

VARIAN MEDICAL SYSTEMS INC  
Form PRE 14A  
December 13, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Preliminary Proxy Statement      | <input type="checkbox"/> <b>Confidential, for Use of the Commission Only</b> |
| <input type="checkbox"/> Definitive Proxy Statement                  | <b>(as permitted by Rule 14a-6(e)(2))</b>                                    |
| <input type="checkbox"/> Definitive Additional Materials             |  |
| <input type="checkbox"/> Soliciting Material Pursuant to §240.14a-12 |  |

**VARIAN MEDICAL SYSTEMS, INC.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

## Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**Table of Contents**

**Varian Medical Systems, Inc.**

**3100 Hansen Way**

**Palo Alto, CA 94304**

January [ ], 2014

Dear Stockholder:

You are cordially invited to attend Varian Medical Systems, Inc.'s 2014 Annual Meeting of Stockholders to be held on Thursday, February 20, 2014 at 4:30 p.m. Pacific Time at our headquarters at 3100 Hansen Way, Palo Alto, California 94304.

The Secretary's formal notice of the meeting and the Proxy Statement appear on the following pages and describe the matters to be acted upon at the annual meeting. You also will have the opportunity to hear what has happened in our business in the past year.

We hope that you can join us. However, whether or not you plan to be there, please vote your shares as soon as possible so that your vote will be counted.

Sincerely,

Richard M. Levy  
*Chairman of the Board*

**Table of Contents**

**Varian Medical Systems, Inc.**

**3100 Hansen Way**

**Palo Alto, CA 94304**

January [ ], 2014

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**AND PROXY STATEMENT**

Varian Medical Systems, Inc. will hold its Annual Meeting of Stockholders on Thursday, February 20, 2014 at 4:30 p.m. Pacific Time at our headquarters at 3100 Hansen Way, Palo Alto, California 94304.

This annual meeting is being held for the following purposes:

to elect four directors to serve until the 2017 Annual Meeting of Stockholders;

to provide an advisory vote on the compensation of our named executive officers as described in the accompanying Proxy Statement;

to approve the Varian Medical Systems, Inc. Management Incentive Plan;

to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2014;

to amend our certificate of incorporation to declassify the Board;

to amend our certificate of incorporation to eliminate cumulative voting for directors; and

to transact any other business that properly comes before the annual meeting.

The Board of Directors has selected December 23, 2013 as the record date for determining stockholders entitled to vote at the annual meeting. A list of stockholders as of that date will be available for inspection during ordinary business hours at our principal executive offices at 3100 Hansen Way, Palo Alto, California 94304 for 10 days before the annual meeting.

Except for those stockholders that have already requested printed copies of our proxy materials, we are furnishing our proxy materials for this annual meeting to you through the Internet. On or about January [ ], 2014, we mailed to stockholders on the record date a Notice of Internet Availability of Proxy Materials (the "Notice"). Certain stockholders who previously requested email notice in lieu of mail received the Notice by email. If you received a Notice by mail or email, you will not receive a printed copy of the proxy materials unless you specifically request one. Instead, the Notice instructs you on how to access and review all of the important information contained in our Proxy Statement and in our Annual Report on Form 10-K for the fiscal year ended September 27, 2013 (which we posted on the Internet on January [ ], 2014), as well as how to submit your proxy over the Internet. We believe that mailing or emailing the Notice and posting other materials on the Internet allow us to provide you with the information you need while lowering the costs of delivery and reducing the environmental impact of the annual meeting. If you received the Notice and would still like to receive a printed copy of our proxy materials, you may request a printed copy of the proxy materials by any of the following methods: through the Internet at [www.proxyvote.com](http://www.proxyvote.com); by telephone at 1-800-579-1639; or by sending an email

Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

to [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com).

Whether or not you plan to attend the annual meeting, please vote your shares as soon as possible in accordance with the instructions provided to you to ensure that your vote is counted at the annual meeting.

By Order of the Board of Directors,

John W. Kuo  
*Corporate Secretary*

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b><u>GENERAL INFORMATION</u></b>	1
<b><u>PROPOSAL ONE ELECTION OF DIRECTORS</u></b>	6
<u>Our Board: Selection of Nominees</u>	6
<u>Nominees for Election for a Three-Year Term Ending with the 2017 Annual Meeting</u>	7
<u>Recommendation of the Board</u>	8
<u>Directors Continuing in Office Until the 2015 Annual Meeting</u>	8
<u>Directors Continuing in Office Until the 2016 Annual Meeting</u>	10
<u>Governance of the Corporation</u>	11
<b><u>PROPOSAL TWO ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS</u></b>	17
<u>Background to the Advisory Vote</u>	17
<u>Our Compensation Program</u>	17
<u>Recommendation of the Board</u>	18
<b><u>PROPOSAL THREE APPROVAL OF THE VARIAN MEDICAL SYSTEMS, INC. MANAGEMENT INCENTIVE PLAN</u></b>	19
<u>Background and Reason for Approval</u>	19
<u>Description of the Management Incentive Plan</u>	19
<u>Purpose of the Management Incentive Plan</u>	19
<u>Administration of the Management Incentive Plan</u>	19
<u>Eligibility to Receive Awards</u>	19
<u>Awards and Performance Goals</u>	20
<u>Determination of Actual Awards</u>	20
<u>Recoupment Policy</u>	21
<u>Awards Under the Management Incentive Plan</u>	21
<u>Amendment and Termination of the Management Incentive Plan</u>	21
<u>Recommendation of the Board</u>	21
<b><u>PROPOSAL FOUR RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u></b>	22
<u>Selection of the Accounting Firm</u>	22
<u>Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm</u>	22
<u>Principal Accountant Fees and Services</u>	22
<u>Recommendation of the Board</u>	23
<b><u>PROPOSAL FIVE APPROVAL OF AMENDMENT TO THE VARIAN MEDICAL SYSTEMS, INC. RESTATED CERTIFICATE OF INCORPORATION TO DECLASSIFY THE BOARD</u></b>	24
<u>Background</u>	24
<u>Summary of Proposed Declassification Amendment</u>	24
<u>Required Vote</u>	25
<u>Recommendation of the Board</u>	25
<b><u>PROPOSAL SIX APPROVAL OF AMENDMENT TO THE VARIAN MEDICAL SYSTEMS, INC. RESTATED CERTIFICATE OF INCORPORATION TO ELIMINATE CUMULATIVE VOTING</u></b>	26
<u>Background</u>	26
<u>Summary of Proposed Amendment to Eliminate Cumulative Voting</u>	27
<u>Required Vote</u>	27
<u>Recommendation of the Board</u>	27
<b><u>AUDIT COMMITTEE REPORT</u></b>	28

**Table of Contents**

	<b>Page</b>
<b><u>STOCK OWNERSHIP</u></b>	29
<u>Beneficial Ownership of Certain Stockholders, Directors and Executive Officers</u>	29
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	30
<b><u>COMPENSATION OF THE NAMED EXECUTIVE OFFICERS AND DIRECTORS</u></b>	31
<u>Compensation Discussion and Analysis</u>	31
<u>Compensation and Management Development Committee Report</u>	48
<u>Relationship between Compensation Plans and Risk</u>	48
<u>Summary Compensation Table</u>	50
<u>Grants of Plan-Based Awards for 2013</u>	52
<u>Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table</u>	53
<u>Outstanding Equity Awards at Fiscal Year End</u>	55
<u>Option Exercises and Stock Vested</u>	56
<u>Nonqualified Deferred Compensation</u>	57
<u>Potential Payments Upon Termination or Change in Control</u>	58
<u>Compensation of Directors</u>	61
<u>Compensation Committee Interlocks and Insider Participation</u>	63
<b><u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u></b>	64
<u>Review, Approval or Ratification of Related Person Transactions</u>	64
<u>Transactions with Related Persons</u>	64
<b><u>APPENDIX A</u></b>	A-1
<b><u>APPENDIX B</u></b>	B-1
<b><u>APPENDIX C</u></b>	C-1



**Table of Contents**

**GENERAL INFORMATION**

**Q: Who is soliciting my proxy?**

A: The Board of Directors (the Board) of Varian Medical Systems, Inc. (we, us or the Company) is sending you this Proxy Statement in connection with the Board's solicitation of proxies for use at the 2014 Annual Meeting of Stockholders or any adjournment or postponement thereof (the Annual Meeting). Certain of our directors, officers and employees also may solicit proxies on the Board's behalf by mail, telephone, email or fax, or in person. We have hired Georgeson Inc., 480 Washington Blvd., Jersey City, New Jersey 07310, to assist in soliciting proxies from brokers, bank nominees and other stockholders.

**Q: Who is paying for this solicitation?**

A: We will pay for the solicitation of proxies. Our directors, officers and employees will not receive additional remuneration. We expect that we will pay Georgeson Inc. not more than \$10,000, plus reasonable out-of-pocket expenses, and also will reimburse banks, brokers, custodians, nominees and fiduciaries for their reasonable charges and expenses to forward our proxy materials to the beneficial owners of our common stock.

**Q: What am I voting on?**

A: You will be voting on six proposals. Proposal One is for the election of Susan L. Bostrom, Regina E. Dugan, Venkatraman Thyagarajan and Dow R. Wilson to the Board for three-year terms ending at the 2017 Annual Meeting of Stockholders.

Proposal Two is an advisory vote on the compensation of the executive officers listed in the Summary Compensation Table (the named executive officers) as described in this Proxy Statement.

Proposal Three is for the approval of the Varian Medical Systems, Inc. Management Incentive Plan.

Proposal Four is the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2014.

Proposal Five is for the approval of an amendment to the Varian Medical Systems, Inc. Certificate of Incorporation to declassify the Board, provided Proposal Six is also approved.

Proposal Six is for the approval of an amendment to the Varian Medical Systems, Inc. Certificate of Incorporation to eliminate cumulative voting for directors, provided Proposal Five is also approved.

**Q: Who can vote?**

A: Only our stockholders of record at the close of business on December 23, 2013 may vote. Each share of common stock outstanding on that date is entitled to one vote on all matters to come before the meeting, except that cumulative voting will apply in the election of directors. Under the cumulative voting method of election, the stockholder computes the number of votes available to the stockholder by multiplying the number of shares the stockholder owned on the record date by the number of directors to be elected, and may cast the votes all for a single nominee or may distribute them in any manner among the nominees.

**Q: Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?**

A: Pursuant to rules adopted by the Securities and Exchange Commission (the SEC), we have elected to provide access to our proxy materials (consisting of the Notice of Annual Meeting, this Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended September 27, 2013, as filed with the SEC on November 26, 2013) over the Internet. Therefore, we are sending a Notice of Internet Availability of Proxy

## **Table of Contents**

Materials (the Notice) to our stockholders. Starting on the date of distribution of the Notice, all stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request printed copies may be found in the Notice. If you request printed versions of the proxy materials by mail, the materials will also include a proxy card or other voting instruction form.

### **Q: Can I receive proxy materials for future annual meetings by email rather than receiving a paper copy of the Notice?**

A: If you are a holder of record, you may elect to receive the Notice or other future proxy materials by email by logging into [www.proxyvote.com](http://www.proxyvote.com) and entering your email address before you vote if you are voting by Internet or any time at [www.computershare.com/us/ecomms](http://www.computershare.com/us/ecomms) or <http://enroll.icsdelivery.com/var>. If your shares are registered in street name, please check with your broker, bank, or other nominee about how to receive future proxy materials by email, or enroll at <http://enroll.icsdelivery.com/var>. If you choose to receive proxy materials by email, next year you will receive an email with instructions on how to view those materials and vote before the next annual meeting. Your choice to obtain documents by email will remain in effect until you notify us otherwise. Delivering future notices by email will help us further reduce the cost and environmental impact of our stockholder meetings.

### **Q: What is the difference between a stockholder of record and a street name holder?**

A: If your shares are registered directly in your name with Computershare Trust Company, N.A., our stock transfer agent, you are considered the stockholder of record for those shares. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of the shares and your shares are said to be held in street name. Street name holders generally cannot vote their shares directly and must instead instruct the broker, bank or other nominee how to vote their shares using the method described under *How do I vote and how do I revoke my proxy?* below.

### **Q: How do I vote and how do I revoke my proxy?**

A: If you hold your shares in your own name as a stockholder of record, you may vote your shares either in person at the meeting or by proxy. To vote in person, please bring a form of identification, such as a valid driver's license or passport, and proof that you were a stockholder as of December 23, 2013, and we will give you a ballot when you arrive. To vote by proxy, please vote in one of the following ways:

*Via the Internet.* You may vote through the Internet at [www.proxyvote.com](http://www.proxyvote.com) by following the instructions provided in the Notice.

*By Telephone.* If you received your proxy materials or request printed copies by mail, stockholders located in the United States may vote by calling the toll-free number found on the proxy card.

*By Mail.* If you received your proxy materials or request printed copies by mail, you may vote by mail by marking, dating, signing and mailing the proxy card in the envelope provided.

Voting by proxy will not affect your right to vote your shares if you attend the Annual Meeting and want to vote in person by voting in person you automatically revoke your proxy. You also may revoke your proxy at any time before the applicable voting deadline by giving our Secretary written notice of your revocation, by submitting a later-dated proxy card or by voting again using the telephone or Internet (your latest telephone or Internet proxy is the one that will be counted).

If you vote by proxy, the individuals named as proxyholders will vote your shares as you instruct, including with respect to cumulative voting for directors. If you vote your shares over the telephone, you must select a voting option ( For or Withhold (for directors) and For, Against or Abstain (for Proposals Two through Six)) in order for your proxy to be counted on that matter. If you validly vote your shares over the



## **Table of Contents**

Internet or by mail but do not provide any voting instructions, the individuals named as proxyholders will vote your shares **FOR** all directors and **FOR** all proposals. In that case, the proxyholders will have full discretion and authority to vote cumulatively in the election of directors and to allocate votes among any or all of the nominees for director in any order they determine.

If your shares are registered in street name, you must vote your shares in the manner prescribed by your broker, bank or other nominee. In most instances, you can do this over the telephone or Internet, or if you have received or request a hard copy of the proxy statement and accompanying voting instruction form, you may mark, sign, date and mail your voting instruction form in the envelope your broker, bank or other nominee provides. The materials that were sent to you have specific instructions for how to submit your vote and the deadline for doing so. If you would like to revoke your proxy, you must follow the broker, bank or other nominee's instructions on how to do so. If you wish to vote in person at the Annual Meeting, you must obtain a legal proxy from the broker, bank or other nominee holding your shares.

### **Q: What is the deadline for submitting a proxy?**

A: Telephone and Internet voting facilities for stockholders of record will be available 24 hours a day. In order to be counted, proxies submitted by telephone or the Internet must be received by 11:59 p.m. Eastern Time on February 19, 2014. Proxies submitted by mail must be received prior to the start of the Annual Meeting.

### **Q: What constitutes a quorum?**

A: On the record date, we had [ ] shares of common stock, \$1.00 par value, outstanding. Voting can take place at the Annual Meeting only if stockholders owning a majority of the issued and outstanding stock entitled to vote at the Annual Meeting are present in person or represented by proxy.

### **Q: What are abstentions and broker non-votes and how do they affect voting?**

A: *Abstentions* If you specify that you wish to abstain from voting on an item, your shares will not be voted on that particular item. Abstentions are counted toward establishing a quorum and included in the shares entitled to vote on Proposals Two through Six. On Proposals Two through Six, abstentions have the effect of a vote against the proposal.

*Broker Non-Votes* Under the New York Stock Exchange ( NYSE ) rules, if your broker holds your shares in its name and does not receive voting instructions from you, your broker has discretion to vote these shares on certain routine matters, including the ratification of the appointment of the independent registered public accounting firm. However, on non-routine matters such as the election of directors, and Proposals Two, Three, Five and Six, your broker must receive voting instructions from you, as it does not have discretionary voting power for that particular item. So long as the broker has discretion to vote on at least one proposal, these broker non-votes are counted toward establishing a quorum. When voted on routine matters, broker non-votes are counted toward determining the outcome of that routine matter.

### **Q: What vote is needed?**

A: For Proposal One, the election of directors, the four nominees receiving the highest number of votes of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on Proposal One will be elected as directors. As a result, if you withhold your authority to vote for any nominee, your vote will not affect the outcome of the election.

For Proposals Two, Three and Four, an affirmative vote of the majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the relevant proposal is required to approve those proposals.

Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

For Proposals Five and Six, an affirmative vote of the majority of shares outstanding and entitled to vote on the record date is required to amend our Certificate of Incorporation.

## **Table of Contents**

Because your vote on Proposal Two is advisory, it will not bind the Board or the Compensation Committee. However, the Board and the Compensation Committee will review the voting results and take the results into consideration in making future determinations on executive compensation.

### **Q: What happens if a director receives a plurality, but not a majority, of votes cast at the Annual Meeting?**

A: In an uncontested election, if a nominee for director who is an incumbent director is elected by a plurality of the votes cast but does not receive the vote of at least the majority of the votes cast (*i.e.*, the number of shares voted for a director's election does not exceed 50% of the total number of votes cast with respect to that director's election, including votes to withhold authority), the director is deemed elected but is obligated to offer his or her resignation to the Board. Following submission of the offer of resignation, the Board, after considering relevant factors, including the recommendation of the Nominating and Corporate Governance Committee (the Nominating Committee), will decide whether or not to accept the offer of resignation and thereafter publicly disclose its decision. If a director's offer of resignation is not accepted by the Board, the director will continue to serve until his or her successor is duly elected, or his or her earlier resignation or removal. If a director's offer of resignation is accepted by the Board, then the Board, in its sole discretion, may fill any resulting vacancy or decrease the size of the Board pursuant to the provisions of our By-Laws.

### **Q: Can I vote on other matters?**

A: You are entitled to vote on any other matters that are properly brought before the Annual Meeting. Our By-Laws limit the business conducted at any annual meeting to (1) business in the notice of the annual meeting, (2) business directed by the Board and (3) business brought by a stockholder of record entitled to vote at the meeting so long as the stockholder has met the requirements for submitting stockholder proposals provided in our By-Laws. Under our By-Laws, a stockholder must notify our Secretary in writing (at our Palo Alto, California headquarters) of the proposal not less than 90 days nor more than 120 days before the anniversary of the prior year's annual meeting, which for the 2015 Annual Meeting of Stockholders will be no earlier than October 23, 2014 and no later than November 22, 2014. The notice must give a brief description of the business to be brought before the annual meeting, the reasons for conducting the business and the text of the proposal, as well as the name and address of the stockholder giving the notice and the beneficial owner on whose behalf the proposal is made, the number of shares owned and information about that beneficial ownership, all as detailed in our By-Laws. The notice must also describe any material interest the stockholder or beneficial owner has in the business and arrangements between such stockholder or beneficial owner and any other person in connection with the proposal and must include certain representations, all as detailed in our By-Laws.

To have your stockholder proposal be considered for presentation in the proxy statement and proxy card for our 2015 Annual Meeting of Stockholders, rather than just voted upon at the meeting without inclusion in the proxy statement and proxy card, a stockholder must submit to our Secretary (at our Palo Alto, California headquarters) a written proposal no later than September 8, 2014. The submission must contain the information required under Rule 14a-8 under the Securities Exchange Act of 1934 (the Exchange Act).

We do not expect any matters other than those listed in this Proxy Statement to come before the Annual Meeting. If any other matter is presented, your proxy gives the individuals named as proxyholders the authority to vote your shares to the extent authorized by Rule 14a-4(c) under the Exchange Act, which includes matters that the proxyholders did not know were to be presented at least 60 days before the anniversary of the mailing of last year's proxy statement.

### **Q: How do I nominate someone to be a director?**

A: A stockholder may nominate one or more persons for election as one of our directors at an annual meeting of stockholders by notifying our Secretary in writing (at our Palo Alto, California headquarters) not less than 90 days nor more than 120 days before the anniversary of the prior year's annual meeting, which for





## **Table of Contents**

the 2015 Annual Meeting of Stockholders will be no earlier than October 23, 2014 and no later than November 22, 2014. The notice must include all information about the nominee that must be disclosed in proxy solicitations pursuant to Regulation 14A under the Exchange Act (including the nominee's written consent to being named as a nominee and serving as a director) and a description of all material monetary agreements during the past three years and any other material relationships, between such stockholder and a beneficial owner on whose behalf the nomination is made and their affiliates and associates, or others acting in concert, on the one hand, and each proposed nominee, and his/her affiliates and associates, or others acting in concert, on the other hand, including all information that would be required to be disclosed pursuant to Item 404 under Regulation S-K if the stockholder were a registrant, all as described in our By-Laws. The notice must also include certain additional information about and representations by the stockholder and/or the beneficial owner, all as detailed in our By-Laws.

### **Q: How does the Board select nominees for the Board?**

A: The Nominating Committee will consider potential candidates for directors submitted by stockholders, in addition to those suggested by other Board members and members of our management, and does not evaluate candidates differently based upon the source of the nominee. The Nominating Committee considers and evaluates each properly submitted potential candidate for director in an effort to achieve a balance of skills and characteristics on the Board, as well as to ensure that the composition of the Board at all times adheres to the independence requirements applicable to NYSE-listed companies and other regulatory requirements applicable to us. Please refer to Proposal One Election of Directors and our Corporate Governance Guidelines for additional details on our policy, process and membership criteria. A stockholder may recommend potential candidates for director by notifying our Secretary in writing (at our Palo Alto, California headquarters) as detailed in the question and answer above.

### **Q: How may I communicate with the Board of Directors?**

A: Stockholders and other interested parties may communicate directly with the Board, the Board's lead non-employee director or any other director or with the independent directors as a group or any other group of directors through the Board's lead director by sending an email to [lead.director@varian.com](mailto:lead.director@varian.com). Messages received will be forwarded to the appropriate director or directors.

### **Q: When and where is the Annual Meeting being held?**

A: The Annual Meeting will be held on Thursday, February 20, 2014 at 4:30 p.m. Pacific Time at our headquarters at 3100 Hansen Way, Palo Alto, California 94304. If you need directions to the Annual Meeting so that you may attend or vote in person, please contact our Investor Relations department at [investors@varian.com](mailto:investors@varian.com).

### **Q: How can I find the results of the Annual Meeting?**

A: Preliminary results will be announced at the Annual Meeting. Final results also will be published in a current report on Form 8-K to be filed with the SEC within four business days after the Annual Meeting. If the official results are not available at that time, we will provide preliminary voting results in the Form 8-K and will provide the final results in an amendment to the Form 8-K as soon as they become available.

**Table of Contents**

**PROPOSAL ONE**

**ELECTION OF DIRECTORS**

**Our Board; Selection of Nominees**

Our Board is divided into three classes serving staggered three-year terms. At the Annual Meeting, you and the other stockholders will elect four individuals to serve as directors for three-year terms that end at the 2017 Annual Meeting of Stockholders. If Proposals Five and Six are approved, our Board will be elected annually beginning in 2016. Proposal Five would not affect the unexpired term of any director elected prior to the Company's 2016 Annual Meeting of Stockholders.

Our Nominating Committee is charged with identifying, evaluating and recommending to the full Board director nominees. There are no minimum qualifications for director. The Nominating Committee generally seeks individuals with broad experience at the policy-making level in business, government, education, technology or public interest. While we do not have a formal diversity policy for Board membership, we look for potential candidates that help ensure that the Board has the benefit of a wide range of attributes, including cultural, gender, ethnic and age diversity; international business experience; and experience in industries beyond healthcare. We also look for financial oversight experience, financial community experience and a good reputation with the financial community; business management experience and the potential to succeed top management in the event Board intervention is necessary on an unexpected basis; business contacts, business knowledge and influence that may be useful to our businesses and product lines; and knowledge about our industries and technologies. We believe that all of our directors should be committed to enhancing stockholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform and carry out all director duties in a responsible manner. Each director must also represent the interests of all stockholders.

When seeking new director candidates, the Nominating Committee will consider potential candidates for directors submitted by Board members, members of our management and our stockholders, and does not evaluate candidates differently based upon the source of the nominee. The Nominating Committee has engaged Egon Zehnder International, an executive and director search firm, to help identify and evaluate potential candidates for additional members of the Board. In early 2013, Egon Zehnder provided the Nominating Committee with potential candidates that met guidelines established by the Board and assisted the Nominating Committee in assessing the qualifications of candidates. Regina E. Dugan was one of the candidates identified by Egon Zehnder.

All of the nominees, Susan L. Bostrom, Regina E. Dugan, Venkatraman Thyagarajan and Dow R. Wilson, are now members of the Board. In connection with the appointment of Ms. Dugan in December 2013, the Board increased the size of the Board from ten to eleven directors. The term of Richard M. Levy, who has been a director since 1999, will expire at the Annual Meeting, and the Board has approved a reduction in the size of the Board from eleven to ten directors, to be effective as of the Annual Meeting.

The individuals named as proxyholders will vote your proxy for the election of the three nominees unless you direct them to withhold your vote. If any nominee becomes unable to serve as a director before the Annual Meeting (or decides not to serve), the individuals named as proxyholders may vote for a substitute.

Set forth below are the names and ages of these nominees and the other continuing directors, the years they became directors, their principal occupations or employment for at least the past five years, the names of other public companies for which they serve as a director or have served as a director during the past five years. Also set forth are the specific experience, qualifications, attributes or skills that led our Nominating Committee to conclude that each person should serve as a director. All of our directors have held high-level positions in companies and have experience in dealing with complex issues. We believe that each is an individual of high character and integrity and has the ability to exercise sound judgment.

**Table of Contents**

**Nominees for Election for a Three-Year Term Ending with the 2017 Annual Meeting**

Susan L. Bostrom

Age 53, a director since 2004. Former Executive Vice President, Chief Marketing Officer, Worldwide Government Affairs of Cisco Systems, Inc. (a networking equipment provider) from January 2006 to January 2011. From February 2000 to January 2006, Senior Vice President of Cisco Systems, taking on responsibility for Worldwide Government Affairs in October 2002 and becoming Chief Marketing Officer in January 2006. From 1998 to February 2000, Vice President of the Internet Business Solutions Group at Cisco Systems. Ms. Bostrom is a director of Cadence Design Systems, Inc. (an electronic design company), Marketo, Inc. (a marketing automation SaaS company) and Rocket Fuel Inc. (a provider of artificial intelligence advertising solutions).

We believe Ms. Bostrom's qualifications to serve as a director include her extensive experience and leadership roles at one of the world's leading technology companies, as well as her knowledge of marketing, government affairs, public policy, and developing trends in networking and new media such as virtual collaboration, social media and information exchanges. She also brings to the Board her experience in serving on the board of directors of three public technology companies, a hospital, a university and a private company, as well as service on the advisory board for two educational institutions.

