</u> | <u>56</u> |
| Item 1. | <u>Legal Proceedings</u> | <u>56</u> |
| Item 1A. | <u>Risk Factors</u> | <u>56</u> |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>79</u> |
| Item 3. | <u>Defaults Upon Senior Securities</u> | <u>79</u> |
| Item 4. | <u>Mine Safety Disclosures</u> | <u>79</u> |
| Item 5. | <u>Other Information</u> | <u>79</u> |
| Item 6. | <u>Exhibits</u> | <u>79</u> |
| | <u>Signatures</u> | <u>80</u> |
| | <u>Index to Exhibits</u> | <u>81</u> |

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 1, 2016 | April 3, 2015 | April 1, 2016 | April 3, 2015 |
| Revenues: | | | | |
| Product | \$495,569 | \$513,765 | \$996,095 | \$989,595 |
| Service | 263,198 | 245,641 | 519,805 | 507,665 |
| Total revenues | 758,767 | 759,406 | 1,515,900 | 1,497,260 |
| Cost of revenues: | | | | |
| Product | 330,987 | 330,458 | 674,443 | 636,275 |
| Service | 110,562 | 106,410 | 214,547 | 211,439 |
| Total cost of revenues | 441,549 | 436,868 | 888,990 | 847,714 |
| Gross margin | 317,218 | 322,538 | 626,910 | 649,546 |
| Operating expenses: | | | | |
| Research and development | 62,108 | 59,312 | 122,089 | 116,388 |
| Selling, general and administrative | 121,127 | 117,190 | 254,188 | 257,672 |
| Total operating expenses | 183,235 | 176,502 | 376,277 | 374,060 |
| Operating earnings | 133,983 | 146,036 | 250,633 | 275,486 |
| Interest income | 4,298 | 3,044 | 8,247 | 6,084 |
| Interest expense | (3,312) | (2,001) | (5,542) | (4,046) |
| Earnings before taxes | 134,969 | 147,079 | 253,338 | 277,524 |
| Taxes on earnings | 37,986 | 41,110 | 67,313 | 78,241 |
| Net earnings | 96,983 | 105,969 | 186,025 | 199,283 |
| Less: Net earnings attributable to noncontrolling interests | 12 | — | 27 | — |
| Net earnings attributable to Varian | \$96,971 | \$105,969 | \$185,998 | \$199,283 |
| Net earnings per share - basic | \$1.01 | \$1.06 | \$1.93 | \$1.99 |
| Net earnings per share - diluted | \$1.01 | \$1.05 | \$1.92 | \$1.97 |
| Shares used in the calculation of net | | | | |