

VARIAN MEDICAL SYSTEMS INC
Form 10-Q
February 10, 2009
Table of Contents

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 January 2, 2009

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)

(650) 493-4000

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

(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 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

Smaller reporting company

(Do not check if a 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: 124,391,480 shares of common stock, par value \$1 per share, outstanding as of January 30, 2009.

Table of Contents

VARIAN MEDICAL SYSTEMS, INC.

FORM 10-Q for the Quarter Ended January 2, 2009

INDEX

Part I.	<u>Financial Information</u>	3
Item 1.	<u>Unaudited Financial Statements</u>	3
	<u>Condensed Consolidated Statements of Earnings</u>	3
	<u>Condensed Consolidated Balance Sheets</u>	4
	<u>Condensed Consolidated Statements of Cash Flows</u>	5
	<u>Notes to the Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	47
Item 4.	<u>Controls and Procedures</u>	48
Part II.	<u>Other Information</u>	49
Item 1.	<u>Legal Proceedings</u>	49
Item 1A.	<u>Risk Factors</u>	49
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	70
Item 3.	<u>Defaults Upon Senior Securities</u>	70
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	70
Item 5.	<u>Other Information</u>	70
Item 6.	<u>Exhibits</u>	71
	<u>Signatures</u>	72
	<u>Index to Exhibits</u>	73

Table of Contents**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	
	January 2, 2009	December 28, 2007
Revenues:		
Product	\$ 402,141	\$ 364,336
Service contracts and other	106,528	86,877
Total revenues	508,669	451,213
Cost of revenues:		
Product	233,280	214,560
Service contracts and other	56,432	45,548
Total cost of revenues	289,712	260,108
Gross margin	218,957	191,105
Operating expenses:		
Research and development	36,978	28,944
Selling, general and administrative	83,233	75,073
Total operating expenses	120,211	104,017
Operating earnings	98,746	87,088
Interest income	2,262	2,810
Interest expense	(953)	(1,296)
Earnings from continuing operations before taxes	100,055	88,602
Taxes on earnings	30,476	30,371
Earnings from continuing operations	69,579	58,231
Loss from discontinued operations, net of taxes	(782)	(2,752)
Net Earnings	\$ 68,797	\$ 55,479
Net earnings (loss) per share - basic:		
Continuing operations	\$ 0.56	\$ 0.47
Discontinued operations		(0.03)
Net earnings per share	\$ 0.56	\$ 0.44

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

Net earnings (loss) per share - diluted:

Continuing operations	\$ 0.56	\$ 0.46
Discontinued operations	(0.01)	(0.03)

Net earnings per share	\$ 0.55	\$ 0.43
------------------------	---------	---------

Shares used in the calculation of net earnings per share:

Weighted average shares outstanding - Basic	123,818	124,809
---	---------	---------

Weighted average shares outstanding - Diluted	125,167	127,793
---	---------	---------

See accompanying notes to the consolidated financial statements.

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

(In thousands, except par values)	January 2, 2009	September 26, 2008 ⁽¹⁾
Assets		
Current assets:		
Cash and cash equivalents	\$ 422,871	\$ 397,306
Accounts receivable, net of allowance for doubtful accounts of \$3,362 at January 2, 2009 and \$3,110 at September 26, 2008	467,415	486,310
Inventories	327,265	282,980
Prepaid expenses and other current assets	55,451	78,018
Deferred tax assets	130,940	130,988
Current assets held for sale	18,603	18,799
Total current assets	1,422,545	1,394,401
Property, plant and equipment, net	253,072	218,183
Goodwill	206,261	209,146
Other assets	152,572	150,694
Long-term assets held for sale	3,552	3,088
Total assets	\$ 2,038,002	\$ 1,975,512
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 89,726	\$ 105,281
Accrued expenses	234,850	252,915
Product warranty	49,011	51,141
Deferred revenues	158,168	141,368
Advance payments from customers	224,552	201,783
Short-term borrowings	25,000	
Current maturities of long-term debt	7,992	7,987
Current liabilities held for sale	21,035	21,202
Total current liabilities	810,334	781,677
Long-term debt	32,337	32,399
Other long-term liabilities	153,065	134,251
Total liabilities	995,736	948,327
Commitments and contingencies (Note 9)		
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; 124,313 and 125,590 shares issued and outstanding at January 2, 2009 and at September 26, 2008, respectively	124,313	125,590
Capital in excess of par value	468,615	468,384
Retained earnings	467,578	451,439
Accumulated other comprehensive loss	(18,240)	(18,228)
Total stockholders' equity	1,042,266	1,027,185

Total liabilities and stockholders equity	\$ 2,038,002	\$ 1,975,512
--	--------------	--------------

- (1) The condensed consolidated balance sheet as of September 26, 2008 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 consolidated financial statements.