Regina E. Dugan

Age 50, a director since December 2013. Senior Vice President, Advanced Technology and Products since March 2012 at Google's Motorola Mobility LLC (a mobile technology company Google acquired in May 2012). Previously, director of Defense Advanced Research Projects Agency (DARPA, a research and development organization of the U.S. Department of Defense) from July 2009 to March 2012. From 2005 to July 2009, co-founder, president and chief executive officer of RedXDefense LLC (a security solutions company) and from 2001 to July 2009, co-founder, president and chief executive officer of Dugan Ventures (an investment firm), where Ms. Dugan still serves as a non-voting partner.

We believe Ms. Dugan's qualifications to serve as a director include her experience leading DARPA, the principal agency within the U.S. Department of Defense for research, development, and demonstration of high-risk, high-payoff capabilities, her familiarity with defense and security, as well as commercial industries. She has expertise with a wide range of advanced technologies and a demonstrated track record in moving new technologies to use, from sensor systems to big data products. She brings to the Board years of serving in senior executive positions with responsibilities that included fostering innovation and developing strategic business relationships across diverse industries and commercial entities large and small.

Venkatraman Thyagarajan

Age 67, a director since 2008. Retired. Former Senior Vice President and Area Director for GlaxoSmithKline Asia Pacific (a global pharmaceutical company) from January 2003 to April 2008. From January 2001 to December 2002, Vice President for South Asia for GlaxoSmithKline Asia Pacific and Managing Director of GlaxoSmithKline Pharmaceuticals Ltd. (an Indian pharmaceutical company). Mr. Thyagarajan is Vice Chairman of the Board of Directors of GlaxoSmithKline Pharmaceuticals Ltd. and a director of Tata Consultancy Services Ltd. (an Indian software company).

---

**Table of Contents**

We believe Mr. Thyagarajan's qualifications to serve as a director include his extensive knowledge of the global healthcare industry gained over four decades of working in different parts of the world, including Europe, Asia Pacific, India, the Middle East and Africa. He has significant operational, financial, marketing and senior management experience in one of the world's leading pharmaceutical companies. Mr. Thyagarajan also brings to the Board his experience in serving on the board of directors and the audit committee and compensation committee of other public companies.

Dow R. Wilson

Age 54, a director since September 2012. Our President and Chief Executive Officer since September 2012. Our Corporate Executive Vice President and Chief Operating Officer from October 2011 through September 2012 and Corporate Executive Vice President and President, Oncology Systems from August 2005 through September 2011. Our Corporate Vice President and President, Oncology Systems from January 2005 to August 2005. Prior to joining our Company in January 2005, Mr. Wilson served in various senior management positions within General Electric (a diversified industrial company). Mr. Wilson is on the board of directors of Saba Software, Inc. (an e-learning software provider).

We believe Mr. Wilson's qualifications to serve as a director include his deep knowledge of our business, strategy and technology, which he has gained through serving as President of our Oncology Systems business and Chief Operating Officer before becoming our President and Chief Executive Officer. Mr. Wilson had already gained significant knowledge of the medical and healthcare industries, both in the United States and internationally, while serving in management positions at General Electric. This combined executive management experience at two large, global organizations has provided him with critical insights into the operational requirements of a company with worldwide reach, knowledge of corporate and business unit strategies, and operational expertise. He also brings to the Board his experience serving on the board of directors and as the lead director of another public company.

**Recommendation of the Board**

**THE BOARD RECOMMENDS THAT YOU VOTE FOR EACH OF THE ABOVE NOMINEES.**

**Directors Continuing in Office Until the 2015 Annual Meeting**

Timothy E. Guertin

Age 64, a director since 2005. Our Vice Chairman of the Board since September 2012. Our Chief Executive Officer from February 2006 through September 2012 and President from August 2005 through September 2012. Our Chief Operating Officer from October 2004 to February 2006. Our Corporate Executive Vice President from October 2002 to August 2005 and President of our Oncology Systems business unit from 1992 to January 2005. Our Corporate Vice President from 1992 to 2002. Mr. Guertin is on the board of directors of Teradyne, Inc. (a supplier of electronics test equipment) and Kinetic Concepts, Inc. (a medical technology company).

We believe Mr. Guertin's qualifications to serve as a director include his deep knowledge of our management structure, strategy and users of our technology, which he has gained over more than 30 years with the

**Table of Contents**

Company. His service in various leadership roles, including President of our Oncology Systems business before becoming our President and Chief Executive Officer, has given Mr. Guertin extensive knowledge of radiation producing technologies, software controls and safety measures, as well as broad experience in product development, regulatory, marketing, financial and operational matters. Mr. Guertin also brings to the Board his experience in serving on the board of directors of a public company, a medical technology company, several medical, healthcare and technology industry organizations and as a director and chairman of the board of directors of TechAmerica (a nationwide technology trade association). He also serves on the board of the Radiation Oncology Institute (ROI, a non-profit organization engaged in cancer treatment research).

David J. Illingworth

Age 60, a director since August 2011. Retired. Former Chief Executive Officer of Smith & Nephew plc (a global medical devices company) from July 2007 until April 2011. From 2002 until July 2007, Chief Operating Officer and division president at Smith & Nephew. Prior to joining Smith & Nephew, served in various senior management roles, including President of XL Vision, Inc., Chairman and Chief Executive Officer of VidaMed, Inc., President of Nellcor Puritan Bennett LLC, and Managing Director, Asia/Pacific for GE Medical Systems. Mr. Illingworth served as a director of Smith & Nephew in the past five years.

We believe Mr. Illingworth's qualifications to serve as a director include his in-depth knowledge of the medical technology industry. His service as an executive of various medical technology companies has provided him with extensive experience in sales, operations and general management not only in the United States but also in the United Kingdom and Asia. Mr. Illingworth also brings to the Board his experience in serving on the board of directors of another public medical device company.

Ruediger Naumann-Etienne

Age 67, a director since 2003. Owner and Managing Director of Intertec Group (an investment company specializing in the medical technology field) since 1989. Chairman of the Board of Directors of Cardiac Science Corporation (a provider of cardiology products) from 2006 to 2010, having previously been Vice-Chairman from 2005 to 2006 and Chairman of Quinton Cardiology Systems, one of its predecessor companies, from 2000 to 2005. From 1993 to 1999, Chairman of the Board of Directors of OEC Medical Systems (a provider of interoperative imaging solutions, acquired by General Electric Company). Mr. Naumann-Etienne is a director of Encision Inc. (a provider of laparoscopic surgery instruments) and IRIDEX Corporation (a provider of light-based medical systems and delivery devices) and was a director of BioRad Laboratories, Inc. in the past five years.

We believe Mr. Naumann-Etienne's qualifications to serve as a director include experience working in the medical device business for nearly three decades, and working with a leading electronics company for a decade, in senior business and finance executive roles. Mr. Naumann-Etienne has extensive experience with finance and mergers and acquisitions, as well as international experience, having lived and worked in Europe and Latin America. He is fluent in four languages. Mr. Naumann-Etienne also brings to the Board his experience in serving as chief executive officer, Chairman or director, and a member of the audit, nominating and compensation committees, of a number of public medical device companies.

**Table of Contents**

**Directors Continuing in Office Until the 2016 Annual Meeting**

R. Andrew Eckert

Age 52, a director since 2004. Chief Executive Officer of CRC Health Corporation (a provider of substance abuse treatment and adolescent youth services) since January 2011. Previously, managing director of Symphony Technology Group (a private equity firm) from October 2009 to January 2011. From October 2005 to May 2009, Chief Executive Officer and President of Eclipsys Corporation (a healthcare information management software provider). From 2004 to 2005, Chief Executive Officer of SumTotal Systems, Inc. (an enterprise software provider). From 2002 to 2004, Chief Executive Officer of Docent Inc. (an enterprise software provider that was acquired by SumTotal Systems). Previously, Chairman and Chief Executive Officer of ADAC Laboratories (a medical imaging company) from 1997 to 2001. Mr. Eckert has served on the board of directors of Eclipsys Corporation in the past five years.

We believe Mr. Eckert's qualifications to serve as a director include his extensive experience obtained over 15 years of serving as an executive officer of several public companies, including a medical imaging company and healthcare information management company, as well as his deep knowledge of operational, financial, strategic planning, product development and marketing matters. Mr. Eckert also brings to the Board his experience in serving on the board of directors of several public companies in the healthcare industry.

Mark R. Laret

Age 59, a director since 2007. Chief Executive Officer of University of California, San Francisco Medical Center since April 2000. Chief Executive Officer of University of California, Irvine Medical Center from 1995 to March 2000. Mr. Laret is on the board of directors of Nuance Communications, Inc. (a provider of voice and language solutions).

We believe Mr. Laret's qualifications to serve as a director include his in-depth knowledge of the healthcare industry and hospital operations, and managed care industry. His service as chief executive officer of leading medical institutions has provided him with experience in strategic planning, finance, financial management of hospital and physician practice, medical education and clinical research, and business turnaround. Mr. Laret also brings to the Board his experience in serving on the board of directors of another public company in the technology sector.

Erich R. Reinhardt

Age 67, a director since August 2012. Retired. Chairman of the Board of Directors of Medical Valley Europäische Metropolregion Nürnberg E.V., a national center of excellence for scientific medical technology in Germany. Former Advisor to the Chief Executive Officer of Siemens AG from May 2008 to March 2011 and President and Chief Executive Officer of Siemens Healthcare (formerly Siemens Medical Solutions, a supplier to the healthcare industry) from 1994 to April 2008. Also served as a member of the managing board of Siemens AG from 2001 to 2008.

We believe Mr. Reinhardt's qualifications to serve as a director include his extensive experience in the medical device and healthcare industry. His service as a manager and executive in a leading international healthcare company has provided him with significant operational and international experience. Mr. Reinhardt also brings to the Board his experience in serving on the board of directors of a private healthcare company, a hospital and a research institute in Germany.

## **Table of Contents**

### **Governance of the Corporation**

#### *Corporate Governance*

We are committed to strong corporate governance, and have adopted policies and practices that comply with or exceed the NYSE listing requirements and the Exchange Act. These policies and practices include:

The Board has adopted clear corporate governance policies articulated in our Corporate Governance Guidelines, which includes basic director duties and responsibilities.

A majority of the Board members are independent of the Company and our management. The definition of independent is included in our Corporate Governance Guidelines, which can be found through the Corporate Governance link on the Investors page on our website at [www.varian.com](http://www.varian.com).

All members of our key Board committees the Audit Committee, the Compensation and Management Development Committee (the Compensation Committee ) and the Nominating Committee are independent.

The Board has appointed a lead non-employee director. As described below, Mr. Eckert has served in the capacity of lead director since February 2012.

The Board has adopted a policy under which an incumbent director in an uncontested election who is elected by a plurality but does not receive the majority of the votes cast is obligated to offer his or her resignation to the Board.

The Board has also adopted a Code of Business Ethics applicable to all of our employees, including the executive officers, and to our directors.

We have hotlines for employees to report concerns regarding ethics and financial matters, including accounting, internal controls and audit concerns, and the Audit Committee has established procedures for anonymous submission of these matters.

The Board has adopted a policy regarding conflicts of interest and related-person transactions under which potential conflicts of interest and related-person transactions must be reviewed and pre-approved by the Nominating Committee. The Nominating Committee has determined that certain categories of transactions are pre-approved under this policy. Please refer to the discussion under Certain Relationships and Related Transactions for more information on this policy and the related procedures.

The Board conducts an annual self-assessment on its effectiveness and the effectiveness of each of its committees.

Directors are expected to attend all stockholder meetings, and all current directors except Ms. Bostrom attended our 2013 Annual Meeting of Stockholders.

The Board has adopted a guideline for director retirement that provides that a director should not serve on the Board for more than 15 years or after a director reaches the age of about 75 . This guideline may be adjusted as the Board deems appropriate.

Our Corporate Governance Guidelines state that the Nominating Committee should consider recommending a new member to each committee every three years.

The Board has adopted a recoupment policy to recover certain incentive payments made to executives in the event of a restatement of our financial statements.

We did not renew our stockholders' rights plan when it expired in December 2008.

The Board encourages director continuing education through a mix of in-house and third-party presentations and programs. The Nominating Committee is charged with tracking director continuing education. We pay or reimburse directors for expenses associated with attending these continuing education events.



## **Table of Contents**

The annual cycle of agenda items for Board and committee meetings reflects Board and committee requests and changing business and legal issues. The Board receives regularly scheduled presentations from our finance and legal departments and major business units and operations. The Board's and committees' annual agenda includes, among other items, our long-term strategic plans, periodic reports on progress against long-term strategic plans, emerging and disruptive technologies, potential acquisition or investment targets, review of risks relevant to our business, capital projects and evaluation of the Chief Executive Officer and management and Board succession.

### *Director Independence*

The Board has determined that Ms. Bostrom; John Seely Brown, a director until February 2013; Ms. Dugan; Mr. Eckert; Mr. Illingworth; Mr. Laret; Mr. Naumann-Etienne; Mr. Reinhardt and Mr. Thyagarajan are independent for purposes of the NYSE listing requirements and under our Corporate Governance Guidelines. Each of Mr. Levy, our Chairman of the Board, and Mr. Wilson, our President and Chief Executive Officer, is an employee and therefore not independent. Mr. Guertin, our Vice Chairman, was an employee until February 2013, and is therefore not independent. The Board considered transactions and relationships, both direct and indirect, between each director (and his or her immediate family) and the Company and its subsidiaries and affirmatively determined that none of Ms. Bostrom, Mr. Brown, Ms. Dugan, Mr. Eckert, Mr. Illingworth, Mr. Laret, Mr. Naumann-Etienne, Mr. Reinhardt or Mr. Thyagarajan has any material relationship, either direct or indirect, with us other than as a director and stockholder.

Mr. Laret is employed as Chief Executive Officer of and has a relative that is also employed by UCSF Medical Center. UCSF Medical Center is a customer of the corporation with payments made to the corporation of approximately \$3.3 million in fiscal year 2013 and \$300,000 in fiscal year 2012. In connection with a research agreement, we paid UCSF approximately \$10,000 in fiscal year 2013. In addition, we paid to UCSF and one of its departments approximately \$6,500 and \$10,500 charitable and other donations in fiscal years 2013 and 2011, respectively. The Board determined that these amounts are immaterial and that Mr. Laret does not have any relationship that is inconsistent with a determination that he is independent, and is therefore independent for purposes of the NYSE listing requirements and under our Corporate Governance Guidelines.

Additionally, Ms. Bostrom serves as an outside director of a hospital and a university, and Mr. Brown is a visiting scholar at a university, that are customers of ours. The Board has determined that these relationships are immaterial and are not inconsistent with a determination that these directors are independent for purposes of the NYSE listing requirements and under our Corporate Governance Guidelines.

### *Board Meetings*

The Board met five times in fiscal year 2013. Four of these Board meetings included executive sessions of either the independent directors or the non-management directors, or both, with Mr. Levy presiding at meetings of the non-management directors and Mr. Eckert presiding at meetings of the independent directors. We have four standing committees of the Board: the Audit Committee, the Compensation Committee, the Nominating Committee and the Executive Committee. Each current director attended at least 75% of the total Board meetings and meetings of the committees on which they served that were held in fiscal year 2013 during the time each served as a director. Directors are encouraged to attend meetings of committees on which they do not serve as members. However, each of the Audit Committee, the Compensation Committee and the Nominating Committee regularly hold executive sessions of only the committee members or non-management directors.

### *Board Leadership Structure*

The Board has adopted Corporate Governance Guidelines designed to promote the functioning of the Board and its committees. These Guidelines address Board composition, Board functions and responsibilities, qualifications, leadership structure, committees and meetings.

---

## **Table of Contents**

Our Corporate Governance Guidelines do not indicate a particular Board structure, and the Board is given the flexibility to select its Chairman and our Chief Executive Officer in the manner that it believes is in the best interests of our stockholders. Accordingly, the Chairman and the Chief Executive Officer may be filled by one individual or two. The Board has determined that having Mr. Levy serve as Chairman and Mr. Wilson serve as Chief Executive Officer is in the best interests of the stockholders. We currently separate the roles of Chief Executive Officer and Chairman in recognition of the differences between the two roles as they are presently defined. The Chief Executive Officer is responsible for setting our strategic direction and for our day-to-day leadership and performance, while the Chairman provides guidance to the Chief Executive Officer and leads the Board. In addition, because Mr. Levy is not independent within the meaning of the NYSE listing standards, our Corporate Governance Guidelines call for one of the directors who is independent to serve as the lead director. The lead director is responsible for leading meetings of the independent directors, serves as a liaison between independent directors and the Chairman (and between the directors and the Chief Executive Officer), and has the prerogative of calling, with due notice, a meeting of the full Board and/or an executive session of the Board consisting exclusively of the non-management or independent directors. Our Board has designated Mr. Eckert as our lead independent director. Mr. Eckert has taken an active leadership role on our Board and has gained extensive knowledge of our business and history since becoming a director in 2004. The Board believes its administration of its risk oversight function has not affected the Board's leadership structure.

The Board intends to appoint a new Chairman of the Board immediately prior to the expiration at the Annual Meeting of Mr. Levy's term. If the new Chairman of the Board is determined to be independent within the meaning of the NYSE listing standards, the role of lead independent director will not be necessary in the Board's leadership structure.

### *Board Committees and Committee Meetings*

Each of our standing committees has a written charter approved by the Board that clearly establishes the committee's roles and responsibilities. Copies of the charters for the Audit Committee, the Compensation Committee, the Executive Committee and the Nominating Committee, as well as our Corporate Governance Guidelines and Code of Business Ethics, can be found through the Corporate Governance link on the Investors page on our website at [www.varian.com](http://www.varian.com). Please note that information on, or that can be accessed through, our website is not part of the proxy soliciting materials, is not deemed filed with the SEC and is not to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Exchange Act, and, except for information filed by the Company under the cover of Schedule 14A, is not deemed to be proxy soliciting materials.

*Audit Committee:* The Audit Committee performs the following principal functions:

Oversees our accounting and financial reporting process and audits of financial statements.

Assists the Board in oversight and monitoring of (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) the independent registered public accounting firm's qualifications and independence, (iv) the performance of our internal audit function and of the independent registered public accounting firm and (v) the principal risk exposures facing the corporation that are related to financial statements, legal, regulatory and other similar matters, as well as the corporation's related mitigation efforts.

Prepares the Audit Committee Report included in our proxy statement.

Reviews and approves our foreign exchange exposure management policy, including but not limited to entering swaps thereunder and the exemption of swaps from any execution and clearing requirements.

Reports to the Board the results of its monitoring and recommendations.

Provides to the Board any additional information and materials as the committee may determine is necessary to make the Board aware of significant financial matters requiring the Board's attention.



---

**Table of Contents**

The members of the Audit Committee are Mr. Naumann-Etienne (Chair), Mr. Eckert, Mr. Illingworth, Mr. Laret, Mr. Reinhardt and Mr. Thyagarajan. The Audit Committee met 12 times in fiscal year 2013. Each member of the Audit Committee meets the additional requirements regarding independence for Audit Committee members under the NYSE listing requirements. The Board has determined that Mr. Naumann-Etienne is an audit committee financial expert as defined in Item 407(d)(5) of Regulation S-K under the Exchange Act based upon his experience as the chief financial officer and principal accounting officer of Disonics, Inc. between 1984 and 1987 and as group controller for Texas Instruments Inc. between 1982 and 1984, and his formal education represented by his doctorate degree in international finance from the University of Michigan. The Board has determined that Mr. Eckert is an audit committee financial expert based upon his experience as the chief executive officer of Eclipsys Corporation from 2005 to 2009, of SumTotal Systems Inc. from 2004 to 2005, of Docent, Inc. from 2002 to 2004, and of ADAC Laboratories from 1997 to 2001, as well as other business experience, and his formal education represented by his Masters in Business Administration from the Stanford Graduate School of Business. The Board has also determined that Mr. Illingworth, Mr. Laret, Mr. Reinhardt and Mr. Thyagarajan are financially literate based upon each of their familiarity with financial statements and, for Mr. Illingworth, his experience as chief executive officer of Smith & Nephew plc; for Mr. Laret, his experience as chief executive officer of UCSF Medical Center; and for Mr. Reinhardt, his experience as president and chief executive officer of Siemens Healthcare.

*Compensation and Management Development Committee:* The Compensation Committee performs the following principal functions:

Discharges the Board's responsibilities relating to compensation of our executive officers.

Evaluates our compensation plans, policies and programs for executive officers and recommends the establishment of policies dealing with various compensation and employee benefit plans.

Administers our stock and cash incentive plans.

Provides advice on management development matters that have major implications for the growth, development and depth of our management team, including reviewing succession plans.

Reviews and discusses with management and recommends to the Board whether the disclosures under Compensation Discussion and Analysis should be included in our proxy statement.

Assesses, at least annually, the risks associated with our compensation policies, and reports to the Board and the Audit Committee whether our compensation policies and practices create risks that are reasonably likely to have a material adverse effect on us.

The Compensation Committee determines all compensation for our executive group. Before making decisions on compensation for each of the executives other than the Chief Executive Officer (CEO), the Compensation Committee reviews with our CEO each individual's performance and accomplishments over the prior year. Except for his own position, our CEO makes recommendations to the Compensation Committee about base salary increases, any changes to the incentive plan target awards and the amount of equity awards for each executive. However, the Compensation Committee retains and does not delegate any of its exclusive power to determine all matters of executive compensation and benefits. The Compensation Committee meets alone with its independent advisors to develop and establish a proposal for CEO pay. This proposal is also reviewed with the other independent members of the Board.

To independently assist and advise the Compensation Committee, the Compensation Committee has for a number of years retained Frederic W. Cook, & Co., Inc. (FWC). Additionally, beginning in February 2006, the Compensation Committee retained the services of Wilson Sonsini Goodrich & Rosati (WSGR) to provide independent legal guidance on executive compensation matters. The engagement of FWC is exclusively with the Compensation Committee, which has sole authority to retain and terminate any compensation consultant or other advisor that it uses. FWC has no relationship with the Company or management except as it may relate to performing services on behalf of the Compensation Committee. WSGR performs limited legal services for the



## **Table of Contents**

Company, and the amounts associated with these services are immaterial. The Compensation Committee has assessed the independence of these persons pursuant to SEC rules and concluded that no conflict of interest exists that would prevent them from independently representing the Compensation Committee.

Typically, on an annual basis, FWC reviews and analyzes our executive compensation programs, compensation strategy and effectiveness of pay delivery. FWC provides market information on compensation trends and practices and makes recommendations to the Compensation Committee based on competitive data. FWC advises the Compensation Committee chair on agenda items for Compensation Committee meetings, reviews management proposals and is available to perform special projects at the Compensation Committee chair's request. FWC and WSGR also periodically provide the Compensation Committee with updates on regulatory and legislative developments pertaining to executive compensation and compensation committee governance. FWC provides analyses and recommendations that inform the Compensation Committee's decisions, but does not decide or approve any compensation actions. As needed, the Compensation Committee also consults with FWC and WSGR on program design changes.

The members of the Compensation Committee are Ms. Bostrom (Chair), Mr. Eckert, Mr. Illingworth and Mr. Naumann-Etienne. The Compensation Committee met six times in fiscal year 2013. In addition to being independent, each member of the Compensation Committee is a non-employee director for purposes of the Exchange Act and is an outside director for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code).

*Nominating and Corporate Governance Committee:* The Nominating Committee performs the following principal functions:

Develops and recommends to the Board corporate governance principles, including our Corporate Governance Guidelines, Code of Business Ethics and policy regarding conflicts of interest and related person transactions.

Identifies and recommends to the Board potential nominees to the Board, including stockholder suggestions.

Reviews with the Board annually the independence, skills and characteristics of all individual members and the skills and characteristics of the Board as a whole in determining whether to recommend incumbent directors for re-election.

Evaluates and makes recommendations to the Board concerning the size of the Board, the appointment of directors to Board committees, the qualifications of committee members and the selection of Board committee chairs.

Oversees the annual review of director independence and evaluation of the Board's performance.

The members of the Nominating Committee are Mr. Laret (Chair), Mr. Reinhardt and Mr. Thyagarajan. The Nominating Committee met four times in fiscal year 2013.

*Executive Committee:* The Executive Committee performs the following principal functions:

Acts on matters when a meeting of the full Board is impracticable.

Has all the powers of the Board except those powers reserved by law to the full Board.

The members of the Executive Committee are Mr. Levy (Chair), Mr. Eckert and Mr. Naumann-Etienne. The Executive Committee did not meet in fiscal year 2013.

*Director Stock Ownership Guidelines*

## Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

To align the Board's interests with the interests of our stockholders, the Board has adopted stock ownership guidelines for its members. The guidelines state that each director should own shares of common stock (including Deferred Stock Units) with a value at least equal to five times his or her applicable annual retainer fee.

## **Table of Contents**

Directors who were first appointed or elected to the Board after February 2004 must achieve the guideline within five years after such appointment or election. At the end of fiscal year 2013, all directors met the guidelines or were within the allowed time frame for meeting the guidelines. Under our insider trading policy, purchases on margin and the buying and selling of puts and calls of Company securities are prohibited.

### *The Board's Role in Risk Oversight*

Our Company faces a number of risks, including operational, economic, financial, legal, regulatory and competitive risks. Our management is responsible for the day-to-day management of the risks we face. While our Board, as a whole, has ultimate responsibility for the oversight of risk management, it administers its risk oversight role in part through the Board committee structure, with the Audit Committee, Compensation Committee and Nominating Committee responsible for monitoring and reporting on the material risks associated with their respective subject matter areas.

The Board's role in our risk oversight process includes receiving regular reports from members of senior management, as well as external advisors such as FWC and WSGR, on areas of material risk to us, including operational, economic, financial, legal, regulatory and competitive risks. The full Board (or the appropriate committee in the case of risks that are reviewed by a particular committee) receives these reports from those responsible for the relevant risk in order to enable it to understand our risk exposures and the steps that management has taken to monitor and control these exposures. When a committee receives the report, the Chairman of the relevant committee generally provides a summary to the full Board at the next Board meeting. This enables the Board and its committees to coordinate the risk oversight role. The Audit Committee assists the Board in oversight and monitoring of principal risk exposures related to financial statements, legal, regulatory and other matters, as well as related mitigation efforts. The Compensation Committee assesses, at least annually, the risks associated with our compensation policies. See also [Compensation of the Named Executive Officers and Directors Relationship Between Compensation Plans and Risk](#). The Nominating and Corporate Governance Committee assists the Board in oversight of risks that we have relative to compliance with corporate governance standards.



