

VARIAN MEDICAL SYSTEMS INC  
Form 10-Q  
August 09, 2016

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

FORM 10-Q

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

For the quarterly period ended July 1, 2016

or

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

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

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer  Accelerated filer

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

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 93,380,657 shares of common stock, par value \$1 per share, outstanding as of July 29, 2016.

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VARIAN MEDICAL SYSTEMS, INC.  
 FORM 10-Q for the Quarter Ended July 1, 2016  
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PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Revenues:				
Product	\$517,271	\$533,736	\$1,513,366	\$1,523,331
Service	272,148	250,275	791,953	757,940
Total revenues	789,419	784,011	2,305,319	2,281,271
Cost of revenues:				
Product	332,017	363,306	1,006,460	999,581
Service	110,972	105,729	325,519	317,168
Total cost of revenues	442,989	469,035	1,331,979	1,316,749
Gross margin	346,430	314,976	973,340	964,522
Operating expenses:				
Research and development	64,952	60,010	187,041	176,398
Selling, general and administrative	151,009	110,722	405,197	368,394
Total operating expenses	215,961	170,732	592,238	544,792
Operating earnings	130,469	144,244	381,102	419,730
Interest income	4,537	3,489	12,784	9,573
Interest expense	(2,906)	(1,881)	(8,448)	(5,927)
Earnings before taxes	132,100	145,852	385,438	423,376
Taxes on earnings	33,214	32,210	100,527	110,451
Net earnings	98,886	113,642	284,911	312,925
Less: Net earnings attributable to noncontrolling interests	91	136	118	136
Net earnings attributable to Varian	\$98,795	\$113,506	\$284,793	\$312,789
Net earnings per share - basic	\$1.04	\$1.14	\$2.97	\$3.13
Net earnings per share - diluted	\$1.04	\$1.13	\$2.95	\$3.10
Shares used in the calculation of net earnings per share:				
Weighted average shares outstanding - basic	94,940	99,721	95,955	100,090
Weighted average shares outstanding - diluted	95,432	100,454	96,522	101,020

See accompanying notes to the condensed consolidated financial statements.



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

(In thousands)	Three Months Ended		Nine Months Ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Net earnings	\$98,886	\$113,642	\$284,911	\$312,925
Other comprehensive earnings (loss), net of tax:				
Defined benefit pension and post-retirement plans:				
Amortization of prior service cost included in net periodic benefit cost, net of tax benefit of \$45 and \$136 for the three and nine months ended July 1, 2016, respectively, and \$41 and \$121 for the corresponding periods of fiscal year 2015, respectively.	(72	) (39	) (215	) (117
Amortization of net actuarial loss included in net periodic benefit cost, net of tax expense of (\$132) and (\$396) for the three and nine months ended July 1, 2016, respectively, and (\$116) and (\$347) for the corresponding periods of fiscal year 2015, respectively.	602	505	1,804	1,514
	530	466	1,589	1,397
Derivative instruments:				
Change in unrealized gain (loss), net of tax (expense) benefit of (\$137) and \$343 for the three and nine months ended July 1, 2016, respectively, and (\$127) and (\$866) for the corresponding periods of fiscal year 2015, respectively.	228	214	(574	) 1,452
Reclassification adjustments, net of tax (expense) benefit of (\$250) and (\$221) for the three and nine months ended July 1, 2016, respectively, and \$259 and \$1,286 for the corresponding periods of fiscal year 2015, respectively.	418	(434	) 368	(2,155
	646	(220	) (206	) (703
Available-for-sale securities:				
Change in unrealized loss, net of tax benefit of \$0 and \$141 for the three and nine months ended July 1, 2016, respectively, and \$102 for both of the corresponding periods of fiscal year 2015, respectively.	—	(218	) (299	) (218
Reclassification adjustments, net of tax expense of (\$193) for the nine months ended July 1, 2016.	—	—	411	—
	—	(218	) 112	(218
Currency translation adjustment	(4,270	) 2,112	906	(28,348
Other comprehensive earnings (loss)	(3,094	) 2,140	2,401	(27,872
Comprehensive earnings	95,792	115,782	287,312	285,053
Less: Comprehensive earnings attributable to noncontrolling interests	91	78	118	78
Comprehensive earnings attributable to Varian	\$95,701	\$115,704	\$287,194	\$284,975

See accompanying notes to the condensed consolidated financial statements.

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

(In thousands, except par values)	July 1, 2016	October 2, 2015 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$835,936	\$845,468
Accounts receivable, net of allowance for doubtful accounts of \$25,632 at July 1, 2016 and \$21,218 at October 2, 2015	840,437	770,920
Inventories	682,490	612,607
Prepaid expenses and other current assets	187,760	163,984
Total current assets	2,546,623	2,392,979
Property, plant and equipment, net	372,496	379,215
Goodwill	282,894	283,452
Deferred tax assets	117,918	119,331
Other assets	439,521	403,673
Total assets	\$3,759,452	\$3,578,650
Liabilities, Redeemable Noncontrolling Interests and Equity		
Current liabilities:		
Accounts payable	\$180,338	\$202,918
Accrued liabilities	365,008	347,167
Deferred revenues	530,847	489,775
Advance payments from customers	140,077	178,265
Short-term borrowings	351,441	108,446
Current maturities of long-term debt	50,000	50,000
Total current liabilities	1,617,711	1,376,571
Long-term debt	300,000	337,500
Other long-term liabilities	139,554	138,235
Total liabilities	2,057,265	1,852,306
Commitments and contingencies (Note 9)		
Redeemable noncontrolling interests	10,331	—
Equity:		
Varian stockholders' equity:		
Preferred stock of \$1 par value: 1,000 shares authorized; none issued and outstanding	—	—
Common stock of \$1 par value: 189,000 shares authorized; 94,306 and 98,070 shares issued and outstanding at July 1, 2016 and at October 2, 2015, respectively	94,306	98,070
Capital in excess of par value	659,033	682,167
Retained earnings	1,018,932	1,017,826
Accumulated other comprehensive loss	(84,062 )	(86,463 )
Total Varian stockholders' equity	1,688,209	1,711,600
Noncontrolling interests	3,647	14,744
Total equity	1,691,856	1,726,344
Total liabilities, redeemable noncontrolling interests and equity	\$3,759,452	\$3,578,650

The condensed consolidated balance sheet as of October 2, 2015 was derived from audited financial statements as of that date, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended	
	July 1, 2016	July 3, 2015
(In thousands)		
Cash flows from operating activities:		
Net earnings	\$284,911	\$312,925
Adjustments to reconcile net earnings to net cash provided by operating activities:		&#16