

VARIAN MEDICAL SYSTEMS INC

Form 10-Q

February 05, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 28, 2012

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
(State or other jurisdiction of

incorporation or organization)

3100 Hansen Way,
Palo Alto, California
(Address of principal executive offices)

94-2359345
(I.R.S. Employer

Identification Number)

94304-1030
(Zip Code)

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(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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 109,113,201 shares of common stock, par value \$1 per share, outstanding as of January 25, 2013.

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VARIAN MEDICAL SYSTEMS, INC.

FORM 10-Q for the Quarter Ended December 28, 2012

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

	Three Months Ended	
	December 28,	December 30,
	2012	2011
(In thousands, except per share amounts)		
Revenues:		
Product	\$ 491,673	\$ 456,797
Service contracts and other	186,725	168,541
Total revenues	678,398	625,338
Cost of revenues:		
Product	297,654	275,003
Service contracts and other	89,656	81,576
Total cost of revenues	387,310	356,579
Gross margin	291,088	268,759
Operating expenses:		
Research and development	47,117	43,765
Selling, general and administrative	106,481	96,075
Total operating expenses	153,598	139,840
Operating earnings	137,490	128,919
Interest income	1,539	1,150
Interest expense	(866)	(829)
Earnings before taxes	138,163	129,240
Taxes on earnings	42,880	39,006
Net earnings	\$ 95,283	\$ 90,234
Net earnings per share - basic	\$ 0.87	\$ 0.80
Net earnings per share - diluted	\$ 0.86	\$ 0.79
Shares used in the calculation of net earnings per share:		
Weighted average shares outstanding - basic	109,298	112,267

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Weighted average shares outstanding - diluted	111,144	114,370
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See accompanying notes to the condensed consolidated financial statements.

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

(Unaudited)

(In thousands)	Three Months Ended	
	December 28, 2012	December 30, 2011
Net earnings	\$ 95,283	\$ 90,234
Other comprehensive earnings (loss), net of tax:		
Defined benefit pension and post-retirement benefit plans:		
Plan curtailment	0	91
Amortization of prior service cost included in net periodic benefit cost, net of tax effects of \$5 and \$5	36	36
Amortization of net actuarial loss included in net periodic benefit cost, net of tax effects of \$132 and \$129	564	513
	600	640
Unrealized gain on derivatives:		
Increase (decrease) in unrealized gain, net of tax effects of \$106 and \$40	177	(67)
Reclassification adjustments, net of tax effects of \$285 and \$25	(475)	42
	(298)	(25)
Currency translation adjustment	4,916	(4,928)
Other comprehensive earnings (loss)	5,218	(4,313)
Comprehensive earnings	\$ 100,501	\$ 85,921

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In thousands, except par values)	December 28, 2012	September 28, 2012 ⁽¹⁾
Assets		
Current assets:		
Cash and cash equivalents	\$ 755,489	\$ 704,570
Short-term investment	51,804	49,709
Accounts receivable, net of allowance for doubtful accounts of \$18,200 at December 28, 2012 and \$14,386 at September 28, 2012	637,473	691,806
Inventories	499,616	457,869
Prepaid expenses and other current assets	168,017	150,775
Deferred tax assets	115,914	115,786
Total current assets	2,228,313	2,170,515
Property, plant and equipment, net	298,533	296,592
Goodwill	223,914	222,242
Other assets	187,804	189,377
Total assets	\$ 2,938,564	\$ 2,878,726
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 145,172	\$ 180,736
Accrued expenses	306,785	336,568
Product warranty	50,705	52,799
Deferred revenues	132,881	130,883
Advance payments from customers	396,229	380,545
Short-term borrowings	200,000	155,000
Total current liabilities	1,231,772	1,236,531
Long-term debt	6,250	6,250
Other long-term liabilities	123,654	126,169
Total liabilities	1,361,676	1,368,950
Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock of \$1 par value: 1,000 shares authorized; none issued and outstanding	0	0
Common stock of \$1 par value: 189,000 shares authorized; 109,322 and 109,407 shares issued and outstanding at December 28, 2012 and at September 28, 2012, respectively	109,322	109,407
Capital in excess of par value	609,246	563,875
Retained earnings	909,723	893,115
Accumulated other comprehensive loss	(51,403)	(56,621)
Total stockholders equity	1,576,888	1,509,776

Total liabilities and stockholders equity	\$ 2,938,564	\$ 2,878,726
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- (1) The condensed consolidated balance sheet as of September 28, 2012 was derived from audited financial statements as of that date, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

See accompanying notes to the condensed consolidated financial statements.

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

(In thousands)	Three Months Ended	
	December 28,	December 30,
	2012	2011
Cash flows from operating activities:		
Net earnings	\$ 95,283	\$ 90,234
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	10,163	10,501
Tax benefits from exercises of share-based payment awards	5,321	(485)
Excess tax benefits from share-based compensation	(4,937)	(1,227)
Depreciation	15,840	13,086
Amortization of intangible assets	1,116	900
Deferred taxes	4,150	(98)
Provision for doubtful accounts receivable	3,769	2,008
Income on equity investment in affiliate	(179)	(919)
Other	(1,108)	(121)
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	53,119	38,241
Inventories	(41,015)	(30,571)
Prepaid expenses and other current assets	(14,627)	(39,095)
Accounts payable	(33,358)	(24,836)
Accrued expenses	(33,494)	(19,504)
Deferred revenues	1,998	(1,308)
Product warranty	(2,468)	(1,109)
Advance payments from customers	15,459	19,068
Other long-term liabilities	(3,151)	&nb