**Table of Contents**

**PROPOSAL TWO**

**ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

**Background to the Advisory Vote**

Under an amendment to the Exchange Act adopted by Congress as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), stockholders are able to vote to approve, on an advisory (non-binding) basis no less frequently than once every three years, the compensation of the named executive officers (an Advisory Vote on Compensation). We submitted both our first Advisory Vote on Compensation and an advisory vote on how frequently such a vote would occur to our stockholders at our 2011 Annual Meeting of Stockholders. At that meeting, stockholders showed significant support for an annual vote. As a result, our Compensation Committee and Board submitted an Advisory Vote on Compensation at the 2012 and 2013 Annual Meetings of Stockholders and are again submitting for the vote of stockholders at the 2014 Annual Meeting an Advisory Vote on Compensation in connection with the executive officers named in this Proxy Statement (the NEOs). In each of the prior votes, stockholders holding in excess of 90% of the shares that voted cast their votes for approval of the compensation. As described more fully in the Compensation of the Named Executive Officers and Directors section of this Proxy Statement, including the Compensation Discussion and Analysis and the related tables and narrative, we design our executive compensation program to reward, retain and attract executives in order to support our business strategy; achieve our short and long-term goals; and provide continued success for our customers, stockholders, employees and communities. At the core of our executive compensation program is our pay-for-performance philosophy that links competitive levels of compensation to achievements of our overall strategy and business goals, as well as individual performance. We believe our compensation program is strongly aligned with the interests of our stockholders and sound corporate governance principles.

**Our Compensation Program**

We urge you to read the Compensation of the Named Executive Officers and Directors Compensation Discussion and Analysis section of this Proxy Statement and the tables and narrative for the details on our executive compensation, including the fiscal year 2013 compensation of our NEOs. Highlights of our executive compensation programs include the following:

We position total compensation (consisting of base salary, annual cash incentives and long-term incentive grant values) for executives, taking into account past performance, our growth targets and the high cost of living in the geographic location of our headquarters, between the median and 75th percentile of our competitive peer group.

A significant portion of our executives' compensation is at risk, where actual earn-outs or pay directly depends upon achieving both financial and individual performance goals and/or stock price appreciation.

NEOs may receive long-term equity awards subject to long-term vesting requirements. We believe these awards ensure that a significant portion of the executives' compensation is tied to long-term stock price performance and therefore align our executives' interests with those of our stockholders. Our long-term incentive awards are comprised of a balance of stock options, restricted stock units and performance-based units.

Executive perquisites are limited, and we do not provide tax gross-ups for imputed income on executive perquisites.

The Compensation Committee has adopted guidelines under which officers are expected to hold a significant amount of our common stock to discourage them from taking a short-term view of performance or exposing us to excessive risk.

Each of our executive officers is employed at will without contractual severance protection other than pursuant to the change-in-control agreements described below.



---

## Table of Contents

We believe the compensation program for our NEOs has been instrumental in helping us achieve solid financial performance despite ongoing uncertainties in the U.S. healthcare market related to the implementation of healthcare reform, cumulative cuts in reimbursements and consolidation of radiation oncology centers. Our revenues for fiscal year 2013 were \$2.9 billion, up 5% from fiscal year 2012. Net earnings per diluted share (EPS) for fiscal year 2013 were \$3.98, up 6% from \$3.76 in fiscal year 2012. While our net orders in fiscal year 2013 decreased as compared to fiscal year 2012, our gross orders were relatively consistent with the prior year and we ended fiscal year 2013 with a \$2.9 billion backlog, up slightly from the end of fiscal year 2012.

Our fiscal year 2013 financial performance, along with the individual performance of our executive officers, were key factors in determining variable compensation for fiscal year 2013, including the following:

Earnings before interest and taxes (EBIT), net orders and revenues were the key financial performance measures in determining our NEOs' annual cash incentives. These measures provide a balance between a top line (e.g., in using net orders and revenues—an example of financial measures before costs and expenses are considered) and bottom line (e.g., in using EBIT—an example of a financial measure that incorporates top line results plus costs and expenses) approach to measuring our annual performance. During fiscal year 2013 and after adjusting for exchange rate variances, net orders declined 0.2%, revenues grew 5.6%, and EBIT from continuing operations grew 5.0% in fiscal year 2013 over fiscal year 2012. Despite improved financial performance in fiscal year 2013, our achievement fell below our pre-established performance targets for the year and therefore resulted in the payment of annual cash incentive awards below target levels for our NEOs.

Base salaries: Base salaries of our NEOs increased modestly between 3% and 10% reflecting each NEO's performance and experience, as well as internal equity considerations, except for Mr. Wilson who received a 30% increase in connection with his promotion to President and CEO. As with all of our NEOs, we evaluate each individual's compensation by looking at pay for similar positions within our peer group and external competitive market pay data.

Performance-based equity awards are an integral part of our long-term incentive program. The performance-based awards vest at the end of a three-year period based primarily on growth in fully diluted EPS from continuing operations, as adjusted to reflect our total stockholder return relative to the companies in the U.S. Dow Jones Medical Equipment Index. By linking our long-term incentives to these important Company and market metrics, we seek to more closely align our NEOs' incentives with the long-term interests of our stockholders. The equity awards that were made to NEOs in fiscal year 2013 consisted of approximately one-third each in value of stock options, full-value shares (i.e., restricted stock units) and performance-based units.

The Compensation Committee will continue to analyze our executive compensation policies and practices and adjust them as appropriate to reflect our performance and competitive needs.

Based on the above, we request that you indicate your support for our executive compensation philosophy and practices, by voting in favor of the following resolution:

**RESOLVED**, that the compensation paid to the Company's named executive officers as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables and narrative discussion, is hereby APPROVED.

As an advisory vote, the vote on Proposal Two is not binding. Nonetheless, the Compensation Committee, which is responsible for designing and administering our executive compensation program, and the Board value the opinions expressed by stockholders, and will consider the outcome of the vote when making future compensation decisions for our NEOs.

### **Recommendation of the Board**

**THE BOARD RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE COMPENSATION OF OUR NEOs AS DESCRIBED IN THIS PROXY STATEMENT.**



**Table of Contents**

**PROPOSAL THREE**

**APPROVAL OF THE VARIAN MEDICAL SYSTEMS, INC.**

**MANAGEMENT INCENTIVE PLAN**

You and other stockholders are also being asked to approve the Varian Medical Systems, Inc. Management Incentive Plan (the "MIP") that provides for performance-based incentive compensation to executives and key employees. Section 162(m) of the Internal Revenue Code ( "Section 162(m) ") requires that the stockholders approve the material terms of the MIP at least every five years. The MIP was last approved by the stockholders at the 2009 Annual Meeting of Stockholders.

**Background and Reason for Approval**

Under Section 162(m), the federal income tax deductibility of compensation paid to our Chief Executive Officer and the next three most highly compensated executive officers (other than our Chief Financial Officer) may be limited to the extent that it exceeds \$1,000,000 in any one year. However, we may deduct compensation in excess of \$1,000,000 to the extent it qualifies as performance-based compensation under Section 162(m). The MIP is intended to allow us to pay incentive compensation that qualifies as performance-based compensation if all of the requirements of Section 162(m) are satisfied. Among other requirements, Section 162(m) requires that the material terms of plans that provide for incentive compensation, including the performance goals and maximum award amounts, be approved by our stockholders every five years. For purposes of this five-year approval requirement, the MIP was most recently approved and adopted by our stockholders at the 2009 Annual Meeting of Stockholders.

**Description of the Management Incentive Plan**

The following paragraphs provide a summary of the principal features of the MIP and its operation. The MIP is set forth in its entirety as [Appendix A](#) to this Proxy Statement. The following summary is qualified in its entirety by reference to [Appendix A](#).

**Purpose of the Management Incentive Plan**

The MIP is intended to motivate our key employees to increase stockholder value by (1) linking a portion of employees' cash compensation to our financial and operational performance, (2) providing rewards for improving financial and operational performance and (3) helping to attract and retain key employees.

**Administration of the Management Incentive Plan**

The Compensation Committee administers the MIP. The members of the Compensation Committee must qualify as outside directors under Section 162(m) for purposes of qualifying the MIP as performance-based compensation under that section. Subject to the terms of the MIP, the Compensation Committee has the sole discretion to determine the key employees who shall be granted awards, and the amounts, terms and conditions of each award. The Compensation Committee may delegate its authority to grant and administer awards to one or more officers or directors appointed by the Compensation Committee, but only with respect to awards that are not intended to qualify as performance-based compensation under Section 162(m).

**Eligibility to Receive Awards**

The Compensation Committee in its discretion determines eligibility for the MIP. In selecting participants for the MIP, the Compensation Committee chooses key employees of the Company and its affiliates who are likely to have a significant impact on our performance.

---

## **Table of Contents**

### **Awards and Performance Goals**

Under the MIP, the Compensation Committee establishes (1) the performance goals that must be achieved in order for the participant to actually be paid an award and (2) a formula or table for calculating a participant's award, depending upon how actual performance compares to the pre-established performance goals. A participant's award will increase or decrease as actual performance increases or decreases.

The Compensation Committee also determines the periods for measuring actual performance—the performance period—which may last as long as three fiscal years.

The Compensation Committee may set performance periods and performance goals that differ from participant to participant. For example, the Compensation Committee may choose performance goals based on either Company-wide or business unit results, as deemed appropriate in light of the participant's specific responsibilities. For purposes of qualifying awards as performance-based compensation under Section 162(m), the Compensation Committee will specify performance goals from the following list: EBIT, EBITDA, earnings per share, net income, operating cash flow, return on assets, return on equity, return on sales, revenue, stockholder return, orders or net orders, expenses, cost of goods sold, profit/loss or profit margin, working capital, operating income, cash flow, market share, return on equity, economic value add, stock price of our stock, price/earnings ratio, debt or debt-to-equity ratio, accounts receivable, cash, write-off, assets, liquidity, operations, intellectual property (e.g., patents), product development, regulatory activities, manufacturing, production or inventory, mergers, acquisitions or divestitures, financings, days sales outstanding, backlog, deferred revenue, and employee headcount. Under the MIP, certain performance goals are specifically defined. EBIT means the Company's or a business unit's income before reductions for interest and taxes. EBITDA means the Company's or a business unit's income before reductions for interest, taxes, depreciation and amortization. Earnings per share means the Company's or a business unit's net income, divided by a weighted average number of common shares outstanding and dilutive common equivalent shares deemed outstanding. Net income means the Company's or a business unit's income after taxes. Operating cash flow means the Company's or a business unit's sum of net income plus depreciation and amortization less capital expenditures plus certain specified changes in working capital. Return on assets means the percentage equal to the Company's or a business unit's EBIT (before incentive compensation), divided by the Company's or a business unit's, as applicable, average net assets. Return on equity means the percentage equal to the Company's net income, divided by average stockholders' equity. Return on sales means the percentage equal to the Company's or a business unit's EBIT (before incentive compensation), divided by the Company's or the business unit's, as applicable, revenue. Revenue means the Company's or a business unit's net sales. Net orders means the Company's or a business unit's net orders calculated for and reported in the Company's quarterly financial earnings press release. Stockholder return means the total return (change in share price plus reinvestment of any dividends) of a share.

For any performance period, no participant may receive an award of more than \$3,000,000. Also, the total of all awards for any performance period cannot exceed 8% of the Company's EBIT before incentive compensation for our most recently completed fiscal year. Awards that exceed this overall limit will be pro-rated so that the total does not exceed the limit.

### **Determination of Actual Awards**

After the end of each performance period, a determination is made as to the extent to which the performance goals applicable to each participant were achieved or exceeded. The actual award (if any) for each participant is determined by applying the formula to the level of actual performance that was achieved. However, the Compensation Committee retains discretion to eliminate or reduce the actual award payable to any participant below that which otherwise would be payable under the applicable formula. Awards under the MIP generally are payable in cash or shares of our common stock no later than the 15th day of the third month following the end of the performance period during which the award was earned.

**Table of Contents****Recoupment Policy**

The MIP provides that, in the event of a restatement of incorrect financial results, the Board will review the conduct of executive officers in relation to the restatement. If the Board determines that an executive officer has engaged in misconduct or other violations of the Company's code of ethics in connection with the restatement, the Board would, in its discretion, take appropriate action to remedy the misconduct, including, without limitation, seeking reimbursement of any portion of performance-based or incentive compensation paid or awarded to the executive under the MIP that is greater than would have been paid or awarded if calculated based on the restated financial results, to the extent not prohibited by governing law. Such action by the Board would be in addition to any other actions the Board or the Company may take under the Company's policies, as modified from time to time, or any actions imposed by law enforcement, regulators or other authorities.

**Awards Under the Management Incentive Plan**

Awards under the MIP are made at the discretion of the Compensation Committee and the actual payout amount of awards depends on performance. Accordingly, the future awards and payouts that will be made under the MIP are not yet determinable. The following table sets forth information concerning cash awards made for fiscal year 2013 under the MIP to the executive officers named in our Summary Compensation Table, our executive officers as a group and our non-executive officer employees as a group. This information is not indicative of awards that will be made in the future.

Name	Dollar Value
Dow R. Wilson President and Chief Executive Officer	\$ 792,446
Elisha W. Finney Executive Vice President, Finance and Chief Financial Officer	\$ 337,721
Kolleen T. Kennedy Senior Vice President and President, Oncology Systems	\$ 383,552
Robert H. Kluge Senior Vice President and President, Imaging Components Businesses	\$ 331,789
John W. Kuo Senior Vice President, General Counsel and Corporate Secretary	\$ 215,293
Executive Officers as a Group	\$ 2,177,490
Non-Executive Officer Employees as a Group	\$ 580,879

**Amendment and Termination of the Management Incentive Plan**

The Board may amend or terminate the MIP at any time and for any reason without stockholder approval. However, if the material terms of the MIP (within the meaning of Section 162(m)) are amended, stockholder approval would be required in order for compensation to qualify as performance-based compensation under Section 162(m). In addition, an amendment or termination of the MIP may not, without participant consent, alter or impair any rights or obligations under any target award previously granted to the participant.

**Recommendation of the Board**

**THE BOARD RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE MANAGEMENT INCENTIVE PLAN.**

**Table of Contents****PROPOSAL FOUR****RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED****PUBLIC ACCOUNTING FIRM****Selection of the Accounting Firm**

The Audit Committee has appointed PricewaterhouseCoopers LLP ( PwC ) as our independent registered public accounting firm to perform the audit of our financial statements for fiscal year 2014, and we are asking you and other stockholders to ratify this appointment. Since 1962, PwC or its predecessors has been our independent accounting firm, first as Lybrand, Ross Bros. & Montgomery from 1962 until 1972, then as Coopers & Lybrand from 1972 to 1997, and subsequently as PwC from 1998 to the present.

The Audit Committee annually reviews the independent registered public accounting firm's independence, including reviewing all relationships between the independent registered public accounting firm and us and any disclosed relationships or services that may impact the objectivity and independence of the independent registered public accounting firm, and the independent registered public accounting firm's performance. Additionally, the Audit Committee also noted that our PwC engagement audit partner is subject to regular rotation and the most recent rotation occurred in fiscal year 2013. As a matter of good corporate governance, the Board, upon recommendation of the Audit Committee, has determined to submit to stockholders for ratification the appointment of PwC. In the event that a majority of the shares of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote on Proposal Four does not ratify this appointment of PwC, the Audit Committee will review its future appointment of PwC.

We expect that a representative of PwC will be present at the Annual Meeting and that representative will have an opportunity to make a statement if he or she desires and will be available to respond to appropriate questions.

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm**

The Audit Committee must pre-approve all audit and permissible non-audit services to be provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally requested annually and any pre-approval is detailed as to the particular service, which must be classified in one of the four categories of services. The Audit Committee may also, on a case-by-case basis, pre-approve particular services that are not contained in the annual pre-approval request. In connection with this pre-approval policy, the Audit Committee also considers whether the categories of pre-approved services are consistent with the rules on accountant independence of the SEC.

**Principal Accountant Fees and Services**

The following is a summary of the fees billed or to be billed to us by PwC for professional services rendered for the fiscal years ended September 27, 2013 and September 28, 2012:

<b>Fee Category</b>	<b>Fiscal Year 2013</b>	<b>Fiscal Year 2012</b>
Audit Fees	\$ 3,843,365	\$ 3,446,259
Audit-Related Fees	218,874	346,821
Tax Fees	641,212	801,888
All Other Fees	22,740	27,400
<b>Total Fees</b>	<b>\$ 4,726,191</b>	<b>\$ 4,622,368</b>

*Audit Fees.* Consist of fees billed or to be billed for professional services rendered for the annual audit of our consolidated financial statements (as well as the related attestation report on the Company's internal control over financial reporting) and review of the interim consolidated financial statements included in Form 10-Q Quarterly Reports and services that PwC normally provides in connection with statutory and regulatory filings or engagements.





## **Table of Contents**

*Audit-Related Fees.* Consist of fees billed or to be billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit Fees. These services include consultations concerning financial accounting and reporting standards and accounting consultations in connection with acquisitions.

*Tax Fees.* Consist of fees billed or to be billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance, assistance with tax reporting requirements and audit compliance, tax planning, consulting and assistance on business restructuring and tax advice on mergers and acquisitions. Tax compliance fees were approximately \$492,003 and \$342,000 in fiscal years 2013 and 2012, respectively. All other tax fees were approximately \$149,000 and \$460,000 in fiscal years 2013 and 2012, respectively.

*All Other Fees.* Consist of fees for products and services other than the services reported above. All Other Fees for fiscal years 2013 and 2012 were primarily related to (1) the application of financial accounting and reporting standards to specific operational matters and (2) other attestations to ensure regulatory compliance.

The Audit Committee determined that PwC's provision of these services, and the fees that we paid for these services, are compatible with maintaining the independence of the independent registered public accounting firm. The Audit Committee pre-approved all services that PwC provided in fiscal years 2013 and 2012 in accordance with the pre-approval policy discussed above.

## **Recommendation of the Board**

**THE BOARD RECOMMENDS THAT YOU VOTE FOR RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2014.**

**Table of Contents**

**PROPOSAL FIVE**

**APPROVAL OF AN AMENDMENT TO THE VARIAN MEDICAL SYSTEMS, INC. RESTATED**

**CERTIFICATE OF INCORPORATION TO ELIMINATE THE CLASSIFIED BOARD**

Currently, our Restated Certificate of Incorporation, as amended ( Certificate of Incorporation ), divides the Board into three classes, with members of each class holding office for staggered three-year terms. We are asking you to adopt and approve an amendment to Article V of our Certificate of Incorporation to phase out the present three-year, staggered terms of our directors and instead provide for the annual election of directors beginning with our 2016 Annual Meeting of Stockholders, subject to the approval of Proposal Six to eliminate cumulative voting.

**Background**

Article V of our Certificate of Incorporation currently requires that our Board be divided into three classes. One class of directors, representing approximately one-third of our directors, stands for election for a three-year term at each annual meeting of stockholders.

A nonbinding stockholder proposal urging the Board to eliminate the classification of the Board was included in our Proxy Statement for the 2013 Annual Meeting of Stockholders and received favorable votes from approximately 56% of the outstanding shares of the Company's common stock. The Board and the Nominating Committee of the Board regularly consider and evaluate a broad range of corporate governance issues affecting the Company. A classified board may offer several advantages, including promoting stability, continuity and independence. Having experienced directors on the Board is important because of the unique demands of overseeing our company, due to the complexity of our products and the specialized industries and markets in which we operate. The directors also considered that many investors believe that a classified board structure reduces accountability of directors to stockholders because directors do not face an annual election. After weighing these and other considerations, and as a way of implementing the stockholder proposal presented at the 2013 Annual Meeting of Stockholders, the Board, at the recommendation of the Nominating Committee, has determined to ask stockholders to approve an amendment to the Certificate of Incorporation that eliminates our current classified Board structure.

We are requesting that the elimination of our classified board be effective for director terms commencing at the 2016 Annual Meeting of Stockholders. Consistent with the stockholder proposal, the unexpired term of any director elected prior to the effectiveness would not be affected. We believe that this effective date is in the best interests of the Company and its stockholders, because it will allow us to execute on our new CEO's long-term vision without the potential changes and risk of distraction that might come from Board declassification. Dow R. Wilson assumed the position of President and CEO in October 2012, just over one year ago. We have appointed three new independent directors to our Board in just over two years, and our Chairman's term expires and a new Chairman will be appointed as of the Annual Meeting. The Company has recently launched significant initiatives, and because of our lengthy business cycle it may take some time to realize the benefits of these initiatives. We believe that it is in the Company's best interests to allow this new team to focus and execute on our goals and set the Company's direction with the current board structure intact until our 2016 Annual Meeting of Stockholders. We respect the opinion of our stockholders, and we believe that the stockholders interests are better served by allowing the team time to prove their long-term vision.

**Summary of Proposed Declassification Amendment**

The elimination of the classified board would require an amendment to our Certificate of Incorporation. A copy of Article V of our Certificate of Incorporation showing the changes that would be implemented upon stockholder approval of this Proposal Five is attached as [Appendix B](#) to this Proxy Statement. The Board also intends to consider amendments to our By-Laws that would make the By-Laws consistent with the proposed amendment to eliminate the classified Board.

## **Table of Contents**

A summary of the proposed declassification amendment (the Proposed Declassification Amendment ) is included below and is qualified by the full text of the Proposed Declassification Amendment attached as Appendix B to this Proxy Statement.

If the Proposed Declassification Amendment and the elimination of cumulative voting in Proposal Six are both approved by our stockholders, Article V of our Certificate of Incorporation would provide that directors be elected for one-year terms beginning with the 2016 Annual Meeting of Stockholders. This proposal, if approved, would not affect the unexpired term of any director elected prior to the 2016 Annual Meeting of Stockholders, such that:

Directors elected at the Annual Meeting will be elected for a three-year term ending in 2017, will serve out their term in full and they or their successors will stand for election at the 2017 Annual Meeting of Stockholders, and subsequent annual meetings, for a one-year term.

Directors elected at the 2013 Annual Meeting of Stockholders will serve out their current term in full and they or their successors will stand for election at the 2016 Annual Meeting of Stockholders, and subsequent annual meetings, for a one-year term.

Directors elected at the 2012 Annual Meeting of Stockholders will serve out their current term in full and they or their successors will stand for election at the 2015 Annual Meeting of Stockholders for a three-year term and will serve out their three-year term in full until the 2018 Annual Meeting of Stockholders. They or their successors will then stand for election at the 2018 Annual Meeting of Stockholders, and subsequent annual meetings, for a one-year term.

Beginning with our 2018 Annual Meeting of Stockholders, and at each annual meeting thereafter, our entire Board would stand for election for a one-year term, and there would no longer be any designation by classes.

## **Required Vote**

The Proposed Declassification Amendment requires the approval of the majority of our outstanding shares of common stock entitled to vote thereon. The Proposed Declassification Amendment is conditioned upon stockholder approval of the elimination of cumulative voting amendment in Proposal Six below. If stockholders approve the Proposed Declassification Amendment but do not approve the elimination of cumulative voting amendment, the Proposed Declassification Amendment will not be implemented.

If approved, the Proposed Declassification Amendment would become effective upon the filing of the Articles of Amendment with the Secretary of State of the State of Delaware, which we would do promptly after the Annual Meeting.

## **Recommendation of the Board**

**THE BOARD RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF AN AMENDMENT TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO DECLASSIFY THE BOARD.**

**Table of Contents**

**PROPOSAL SIX**

**APPROVAL OF AN AMENDMENT TO THE VARIAN MEDICAL SYSTEMS, INC.**

**RESTATED CERTIFICATE OF INCORPORATION TO ELIMINATE CUMULATIVE VOTING**

Our Certificate of Incorporation provides that when electing directors, stockholders may exercise cumulative voting rights. Less than five percent of S&P 500 companies allow for cumulative voting. Under cumulative voting, each holder of common stock is entitled to that number of votes equal to the number of directors being elected, including vacancies, for each share held. Each stockholder may give one candidate, who has been nominated prior to voting, all the votes such stockholder is entitled to cast or may distribute such votes among as many candidates as such stockholder chooses. Cumulative voting is problematic because it may allow a minority stockholder disproportionate and inequitable influence to advance its own special interests in director elections to the detriment, and contrary to the desires, of a majority or even plurality of the stockholders. This concern is especially magnified when combined with a declassified board. Therefore, we are asking you to adopt and approve an amendment to Article V of our Certificate of Incorporation to eliminate cumulative voting rights commencing with our 2016 Annual Meeting of Stockholders, subject to the approval of Proposal Five to eliminate our classified board.

**Background**

In reviewing our classified board structure, the Board and Nominating Committee also reviewed our Certificate of Incorporation provision on cumulative voting. Our Certificate of Incorporation permits stockholders to exercise cumulative voting rights when electing directors. As explained above, each holder of common stock is entitled to that number of votes equal to the number of directors being elected, including vacancies, for each share held. Each stockholder may give one candidate, who has been nominated prior to voting, all the votes such stockholder is entitled to cast or may distribute such votes among as many such candidates as such stockholder chooses.

According to a recent survey, fewer than five percent of S&P 500 companies have cumulative voting. Cumulative voting with a non-classified board structure can allow a hostile bidder or minority stockholder to exert influence in the election of directors that is very disproportionate to such stockholder's actual stock ownership percentage. We believe this level of influence is inequitable and potentially detrimental to the interests of the vast majority of our stockholders. With a classified board structure, cumulative voting can encourage entities interested in bidding for the Company to negotiate with the Board, thereby enhancing the Board's ability to protect the interests of stockholders, because it generally would be more difficult to gain control of the Board as part of a hostile transaction when fewer directors in a classified board are being elected. However, if our classified board is eliminated, substantially less stock would be required to elect representatives to, and gain control of, the Board, and a minority stockholder would therefore be able to disproportionately influence the composition of the Board, potentially harming the interests of stockholders.

For example, if there is a contested election with a declassified board of directors where all directors are elected annually, all 10 director positions would be up for election at a single annual meeting. With plurality voting and cumulative voting, if there are 11 nominees for these 10 positions, a minority stockholder (or group of stockholders) owning as little as 9.2% of the Company's outstanding shares would be able to elect a director by cumulating votes for a single candidate, even if stockholders owning 90.8% of the Company did not support that nominee and cast all of their votes to elect the 10 other nominees. The minority stockholder (or group of stockholders) could hold even less than 9.2% (and this could be substantially less) and still elect a director to the extent other stockholders withheld votes from the 10 other nominees, which is a predictable circumstance in public company director elections.