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

(In thousands)	Three Months Ended	
	January 2, 2009	December 28, 2007
Cash flows from operating activities:		
Net earnings	\$ 68,797	\$ 55,479
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Tax benefits from exercises of share-based payment awards	2,956	11,872
Excess tax benefits from share-based compensation	(2,996)	(10,803)
Share-based compensation expense	10,706	9,410
Depreciation	8,586	7,448
Provision for doubtful accounts receivable	423	(42)
Amortization of intangible assets	931	1,198
Deferred taxes	(1,944)	(1,077)
Net change in fair value of derivatives and underlying commitments	346	(2,113)
Loss on equity investment in affiliate	7	984
Other	(791)	(667)
Changes in assets and liabilities:		
Accounts receivable	10,926	74,446
Inventories	(44,958)	(24,671)
Prepaid expenses and other current assets	(3,626)	(9,843)
Accounts payable	(13,360)	(319)
Accrued expenses	14,434	(12,111)
Deferred revenues	16,800	23,084
Product warranty	(1,725)	1,715
Advance payments from customers	22,894	(7,360)
Other long-term liabilities	(3,844)	4,068
Net cash provided by operating activities	84,562	120,698
Cash flows from investing activities:		
Purchases of property, plant and equipment	(18,467)	(16,592)
(Increase) Decrease in cash surrender value of life insurance	(1,391)	399
Notes repayment from affiliate and other	169	317
Proceeds from disposal of property, plant and equipment	26	46
Other, net	(2,454)	(1,775)
Net cash used in investing activities	(22,117)	(17,605)
Cash flows from financing activities:		
Repurchases of common stock	(71,541)	(41,196)
Proceeds from issuance of common stock to employees	4,491	24,350
Excess tax benefits from share-based compensation	2,996	10,803
Net borrowings (repayments) under line of credit agreement	25,000	(23,000)
Employees taxes withheld and paid for restricted stock	(285)	(310)
Repayments on bank borrowings	(57)	(53)
Other	(64)	
Net cash used in financing activities	(39,460)	(29,406)

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

Effects of exchange rate changes on cash and cash equivalents	2,580	(2,851)
Net increase in cash and cash equivalents	25,565	70,836
Cash and cash equivalents at beginning of period	397,306	263,246
Cash and cash equivalents at end of period	\$ 422,871	\$ 334,082

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Varian Medical Systems, Inc. (VMS) and subsidiaries (collectively, the Company) designs, manufactures, sells and services equipment and software products for treating cancer with radiotherapy, stereotactic radiosurgery and brachytherapy. The Company also designs, manufactures, sells and services x-ray tubes for original equipment manufacturers; replacement x-ray tubes; and flat panel digital image detectors for filmless x-rays in medical, dental, veterinary, scientific and industrial applications. It designs, manufactures, sells and services linear accelerators, digital image detectors, image processing software and image detection products for security and inspection purposes. The Company also develops, designs, manufactures and services proton therapy products and systems for cancer treatment.

Fiscal Year

The fiscal years of the Company as reported are the 52- or 53- week periods ending on the Friday nearest September 30. Fiscal year 2009 is the 53-week period ending October 2, 2009, and fiscal year 2008 was the 52-week period that ended on September 26, 2008. The fiscal quarter ended January 2, 2009 was a 14-week period and the fiscal quarter ended December 28, 2007 was a 13-week period.

Principles of Consolidation

The consolidated financial statements include those of VMS and its subsidiaries. Intercompany balances, transactions, and stock holdings have been eliminated in consolidation.

Basis of Presentation

The condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements and the accompanying notes are unaudited and should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended September 26, 2008 (the 2008 Annual Report). In the opinion of management, the condensed consolidated financial statements herein include adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company s financial position as of January 2, 2009 and September 26, 2008, results of operations for the three months ended January 2, 2009 and December 28, 2007, and cash flows for