Our Nominating Committee and Board believe that eliminating cumulative voting in conjunction with declassifying the Board will best ensure that stockholder interests in director elections are fairly and equitably represented consistent with actual stock ownership percentages. The Board believes that, in the absence of a

## **Table of Contents**

classified board, each director should only be elected if the director represents the interest of all stockholders, rather than the interest of a minority stockholder or special constituency, and therefore only if the director receives a plurality of the votes cast. Accordingly, the Board, after review and deliberation, determined that, in the absence of a classified board, eliminating cumulative voting of directors is in the best interests of the Company and its stockholders.

The elimination of cumulative voting would require an amendment to our Certificate of Incorporation.

### **Summary of Proposed Amendment to Eliminate Cumulative Voting**

If the proposal to eliminate cumulative voting (the Elimination of Cumulative Voting Amendment ) and the Proposed Declassification Amendment in Proposal Five are both approved, the third paragraph of Article V of our Certificate of Incorporation will be deleted and a new sentence will be added indicating that cumulative voting will not be permitted in elections of directors, commencing with the 2016 Annual Meeting of Stockholders. A copy of Article V of our Certificate of Incorporation showing the changes that would be implemented upon stockholder approval of this Proposal Six is attached as Appendix C to this Proxy Statement.

### **Required Vote**

The Elimination of Cumulative Voting Amendment requires the approval of the majority of our outstanding shares of common stock entitled to vote thereon. The Elimination of Cumulative Voting Amendment is conditioned upon stockholder approval of the Proposed Declassification Amendment. If stockholders approve the Elimination of Cumulative Voting Amendment but do not approve the Proposed Declassification Amendment, the Elimination of Cumulative Voting Amendment will not be implemented.

If approved, the Elimination of Cumulative Voting Amendment would become effective upon the filing of the Articles of Amendment with the Secretary of State of the State of Delaware, which we would do promptly after the Annual Meeting.

### **Recommendation of the Board**

**THE BOARD RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF AN AMENDMENT TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO ELIMINATE CUMULATIVE VOTING.**

## Table of Contents

### **AUDIT COMMITTEE REPORT**

The Audit Committee of the Board of Directors (the "Audit Committee") consists of the six directors whose names appear below. Each member of the Audit Committee meets the definition of "independent director" and otherwise qualifies to be a member of the Audit Committee under the New York Stock Exchange listing requirements.

The Audit Committee's general role is to assist the Board in monitoring the Company's financial reporting process and related matters. Its specific responsibilities are set forth in its charter. The Audit Committee reviews its charter at least annually, and did so in the November 2013 Audit Committee meeting.

As required by the charter, the Audit Committee reviewed the Company's financial statements for fiscal year 2013 and met with management, as well as with representatives of PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, to discuss the financial statements. The Audit Committee also discussed with members of PricewaterhouseCoopers LLP the matters required to be discussed by the Statement on Auditing Standards 61, *Communication with Audit Committees*, as amended (AICPA, *Professional Standards*, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

In addition, the Audit Committee received the written disclosures and letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding PricewaterhouseCoopers LLP's communications with the Audit Committee concerning independence and discussed with members of PricewaterhouseCoopers LLP its independence from management and the Company.

Based on these discussions, the financial statement review and other matters it deemed relevant, the Audit Committee recommended to the Board that the Company's audited financial statements for fiscal year 2013 be included in the Company's Annual Report on Form 10-K for the fiscal year ended September 27, 2013.

Furthermore, in connection with the standards for independence promulgated by the Securities and Exchange Commission, the Audit Committee reviewed the services provided by PricewaterhouseCoopers LLP, the fees the Company paid for these services, and whether the provision of the services is compatible with maintaining the independence of the independent registered public accounting firm. The Audit Committee deemed that the provision of the services is compatible with maintaining that independence.

The Audit Committee has selected PricewaterhouseCoopers LLP to be the Company's independent registered public accounting firm for fiscal year 2014. In doing so, the Audit Committee considered the results from its review of PricewaterhouseCoopers LLP's independence, including (a) all relationships between PricewaterhouseCoopers LLP and the Company and any disclosed relationships or services that may impact their objectivity and independence, (b) PricewaterhouseCoopers LLP's performance and qualification as an independent registered public accounting firm and (c) the fact that the PricewaterhouseCoopers LLP engagement audit partner is rotated on a regular basis as required by applicable laws and regulations. As a matter of good corporate governance, the Audit Committee has determined to submit its appointment of PricewaterhouseCoopers LLP to the stockholders for ratification. In the event that a majority of the shares of common stock present or represented at the Annual Meeting and entitled to vote on the matter does not ratify this appointment, the Audit Committee will review its future appointment of PricewaterhouseCoopers LLP.

*Ruediger Naumann-Etienne (Chair)*

*R. Andrew Eckert*

*David J. Illingworth*

*Mark R. Laret*

*Erich R. Reinhardt*

*Venkatraman Thyagarajan*

**Table of Contents****STOCK OWNERSHIP****Beneficial Ownership of Certain Stockholders, Directors and Executive Officers**

This table shows as of November 22, 2013: (1) the beneficial owners of more than five percent of our common stock and the number of shares they beneficially owned based on information provided in their most recent filings with the SEC; and (2) the number of shares each director, each nominee for director, each named executive officer and all directors, nominees for director and executive officers as a group beneficially owned, as reported by each person. Except as otherwise indicated, the address of each is 3100 Hansen Way, Palo Alto, California 94304. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. Except as noted, each person has sole voting and investment power over the shares shown in this table. For each individual and group included in the table below, the percentage ownership is calculated by dividing the number of shares beneficially owned by the person or group, which includes the number of shares of common stock that the person or group had the right to acquire on or within 60 days after November 22, 2013 by the sum of the 105,939,395 shares of common stock outstanding on November 22, 2013, plus the number of shares of common stock that the person or group had the right to acquire on or within 60 days after November 22, 2013.

	<b>Amount and Nature of Common Stock Beneficially Owned</b>	
	<b>Number of Shares Beneficially Owned</b>	<b>Percent of Class</b>
<b>Stockholders</b>		
The Vanguard Group, Inc. (1) 100 Vanguard Blvd. Malvern, PA 19355	6,549,991	6.18%
Harris Associates L.P. (2) (Harris Associates, Inc.) Two North La Salle Street, Suite 500 Chicago, IL 60602-3790	5,778,000	5.45%
<b>Directors, Nominees for Director and Executive Officers</b>		
Susan L. Bostrom (3)	23,780	*
Regina E. Dugan		*
R. Andrew Eckert (4)	37,897	*
Timothy E. Guertin (5)	787,237	*
David J. Illingworth (6)	12,616	*
Mark R. Laret (7)	29,027	*
Richard M. Levy (8)	117,907	*
Ruediger Naumann-Etienne (9)	22,027	*
Erich R. Reinhardt (10)	6,071	*
Venkatraman Thyagarajan (11)	22,621	*
Dow R. Wilson (12)	521,356	*
Elisha W. Finney (13)	299,033	*
Kolleen Kennedy (14)	21,347	*
Robert H. Kluge (15)	60,557	*
All directors, nominees for director and executive officers as a group (15 persons) (16)	2,004,430	1.86%

\* The percentage of shares of common stock beneficially owned does not exceed one percent of the shares of common stock outstanding at November 22, 2013.

(1) Based on a Schedule 13G/A filed February 11, 2013, The Vanguard Group, Inc. has sole power to vote 195,594 of these shares, sole power to dispose of 6,365,897 of these shares and shared power to dispose of 184,094 shares.





**Table of Contents**

- (2) Based on a Schedule 13G/A filed February 11, 2013, Harris Associates L.P. and its General Partner, Harris Associates, Inc., have sole power to vote and sole power to dispose of all of these shares.
- (3) Amount shown includes 15,000 shares that may be acquired under exercisable stock options. Also includes 4,027 Deferred Stock Units that have vested but that are subject to deferred distribution.
- (4) Amount shown includes 28,000 shares that may be acquired under exercisable stock options. Also includes 4,027 Deferred Stock Units that have vested but that are subject to deferred distribution.
- (5) Amount shown includes 677,222 shares that may be acquired under stock options exercisable on or within 60 days of November 22, 2013. Also includes 1,071 Deferred Stock Units that have vested but that are subject to deferred distribution and 61,332 shares held in a trust of which Mr. Guertin is the trustee.
- (6) Amount shown includes 10,000 shares that may be acquired under exercisable stock options. Also includes 2,616 Deferred Stock Units that have vested but that are subject to deferred distribution.
- (7) Amount shown includes 25,000 shares that may be acquired under exercisable stock options. Also includes 4,027 Deferred Stock Units that have vested but that are subject to deferred distribution.
- (8) Amount shown includes 85,000 shares that may be acquired under stock options exercisable on or within 60 days of November 22, 2013. Also includes 32,907 shares held in a trust of which Mr. Levy is co-trustee with his wife, as to which voting and investment powers are shared with Mr. Levy's wife.
- (9) Amount shown includes 18,000 shares that may be acquired under exercisable stock options. Also includes 4,027 Deferred Stock Units that have vested but that are subject to deferred distribution.
- (10) Amount shown includes 5,000 shares that may be acquired under exercisable stock options. Also includes 1,071 Deferred Stock Units that have vested but that are subject to deferred distribution.
- (11) Amount shown includes 15,000 shares that may be acquired under exercisable stock options. Also includes 4,027 Deferred Stock Units that have vested but that are subject to deferred distribution.
- (12) Amount shown includes 469,882 shares that may be acquired under stock options exercisable on or within 60 days of November 22, 2013.
- (13) Amount shown includes 268,278 shares that may be acquired under stock options exercisable on or within 60 days of November 22, 2013. Also includes 22,126 shares held in a trust of which Ms. Finney is co-trustee with her husband, as to which voting and investment powers are shared with Ms. Finney's husband.
- (14) Amount shown includes 12,139 shares that may be acquired under stock options exercisable on or within 60 days of November 22, 2013.

- (15) Amount shown includes 27,278 shares that may be acquired under stock options exercisable on or within 60 days of November 22, 2013.
- (16) Amount shown includes 1,680,290 shares that may be acquired under stock options exercisable on or within 60 days of November 22, 2013 and 117,903 shares held in trusts, including those described in footnotes 5, 8 and 12.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Under U.S. securities laws, directors, certain officers and persons holding more than 10% of our common stock must report their initial ownership of the common stock and any changes in that ownership to the SEC. The SEC has designated specific due dates for these reports and we must identify in this Proxy Statement those persons who did not file these reports when due. Based solely on our review of copies of the reports filed with the SEC and written representations of our directors and executive officers, we believe that each person who at any time during the 2013 fiscal year was a director or an executive officer or persons holding more than 10% of our common stock filed the required reports on time in fiscal year 2013. Mr. Wilson was late in filing a Form 5 reporting a gift of stock in 2011.

---

**Table of Contents**

**COMPENSATION OF THE NAMED EXECUTIVE OFFICERS AND DIRECTORS**

**Compensation Discussion and Analysis**

This Compensation Discussion and Analysis ( CD&A ) provides information about the fiscal year 2013 compensation program of our NEOs. For fiscal year 2013, our NEOs were:

Dow R. Wilson, President and CEO

Elisha W. Finney, Executive Vice President, Finance and Chief Financial Officer ( CFO )

Kolleen T. Kennedy, Senior Vice President and President, Oncology Systems

Robert H. Kluge, Senior Vice President and President, Imaging Components Businesses

John W. Kuo, Senior Vice President, General Counsel and Corporate Secretary

Mr. Wilson became our President and CEO at the beginning of fiscal year 2013, when our former President and CEO, Mr. Timothy Guertin, retired from the position. Mr. Wilson served as our Corporate Executive Vice President and Chief Operating Officer from October 2011 to September 2012. He previously served as Corporate Executive Vice President and President, Oncology Systems from August 2005 through September 2011 and Corporate Vice President and President, Oncology Systems from January 2005 to August 2005.

**Executive Summary**

*Fiscal Year 2013 Financial Performance*

Despite ongoing uncertainties in the U.S. healthcare market related to the implementation of healthcare reform, cumulative cuts in reimbursements for freestanding clinics and consolidation of radiation oncology centers, we delivered solid financial results in fiscal year 2013 and positioned ourselves for longer-term growth and success. Below are some financial highlights from the year:

**Revenues & Net Orders**

*(dollars in millions)*

**Earnings**

*(dollars in millions)*

Our revenues for fiscal year 2013 were \$2.9 billion, up 5% from fiscal year 2012. Net earnings per diluted share for fiscal year 2013 were \$3.98, up 6% from \$3.76 in fiscal year 2012. While our net orders in fiscal year 2013 decreased as compared to fiscal year 2012, our gross orders were relatively consistent with the prior year and we ended fiscal year 2013 with a \$2.9 billion backlog, up slightly from the end of fiscal year 2012. We believe the compensation program for the NEOs has been instrumental in helping us achieve this financial performance.

## **Table of Contents**

### *Fiscal Year 2013 Executive Compensation Relative to Company Performance*

Our fiscal year 2013 financial performance, along with the individual performance of our executive officers, were key factors in determining executive compensation for fiscal year 2013. Their total direct compensation ( TDC ) contains three main components: base salary, annual cash incentives and long-term incentives. We design our compensation programs such that base salaries are a lesser proportion of the TDC than targeted at-risk compensation (annual and long-term cash incentives), which we believe are more closely aligned with our financial performance and our stockholders' interests.

#### **Compensation of our NEOs**

#### **Stockholder Return**

*(dollars in millions)*

**Base Salaries:** Mr. Wilson received a 29.8% salary increase in connection with his promotion to President and CEO. Salary increases for the other NEOs fairly reflected each NEO's performance and experience, as well as internal equity considerations.

**Annual Cash Incentives:** Our fiscal year 2013 financial performance fell below the financial targets set under our MIP and therefore resulted in payment of annual cash incentive awards at an average 80% of target levels for our NEOs.

**Long-term Incentives:** We continued to grant our NEOs long-term incentives, which make up approximately 60% to 70% of their total compensation. Long-term incentives consist of approximately one-third each in value of stock options, full-value shares (*i.e.*, restricted stock units ( RSU )) and performance-based units ( PSU ) that vest based on long-term growth in EPS and performance of our common stock against the Dow Jones U.S. Medical Equipment Index. We believe our emphasis on long-term incentives results in a healthy alignment between our NEOs' pay and our stockholders' realized returns.

In aggregate, aside from the increase in compensation resulting from Mr. Wilson's promotion to President and CEO in fiscal year 2013, TDC for our NEOs in fiscal year 2013 increased modestly from fiscal year 2012, which is consistent with our pay philosophy and aligned with our financial and stock performance.

#### **Executive Compensation Program Design**

The remaining sections of this CD&A provide details about our executive compensation as follows:

Compensation Philosophy and Practices

Role of the Compensation and Management Development Committee

Compensation Committee Advisor Independence

Elements of Our Executive Compensation Program



## Table of Contents

Determining Executive Compensation

Fiscal Year 2013 Salary, Annual Cash Incentives and Long-Term Incentive Decisions

Other Elements of Our Executive Compensation Program

### Compensation Philosophy and Practices

We design our executive compensation program to reward, retain and attract executives in order to support our business strategy, achieve our short- and long-term goals, and provide continued success for our customers, stockholders, employees and communities. We strive to pay competitively and appropriately based on Company, business unit and individual performance.

We provide competitive base salaries to our executives in recognition of their job responsibilities and consider individual work experience, knowledge, and internal parity among peers when setting salary levels.

We position TDC (consisting of base salary, annual cash incentives and long-term incentive grant values) for executives taking into account past performance, our growth targets and the high cost of living in the geographic location of our headquarters, with resulting amounts that are generally between the median and 75th percentile of our peer group.

The Compensation Committee structures cash compensation for executives so that a significant portion is at-risk under the MIP, which is our annual cash incentive plan for executives. The 2013 MIP pool available for senior executives was based on fiscal year 2013 Earnings Before Interest and Taxes ( EBIT ), with 80% of the potential payout based on Company and business unit financial performance measures and 20% based on other measures, including non-financial qualitative measures. For our NEOs in fiscal year 2013, target bonus opportunities ranged from 68% to 113% of annual base salary.

Moreover, we believe that a significant portion of TDC should be tied to our stock performance so executives' interests are closely aligned with those of our stockholders. This provides incentives for our executives to work for long-term profitable growth that will ultimately enhance stockholder returns without exposing us to excessive risk. As further described below, our equity compensation program for fiscal year 2013 consisted of stock options, RSUs and PSUs.

Our executive compensation program contains many features considered to be best practice, including:

Executive officers are employed at will without contractual severance protection other than pursuant to the change-in-control agreements described below.

A significant portion of our executive compensation is at-risk, where actual earn-outs or pay directly depends upon achieving both financial and individual performance goals and/or stock price appreciation.

Executive perquisites are limited and we do not provide tax gross-ups for imputed income on executive perquisites.

Under our stock ownership guidelines, officers are expected to hold a significant amount of our common stock to discourage them from taking a short-term view of performance or exposing us to excessive risk.

We require our executives to enter into 10b5-1 trading plans in order to sell their Company stock.

## Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

Our insider trading policy prohibits directors and executive officers from engaging in any margining, pledging or hedging activity involving our common stock.

Our equity incentive plan prohibits the repricing of stock options without stockholder approval.

Incentive compensation paid to executives is subject to clawback in the event that our financial statements require restatement as a result of executive misconduct.



## Table of Contents

Our succession plans are reviewed and actively discussed at least annually.

We annually assess the risks associated with our compensation policies and programs.

Committee independence and advisor independence are reviewed annually.

### Role of the Compensation and Management Development Committee

The Compensation Committee oversees the development and administration of our executive compensation program, including the underlying philosophy and related policies, and provides advice to the Board on matters related to executive development, including leading the Board's evaluation of CEO performance and approving succession plans for the CEO and other select executives.

The Compensation Committee determines all compensation for our executive group, which for fiscal year 2013 was comprised of our executive officers (as defined in the Exchange Act rules), all other corporate officers and other executive-level employees whose annual salaries exceed \$400,000 annually. In fiscal year 2013, this group was comprised of 12 individuals. Additionally, the Compensation Committee may choose to review compensation for other executive-level employees as it deems appropriate. The Compensation Committee's responsibilities include reviewing and establishing base salaries and incentive opportunities, equity compensation, executive perquisites and any other form of compensation. The Compensation Committee also reviews our CEO's compensation with the other independent directors.

### Compensation Committee Advisor Independence

The Compensation Committee has retained Frederic W. Cook & Co., Inc. ( FWC ), an independent outside compensation consulting firm, to advise the Compensation Committee on all matters related to executive officer compensation. Additionally, the Compensation Committee has retained the services of Wilson Sonsini Goodrich & Rosati ( WSGR ) to provide independent legal guidance on executive compensation matters.

The Compensation Committee adopted enhanced independence standards for outside advisors that mirror the NYSE listing standards. This policy established an assessment framework to confirm and report on an advisor's independence. It also requires advisors to confirm their independent status according to the Compensation Committee's standard. The Compensation Committee reviews and confirms the independence of its outside advisors on an annual basis.

In May 2013, the Compensation Committee evaluated the independence of its advisors. In connection with this process, the Compensation Committee reviewed, among other items, a letter from each independent advisor addressing its independence and the members of the consulting team serving the Compensation Committee, including the following six factors: (1) other services provided by the advisor's firm; (2) fees as a percent of the advisor's firm's total revenues; (3) policies and procedures of the advisor's firm to prevent conflicts of interest; (4) any business or personal relationships between the advisor and any member of the Compensation Committee; (5) whether any of our stock is owned by the advisor or the advisor's firm; and (6) any business or personal relationships between the advisor and any of our executive officers. The Compensation Committee concluded that the work performed by the advisors did not raise any conflict of interest.

### Elements of Our Executive Compensation Program

The direct compensation of our executives is comprised of three principal elements: (1) base salary, (2) annual cash incentives and (3) long-term incentives. We also provide perquisites of relatively limited value for the convenience of our executives so that their time can be most effectively directed toward Company matters. The Compensation Committee, as part of its evaluation of the overall compensation of each NEO, reviews these elements individually and total compensation as a whole and compares each against competitive compensation data.

## **Table of Contents**

**Base Salaries:** Base salaries for our executives are determined by the Compensation Committee based upon the qualitative and quantitative factors such as: job level, responsibilities and experience; individual performance; and competitive benchmarking and internal equity. Our intent is to objectively position TDC for our executives in an appropriate competitive range that is generally between the median and 75th percentile for fully experienced and fully competent performers.

Base salaries are designed to be a lesser proportion of TDC than our executives' targeted at-risk compensation (*i.e.*, annual cash incentive and equity or equity-based pay). The proportion of at-risk compensation rises as an employee's level of responsibility and influence on business-related outcomes increases. Annual base salary increases, for all executives, are based on the analysis provided by the Compensation Committee's independent consultant and, except in the case of the CEO, recommendations by the CEO to the Compensation Committee. Please refer to the discussion under "Fiscal Year 2013 Salary, Annual Incentive and Long-Term Incentive Decisions - Base Salaries" below for more information. The effective date of any increase in an executive's base salary is generally on or about January 1 of each year.

**Annual Cash Incentives:** The MIP provides an opportunity to earn annual performance-based cash incentives to reward the achievement of total-Company and/or specific business unit financial and non-financial goals. The Compensation Committee, working with management, establishes performance goals for the MIP in the first quarter of the fiscal year.

**Long-term Incentives:** Equity and equity-based awards to our executives are designed to reward stockholder value creation, align executives' interests with those of the stockholders and retain outstanding talent, all at a reasonable cost to stockholders. The fiscal year 2013 awards to NEOs consisted of approximately one-third each in value of stock options, RSUs and PSUs.

**Other Compensation and Perquisites:** Our executives are eligible to participate in our nonqualified Deferred Compensation Plan ("DCP"). In addition to allowing our NEOs to defer portions of their compensation, the DCP allows us to make discretionary supplemental retirement contributions ("Company Supplemental Contributions") beyond what we can contribute to participants' 401(k) retirement accounts due to Internal Revenue Code limitations. Please refer to the narrative discussion following the Nonqualified Deferred Compensation Table in this Proxy Statement for more information about the DCP. The DCP is intended to promote retention by providing both for Company Supplemental Contributions and a tax-efficient long-term savings opportunity.

Our use of perquisites is limited. Perquisites include: use of a Company-leased vehicle; reimbursement of expenses for financial and tax planning up to \$6,500 per year (except for the CEO, whose financial and tax planning expenses are not capped); and reimbursement for annual medical examinations up to \$4,000 per year. We believe that these limited benefits generally allow our executives to work more efficiently and, in the case of financial and tax planning services, help them optimize the value received from our compensation and benefit programs. The costs of these perquisites were only approximately 2.9 percent of TDC for the NEOs as a group in fiscal year 2013.

In addition, we allow and include in an executive's compensation, as applicable, aircraft use attributable to permitted spousal travel on our fractionally owned aircraft or on commercial airplanes when that travel is determined to be valuable and appropriate for business purpose. We do not permit our executives to use our fractionally owned aircraft for purely personal trips.

The NEOs are eligible to participate in our health and welfare programs, Employee Stock Purchase Plan, 401(k) retirement program, matching gifts program and other broad-based benefit and insurance programs on the same basis as other employees. Effective in fiscal year 2013, NEOs no longer participate in our Employee Incentive Plan ("EIP"). The EIP is a Company-wide incentive plan through which eligible employees may

## **Table of Contents**

receive award payouts denominated in number of hours from 0 hours to 120 hours (based on a 40-hour work week), with 60 hours being the annual target achievement level. The performance targets under the EIP are the same as the corporate financial goals under the MIP.

### **Determining Executive Compensation**

In determining executive compensation for fiscal year 2013, the Compensation Committee assessed our overall performance against pre-defined financial metrics, our stock-price performance, achievement of non-financial qualitative goals and peer and market performance during the same period. The Compensation Committee also reviewed management's business plans and financial budgets and projections, including analyzing the difficulty of achieving them. Our executive compensation philosophy has historically based a substantial portion of executive compensation on achieving financial performance and business goals to align executives' interests with those of stockholders as described in more detail below.

Before making decisions on compensation for each of the executives, the Compensation Committee reviews each NEO's business (or functional area) and individual performance for the fiscal year with our CEO. Except for his own position, the CEO makes recommendations to the Compensation Committee about base salary increases, any changes to the MIP target awards and, if equity or equity-based awards are to be made, the value of such awards for each executive. The Compensation Committee takes into account the CEO's recommendations, external market data and each executive's performance, as reviewed with the CEO, as well as internal equity within the Company. Additionally, the Compensation Committee considers the retention value of any existing unvested equity awards that each executive has prior to determining annual equity grants.

In addition, the Compensation Committee meets in executive session with its independent advisors to develop and establish a proposal for CEO pay. This proposal is also reviewed with the other independent directors. In connection with this process, the Compensation Committee annually evaluates our CEO's performance. In doing so, our Compensation Committee chair gathers evaluations from the Chairman of the Board, other independent directors, certain members of the CEO's direct reports and a self-assessment by the CEO. The resulting information is reviewed by the full Board (exclusive of the CEO) in executive session to provide a basis for determining CEO compensation as well as for providing constructive feedback to the CEO.

FWC annually reviews and analyzes our executive compensation program, compensation strategy and effectiveness of pay delivery. FWC provides market information on compensation trends and practices and makes recommendations to the Compensation Committee based on competitive data. FWC advises the Compensation Committee chair on agenda items for Compensation Committee meetings, reviews management proposals and performs special projects at the Compensation Committee chair's request. FWC and WSGR also regularly update the Compensation Committee on regulatory and legislative developments pertaining to executive compensation and compensation committee governance. FWC provides analyses and recommendations that assist the Compensation Committee in making decisions, but does not decide or approve any compensation actions. As needed, the Compensation Committee also consults with FWC and WSGR on program design changes.

*Competitive Benchmarks:* FWC annually evaluates and makes recommendations regarding the peer companies that we use for competitive comparisons of our executive and non-employee director compensation. For fiscal year 2013, our peer group remained the same as fiscal year 2012. It consisted of 13 publicly traded medical, healthcare or scientific equipment manufacturing companies. In selecting our peer group from major labor and/or capital competitors, the Compensation Committee looks for companies that have (1) revenues and market-capitalization values that are roughly no more than four times and no less than one-third of ours; and (2) roughly similar growth and performance potential, as measured by the following metrics (computed over one-year and three-year periods): diluted earnings per share growth, EBIT growth, revenue growth and total stockholder return (TSR).

**Table of Contents**

Our peer group companies for fiscal year 2013 were as follows:

Alere, Inc.	Hospira, Inc.	Stryker Corporation
Becton Dickinson and Company	IDEXX Laboratories, Inc.	Thermo Fisher Scientific Inc.
C.R. Bard, Inc.	Intuitive Surgical, Inc.	Zimmer, Inc.
Edwards Life Sciences LLC	ResMed Inc.	
Hologic Inc.	St. Jude Medical, Inc.	

*Internal Pay Equity:* The Compensation Committee considers internal pay equity when determining our CEO's compensation. The following metrics were noted for fiscal years 2013 and 2012.

Fiscal Year	Using Target Non-Equity Incentive Compensation Data			
	Total Cash Compensation (1)		Total Direct Compensation (4)	
	CEO vs. Second Highest Paid Executive (2)	CEO vs. Average NEO (3)	CEO vs. Second Highest Paid Executive (2)	CEO vs. Average NEO (3)
	(2)	NEO (3)	(2)	NEO (3)
2013	1.83	2.08	2.33	2.60
2012	1.59	2.10	1.75	2.52

- (1) TCC = Salary (reported in the Summary Compensation Table) plus MIP based on target participation levels for the stated fiscal year.
- (2) The Second Highest Paid Executive in fiscal year 2013 was Ms. Finney and in fiscal year 2012 was Mr. Wilson when he served as the Executive Vice President and Chief Operating Officer.
- (3) Average NEO represents relevant compensation of the NEOs, excluding the CEO.
- (4) TDC = TCC (as described in footnote 1) plus the grant date fair value of equity and equity-based awards (reported in the Stock Awards and Option Awards columns of the Summary Compensation Table).

*Focus on At-Risk Performance-Based Rewards:* We believe that there should be a strong relationship between pay and performance (both financial results and stock price), and our executive compensation program reflects this relationship. In particular, MIP and equity-based awards represent a significant portion of our executive compensation program and this variable compensation is at-risk because it directly depends upon the achievement of pre-established financial and qualitative goals and stockholder value creation:

Annual cash incentives are intended to link executive rewards to total-Company and business unit performance upon achieving pre-determined short-term financial targets and individual goals.

The exercise price of stock options is equal to the fair market value of our common stock on the date of grant, so the options will yield value to the executive only if the stock price appreciates.

PSU awards are tied to long-term growth in EPS, as adjusted for the performance of our common stock against the TSR of companies in the Dow Jones U.S. Medical Equipment Index over a three-year period, so our rewards are tied to both absolute performance and performance relative to our peer group.

RSUs remain a component of the executive's equity awards, equating to approximately one-third of the value of each NEO's equity awards. The Compensation Committee believes that this element provides a strong retention component to our overall compensation program.

**Table of Contents**

The following chart shows each NEO's allocation of fiscal year 2013 target TDC between base salary, cash incentives and equity compensation elements. Additionally, the chart shows each NEO's allocation between long-term incentives (stock options, RSUs and PSUs) and short-term components (base salary and MIP). All elements, except base salary, are considered at risk:

(1) At-risk compensation.

(2) Data from the Summary Compensation Table.

(3) MIP is based on target participation levels for fiscal year 2013.

*Fiscal Year 2013 Salary, Annual Incentive and Long-Term Incentive Decisions*

*Base Salaries:* The Compensation Committee considers a number of factors when reviewing and setting base salaries for the NEOs, including median and 75<sup>th</sup> percentile competitive data, individual performance, level of responsibility, experience, and the relationship between base salaries paid to other executives. The Compensation Committee approved the following 2013 base salary increases:

Name	2012 Base Salary		2013 Base Salary	% Increase	
	(effective December 24, 2011 to December 21, 2012)				
Dow R. Wilson	\$	693,264	\$	900,000	29.8%
Elisha W. Finney	\$	557,024	\$	573,735	3.0%
Kolleen T. Kennedy	\$	500,000	\$	550,066	10.0%
Robert H. Kluge	\$	437,091	\$	463,316	6.0%
John W. Kuo	\$	400,987	\$	417,027	4.0%

In connection with his promotion to President and CEO, the Compensation Committee approved a 29.8% salary increase, effective September 29, 2012, for Mr. Wilson. This increase and increases of the other NEOs fairly reflected each NEO's performance and experience, as well as internal equity considerations. The resulting target TCC for each NEO was between the median and the 75th percentile of the competitive data.

*Annual Cash Incentives:* On November 9, 2012, the Compensation Committee set the fiscal year 2013 performance goals under the MIP for the NEOs and certain other executives. The annual cash incentives under

**Table of Contents**

the MIP for our executive officers (including the NEOs) are intended to comply with the exception for performance-based compensation under Section 162(m) of the Internal Revenue Code. For fiscal year 2013, the Compensation Committee established a pool of funds equal to 1.25% of our fiscal year 2013 EBIT results (the MIP Bonus Pool ) to be available for annual cash incentives under the MIP to the executive officers. The Compensation Committee retained negative discretion to pay each of these executives less than their corresponding maximum share of the MIP Bonus Pool. The maximum amount for each executive officer was the lesser of two times the target participation level of each executive under the MIP or a specified percentage of the MIP Bonus Pool (as listed later).

For fiscal year 2013, the Compensation Committee based 80% of each MIP award on achievement of total-Company and business unit financial performance and 20% on other measures, including non-financial, qualitative measures generally unique to each NEO. As the financial performance measures, the Compensation Committee selected growth in EBIT (40% weight), net orders (20% weight) and revenues (20% weight). EBIT growth is a traditional measure of bottom line growth that we believe is closely followed by our investors. The other two measures are top-line growth (*i.e.*, financial measures before any costs and expenses are considered) that we have also used previously. The Compensation Committee believed that it was important for us to continue to focus on profit and earnings, but that the remaining emphasis should be obtaining orders for and completing the sale of our products. In connection with establishing performance goals for fiscal year 2013, the Compensation Committee first reviewed and discussed with both management and the full Board our business plan and its key underlying assumptions, expectations and uncertainties under existing and anticipated market conditions, and the opportunity to generate stockholder value. The Compensation Committee attempted to set goals for fiscal year 2013 that, in the opinion of the Compensation Committee, were relatively difficult and required a performance level that was better than the prior year to attain payout at the target level.

EBIT, revenues and net orders were calculated for purposes of the MIP in accordance with pre-established rules that were generally in accordance with the determinations of these measures in our SEC filings. The Compensation Committee did, however, exclude the following items from the calculation of EBIT for purposes of establishing the fiscal year 2013 MIP Bonus Pool and for calculating the three financial performance measures:

Results from acquisitions made during the fiscal year.

Performance associated with discontinued operations.

The following one-time non-recurring charges to the extent each individual item was greater than 1% of pre-tax operating income: any single legal contingent liability or settlement with third parties; restructuring charges relating to acquisitions made during the prior year; reverse divestures; all (external and incremental) transaction costs associated with acquisitions during the fiscal year; new accounting pronouncements requiring companies to restate prior and/or current year financial statements; impairment charges associated with goodwill, long-lived assets and investments; and costs (net of savings) associated with unplanned reductions in force that were not in our fiscal year 2013 budget.

In addition, our financial performance for the purpose of MIP was calculated using the budgeted exchange rate for the Euro and the Japanese yen established for fiscal year 2013 in accordance with accounting principles generally accepted in the United States ( GAAP ) to eliminate any unintended effects of currency fluctuations.

There is no payout for achievement below or at threshold performance. Payout may begin at 1% above threshold performance. At target performance the payout percentage is 100% of target payout and at maximum the payout percentage is double the target payout. The payout percentage for the financial performance goals was not linear from threshold-to-target levels and from target-to-maximum levels. The slopes of each curve and the placements of the inflection points were uniquely designed to take into account the varying degrees of difficulty to achieve the results. Payouts with respect to the 90% to 100% achievement range were designed to broadly align to the range of our fiscal year 2013 financial outlook that we provided in our October 25, 2012 earnings press release. Payouts with respect to the 0% to 85% achievement range and above the 115% level generally

**Table of Contents**

carried a steeper slope than payouts with respect to the 85% to 115% achievement range. The steeper slope in the 0% to 85% achievement range was intended to drive performance above the 85% level and to meet or exceed our financial outlook. The steeper slope in the 115% to 200% achievement range was intended to reward for performance that was considered difficult to very difficult to achieve.

The remaining 20% of each potential MIP award related to that NEO's achievement of qualitative goals, which varied by individual. There was no weighting assigned to achieving or failing to achieve any of these goals, and the determination of any payment for performance versus such goal achievement was left to the discretion of the Compensation Committee. The Compensation Committee took into consideration the CEO's assessments of and recommendations relative to the other NEOs' achievement of the pre-defined qualitative goals. The maximum individual actual awards for the NEOs were capped at the lower of 200% of the target award or a specified percentage of the MIP Bonus Pool (as described later).

The weighting of total-Company and individual business units' financial performance and individual non-financial qualitative performance under the MIP for fiscal year 2013 was as follows:

Name	Total Company Financial Goals	Oncology Systems Financial Goals (business unit)	X-ray Products Financial Goals (business unit)	Individual Non-Financial (Qualitative) Performance
Dow R. Wilson	80%			20%
Elisha W. Finney	80%			20%
Kolleen T. Kennedy	40%	40%		20%
Robert H. Kluge	40%		40%	20%
John W. Kuo	80%			20%

The Compensation Committee assigned each of our executives a target and maximum payout at the beginning of the fiscal year, expressed as a percentage of his or her base salary as of fiscal year end, as well as a maximum expressed as a percentage of the MIP Bonus Pool. The target incentives were established after evaluating job responsibilities, pay equity among the executive group and competitive market data. Based on these considerations, the Compensation Committee set the target percentage participation levels under the MIP for the NEOs as follows:

The Compensation Committee increased Mr. Wilson's target percentage from 85% to 113% in connection with his promotion to President and CEO.

Ms. Finney's target percentage was adjusted from 80% to 83% as result of the elimination of EIP plan participation effective fiscal year 2013.

Ms. Kennedy, Mr. Kluge and Mr. Kuo's target percentages were increased from 75% to 83%, 65% to 78% and 60% to 68%, respectively, to better align their competitive target total cash pay positioning and/or to reflect changes in their job responsibilities, as well as compensation for the elimination of EIP plan participation in fiscal year 2013.

Name	Target	Maximum (the lesser of the following)	
	As a % of base salary	As a % of base salary	As a % of MIP Bonus Pool
Dow R. Wilson	113%	226%	37%
Elisha W. Finney	83%	166%	17%
Kolleen T. Kennedy	83%	166%	17%
Robert H. Kluge	78%	156%	13%
John W. Kuo	68%	136%	10%





**Table of Contents**

The fiscal year 2013 financial performance goals for the MIP and the actual results are shown below:

	Threshold Performance (1)	Target (100% Achievement) (2)	Maximum Performance	Fiscal Year 2013 Results
<b>Total Company (4)</b>				
EBIT Growth/(Decline)	(1.8%)	6.5%	17.1%	5.0%
Revenue Growth	0.6%	8.8%	15.9%	5.6%
Net Orders Growth/(Decline)	0.4%	7.3%	14.2%	(0.2%)
<b>Oncology Systems (5)</b>				
EBIT Growth (3)/(Decline)	(1.7)%	3.2%	9.6%	4.0%
Revenue Growth	0.0%	5.8%	12.0%	3.9%
Net Orders Growth/(Decline)	0.0%	6.0%	12.0%	(3.2%)
<b>X-Ray Products</b>				
EBIT Growth (3)	2.0%	10.9%	20.0%	10.1%
Revenue Growth	2.0%	11.5%	18.0%	10.8%
Net Orders Growth	2.0%	13.1%	20.0%	15.0%

- (1) Any achievement at or below threshold performance would result in zero MIP payout for that element.
- (2) Target growth rates for EBIT and revenue were set at the higher end of the growth range of the fiscal year 2013 financial outlook.
- (3) Performance targets excluded allocation of corporate expenses to better reflect true business results. Allocation of corporate expense for each business unit is generally determined based on a fixed percent of the business unit sales revenue.
- (4) The impact from using the budgeted exchange rate for the Euro and the Japanese yen established for fiscal year 2013 added \$17 million, \$21 million and \$24 million to EBIT, Revenue Growth and Net Order Growth results, respectively, for the purpose of MIP calculation.
- (5) The impact from using the budgeted exchange rate for the Euro and the Japanese yen established for fiscal year 2013 added \$14 million, \$21 million and \$25 million to EBIT, Revenue Growth and Net Order Growth results, respectively, for the purpose of MIP calculation. The remaining 20% of the fiscal year 2013 MIP award was determined based on individual, non-financial qualitative performance. Although Mr. Wilson submitted recommendations with respect to each of the other NEOs, the determination of the amount of this component of the MIP was left to the discretion of the Compensation Committee. The achievement of qualitative performance goals by each NEO included the following:

**Mr. Wilson, President and CEO**

Grew total-Company revenue in fiscal year 2013 by 6% on a constant currency basis (or 5% on a reported basis) and EPS by 6%, each measured against fiscal year 2012. Ended the year with a healthy \$2.9 billion backlog.

Achieved positive progress in all areas of our strategic initiatives global growth, innovation, software and service, commercializing protons and operational excellence, as further explained below.

## Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

Continued to strengthen our presence in Brazil, Russia, India and China (BRIC countries), including adding new leadership.

Created Oncology Continuum Solutions, an organization focused on building our software business, and reorganized the Security and Inspection Products ( SIP ) business under the leadership of Mr. Kluge, who also manages our X-Ray Products business.

Achieved an important landmark for the particle therapy business with the filing of an application for 510(k) clearance on our proton therapy system with the U.S. Food and Drug Administration.

**Table of Contents**

Continued our focus on compliance, productivity and operational excellence, including launching several internal initiatives in the fiscal year with positive results.

Ms. Finney, Executive Vice President, Finance and CFO

Issued timely and accurate financial statements, with strong internal controls over financial reporting.

Achieved \$455 million in cash flow for the fiscal year, continuing strong performance from prior years. Secured a new \$800 million credit facility to support various corporate activities.

Executed a 6 million share stock repurchase program.

Further strengthened the global finance team by bringing on new leaders in key regions.

Continued our investment in compliance programs.

Ms. Kennedy, Senior Vice President and President, Oncology Systems

Compared to fiscal year 2012, grew Oncology Systems gross orders by 2% to \$2.6 billion for fiscal year 2013 and revenue by 3% to \$2.3 billion for fiscal year 2013. Grew gross orders in international markets by 6%, or 9% in constant currency, with strong performance in several international markets, including Brazil, China and Japan. Expanded our global footprint in emerging markets.

Delivered strong results in our services business (which accounted for over 35% of Oncology Systems fiscal year 2013 revenue), with \$864 million of revenues in fiscal year 2013 (11% growth over fiscal year 2012).

Continued focus on innovation and new product development, such as our EDGE radiosurgery suite, and most recently, our RapidPlan software for enhancing the quality, standards, speed, and cost efficiency of treatment planning. Increased our research and development to focus on global product opportunities and software.

Mr. Kluge, Senior Vice President and President, Imaging Components Businesses

Drove growth in gross orders by 15% to \$585 million and growth in revenue by 11% to \$546 million for fiscal year 2013 .

Grew the X-ray tubes revenues by 8% in fiscal year 2013 over fiscal year 2012, and the panel business by 14% over the same period.

Successfully reorganized the SIP business, including establishing a new strategic focus and capitalizing on synergies with the X-Ray Products business.

Mr. Kuo, Senior Vice President and General Counsel and Corporate Secretary

## Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

Led a successful cross functional initiative relating to commercial excellence, which among other things sought to create greater process efficiencies and investigate and implement financing structures to facilitate orders from certain emerging markets.

Successfully restructured Legal Department to provide greater alignment with businesses and global strategy and to provide a scalable platform for legal support.

Supported enhancement of various compliance programs around the world.

Provided successful oversight and management of key legal matters and maintained strong corporate governance and legal risk management to the high confidence of the Board of Directors.

**Table of Contents**

In fiscal year 2013, target, maximum and actual payouts, based on the total-Company financial performance, business unit financial performance (if applicable) and individual performance including the Compensation Committee's discretionary adjustment under the MIP for our NEOs were as follows:

Name	Target Participation Level (% of Base Salary)	Target Payment (if 100% target performance achieved)	Maximum Payout 2 times target (1)	Fiscal Year 2013 Payment (based on actual performance)
Dow R. Wilson	113%	\$ 1,017,000	\$ 2,034,000	\$ 792,446
Elisha W. Finney	83%	\$ 476,200	\$ 952,400	\$ 337,721
Kolleen T. Kennedy	83%	\$ 456,555	\$ 913,110	\$ 383,552
Robert H. Kluge	78%	\$ 361,386	\$ 722,773	\$ 331,789
John W. Kuo	68%	\$ 283,578	\$ 567,157	\$ 215,293

(1) Based on maximum for each NEO, calculated as twice their target participation level, which amount for fiscal year 2013 was lower than each NEO's specified percentage of the MIP Bonus Pool.

*Long-Term Incentives:* Annually, the Compensation Committee reviews the prevalence of the different grant types and equity award mixes among our peers, and the number of shares that remain available for grant under the Varian Medical Systems, Inc. Third Amended and Restated 2005 Omnibus Stock Plan ( Third Amended Stock Plan ).

In determining the appropriate equity grants, the Compensation Committee reviews our share usage based on several methodologies: (1) the annual share usage, both gross and net of forfeitures ( run rate ), (2) potential dilution as a percentage of fully diluted shares outstanding ( overhang ), and (3) the aggregate expense of grants as a percent of total-Company market capitalization, both gross and net of forfeitures the Stockholder Value Transfer Rate ( SVT ). The Compensation Committee compares all three of these rates to competitive practices of our peer group. In addition, the Compensation Committee reviewed the competitive three-year average allocation of SVT to each peer's top-five NEOs at the median and 75th percentiles, then current competitive grant values, relative pay equity considerations against other senior positions within the Company and individual performance, to determine the value of the equity grants it made on November 9, 2012.

The Compensation Committee's practice is to make periodic grants of equity awards to eligible employees (including executive officers), which over the past five years have been in approximately 12- to 18-month intervals. We did not make any equity awards in fiscal year 2011 but made awards of stock options, RSUs, and PSUs in early fiscal years 2012 and 2013, at the November meetings of the Compensation Committee.

Set forth below are the number of stock options, RSUs and PSUs (at threshold, target and maximum levels) awarded to the NEOs on November 9, 2012:

Name	Option Awards	RSUs	Performance Units		
	#	#	Threshold (#)	Target (#)	Maximum (#)
Dow R. Wilson	78,534	21,790	0	18,816	28,224
Elisha W. Finney	29,668	8,232	0	7,108	10,662
Kolleen Kennedy	27,923	7,747	0	6,690	10,035
Robert H. Kluge	29,668	8,232	0	7,108	10,662
John W. Kuo	20,942	5,811	0	5,018	7,527

The first 33 1/3% of the stock options granted in November 2012 vest 12 months from the grant date and the remainder vest in equal monthly installments during the following 24-month period. The RSUs vest and are settled in equal amounts of shares of our common stock on the first, second and third anniversaries of the date of grant. In both cases, a recipient must be employed by us throughout the vesting period for full vesting to occur, except in cases involving retirement, death or a change in control, where full or partial payouts are made depending on various circumstances.



## Table of Contents

The PSUs awarded on November 9, 2012 to the NEOs and certain other executives consist of the right to receive shares of common stock, based upon performance against pre-established performance metrics during a three-year performance period that ends at the end of fiscal year 2015. Target and maximum PSUs are provided, with the number of shares earned on account of performance at the end of the three-year performance period between threshold and target or between target and maximum determined in accordance with specified performance curves. There is no payout at or below threshold. The number of shares to be awarded increases linearly from threshold to maximum level. The maximum is limited to 150% of the target PSUs. The PSUs will cliff-vest (*i.e.*, 100% vests at one time) at the end of the three-year performance period provided the recipient is employed by us throughout the vesting period, except in cases involving retirement, death or change in control, where full or partial payouts are made depending on various circumstances.

The primary performance metric used to determine if and how many shares of our common stock are received pursuant to the PSUs is growth in fully diluted EPS from continuing operations, which is measured annually and averaged over the three fiscal years in the performance period. The secondary performance metric, which is applied as a modifier, is our relative TSR versus the Dow Jones U.S. Medical Equipment Index. The index currently consists of approximately 40 companies including us. TSR is measured annually using a 90-calendar day stock price average before the beginning and end of the three-year performance period. This modifier is limited to adjusting upward and downward the shares earned based on achievement against the primary performance metric by 25%, and is determined based on our percentile placement in the index. Based on market survey information, EPS and TSR were the most common performance metrics used in performance-based equity-based awards in the past few years. The Compensation Committee believed the advantages of selecting EPS growth included that it was a highly visible indicator of performance and it was already tracked by investment analysts as a measure of our performance. The Compensation Committee also believed pairing EPS with TSR supplied an external focus that complemented the internally focused EPS metric, directly aligning the executive's interests with those of our stockholders (*e.g.*, stock price return).

The Compensation Committee will exclude the following items in calculating fully diluted EPS from continuing operations applicable to the fiscal year 2013 PSU award:

Material change (defined as an impact of greater than or equal to three cents per share to EPS) in existing and/or new tax laws, unless the Company is required to restate a prior period included in the three-year performance period;

Any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in our quarterly and annual reports for the applicable year;

The effect of any changes in accounting principles affecting the Company's or a business unit's reported results;

For any companies acquired during the three-year performance period, the impact is limited to 100% of the one-time acquisition costs and amortization expense of intangible assets in the entire three-year period, but only if the impact to earnings after taxes exceeds \$1 million in any one year during the three-year performance period; and

Unplanned legal settlements if the impact to EPS is greater than or equal to three cents per share.

In determining appropriate level of equity awards, the Compensation Committee compares the relative positioning of the NEOs against competitive benchmarking data. Given our unique equity grant cycle (approximately 12- to 18-month intervals in the past five years), both annualized and annual long-term incentive values were considered in the comparison.

The equity awards granted in November 2012 for Mr. Wilson, Ms. Finney, Ms. Kennedy and Mr. Kuo positioned them between the median and the 75th percentile of the competitive data for long-term incentive award value. Although awards granted to Mr. Kluge positioned him above the 75th percentile of the competitive



**Table of Contents**

data for long-term incentive award value, the Compensation Committee considered that appropriate given his experience and contributions to the success of the businesses managed by him.

**Other Elements of Executive Compensation Program**

*Supplemental Retirement Contributions:* In order to make retirement contributions that we could not contribute to eligible participants qualified 401(k) retirement accounts due to Internal Revenue Code limitations, we make contributions to the DCP for our executives, including the NEOs, and other highly compensated U.S. employees. Contributions are calculated based on a pre-established formula. Please refer to the narrative discussion following the Nonqualified Deferred Compensation Table in this Proxy Statement for more information about these contributions. We believe this to be a competitive benefit and necessary to attract and retain high-quality executives. Because an element of these DCP contributions reflects cash incentive compensation (*i.e.*, actual awards under the MIP), these contributions partially reflect the individuals achievement of performance goals.

*Stock Ownership Guidelines:* In May 2000, the Compensation Committee adopted the Varian Medical Systems Executive Stock Ownership Program (the Stock Ownership Program ) to further align the interests of our officers with those of our other stockholders. The stock ownership guideline levels are based on the value of our common stock as multiples of base pay (*i.e.*, number of shares multiplied by price per share divided by base salary) and have been revised upward since initial adoption. The multiples are set based upon each officer's position, as follows:

<b>Position</b>	<b>Stock Ownership as a Multiple of Current Base Salary</b>
CEO	6x
Next four most highly compensated executive officers	3x
Other corporate officers	2x

Under this program, stock ownership includes stock owned by the officers, unvested restricted stock and RSUs, as well as stock they individually hold in their 401(k) retirement accounts. Unexercised stock options and unvested PSUs are not included for purposes of determining stock ownership under this program.

Ownership levels are expected to be achieved within the later of: (i) five years of first becoming an officer, (ii) three years of an amendment increasing ownership levels with respect to any increase (our last amendment occurred in August 2010 for the CEO), or (iii) three years of the date that the new ownership levels apply to such individual due to a change in position or becoming a NEO. One-third of the ownership level is expected to be achieved within two-and-one-half years after an individual becomes subject to the ownership guidelines. Officers who have not yet reached their guideline levels are encouraged, but not required, to retain 25% of the net after-tax shares obtained from stock option exercises until the ownership guideline levels are met. Other than this, we currently do not require our officers to hold the stock obtained from exercising stock options, upon vesting of their RSUs or settlement of other equity-based awards. As of the date of this Proxy Statement, all of the NEOs met the guidelines and/or are within the prescribed timeframe to meet these guidelines as set forth in the Stock Ownership Program.

*Insider Trading Policy:* In February 2013, the board approved revising the corporate insider trading policy to prohibit officers and directors from purchasing Company securities on margin and borrowing against Company securities; and other employees subject to the quarterly blackout period from engaging in transactions in puts, calls, other derivatives and hedging transactions.

*Tax Deductibility:* Section 162(m) of the Internal Revenue Code does not let us deduct from our federal taxable income certain compensation paid to the CEO and the next three most highly compensated executive officers (other than our CFO) that is not performance-based to the extent it exceeds \$1 million. Awards under the

---

**Table of Contents**

MIP and certain awards under the Third Amended Stock Plan and predecessor plans are intended to be fully deductible performance-based compensation under Section 162(m). However, because of the fact-based nature of the performance-based compensation exception and the limited binding guidance thereunder we cannot guarantee that any compensation intended to qualify as deductible performance-based compensation under Code Section 162(m) so qualifies. The Compensation Committee believes that our interests are best served in certain circumstances by providing compensation that is not performance-based (such as salary, RSUs, perquisites and special cash incentives), which may be subject to this \$1 million annual deductibility limitation under U.S. tax law.

*Equity Grant Practices:* The Compensation Committee grants equity awards to selected newly hired individuals on the date of the first regularly scheduled quarterly meeting of the Compensation Committee following their date of hire. Special grants to continuing employees, such as for promotions or retention purposes, are granted on the date of the first regularly scheduled quarterly meeting of the Compensation Committee following the date on which the related event occurred. Regularly scheduled quarterly Compensation Committee meetings are typically held on the second Thursday of November and May, and on the third Thursday of February and August, and are generally scheduled at least a year in advance. Scheduling decisions are made without regard to anticipated earnings or the release of other material non-public information by us. However, if on any date of grant our trading blackout is in effect or if our management knows of material, non-public information about us, any equity awards to be made will be granted effective as of the close of the business day after the blackout expires, or the close of the second business day after the public release of the material, non-public information, as applicable. Our blackout period lasts approximately nine weeks for each quarter and typically begins on the first business day of the third month of each fiscal quarter and ends two full business days after our quarterly earnings press release.

The exercise price of our stock options is the closing price of our common stock on the NYSE on the date of grant. If the date of grant falls on a day upon which the NYSE is closed, then the exercise price is the closing price of our common stock on the next trading date. Our Third Amended Stock Plan explicitly prohibits the repricing of stock options without prior stockholder approval.

*Recoupment or Clawback of Certain Payments:* In November 2008, the Board adopted a formal policy to recover certain incentive payments if we are required to restate our financial statements as a result of an executive officer engaging in misconduct or other violations of our Code of Business Ethics that caused or partially caused the restatement. In the event of a restatement, the Board will review the conduct of the executive officer in relation to the restatement. If the Board determines that an executive officer has engaged in misconduct or other violations of our Code of Business Ethics, the Board can, in its discretion, take appropriate action, to the extent not prohibited by applicable law, to remedy the misconduct, including, without limitation, seeking reimbursement of any portion of performance-based or incentive compensation paid or awarded to the executive that is greater than would have been paid or awarded if calculated based on the restated financial results. Such action by the Board would be in addition to any other actions the Board or we may take under our other policies, as modified from time to time, or any actions imposed by law enforcement, regulators or other authorities. This recoupment policy is incorporated into the provisions of our MIP and Third Amended Stock Plan.

Under our current stock option agreements, in the event an employee commences employment with a company that competes with us in any of our businesses, we may, in our sole discretion, terminate the stock option agreement, including the vesting of any options or other grants which remain unvested as of the date the employee commences employment with the competitor.

**Change-in-Control Agreements**

As explained in greater detail under Potential Payments upon Termination or Change in Control, we currently have change-in-control agreements with 12 executives, including our NEOs. We entered into these agreements in order to attract and retain high-quality executives and to ensure that executives who might be

## **Table of Contents**

involved in acquisition or merger discussions with another entity make the best decisions for us and our stockholders and are not unduly biased by the impact of such a transaction on their personal situations. These agreements do not factor into our decisions surrounding the executive's cash and equity compensation.

The change-in-control agreements are intended to provide an appropriate level of compensation for a specified time interval for executives who would likely be involved in activities regarding a change in control and are personally at risk for job loss in the event of a change in control. Our change-in-control agreements are "double-trigger" meaning that to receive benefits under the agreements there must be a change in control event, the executive: (1) must be terminated by us or the successor company without cause within a specified time interval following a change in control, or (2) the executive must terminate employment for good reason, as defined in the agreements, within a specified time interval following a change in control. For more information about the agreements as well as a tabular summary of the potential payments that may be made to our NEOs, please refer to "Potential Payments upon Termination or Change in Control."

In fiscal year 2010, the Compensation Committee approved for future use new forms of change-in-control agreements that eliminate tax gross-up payments for excise taxes imposed by Section 280G of the Internal Revenue Code. The agreements incorporate a "best results" provision whereby the executive's actual change-in-control payment will be reduced to \$1 below the threshold imposed under Section 280G (*i.e.*, thereby not triggering excise tax) if the change-in-control payment after the imposition of the excise tax would otherwise result in a lesser amount. The new forms of change-in-control agreement are provided to the appropriate newly hired, appointed, promoted or demoted executives. When Mr. Wilson was promoted to President and CEO at the beginning of fiscal year 2013 and Ms. Kennedy to the President of Oncology Systems position at the beginning of fiscal year 2012, they entered into the new form of change-in-control agreement applicable to their respective position.

### **Stockholder Voting on Executive Compensation Practices**

At our 2011 Annual Meeting of Stockholders, we conducted our first advisory vote on the compensation of our NEOs. Since stockholders owning more than 75% of the shares voting on the frequency of holding such votes indicated their preference that we hold such a vote annually, we have implemented an annual vote.

Stockholders owning more than 93.4% of the shares voting at our 2013 Annual Meeting of Stockholders voted to approve the compensation of our NEOs, which we have interpreted as encouraging us to maintain our current compensation philosophy and practices. Should future voting outcomes vary, the Compensation Committee will consider those future votes in making compensation decisions for the NEOs.

## **Table of Contents**

### **Compensation and Management Development Committee Report**

The Compensation and Management Development Committee (the Compensation Committee) of the Board of Directors (the Board) of Varian Medical Systems, Inc. (the Company) has reviewed and discussed with management the Compensation Discussion and Analysis section of the Proxy Statement for the 2014 Annual Meeting of Stockholders. Based on its review and discussions with management, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in our Proxy Statement for the 2014 Annual Meeting of Stockholders and Annual Report on Form 10-K.

*Susan L. Bostrom (Chair)*

*R. Andrew Eckert*

*David Illingworth*

*Ruediger Naumann-Etienne*

### **Relationship between Compensation Plans and Risk**

In fiscal year 2013, the Compensation Committee and management again conducted a comprehensive review of our compensation programs, including executive compensation and major broad-based compensation programs in which employees at various levels of the organization participate. The goal of this review was to assess whether any of our compensation programs, either individually or in the aggregate, would encourage executives or employees to undertake unnecessary or excessive risks that were reasonably likely to have a material adverse effect on the company.

The Compensation Committee and management reviewed an inventory of all of our variable pay and sales commission plans and considered the number of participants in each plan, the participant's level within the organization, the target and maximum payment potential, the performance metrics under each plan and associated targets, and the type and mechanics of the plan and its purpose. The Compensation Committee concluded that none of the broad-based programs (base salary, spot bonuses, traditional sales commission or variable incentive arrangements) that extend to regular employees would likely encourage unnecessary or excessive risks.

The Compensation Committee and management also assessed the risks in those plans that were identified as having the potential to deliver a material amount of compensation to the executives, which were the annual and long-term incentive plans the MIP and the Third Amended Stock Plan that are described earlier in Compensation Discussion and Analysis. The risk assessment included, but was not limited to, analyzing the following items:

Whether there was effective balance in the plans (*e.g.*, cash and equity mix, short- and long-term performance focus, etc.).

Whether the performance goals contained in the plans were balanced (*e.g.*, between total-Company and business unit goals, between financial and qualitative goals) and potential payments were reasonable based on potential achievement of those goals at the threshold, target, and maximum levels.

When applicable, whether the relationship between performance objectives under the MIP and the performance-based stock awards were consistent with our stockholders' interests as well as the objectives of our long-term incentives;

Whether the plans contained appropriate caps on individual awards and aggregate payments.

Whether we had adopted meaningful risk mitigation, including stock ownership guidelines, clawbacks, and independent Compensation Committee oversight, relative to the plans.



## **Table of Contents**

The Compensation Committee concluded that none of these plans would likely encourage unnecessary or excessive risks. The Compensation Committee and management also concluded that our executive compensation risk profile was reasonable, and that our strategy and programs do not pose a material risk due to a variety of mitigating factors. These factors include:

The Compensation Committee's sole power to set short-term performance objectives for our annual incentive plans (MIP and EIP). The majority of the MIP objectives (representing 80% weight) included EBIT and other financial goals that the Compensation Committee believes are appropriately correlated with stockholder value.

The use of equity awards to foster employee retention and align our executive's interests with those of our stockholders.

Our practice of having a greater portion of incentive awards as long-term rather than short-term creates a greater focus on sustained company performance over time.

The use of several distinct long-term incentive vehicles (RSUs, stock options, and PSUs that vest over a number of years (and in the case of PSUs, are tied to EPS and TSR), thereby providing strong incentives for sustained operational and financial performance balanced with growing total stockholder return.

Capping potential payouts under the annual incentive plans (MIP and EIP) in order to eliminate the potential for any windfalls.

Compensation Committee discretion to adjust downward payouts under the MIP to reflect the core operating performance of our business.

A recoupment policy that allows us to recover cash and equity compensation of senior executives in the case of a material restatement of financial results due to the individual's engaging in misconduct or other violations of our Code of Business Ethics that caused or partially caused the restatement.

Stock ownership guidelines designed to align officer and stockholder interests over the long term.

As a result of this review, both the Compensation Committee and management concluded that our compensation policies and practices for our employees are structured so as not to encourage excessive risk-taking and do not create risks that are reasonably likely to have a material adverse effect on us.

**Table of Contents****Summary Compensation Table**

The following table sets forth, together with certain other information, the compensation earned during fiscal years 2013, 2012 and 2011 by our NEOs and the principal position held by each during fiscal year 2013.

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) (1)	Option Awards (\$) (2)	Change in Pensions Value and Non-Equity Nonqualified Incentive Deferred Compensation All Other			Total (\$)
						Compensation Plan (\$) (3)	Earnings (\$) (4)	Compensation (\$) (5)	
Dow R. Wilson President and Chief Executive Officer	2013	\$ 892,048		\$ 3,000,035	\$ 1,499,999	\$ 792,446		\$ 133,976	\$ 6,318,505
	2012	\$ 690,840		\$ 1,876,996	\$ 1,035,227	\$ 415,324		\$ 100,031	\$ 4,118,418
	2011	\$ 623,716				\$ 535,846		\$ 96,341	\$ 1,255,903
Elisha W. Finney Executive Vice President, Finance and Chief Financial Officer	2013	\$ 569,235		\$ 1,133,341	\$ 566,659	\$ 337,721		\$ 89,562	\$ 2,696,517
	2012	\$ 557,704		\$ 1,174,120	\$ 647,520	\$ 283,448		\$ 84,344	\$ 2,747,136
	2011	\$ 535,200		\$	\$	\$ 456,877		\$ 96,340	\$ 1,088,418
Kolleen T. Kennedy Senior Vice President and President, Oncology Systems	2013	\$ 536,586		\$ 1,066,630	\$ 533,329	\$ 383,552		\$ 83,706	\$ 2,603,803
	2012	\$ 505,770		\$ 812,108	\$ 447,867	\$ 266,253		\$ 66,247	\$ 2,098,245
Robert H. Kluge Senior Vice President and President, Imaging Components Businesses	2013	\$ 456,256		\$ 1,133,341	\$ 566,659	\$ 331,789		\$ 74,028	\$ 2,562,072
	2012	\$ 433,664		\$ 1,174,120	\$ 591,945	\$ 172,383		\$ 65,835	\$ 2,437,947
	2011	\$ 421,045				\$ 367,910		\$ 76,035	\$ 864,991
John W. Kuo Senior Vice President, General Counsel and Secretary	2013	\$ 412,708		\$ 800,064	\$ 399,992	\$ 215,293		\$ 78,238	\$ 1,906,296
	2012	\$ 394,876		\$ 383,917	\$ 423,469	\$ 157,177		\$ 75,415	\$ 1,434,854
	2011	\$ 373,911				\$ 256,232		\$ 75,243	\$ 705,385

- (1) This column represents the aggregate grant date fair value of RSU and PSU awards made to the NEO during fiscal years 2013 and 2012, computed in accordance with Accounting Standards Codification ( ASC ) 718, *Compensation Stock Compensation* ( ASC 718 ). The fair value for RSU awards was determined using the closing price of our common stock on the grant date multiplied by the number of shares subject to the award. The fair value for PSU awards was based on the probable outcome of the performance conditions using the Monte Carlo simulation model on the date of grant with assumptions as set forth in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal years ended September 28, 2012 and September 27, 2013, excluding the effect of forfeitures. No such awards were made to our NEOs in fiscal year 2011.

## Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

The table below sets forth components of the fair value of the stock awards made in fiscal year 2013. The value of the PSU awards at grant date, assuming that the highest level of performance conditions will be achieved is also included. These amounts reflect our calculation of the value of these awards, and do not necessarily correspond to the actual value that may ultimately be realized by the NEOs.

Name	Components of Stock Awards		PSU Fair
	RSU Fair Value	PSU Fair Value	Value at Highest Level
Dow R. Wilson	\$ 1,500,024	\$ 1,500,012	\$ 2,250,017
Elisha W. Finney	\$ 566,691	\$ 566,650	\$ 849,975
Kolleen Kennedy	\$ 533,303	\$ 533,327	\$ 799,990
Robert H. Kluge	\$ 566,691	\$ 566,650	\$ 849,975
John W. Kuo	\$ 400,029	\$ 400,035	\$ 600,052

- (2) This column represents the aggregate grant date fair value of stock option awards granted to the NEO during each fiscal year, computed in accordance with ASC 718, using the assumptions listed below for the applicable fiscal year. No such stock options were granted to our NEOs in fiscal year 2011.



**Table of Contents**

<b>For Mr. Wilson, Ms. Finney, Ms. Kennedy and Mr. Kuo:</b>	<b>2013</b>	<b>2012</b>
Expected term (in years)	4.98	5.02
Risk-free interest rate	0.65%	0.88%
Expected volatility	32.83%	36.97%
Expected dividend yield		
Weighted average fair value at grant date	\$ 20.47	\$ 19.43

  

<b>For Mr. Kluge:</b>	<b>2013</b>	<b>2012</b>
Expected term (in years)	4.23	4.26
Risk-free interest rate	0.54%	0.71%
Expected volatility	30.73%	36.95%
Expected dividend yield		
Weighted average fair value at grant date	\$ 17.73	\$ 17.76

For more information on the determination of valuation assumptions we used with respect to stock option awards, please refer to the note on Employee Stock Plans in the notes to consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year in which the stock option was awarded. These amounts reflect our calculation of the value of these awards, and do not necessarily correspond to the actual value that may ultimately be realized by the NEOs.

- (3) This column represents annual cash incentives paid under the MIP. Amounts include the incentive payments deferred under the DCP. Please refer to the Grant of Plan-Based Awards Table and the Nonqualified Deferred Compensation Table below for more information.

<b>Name</b>	<b>MIP</b>
Dow R. Wilson	\$ 792,446
Elisha W. Finney	\$ 337,721
Kolleen T. Kennedy	\$ 383,552
Robert H. Kluge	\$ 331,789
John W. Kuo	\$ 215,293

- (4) Set forth in the table below are the material components of the All Other Compensation column for fiscal year 2013.

<b>Name</b>	<b>Company Supplemental Contributions Under the Deferred Compensation</b>				
	<b>Company Contributions to 401(k)</b>	<b>Plan (A)</b>	<b>Car Usage and Related Expenses</b>	<b>Company Match of Charitable Contributions</b>	<b>Other (B)</b>
Dow R. Wilson	\$ 15,300	\$ 86,246	\$ 23,468		\$ 8,962
Elisha W. Finney	\$ 15,300	\$ 39,387	\$ 23,579	\$ 6,154	\$ 5,143
Kolleen T. Kennedy	\$ 15,300	\$ 40,716	\$ 24,289	\$ 2,000	\$ 1,400
Robert H. Kluge	\$ 15,300	\$ 32,406	\$ 21,531		\$ 4,791
John W. Kuo	\$ 15,111	\$ 22,639	\$ 27,540	\$ 6,000	\$ 6,948

- (A) Amounts represent an estimate of the Company Supplemental Contributions under the DCP for 2013, which will be made in January 2014. The estimate is calculated based on the portion of the executive's eligible cash compensation (determined by the sum of his or her calendar year 2013 base salary through December 31, 2013 and the actual fiscal year 2013 cash incentive payout under the MIP) that exceeded the compensation limit imposed by Section 401(a)(17) of the Internal Revenue Code (\$255,000 for 2013).

**Table of Contents**

- (B) For Mr. Wilson, the amount consists of reimbursement of financial counseling and annual medical examination and cash incentive from participating in our wellness program. For Ms. Finney, the amount consists of reimbursement of financial counseling and business meals, and cash incentive from participating in our wellness program. For Ms. Kennedy, the amount represents reimbursement of financial counseling. For Mr. Kluge, the amount consists of reimbursement of financial counseling, patent award and cash incentive from participating in our wellness program. For Mr. Kuo, the amount represents reimbursement of financial counseling and cash incentive from participating in our wellness program. Patent award and cash incentive from participating in our wellness program are also available to all other U.S. employees.

**Grants of Plan-Based Awards for 2013**

The following table provides information on plan-based awards made in fiscal year 2013 to each of our NEOs.

Name	Grant Date/Plan	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Restricted Stock Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (5)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	(3)	(4)	(5)	
Dow R. Wilson	MIP	\$ 0	\$ 1,017,000	\$ 2,034,000							
	11/09/2012				0	18,816	28,224				\$ 1,500,012
	11/09/2012							21,790			\$ 1,500,024
Elisha W. Finney	MIP	\$ 0	\$ 476,200	\$ 952,400							
	11/09/2012				0	7,108	10,662				\$ 566,650
	11/09/2012							8,232			\$ 566,691
Kolleen T. Kennedy	MIP	\$ 0	\$ 456,555	\$ 913,110							
	11/09/2012				0	6,690	10,035				\$ 533,327
	11/09/2012							7,747			\$ 533,303
Robert H. Kluge	MIP	\$ 0	\$ 361,386	\$ 722,773							
	11/09/2012				0	7,108	10,662				\$ 566,650
	11/09/2012							8,232			\$ 566,691
John W. Kuo	MIP	\$ 0	\$ 283,578	\$ 567,157							
	11/09/2012				0	5,018	7,527				\$ 400,035
	11/09/2012							5,811			\$ 400,029
	11/09/2012							20,942	\$ 68.84		\$ 399,992

- (1) These columns show the potential value of the payout for each NEO under the MIP if the threshold, target or maximum goals were satisfied for all performance measures. The potential payouts are performance-driven and therefore completely at-risk. The performance goals and target percentages (as a percentage of base salary) for determining the payout under the MIP for each NEO are described in the Compensation Discussion and Analysis. Actual payouts are set forth in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table and in footnote 3 to that table.
- (2) Consists of a single PSU grant to each NEO under the Third Amended Stock Plan. Each PSU represents a right to one share of our common stock. The actual number of shares earned will be based upon actual performance against pre-established performance metrics during the three-year performance period that ends at the end of fiscal year 2015. The maximum is limited to 150% of the target units. The PSU award cliff-vests (*i.e.*, 100% vests at one time) at the end of a three-year performance period, provided the NEO is employed by us throughout the vesting period, except in cases involving retirement, death or change in control, where full or partial payments are made depending on various circumstances.

- (3) Consists of a single RSU grant to each NEO under the Third Amended Stock Plan. Each RSU represents a right to one share of our common stock. The RSUs vest and are settled over a three-year period in equal increments on November 21<sup>st</sup> of each year thereafter, provided the NEO is employed by us throughout the vesting period, except in cases involving retirement, death or change in control, where full or partial payments are made depending on various circumstances.

**Table of Contents**

(4) Consists of a single stock option grant to each NEO under the Third Amended Stock Plan at an exercise price equal to the fair market value (*i.e.*, closing price) of the underlying shares on the grant date and expiring seven years from the grant date. One-third of the award vests one year after the grant date and the remainder then vests monthly during the following 24-month period, provided the NEO is employed by us throughout the vesting period, except in cases involving retirement, death or change in control, where full or partial payments are made depending on various circumstances.

(5) Grant date fair value is computed in accordance with ASC 718.

**Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table**

*Salary.* During fiscal year 2013, none of the NEOs had a written employment agreement with us, but were and remain at-will employees. The salaries for the NEOs in effect as of the beginning of calendar year 2013 were as follows: Mr. Wilson, \$900,000; Ms. Finney, \$573,735; Ms. Kennedy, \$550,066; Mr. Kluge, \$463,316; and Mr. Kuo, \$417,027.

*Bonus.* None of the NEOs received a bonus in fiscal years 2011, 2012 and 2013.

*Non-Equity Incentive Plan Compensation.* The amounts in the Estimated Future Payouts Under Non-Equity Incentive Plan columns of the Grants of Plan-Based Awards Table represent the potential awards under the MIP, while the amounts in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table and in footnote 3 to that table represent the actual awards earned by the NEOs under the MIP. As further discussed in Compensation Discussion and Analysis Fiscal year 2013 Salary, Annual Cash Incentive and Long-term Incentive Discussions Annual Cash Incentives, for fiscal year 2013, the Compensation Committee established a MIP Bonus Pool equal to 1.25% of the Company's fiscal year 2013 EBIT and fixed the following financial performance goals: growth in EBIT (40% weight), growth in revenue (20% weight) and growth in net orders (20% weight) on which 80% of the potential MIP amount was based. For each of the above performance measures, specific targets were set at the total-Company level and at our two largest business units, Oncology Systems and X-ray Products. In addition, 20% of the potential MIP amount was based on achievement of individual non-financial qualitative performance, with the achievement and payout determined at the discretion of the Compensation Committee. Based on achievement of the applicable performance measures and the Compensation Committee's determination of each NEO's achievement of his or her qualitative goals, the actual payouts as a percentage of the target payout (or 100%) under the MIP were as follows:

Name	MIP Payout as a % of Target (Fiscal Year 2013)
Dow R. Wilson	78%
Elisha W. Finney	71%
Kolleen T. Kennedy	84%
Robert H. Kluge	92%
John W. Kuo	76%

See Compensation Discussion and Analysis Fiscal year 2013 Salary, Annual Cash Incentive and Long-term Incentive Discussions Annual Cash Incentives for more information regarding the calculation.

*Stock and Option Awards.* The awards of RSUs, PSUs and stock options are intended to motivate our executives relative to long-term performance as further described in Compensation Discussion and Analysis.

**Table of Contents**

*All Other Compensation, Including Perquisites.* The NEOs have also been extended certain perquisites, as follows:

Use of a leased automobile under our Executive Car Program. Under the Executive Car Program, we provide a leased vehicle costing up to \$82,000 for the Chief Executive Officer and leased vehicles costing up to \$68,000 for the other executives. Insurance, maintenance expenses and fuel costs are also included in the Executive Car Program. Participants have an option to purchase the vehicle at the end of its three-year lease period or upon retirement at the lower of its depreciated book value or its fair market value (based on the Kelley Blue Book Auto Market Report wholesale value). We will eliminate the Executive Car Program effective January 1, 2015.

Company Supplemental Contributions representing retirement contributions which could not be contributed by the Company to the executives' qualified 401(k) retirement accounts due to Internal Revenue Code limitations, as further discussed under Nonqualified Deferred Compensation.

Reimbursement for financial planning, estate planning, tax planning, tax return preparation and financial counseling services (to a maximum of \$6,500 per year and unlimited for the Chief Executive Officer). We also reimburse certain individuals, including all executive officers and non-executive officers, for annual medical examinations (up to a maximum of \$4,000 per year). We do not permit our executives to use our fractionally owned aircraft for purely personal trips. However, we allow and include in the executives' compensation, as applicable, aircraft use attributable to accompanying spousal aircraft travel when it is deemed valuable and appropriate for business purposes.

**Table of Contents****Outstanding Equity Awards at Fiscal Year End**

The following table sets forth the outstanding equity awards of the NEOs as of the end of fiscal year 2013:

Name	Option Grant Date	Option Awards (1) (2)			Option Expiration Date	Stock Award (2)			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(8)
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)		Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(8)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other rights That Have Not Vested (\$)	
Dow R. Wilson	11/17/2005	97,519		\$ 49.88	11/17/2015				
	11/21/2006	125,000		\$ 50.66	11/21/2016				
	02/15/2008	95,000		\$ 52.61	02/15/2015				
	05/14/2010	83,334		\$ 52.83	05/14/2017				
	11/11/2011	32,567	20,726	\$ 57.90	11/11/2018				
	11/09/2012		78,534	\$ 68.84	11/09/2019				
						29,579(7)	\$ 2,194,170		
					10,806(3)	\$ 801,589	14,859(5)	\$ 1,102,241	
					21,790(4)	\$ 1,616,382	18,816(6)	\$ 1,395,771	
<b>Total</b>		<b>433,420</b>	<b>99,260</b>			<b>62,175</b>	<b>\$ 4,612,143</b>	<b>33,675</b>	<b>\$ 2,498,013</b>
Elisha W. Finney	11/17/2005	10,000		\$ 49.88	11/17/2015				
	11/21/2006	100,000		\$ 50.66	11/21/2016				
	02/15/2008	76,000		\$ 52.61	02/15/2015				
	05/14/2010	66,667		\$ 52.83	05/14/2017				
	11/11/2011	20,370	12,964	\$ 57.90	11/11/2018				
	11/09/2012		29,668	\$ 68.84	11/09/2019				
						6,760(3)	\$ 501,457	9,295(5)	\$ 689,503
					8,232(4)	\$ 610,650	7,108(6)	\$ 527,271	
<b>Total</b>		<b>273,037</b>	<b>42,632</b>			<b>14,992</b>	<b>\$ 1,112,107</b>	<b>16,403</b>	<b>\$ 1,216,775</b>
Kolleen T. Kennedy	11/11/2011		8,967	\$ 57.90	11/11/2018				
	11/09/2012		27,923	\$ 68.84	11/09/2019				
						4,676(3)	\$ 346,866	6,429(5)	\$ 476,903
					7,747(4)	\$ 574,672	6,690(6)	\$ 496,264	
<b>Total</b>			<b>36,890</b>			<b>12,423</b>	<b>\$ 921,538</b>	<b>13,119</b>	<b>\$ 973,167</b>
Robert H. Kluge	05/14/2010	19,427		\$ 52.83	05/14/2017				
	11/11/2011	20,370	12,964	\$ 57.90	11/11/2018				
	11/09/2012		29,668	\$ 68.84	11/09/2019				
						6,760(3)	\$ 501,457	9,295(5)	\$ 689,503
					8,232(4)	\$ 610,650	7,108(6)	\$ 527,271	
<b>Total</b>		<b>39,797</b>	<b>42,632</b>			<b>14,992</b>	<b>\$ 1,112,107</b>	<b>16,403</b>	<b>\$ 1,216,775</b>
John W. Kuo	11/11/2011	1,211	8,478	\$ 57.90	11/11/2018				

Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

	11/09/2012	20,942	\$ 68.84	11/09/2019					
					4,421(3)	\$ 327,950	6,079(5)	\$ 450,940	
					5,811(4)	\$ 431,060	5,018(6)	\$ 372,235	
<b>Total</b>	<b>1,211</b>	<b>29,420</b>			<b>10,232</b>	<b>\$ 759,010</b>	<b>11,097</b>	<b>\$ 823,175</b>	

**Table of Contents**

- (1) All options are granted at an exercise price equal to the fair market value (i.e., the closing price) of the underlying shares of our common stock on the date of grant. The following table sets forth the vesting dates for the outstanding unvested option awards:

<u>Grant Date</u>	<u>General Vesting Schedule (based on outstanding option awards)</u>
11/11/2011	33-1/3% vested on 11/11/2012; pro-rata monthly thereafter until fully vested on 11/11/2014.
11/9/2012	33-1/3% vested on 11/9/2013; pro-rata monthly thereafter until fully vested on 11/11/2015.

- (2) Vesting will occur only if the NEO is employed by us throughout the vesting period, except in cases involving retirement, death or change in control, where full or partial payments are made depending on various circumstances. In particular, because Mr. Kluge is eligible for retirement, certain unvested options, and unvested stock awards would continue to vest according to the original vesting schedule even if the services of either were terminated for any reason. See Potential Payments Upon Termination or Change in Control.

- (3) Grant Date Vesting Schedule (based on outstanding RSU awards)

11/11/2011 33%-1/3% on 11/21/2013 and 33-1/3% on 11/21/2014

- (4) Grant Date Vesting Schedule (based on outstanding RSU awards)

11/9/2012 33%-1/3% on 11/21/2013; 33%-1/3% on 11/21/2014 and 33-1/3% on 11/21/2015

- (5) Grant Date Vesting Schedule (based on outstanding PSU awards)

11/11/2011 100% on 11/11/2014, subject to actual performance and continued service or retirement. The aggregate market value showed in the table is based on target performance since actual performance in fiscal years 2013 and 2012 exceeded threshold performance.

- (6) Grant Date Vesting Schedule (based on outstanding PSU awards)

11/9/2012 100% on 11/9/2015, subject to actual performance and continued service or retirement. The aggregate market value showed in the table is based on target performance since actual performance in fiscal year 2013 exceeded threshold performance.

- (7) Grant Date Vesting Schedule (based on outstanding Restricted Stock awards)

1/10/2005 50% on 1/10/2015 and 50% on 1/10/2020



Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

(8) Based on the closing price of our common stock as of September 27, 2013 (\$74.18).

**Option Exercises and Stock Vested**

The following table sets forth the number of shares acquired on stock option exercises and vesting of RSUs by each of the NEOs during fiscal year 2013. The table also presents the value realized upon such exercises and vesting, as calculated, in the case of stock options, based on the difference between the market price of our common stock at exercise and the option exercise price and, in the case of restricted stock and RSUs, based on the closing price per share of common stock on the NYSE on the vesting date. Amounts presented in the Valued Realized on Vesting column under Stock Awards do not necessarily mean that the NEO has actually sold the vested shares for cash.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized Upon Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Dow R. Wilson	36,000	\$ 2,490,170	11,200	\$ 774,652
Elisha W. Finney	124,667	\$ 8,864,581	7,083	\$ 489,921
Kolleen T. Kennedy	57,432	\$ 3,924,376	4,245	\$ 293,436
Robert H. Kluge	164,407	\$ 12,102,895	7,083	\$ 489,921
John W. Kuo	32,112	\$ 2,277,775	4,433	\$ 306,568

**Table of Contents****Nonqualified Deferred Compensation**

The following table sets forth contributions, earnings and distributions during fiscal year 2013, and account balances as of September 27, 2013 for each of the NEOs, under our nonqualified DCP:

Name	Executive Contributions in Last Fiscal Year	Registrant Contributions in Last Fiscal Year (2)	Aggregate Earnings in Last Fiscal Year (3)	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last Fiscal Year End (4)
Dow R. Wilson		\$ 54,378	\$ 2,262		\$ 386,800
Elisha W. Finney	\$ 64,147(1)	\$ 35,428	\$ 547,306		\$ 3,098,913
Kolleen T. Kennedy	\$ 259,204(1)	\$ 30,975	\$ 385,234		\$ 3,485,294
Robert H. Kluge		\$ 21,568	\$ 485,050		\$ 5,708,518
John W. Kuo	\$ 174,607(1)	\$ 18,490	\$ 144,264		\$ 1,309,150

- (1) These amounts represent a portion of the fiscal year 2012 MIP and EIP payments paid in the first fiscal quarter of fiscal year 2013 that was deferred by the NEO into the DCP. For Mr. Kuo, the amount also includes a portion of his calendar year 2012 base salary that he deferred in the first fiscal quarter of fiscal year 2013.
- (2) These amounts represent Company Supplemental Contributions (as described below) attributable to calendar year 2012 made by the Company in January 2013.
- (3) None of the earnings in this column are included in the Summary Compensation Table because they were not preferential or above market.
- (4) Balance at last fiscal year end includes the following amounts reported as compensation to the NEOs in the Summary Compensation Table for previous years: Mr. Wilson, \$317,595; Ms. Finney, \$1,444,717; Ms. Kennedy, \$231,925; Mr. Kluge, \$1,414,909; and Mr. Kuo, \$928,390.

Our DCP is an unfunded and unsecured deferred compensation arrangement that is designed to allow directors, executive officers and certain other management and highly compensated employees to forego current compensation and defer a specified percentage of their base salaries (up to 50%), cash incentive payments (up to 100%) and director fees (applicable only to our non-employee directors) in a manner similar to the way in which our 401(k) plan operates, but without regard to the maximum deferral limitations imposed on 401(k) plans by the Internal Revenue Code. Deferred amounts are our general unsecured obligations and are subject to claims by our creditors. Our general assets or assets in an existing rabbi trust may be used to fund our payment obligations and pay DCP benefits. The Compensation Committee administers the DCP. Additionally, in order to make retirement contributions that we could not contribute to eligible participants qualified 401(k) retirement accounts due to Internal Revenue Code limitations, in fiscal year 2013, we made Company Supplemental Contributions equal to the product of (a) the excess of the participant's base annual salary and any applicable incentive payments for fiscal year 2012 over the compensation limit imposed by Section 401(a)(17) of the Internal Revenue Code (\$250,000); and (b) our matching contribution rate under the 401(k) (6%). Further, we may, on a discretionary basis, credit additional amounts on behalf of the DCP's participants (these discretionary contributions, together with the Company Supplemental Contributions, are referred to as Company Contributions).

Amounts deferred by a participant and Company Contributions are credited to a bookkeeping account maintained on behalf of each participant. These bookkeeping accounts are utilized solely as a device for measuring and determining amounts to be paid to a participant, or his or her designated beneficiary, pursuant to the terms of the DCP. Amounts credited to each participant under the DCP are periodically adjusted for earnings and/or losses at a rate that is equal to the various investment funds (also referred to as measurement funds) selected by the Compensation Committee, as elected by the participant. The Compensation Committee may, in its sole discretion, discontinue, substitute or add a measurement fund. Participants may reallocate previously invested money among each of the available measurement funds on a daily basis. Under the DCP, a participant may make separate distribution elections with respect to each year's deferrals. These distribution elections



## **Table of Contents**

include the ability to elect a single lump-sum payment or installment payments for up to 15 years for employees who retire from the Company. Deferrals also may be paid out prior to separation from service in the event of a financial hardship or if the participant makes a short-term distribution election. A short-term distribution election must be made at the time the participant makes his or her initial deferral elections. Under the DCP, amounts credited as Company Supplemental Contributions are generally paid in the form of a lump sum following a participant's separation from service (except for those Company Supplemental Contributions made prior to December 31, 2004, which may still be paid in installments upon an employee's retirement). Non-retirement separations from service generally will result in payments being made in the form of single lump sums.

We may terminate the DCP by action of the Board, in which event benefits will be distributed as soon as the plan and Section 409A of the Internal Revenue Code permit.

### **Potential Payments upon Termination or Change in Control**

The tables below show certain potential payments that would have been made to an NEO had the termination hypothetically occurred on the last business day of fiscal year 2013 (*i.e.*, September 27, 2013) under various scenarios, including a change in control. The potential payments were determined under the terms of our plans and arrangements in effect on September 27, 2013. The tables do not include the nonqualified deferred compensation that would be paid to an NEO, which is set forth in the Nonqualified Deferred Compensation Table above, which each such NEO would receive in the event of any termination. In addition, the tables do not include the value of vested but unexercised stock options as of September 27, 2013 which could generally be exercised in the event of any termination.

The footnotes to the tables describe the assumptions used in estimating the amounts set forth in the tables, which in all cases do not give effect to the exercise of our recoupment policy. Because the payments to be made to an NEO depend on several factors, the actual amounts to be paid out upon an NEO's termination of employment can only be determined at the time of the NEO's separation from us. An outline of the various termination scenarios and the potential payments that are made to the NEOs in each scenario (under the terms of our plans and arrangements in effect on September 27, 2013) appears after the tables and footnotes.

**Table of Contents**

**Potential Payments Upon Termination of Employment/CIC as of 9/27/13 Dow R. Wilson**  
**Intrinsic Value of Accelerated Equity Awards (2)**

Termination Scenario	Cash	Benefit	Options	Restricted	PSUs	280G Exercise	Total
	Severance (1)	Continuation		Stock and RSUs		Tax Gross Up	
Death	\$ 0	\$ 0	\$ 756,791(3)	\$ 4,612,142(3)	\$ 2,498,012(3)		\$ 7,866,944
Change in Control Termination (4)	\$ 4,321,946(5)(8)	\$ 61,941(6)	\$ 756,791	\$ 4,612,142	\$ 2,498,012		\$ 12,250,831
Termination with Cause	\$ 0	\$ 0					\$ 0
All Other	\$ 0	\$ 0					\$ 0

**Potential Payments Upon Termination of Employment/CIC as of 9/27/13 Elisha W. Finney**  
**Intrinsic Value of Accelerated Equity Awards (2)**

Termination Scenario	Cash	Benefit	Options	Restricted	PSUs	280G Exercise	Total
	Severance (1)	Continuation		Stock and RSUs		Tax Gross Up	
Death	\$ 0	\$ 0	\$ 369,483(3)	\$ 1,112,107(3)	\$ 1,216,775(3)		\$ 2,698,364
Change in Control Termination (4)	\$ 2,624,838(5)	\$ 90,089(6)	\$ 369,483	\$ 1,112,107	\$ 1,216,775		\$ 5,413,291
Termination with Cause	\$ 0	\$ 0					\$ 0
All Other	\$ 0	\$ 0					\$ 0

**Potential Payments Upon Termination of Employment/CIC as of 9/27/13 Kolleen T. Kennedy**  
**Intrinsic Value of Accelerated Equity Awards (2)**

Termination Scenario	Cash	Benefit	Options	Restricted	PSUs	280G Exercise	Total
	Severance (1)	Continuation		Stock and RSUs		Tax Gross Up	
Death	\$ 0	\$ 0	\$ 295,090(3)	\$ 921,538(3)	\$ 973,167(3)		\$ 2,189,795
Change in Control Termination (4)	\$ 2,516,552(5)	\$ 27,959(6)	\$ 295,090	\$ 921,538	\$ 973,167		\$ 4,734,306
Termination with Cause	\$ 0	\$ 0					\$ 0
All Other	\$ 0	\$ 0					\$ 0

**Potential Payments Upon Termination of Employment/CIC as of 9/27/13 Robert H. Kludge**  
**Intrinsic Value of Accelerated Equity Awards (2)**

Termination Scenario	Cash	Benefit	Options	Restricted	PSUs	280G Exercise	Total
	Severance (1)	Continuation		Stock and RSUs		Tax Gross Up	
Death	\$ 0	\$ 0	\$ 369,483(3)	\$ 1,112,107(3)	\$ 1,216,775(3)		\$ 2,698,364
Change in Control Termination (4)	\$ 2,061,756(5)	\$ 50,694(6)	\$ 369,483	\$ 1,112,107	\$ 1,216,775		\$ 4,810,814
Termination with Cause	\$ 0	\$ 0					\$ 0
All Other	\$ 0	\$ 0	\$ 369,483(7)	\$ 1,112,107(7)	\$ 1,216,775(7)		\$ 2,698,364

**Potential Payments Upon Termination of Employment/CIC as of 9/27/13 John W. Kuo**  
**Intrinsic Value of Accelerated Equity Awards (2)**

Termination Scenario	Cash	Benefit	Options	Restricted	PSUs	280G Exercise	Total
	Severance (1)	Continuation		Stock and RSUs		Tax Gross Up	
Death	\$ 0	\$ 0	\$ 249,850(3)	\$ 759,010(3)	\$ 823,175(3)		\$ 1,832,036
Change in Control Termination (4)	\$ 1,751,513(5)	\$ 55,943(6)	\$ 249,850	\$ 759,010	\$ 823,175		\$ 3,639,492
Termination with Cause	\$ 0	\$ 0					\$ 0
All Other	\$ 0	\$ 0					\$ 0

(1)

## Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

In all cases, if termination of an NEO occurred on the last business day of fiscal year 2013, he or she would receive salary through that date and a full year payout under the MIP against targets set for fiscal year 2013. The actual payments under the MIP made for fiscal year 2013 are reported in footnote 3 to the Summary Compensation Table.

---

**Table of Contents**

- (2) Based on the closing stock price as of September 27, 2013 (\$74.18).
- (3) In the event of death, unexercisable options become fully exercisable, and unvested RSUs and unvested PSUs become fully vested.
- (4) In the event of termination by the Company without cause or by the NEO for good reason following a change in control, the NEO is entitled to the payments set forth in the columns and notes labeled (5) and (6), and all unexercised options become fully exercisable and unvested RSUs and PSUs become fully vested. PSUs become fully vested at the target level (*i.e.*, the performance conditions no longer apply). Delivery of the shares underlying the RSUs and PSUs is deferred to the original vesting date.
- (5) Cash severance equal to 2.5 times (3.0 times for Mr. Wilson) the sum of (i) annual base salary rate *plus* (ii) the greater of (a) the most recently established target annual bonus or (b) average annual bonus paid over the prior three fiscal years.
- (6) Value of payment assumes costs to the Company from the following:
- a) Medical, dental and vision insurance (assuming that the executives pay employee's contribution rates for continuing these coverages for 24 months).
  - b) Life insurance cost is calculated based on the cost of converting basic life insurance coverage into an individual policy and porting the supplemental life insurance coverage (maximum amount that can be ported is \$1 million, with any excess eligible for conversion). The actual conversion rates are subject to change when/if conversion actually takes place.
  - c) Basic Accidental Death and Dismemberment cost is calculated based on the cost of converting to an individual policy (maximum amount that can be converted is \$250,000).
  - d) Financial/tax counseling of \$6,500 per year.

Amount assumes 24 months of benefits continuation at calendar year 2013 costs for 3 months and calendar year 2014 rates for the additional 21 months. Benefit costs vary depending upon circumstances and eligibility. Amount does not include coverage under the Varian Medical Systems, Inc. Disability Plan.

- (7) Represents value of unvested stock options, RSUs and PSUs that would continue to vest according to the original vesting schedule because the individual is eligible for retirement as of the last business day of fiscal year 2013.
- (8) Includes a \$1,429,054 cutback in cash severance that would occur to avoid triggering the 280G excise tax, because doing so would leave Mr. Wilson in a better after-tax position.

In general, a change in control occurs when (a) a person or entity becomes the beneficial owner of 30% or more of our voting power, (b) continuing directors generally those already on the Board or nominated by those on the Board are no longer a majority of the Board's directors, (c) we engage in a merger or similar transaction after which our stockholders do not hold more than 50% of the resulting company or (d) we dissolve, liquidate or sell all or substantially all of our assets. The officers agree not to voluntarily leave us when we are faced with a transaction that might result in a change in control.

Under change-in-control agreements with senior executives, including the NEOs, we will pay to any of these executives who are terminated other than for death, disability, retirement, or cause or who resign due to good reason (as each of those terms are defined in the agreements) within 18 months after a change in control (as defined in the agreements), a lump sum severance amount equal to 3.0 (in the case of the CEO),

## Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

2.5 (in the case of our other NEOs) or 2.0 (in the case of other key employees) times the sum of the individual's then-current annual base salary, plus the greater of (a) the individual's most recently established target annual bonus, or (b) the average annual bonus that was paid to the individual in the three fiscal years (or lesser number of full fiscal years completed by the individual) ending before the termination date. The termination payments and benefits under the agreements may also be triggered under certain circumstances following a change in control (as defined in the agreements), as determined under the agreements. Cause includes, generally, willful failure to perform one's duties, fraud and certain wrongful acts, felony convictions and court or regulatory orders requiring termination. Good reason includes, generally, a material change in duties or material reduction in



**Table of Contents**

authority or responsibility, a reduction in total compensation except when an equivalent reduction occurs for the entire class of other similar executives, a material change in employee benefits, relocation and certain breaches of the agreement by us.

In addition, under the agreements, if an individual is terminated under the circumstances described above, then unvested stock options and RSUs will fully vest as of the individual's termination date. The individual will become eligible for the full target award provided under the PSU (*i.e.*, the performance conditions of the performance award will no longer apply) but the individual must wait until the time at which vesting would normally occur (*i.e.*, at the end of the three-year performance period from the original grant date) to obtain delivery of the shares. While the RSUs will fully vest as of the individual's termination date, the individual must also wait until the original vesting date to obtain delivery of the shares. In addition, we will continue certain insurance and other benefits of the individual under the then-existing terms for up to 24 months (or, if earlier, the start of full-time employment with a new employer), pay the individual a lump sum pro-rata bonus at target for the applicable performance period(s) in which the termination occurs, and provide the individual an election to purchase the automobile leased under the Executive Car Program, if any.

The agreements also provide for certain death and long-term disability benefits in the event of an individual's death or disability within 18 months after a change in control. Payments and benefits may be delayed six months following separation from service in order to comply with Section 409A of the Internal Revenue Code.

Under our existing change-in-control agreements with NEOs other than Mr. Wilson and Ms. Kennedy, if any payments or benefits (including those under these agreements) would result in the imposition of an excise tax imposed by Section 280G of the Internal Revenue Code and the amount of such payments and benefits exceeds the threshold limit imposed by 280G by 10% or more, then the individual will receive an additional payment in an amount that will place the individual in the same after-tax economic position that the individual would have been in but for the imposition of the excise tax. If the amount of such payments and benefits exceeds the threshold limit by less than 10%, then the amount received by the individual will instead be reduced so that the aggregate payments and benefits to be received by the individual will be \$1 less than the threshold imposed under Section 280G. In fiscal year 2010, the Compensation Committee approved for future use new forms of change-in-control agreements that eliminated the additional associated with excise tax imposed by Section 280G of the Internal Revenue Code. The new forms of agreement contain a "better of" provision whereby the executive's actual change-in-control payment will be reduced to \$1 below the threshold imposed under Section 280G (*i.e.*, thereby not triggering excise tax) if the change-in-control payment after the imposition of the excise tax would otherwise result in a lesser amount. The Compensation Committee did not amend the existing change-in-control agreements with executives at that time, but provided that if any of them get promoted or demoted into a position eligible for a change-in-control agreement, the new form of change-in-control agreement would replace the existing one. When Mr. Wilson and Ms. Kennedy were promoted to President and CEO and President of Oncology Systems, respectively, they both entered into this new form of change in control agreement.

**Compensation of Directors**

The compensation of directors is determined by the full Board. The current compensation program for non-employee directors has been in place since 2008. The Compensation Committee typically reviews the non-employee director compensation (including cash retainer, cash meeting fees and equity awards) on an annual basis and recommends to the full Board for adoption any changes to their compensation. Our goal is to keep the compensation levels of such directors market-competitive and have a compensation structure that supports our business objectives, aligns the directors' interests with those of the stockholders, reflects competitive best practices and is cost- and tax-effective.

*Annual Cash Compensation.* For fiscal year 2013, each non-employee director received an annual retainer of \$45,000, except that the lead director received an annual retainer of \$60,000. The chairmen of the Compensation Committee and the Nominating Committee received an additional \$10,000 annual retainer for

**Table of Contents**

serving in these positions, and the chairman of the Audit Committee received an additional \$15,000. Each non-employee director also received \$2,000 for each Board meeting attended (\$1,000 if the Board meeting was an in-person meeting and the director attended by telephone or video conference), and \$1,500 for each committee meeting attended (\$750 if the committee meeting was an in-person meeting and the director attended by telephone or video conference). Non-employee directors may elect to receive this compensation as full-value shares of our common stock, at a value equal to the fair market value of our common stock on the date that the foregone cash compensation otherwise would have been paid. Directors may alternatively elect to defer their retainer and/or meeting fees under our DCP, subject to the restrictions of applicable tax law. Please refer to the discussion under **Nonqualified Deferred Compensation** for more information. Directors who are employees (*i.e.*, Mr. Levy and Mr. Wilson) receive no compensation for their services in their capacities as directors. The cash compensation reported below for Mr. Levy is for his service as our employee. All directors, however, receive reimbursement for out-of-pocket expenses of the directors associated with attending Board and committee meetings and for expenses related to directors' continuing education programs.

**Equity Compensation.** The Third Amended Stock Plan provides for the discretionary grant of non-qualified stock options and Deferred Stock Units ( DSUs ) to non-employee directors. Under this plan, each continuing non-employee director currently receives an annual grant of a non-qualified stock option to purchase 5,000 shares of our common stock at an exercise price equal to the fair market value (*i.e.*, the closing price) of the underlying shares of our common stock on the date of grant, typically the day after the annual meeting, and an annual grant of DSUs having a fair market value on the date of grant of approximately \$100,000. Stock options granted are immediately exercisable and expire seven years after the date of grant unless terminated earlier. DSUs generally vest quarterly over a period of one year from the date of grant. Unless otherwise provided in the grant agreement as determined by the Board, payment of DSUs will be made in shares of our common stock, with one share of our common stock issued for each DSU, upon the earlier of three years after the date of the DSU grant or upon departure from the Board (*e.g.*, upon retirement or resignation).

The following table sets forth the compensation received by each director (other than Mr. Wilson, whose compensation is set forth under the Summary Compensation Table above) during fiscal year 2013:

Name	Fees Earned or Paid in Cash (3)	Stock Awards (4)	Option Awards (5)	Non-Equity Incentive Plan Compensation (6)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (7)	Total (\$)
Susan L. Bostrom	\$ 74,000	\$ 100,031	\$ 97,786				\$ 271,817
John Seely Brown (1)	\$ 3,500						\$ 3,500
R. Andrew Eckert	\$ 94,000	\$ 100,031	\$ 97,786			\$ 5,000	\$ 296,817
Timothy E. Guertin	\$ 51,000	\$ 100,031	\$ 97,786				\$ 248,817
David J. Illingworth	\$ 80,500	\$ 100,031	\$ 97,786				\$ 278,317
Mark R. Laret	\$ 87,500	\$ 100,031	\$ 97,786				\$ 285,317
Richard M. Levy (2)				\$ 3,846(6)		\$ 169,604	\$ 173,451
Ruediger Naumann-Etienne	\$ 94,000	\$ 100,031	\$ 97,786				\$ 291,817
Erich R. Reinhardt	\$ 60,500	\$ 100,031	\$ 97,786				\$ 258,317
Venkatraman Thyagarajan	\$ 77,500	\$ 100,031	\$ 97,786				\$ 275,317

(1) Mr. Brown retired from the Board in February 2013. The amount in the table represents payment for his services during part of fiscal year 2013.

(2) Mr. Levy is compensated as an employee as described below.

(3) Mr. Illingworth elected to defer his respective annual retainer and meeting fees into our DCP.

- (4) This column represents the aggregate grant date fair value of DSUs granted in fiscal year 2013, computed in accordance with ASC 718. The fair value is determined using the closing price on the grant date multiplied

**Table of Contents**

by the number of shares subject to the award. These amounts reflect our calculation of the value of these awards, and do not necessarily correspond to the actual value that may ultimately be realized by the directors.

- (5) This column represents the grant date fair value of stock option awards granted in fiscal year 2013, computed in accordance with ASC 718, using the assumptions listed below:

Expected term (in years)	4.77
Risk-free interest rate	0.81%
Expected volatility	30.89%
Expected dividend yield	
Weighted average fair value at grant date	\$ 19.56

These amounts reflect our calculation of the value of these awards, and do not necessarily correspond to the actual value that may ultimately be realized by the directors.

- (6) Amount represents Mr. Levy's award as a participant in the EIP.

- (7) For Mr. Levy, amount includes salary (\$160,004) and Company contributions to his 401(k) retirement account (\$9,600). For Mr. Eckert, the amount represents Company match of charitable contributions made by him.

The following table sets forth the aggregate number of outstanding DSUs and stock options held by each director listed as of the end of fiscal year 2013:

Name	DSUs Outstanding	Options Outstanding
Susan L. Bostrom	4,384	15,000
John Seely Brown		
R. Andrew Eckert	4,384	28,000
Timothy E. Guertin (1)	1,428	5,000
David J. Illingworth	2,973	10,000
Mark R. Laret	4,384	30,000
Ruediger Naumann-Etienne	4,384	18,000
Erich R. Reinhardt	1,428	5,000
Venkatraman Thyagarajan	4,384	15,000

- (1) Excludes equity compensation received by Mr. Guertin in his capacity as an employee of the Company prior to his retirement in February 2013. See "Beneficial Ownership of Certain Stockholders, Directors and Executive Officers" for a description of Mr. Guertin's beneficial ownership of Company common stock as of November 22, 2013.

Effective as of the close of business on February 17, 2006, Mr. Levy stepped down as our Chief Executive Officer while remaining as Chairman of the Board and a non-executive employee. In his role as a non-executive employee, Mr. Levy provides ongoing advice and counsel to management on strategic business and technological matters, and is involved with investor groups and key customers. The full Board determines Mr. Levy's compensation, upon the recommendation of the Compensation Committee. Mr. Levy currently receives an annual base salary of \$160,000. We also provide him with leased offsite office space and an administrator. In addition, Mr. Levy is eligible to receive our non-executive employee health and welfare benefits, subject to his election and contributions towards those benefit plans. He does not receive any separate compensation for his duties serving on the Board. Mr. Levy is not eligible to participate in the MIP or in other executive perquisite programs. Mr. Levy, however, is eligible to participate in our EIP and he also receives the same reimbursement of expenses as do all other employees.

**Compensation Committee Interlocks and Insider Participation**

Edgar Filing: VARIAN MEDICAL SYSTEMS INC - Form PRE 14A

None of our executive officers currently serves, or in the past has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on the Board or the Compensation Committee.

---

**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**Review, Approval or Ratification of Related Person Transactions**

The Nominating Committee is responsible for the review, approval or ratification of related-person transactions between the Company or its subsidiaries and related persons. Under SEC rules, a related person is a director, nominee for director or executive officer since the beginning of the last fiscal year, or a more than five percent stockholder, and their immediate family members. Such transactions may include employment or consulting relationships with a related person or contracts under which we receive goods or services from (or provide goods and services to) a related person or a company for which the related person is an employee or otherwise affiliated. The Board has adopted written policies and procedures that apply to any transaction or series of transactions in which the Company or one of its subsidiaries is a participant and a related person has a direct or indirect material interest. Generally for a transaction to be approved, the Nominating Committee must be informed or have knowledge of (i) the related person's relationship to the Company and interest in the transaction; (ii) the material facts of the proposed transaction, including a description of the nature and potential aggregate value of the proposed transaction; (iii) the benefits, if any, to the Company of the proposed transaction; (iv) if applicable, the availability of other sources of comparable products or services; and (v) an assessment of whether the proposed transaction or situation is on terms that are comparable to the terms available to an unrelated third party or to employees generally.

The Nominating Committee has, however, determined that a related person does not have a direct or indirect material interest in the following categories of transactions:

any transaction with another company for which a related person's only relationship is as an employee (other than an executive officer), director, or beneficial owner of less than 10% of that company's shares, if the amount involved does not exceed the greater of \$1 million, or 2% of that company's total annual revenue, and the related person is not involved in the decision-making process for such transaction;

any charitable contribution, grant, or endowment by the Company to a charitable organization, foundation, or university for which a related person's only relationship is as an employee (other than an executive officer) or a director, if the amount involved does not exceed the lesser of \$1 million, or 2% of the charitable organization's total annual receipts, and the related person is not involved in the decision-making process for such transaction;

compensation to executive officers determined by the Compensation Committee;

compensation to directors determined by the Board; and

transactions in which all security holders receive proportional benefits.

Transactions involving related persons that are not included in one of the above categories are forwarded to our legal department to determine whether the related person could have a direct or indirect material interest in the transaction, and any such transaction is forwarded to the Nominating Committee for review. The Nominating Committee determines whether the related person has a material interest in a transaction and may approve, ratify, terminate, or take other action with respect to the transaction in its discretion.

**Transactions with Related Persons**

All potential related party transactions during fiscal year 2013 were included in one of the above categories.

**Table of Contents**

**APPENDIX A**

**VARIAN MEDICAL SYSTEMS, INC.**

**MANAGEMENT INCENTIVE PLAN**

**(Amended as of November 14, 2013)**

**Table of Contents**

SECTION 1	BACKGROUND, PURPOSE AND DURATION	A-1
1.1	EFFECTIVE DATE	A-1
1.2	PURPOSE OF THE PLAN	A-1
SECTION 2	DEFINITIONS	A-1
2.1	ACTUAL AWARD	A-1
2.2	AFFILIATE	A-1
2.3	BASE SALARY	A-1
2.4	BOARD	A-1
2.5	CODE	A-1
2.6	COMMITTEE	A-1
2.7	COMPANY	A-1
2.8	DISABILITY	A-1
2.9	EBIT	A-2
2.10	EBITDA	A-2
2.11	EARNINGS PER SHARE	A-2
2.12	EMPLOYEE	A-2
2.13	FISCAL YEAR	A-2
2.14	MAXIMUM AWARD	A-2
2.15	NET INCOME	A-2
2.16	NET ORDERS	A-2
2.17	OPERATING CASH FLOW	A-2
2.18	PARTICIPANT	A-2
2.19	PAYOUT FORMULA	A-2
2.20	PERFORMANCE GOALS	A-2
2.21	PERFORMANCE PERIOD	A-3
2.22	PLAN	A-3
2.23	RETIREMENT	A-3
2.24	RETURN ON ASSETS	A-3
2.25	RETURN ON EQUITY	A-3
2.26	RETURN ON SALES	A-3
2.27	REVENUE	A-3
2.28	SHAREHOLDER RETURN	A-3
2.29	SHARES	A-3
2.30	TARGET AWARD	A-3
2.31	VAI	A-3
SECTION 3	SELECTION OF PARTICIPANTS AND DETERMINATION OF AWARDS	A-3
3.1	SELECTION OF PARTICIPANTS	A-3
3.2	DETERMINATION OF PERFORMANCE GOALS	A-4
3.3	DETERMINATION OF TARGET AWARDS	A-4
3.4	DETERMINATION OF PAYOUT FORMULA OR FORMULAE	A-4
3.5	DETERMINATION OF ACTUAL AWARDS	A-4
SECTION 4	PAYMENT OF AWARDS	A-4
4.1	RIGHT TO RECEIVE PAYMENT	A-4
4.2	TIMING OF PAYMENT	A-4
4.3	FORM OF PAYMENT	A-4
4.4	PAYMENT IN THE EVENT OF DEATH	A-4
4.5	RECOUPMENT POLICY	A-5



**Table of Contents**

SECTION 5	ADMINISTRATION	A-5
	5.1 COMMITTEE IS THE ADMINISTRATOR	A-5
	5.2 COMMITTEE AUTHORITY	A-5
	5.3 DECISIONS BINDING.	A-5
	5.4 DELEGATION BY THE COMMITTEE.	A-5
SECTION 6	GENERAL PROVISIONS	A-5
	6.1 TAX WITHHOLDING	A-5
	6.2 NO EFFECT ON EMPLOYMENT OR SERVICE	A-5
	6.3 PARTICIPATION	A-6
	6.4 INDEMNIFICATION	A-6
	6.5 SUCCESSORS	A-6
	6.6 BENEFICIARY DESIGNATIONS	A-6
	6.7 NONTRANSFERABILITY OF AWARDS	A-6
	6.8 DEFERRALS	A-6
SECTION 7	AMENDMENT, TERMINATION AND DURATION	A-6
	7.1 AMENDMENT, SUSPENSION OR TERMINATION	A-6
	7.2 DURATION OF THE PLAN	A-6
SECTION 8	LEGAL CONSTRUCTION	A-7
	8.1 GENDER AND NUMBER	A-7
	8.2 SEVERABILITY	A-7
	8.3 REQUIREMENTS OF LAW	A-7
	8.4 GOVERNING LAW	A-7
	8.5 CAPTIONS	A-7
EXECUTION		A-7

**Table of Contents**

**VARIAN MEDICAL SYSTEMS, INC.**

**MANAGEMENT INCENTIVE PLAN**

**(Amended as of November 14, 2013)**

**SECTION 1**

**BACKGROUND, PURPOSE AND DURATION**

1.1 **Effective Date.** This amended and restated Plan is effective as of the date on which VAI distributes shares of the common stock of Varian, Inc. and Varian Semiconductor Equipment Associates, Inc. to the stockholders of VAI, subject to the approval of the Plan by a majority of the shares of the common stock of VAI which are present in person or by proxy and entitled to vote at the 1999 Annual and Special Meeting of Stockholders of VAI.

1.2 **Purpose of the Plan.** The Plan is intended to increase shareholder value and the success of the Company by motivating key executives (1) to perform to the best of their abilities, and (2) to achieve the Company's objectives. The Plan's goals are to be achieved by providing such executives with incentive awards based on the achievement of goals relating to the performance of the Company and its business units. The Plan is intended to permit the grant of awards that qualify as performance-based compensation under section 162(m) of the Code.

**SECTION 2**

**DEFINITIONS**

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

2.1 **Actual Award** means as to any Performance Period, the actual award (if any) payable to a Participant for the Performance Period. Each Actual Award is determined by the Payout Formula for the Performance Period, subject to the Committee's authority under Section 3.5 to reduce the award otherwise determined by the Payout Formula.

2.2 **Affiliate** means any corporation or other entity (including, but not limited to, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

2.3 **Base Salary** means as to any Performance Period, the Participant's annualized salary rate on the last day of the Performance Period. Such Base Salary shall be before both (a) deductions for taxes or benefits, and (b) deferrals of compensation pursuant to Company-sponsored plans.

2.4 **Board** means the Board of Directors of the Company.

2.5 **Code** means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated thereunder, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

2.6 **Committee** means the committee appointed by the Board (pursuant to Section 5.1) to administer the Plan.

2.7 **Company** means Varian Medical Systems, Inc., a Delaware corporation, or any successor thereto.

2.8 **Disability** means a permanent and total disability determined in accordance with uniform and nondiscriminatory standards adopted by the Committee from time to time.

**Table of Contents**

2.9 EBIT means as to any Performance Period, the Company's or a business unit's income before reductions for interest and taxes, determined in accordance with generally accepted accounting principles.

2.10 EBITDA means as to any Performance Period, the Company's or a business unit's income before reductions for interest, taxes, depreciation and amortization, determined in accordance with generally accepted accounting principles.

2.11 Earnings Per Share means as to any Performance Period, the Company's or a business unit's Net Income, divided by a weighted average number of common shares outstanding and dilutive common equivalent shares deemed outstanding, determined in accordance with generally accepted accounting principles.

2.12 Employee means any employee of the Company or of an Affiliate, whether such employee is so employed at the time the Plan is adopted or becomes so employed subsequent to the adoption of the Plan.

2.13 Fiscal Year means any fiscal year of the Company.

2.14 Maximum Award means as to any Actual Award to any Participant for any Performance Period, the lesser of two hundred percent (200%) of Base Salary or \$3 million.

2.15 Net Income means as to any Performance Period, the Company's or a business unit's income after taxes, determined in accordance with generally accepted accounting principles.

2.16 Net Orders means as to any Performance Period, the Company's or a business unit's net orders calculated (and reviewed by the Company's external independent auditors in accordance with agreed standard procedures) for and reported in the Company's quarterly financial earnings press release filed by the Company on a Current Report on Form 8-K.

2.17 Operating Cash Flow means as to any Performance Period, the Company's or a business unit's sum of Net Income plus depreciation and amortization less capital expenditures plus changes in working capital comprised of accounts receivable, inventories, other current assets, trade accounts payable, accrued expenses, product warranty, advance payments from customers and long-term accrued expenses, determined in accordance with generally acceptable accounting principles.

2.18 Participant means as to any Performance Period, an Employee who has been selected by the Committee for participation in the Plan for that Performance Period.

2.19 Payout Formula means as to any Performance Period, the formula or payout matrix established by the Committee pursuant to Section 3.4 in order to determine the Actual Awards (if any) to be paid to Participants. The formula or matrix may differ from Participant to Participant.

2.20 Performance Goals means the goal(s) (or combined goal(s)) determined by the Committee (in its discretion) to be applicable to a Participant for a Target Award for a Performance Period. As determined by the Committee, the Performance Goals for any Target Award applicable to a Participant may provide for a targeted level or levels of achievement using one or more of the following measures: (a) EBIT, (b) EBITDA, (c) Earnings Per Share, (d) Net Income, (e) Operating Cash Flow, (f) Return on Assets, (g) Return on Equity, (h) Return on Sales, (i) Revenue, (j) Shareholder Return, (k) orders or Net Orders, (l) expenses, (m) cost of goods sold, (n) profit/loss or profit margin, (o) working capital, (p) operating income, (q) cash flow, (r) market share, (s) return on equity, (t) economic value add, (u) stock price of the Company's stock, (v) price/earning ratio, (w) debt or debt-to-equity ratio, (x) accounts receivable, (y) cash, (z) write-off, (aa) assets, (bb) liquidity, (cc) operations, (dd) intellectual property (e.g., patents), (ee) product development, (ff) regulatory activities, (gg) manufacturing, production or inventory, (hh) mergers, acquisitions or divestitures, (ii) financings, (jj) days sales outstanding, (kk) backlog, (ll) deferred revenue, and (mm) employee headcount. The Performance Goals may

## **Table of Contents**

differ from Participant to Participant and from award to award. Prior to the Determination Date, the Committee shall determine whether any significant element(s) shall be included in or excluded from the calculation of any Performance Goal with respect to any Participants.

**Determination Date** means the latest possible date that will not jeopardize a Target Award's qualification as performance-based compensation under section 162(m) of the Code.

2.21 **Performance Period** means any fiscal period not to exceed three consecutive Fiscal Years, as determined by the Committee in its sole discretion.

2.22 **Plan** means the Varian Medical Systems, Inc. Management Incentive Plan, as set forth in this instrument and as hereafter amended from time to time.

2.23 **Retirement** means, with respect to any Participant, Retirement as defined by the Company's Retirement Policies, as they may be established from time to time.

2.24 **Return on Assets** means as to any Performance Period, the percentage equal to the Company's or a business unit's EBIT before incentive compensation, divided by average net Company or business unit, as applicable, assets, determined in accordance with generally accepted accounting principles.

2.25 **Return on Equity** means as to any Performance Period, the percentage equal to the Company's Net Income divided by average stockholder's equity, determined in accordance with generally accepted accounting principles.

2.26 **Return on Sales** means as to any Performance Period, the percentage equal to the Company's or a business unit's EBIT before incentive compensation, divided by the Company's or the business unit's, as applicable, Revenue, determined in accordance with generally accepted accounting principles.

2.27 **Revenue** means as to any Performance Period, the Company's or a business unit's net sales, determined in accordance with generally accepted accounting principles.

2.28 **Shareholder Return** means as to any Performance Period, the total return (change in share price plus reinvestment of any dividends) of a Share.

2.29 **Shares** means shares of the Company's common stock, \$1.00 par value.

2.30 **Target Award** means the target award payable under the Plan to a Participant for the Performance Period, expressed as a percentage of his or her Base Salary, as determined by the Committee in accordance with Section 3.3.

2.31 **VAI** means Varian Associates, Inc., a Delaware corporation.

## **SECTION 3**

### **SELECTION OF PARTICIPANTS AND DETERMINATION OF AWARDS**

3.1 **Selection of Participants**. The Committee, in its sole discretion, shall select the Employees of the Company who shall be Participants for any Performance Period. Participation in the Plan is in the sole discretion of the Committee, and on a Performance Period by Performance Period basis. Accordingly, an Employee who is a Participant for a given Performance Period in no way is guaranteed or assured of being selected for participation in any subsequent Performance Period or Periods.

---

**Table of Contents**

3.2 **Determination of Performance Goals.** The Committee, in its sole discretion, shall establish the Performance Goals for each Participant for the Performance Period. Such Performance Goals shall be set forth in writing.

3.3 **Determination of Target Awards.** The Committee, in its sole discretion, shall establish a Target Award for each Participant. Each Participant's Target Award shall be determined by the Committee in its sole discretion, and each Target Award shall be set forth in writing.

3.4 **Determination of Payout Formula or Formulae.** On or prior to the Determination Date, the Committee, in its sole discretion, shall establish a Payout Formula or Formulae for purposes of determining the Actual Award (if any) payable to each Participant. Each Payout Formula shall (a) be in writing, (b) be based on a comparison of actual performance to the Performance Goals, (c) provide for the payment of a Participant's Target Award if the Performance Goals for the Performance Period are achieved, and (d) provide for an Actual Award greater than or less than the Participant's Target Award, depending upon the extent to which actual performance exceeds or falls below the Performance Goals. Notwithstanding the preceding, no Participant's Actual Award under the Plan may exceed his or her Maximum Award.

3.5 **Determination of Actual Awards.** After the end of each Performance Period, the Committee shall certify in writing the extent to which the Performance Goals applicable to each Participant for the Performance Period were achieved or exceeded. The Actual Award for each Participant shall be determined by applying the Payout Formula to the level of actual performance which has been certified by the Committee. Notwithstanding any contrary provision of the Plan, the Committee, in its sole discretion, may (a) eliminate or reduce the Actual Award payable to any Participant below that which otherwise would be payable under the Payout Formula, and (b) determine what Actual Award, if any, will be paid in the event of a termination of employment prior to the end of the Performance Period. The total aggregate Actual Awards under the Plan with respect to any Performance Period shall not exceed eight percent (8%) of the Company's EBIT (but before incentive compensation) for the most recent completed Fiscal Year. If the total aggregate Actual Awards with respect to a Performance Period would exceed this aggregate limit, all such Actual Awards shall be pro-rated on an equal basis among all Participants according to a formula established by the Committee.

**SECTION 4**

**PAYMENT OF AWARDS**

4.1 **Right to Receive Payment.** Each Actual Award that may become payable under the Plan shall be paid solely from the general assets of the Company. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Participant's claim of any right other than as an unsecured general creditor with respect to any payment to which he or she may be entitled.

4.2 **Timing of Payment.** Except as determined by the Committee with respect to multi-fiscal year Performance Periods, payment of each Actual Award shall be made no later than the 15th day of the third month following the end of the Performance Period during which the Award was earned.

4.3 **Form of Payment.** Each Actual Award normally shall be paid in cash (or its equivalent) in a single lump sum. However, the Committee, in its sole discretion, may declare any Actual Award, in whole or in part, payable in stock granted under the Company's Omnibus Stock Plan. The number of Shares granted shall be determined by dividing the cash amount foregone by the fair market value of a Share on the date that the cash payment otherwise would have been made. For this purpose, fair market value shall mean the closing price on the Nasdaq National Market for the day in question.

4.4 **Payment in the Event of Death.** If a Participant dies prior to the payment of an Actual Award earned by him or her prior to death for a prior Performance Period, the Award shall be paid to his or her estate.

## **Table of Contents**

4.5 **Recoupment Policy.** Notwithstanding anything to the contrary set forth in the Plan or elsewhere, in the event of a restatement of incorrect financial results, the Board will review the conduct of executive officers in relation to the restatement. If the Board determines that an executive officer has engaged in misconduct or other violations of the Company's code of ethics in connection with the restatement, the Board would, in its discretion, take appropriate action to remedy the misconduct, including, without limitation, seeking reimbursement of any portion of performance-based or incentive compensation paid or awarded to the executive under the Plan that is greater than would have been paid or awarded if calculated based on the restated financial results, to the extent not prohibited by governing law. For this purpose, the term "executive officer" means executive officers as defined by the Securities Exchange Act of 1934, as amended. Such action by the Board would be in addition to any other actions the Board or the Company may take under the Company's policies, as modified from time to time, or any actions imposed by law enforcement, regulators or other authorities.

## **SECTION 5**

### **ADMINISTRATION**

5.1 **Committee is the Administrator.** The Plan shall be administered by the Committee. The Committee shall consist of not less than two (2) members of the Board. The members of the Committee shall be appointed from time to time by, and serve at the pleasure of, the Board. Each member of the Committee shall qualify as an "outside director" under section 162(m) of the Code. If it is later determined that one or more members of the Committee do not so qualify, actions taken by the Committee prior to such determination shall be valid despite such failure to qualify.

5.2 **Committee Authority.** It shall be the duty of the Committee to administer the Plan in accordance with the Plan's provisions. The Committee shall have all powers and discretion necessary or appropriate to administer the Plan and to control its operation, including, but not limited to, the power to (a) determine which Employees shall be granted awards, (b) prescribe the terms and conditions of awards, (c) interpret the Plan and the awards, (d) adopt such procedures and subplans as are necessary or appropriate to permit participation in the Plan by Employees who are foreign nationals or employed outside of the United States, (e) adopt rules for the administration, interpretation and application of the Plan as are consistent therewith, and (f) interpret, amend or revoke any such rules.

5.3 **Decisions Binding.** All determinations and decisions made by the Committee, the Board, and any delegate of the Committee pursuant to the provisions of the Plan shall be final, conclusive, and binding on all persons, and shall be given the maximum deference permitted by law.

5.4 **Delegation by the Committee.** The Committee, in its sole discretion and on such terms and conditions as it may provide, may delegate all or part of its authority and powers under the Plan to one or more directors and/or officers of the Company; provided, however, that the Committee may delegate its authority and powers only with respect to awards that are not intended to qualify as performance-based compensation under section 162(m) of the Code.

## **SECTION 6**

### **GENERAL PROVISIONS**

6.1 **Tax Withholding.** The Company shall withhold all applicable taxes from any Actual Award, including any federal, state and local taxes (including the Participant's FICA obligation).

6.2 **No Effect on Employment or Service.** Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment or service at any time, with or without cause. For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Affiliates (or between Affiliates) shall not be deemed a Termination of Service. Employment with the Company

---

## **Table of Contents**

and its Affiliates is on an at-will basis only. The Company expressly reserves the right, which may be exercised at any time and without regard to when during a Performance Period such exercise occurs, to terminate any individual's employment with or without cause, and to treat him or her without regard to the effect which such treatment might have upon him or her as a Participant.

6.3 **Participation**. No Employee shall have the right to be selected to receive an award under this Plan, or, having been so selected, to be selected to receive a future award.

6.4 **Indemnification**. Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from (a) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any award, and (b) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

6.5 **Successors**. All obligations of the Company under the Plan, with respect to awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

6.6 **Beneficiary Designations**. If permitted by the Committee, a Participant under the Plan may name a beneficiary or beneficiaries to whom any vested but unpaid award shall be paid in the event of the Participant's death. Each such designation shall revoke all prior designations by the Participant and shall be effective only if given in a form and manner acceptable to the Committee. In the absence of any such designation, any vested benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

6.7 **Nontransferability of Awards**. No award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will, by the laws of descent and distribution, or to the limited extent provided in Section 6.6. All rights with respect to an award granted to a Participant shall be available during his or her lifetime only to the Participant.

6.8 **Deferrals**. The Committee, in its sole discretion, may permit a Participant to defer receipt of the payment of cash that would otherwise be delivered to a Participant under the Plan. Any such deferral elections shall be subject to such rules and procedures as shall be determined by the Committee in its sole discretion.

## **SECTION 7**

### **AMENDMENT, TERMINATION AND DURATION**

7.1 **Amendment, Suspension or Termination**. The Board, in its sole discretion, may amend or terminate the Plan, or any part thereof, at any time and for any reason. The amendment, suspension or termination of the Plan shall not, without the consent of the Participant, alter or impair any rights or obligations under any Target Award theretofore granted to such Participant. No award may be granted during any period of suspension or after termination of the Plan.

7.2 **Duration of the Plan**. The Plan shall commence on the date specified herein, and subject to Section 7.1 (regarding the Board's right to amend or terminate the Plan), shall remain in effect thereafter.

**Table of Contents**

**SECTION 8**

**LEGAL CONSTRUCTION**

8.1 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

8.2 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

8.3 Requirements of Law. The granting of awards under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

8.4 Governing Law. The Plan and all awards shall be construed in accordance with and governed by the laws of the State of California, but without regard to its conflict of law provisions.

8.5 Captions. Captions are provided herein for convenience only, and shall not serve as a basis for interpretation or construction of the Plan.

**EXECUTION**

IN WITNESS WHEREOF, Varian Medical Systems, Inc., by its duly authorized officer, has executed the Plan on the date indicated below.

VARIAN MEDICAL SYSTEMS, INC.

Dated: November 14, 2013

By: /s/ John W. Kuo  
John W. Kuo  
Senior Vice President, General Counsel & Corporate Secretary

A-7



**Table of Contents**

**APPENDIX B**

**ARTICLE V**

Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the number of directors of this corporation shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the then authorized number of directors of this corporation, but in no event shall the number of directors be fewer than three. The directors, other than those who may be elected solely by the holders of any series of Preferred Stock (unless the relevant Preferred Stock certificate of designation shall so provide), shall be divided into three classes, as nearly equal in number as possible, designated Class I, Class II and Class III. Directors of each class shall serve for a term ending on the third annual meeting of stockholders following the annual meeting at which such class was elected. At each annual meeting of stockholders beginning in 2016, the directors shall be elected annually for one-year terms expiring at the next succeeding annual meeting of stockholders. Notwithstanding the foregoing, the Class I directors elected at the 2014 annual meeting of stockholders shall continue to serve until the 2017 annual meeting of stockholders and the Class II directors elected at the 2015 annual meeting of stockholders shall continue to serve until the 2018 annual meeting of stockholders. Beginning with the 2018 annual meeting of stockholders, the entire Board of Directors shall be subject to election at each annual meeting of stockholders and the Board of Directors will no longer be divided into classes. The foregoing notwithstanding, each director shall serve until his or her successor shall have been duly elected and qualified, unless such director shall die, resign, retire or be disqualified or removed.

At each annual election of directors prior to the election at the 2016 annual meeting of stockholders, the directors chosen to succeed those whose terms then expire shall be identified as being of the same class as the directors they succeed. If for any reason the number of directors in the various classes shall not be as nearly equal as possible, the Board of Directors may redesignate any director into a different class in order that the balance of directors in such classes shall be as nearly equal as possible.

At all elections of directors of this corporation, each holder of Common Stock shall be entitled to as many votes as shall equal the number of votes which, except for this provision as to cumulative voting, he would be entitled to cast for the election of directors with respect to his shares of Common Stock, multiplied by the number of directors to be elected, and he may cast all of such votes for a single nominee for director or may distribute them among the number to be voted for, or for any two or more of them as he sees fit.

Every act or decision done or made by a majority of the whole Board of Directors, acting at a meeting duly held at which a quorum is present, or acting by written consent, shall be regarded as the act of the Board of Directors unless a greater number be required by law or by this Certificate of Incorporation.

**Table of Contents**

**APPENDIX C**

**ARTICLE V**

Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the number of directors of this corporation shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the then authorized number of directors of this corporation, but in no event shall the number of directors be fewer than three. The directors, other than those who may be elected solely by the holders of any series of Preferred Stock (unless the relevant Preferred Stock certificate of designation shall so provide), shall be divided into three classes, as nearly equal in number as possible, designated Class I, Class II and Class III. Directors of each class shall serve for a term ending on the third annual meeting of stockholders following the annual meeting at which such class was elected. The foregoing notwithstanding, each director shall serve until his or her successor shall have been duly elected and qualified, unless such director shall die, resign, retire or be disqualified or removed.

At each annual election, the directors chosen to succeed those whose terms then expire shall be identified as being of the same class as the directors they succeed. If for any reason the number of directors in the various classes shall not be as nearly equal as possible, the Board of Directors may redesignate any director into a different class in order that the balance of directors in such classes shall be as nearly equal as possible.

At all elections of directors of this corporation held prior to the election at the 2016 annual meeting of stockholders, each holder of Common Stock shall be entitled to as many votes as shall equal the number of votes which, except for this provision as to cumulative voting, he would be entitled to cast for the election of directors with respect to his shares of Common Stock, multiplied by the number of directors to be elected, and he may cast all of such votes for a single nominee for director or may distribute them among the number to be voted for, or for any two or more of them as he sees fit. Commencing with the election at the 2016 annual meeting of stockholders, stockholders of the corporation shall not be entitled to cumulative voting in elections of directors of this corporation.

Every act or decision done or made by a majority of the whole Board of Directors, acting at a meeting duly held at which a quorum is present, or acting by written consent, shall be regarded as the act of the Board of Directors unless a greater number be required by law or by this Certificate of Incorporation.

**Table of Contents**

**Table of Contents**