

VARIAN MEDICAL SYSTEMS INC

Form 10-Q

August 07, 2012

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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 June 29, 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: 110,715,329 shares of common stock, par value \$1 per share, outstanding as of July 27, 2012.

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VARIAN MEDICAL SYSTEMS, INC.

FORM 10-Q for the Quarter Ended June 29, 2012

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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		Nine Months Ended	
	June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011
Revenues:				
Product	\$ 526,331	\$ 490,419	\$ 1,529,935	\$ 1,420,956
Service contracts and other	178,915	159,019	520,923	456,789
Total revenues	705,246	649,438	2,050,858	1,877,745
Cost of revenues:				
Product	311,358	291,080	923,981	817,473
Service contracts and other	86,277	78,603	253,811	224,684
Total cost of revenues	397,635	369,683	1,177,792	1,042,157
Gross margin	307,611	279,755	873,066	835,588
Operating expenses:				
Research and development	48,943	44,426	139,775	126,801
Selling, general and administrative	105,081	94,838	306,986	280,072
Total operating expenses	154,024	139,264	446,761	406,873
Operating earnings	153,587	140,491	426,305	428,715
Interest income	1,312	584	3,571	2,022
Interest expense	(933)	(504)	(2,469)	(1,868)
Earnings from operations before taxes	153,966	140,571	427,407	428,869
Taxes on earnings	45,123	41,966	120,559	130,696
Net earnings	\$ 108,843	\$ 98,605	\$ 306,848	\$ 298,173
Net earnings per share - basic	\$ 0.98	\$ 0.84	\$ 2.74	\$ 2.54
Net earnings per share - diluted	\$ 0.96	\$ 0.83	\$ 2.69	\$ 2.49
Shares used in the calculation of net earnings per share:				
Weighted average shares outstanding - basic	111,070	116,874	111,857	117,614

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Weighted average shares outstanding diluted	112,823	119,064	113,961	119,831
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See accompanying notes to the condensed consolidated financial statements.

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(In thousands, except par values)	June 29, 2012	September 30, 2011 ⁽¹⁾
Assets		
Current assets:		
Cash and cash equivalents	\$ 633,386	\$ 564,457
Short-term investment	47,155	19,205
Accounts receivable, net of allowance for doubtful accounts of \$10,647 at June 29, 2012 and \$6,034 at September 30, 2011	608,834	635,153
Inventories	464,436	409,962
Prepaid expenses and other current assets	150,430	111,875
Deferred tax assets	113,246	113,965
Total current assets	2,017,487	1,854,617
Property, plant and equipment, net	287,336	285,894
Goodwill	224,058	212,452
Other assets	189,072	145,798
Total assets	\$ 2,717,953	\$ 2,498,761
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 147,248	\$ 154,946
Accrued expenses	284,705	290,009
Product warranty	49,323	50,128
Deferred revenues	126,348	140,173
Advance payments from customers	353,943	299,380
Short-term borrowings	168,760	181,400
Current maturities of long-term debt	0	9,876
Total current liabilities	1,130,327	1,125,912
Long-term debt	6,250	6,250
Other long-term liabilities	118,051	122,708
Total liabilities	1,254,628	1,254,870
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; 110,711 and 112,344 shares issued and outstanding at June 29, 2012 and at September 30, 2011, respectively	110,711	112,344
Capital in excess of par value	568,943	500,922
Retained earnings	834,851	677,473
Accumulated other comprehensive loss	(51,180)	(46,848)

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Total stockholders' equity	1,463,325	1,243,891
Total liabilities and stockholders' equity	\$ 2,717,953	\$ 2,498,761

- (1) The condensed consolidated balance sheet as of September 30, 2011 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.

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

(In thousands)	Nine Months Ended	
	June 29, 2012	July 1, 2011
Cash flows from operating activities:		
Net earnings	\$ 306,848	\$ 298,173
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	36,655	34,912
Tax benefits from exercises of share-based payment awards	6,647	23,597
Excess tax benefits from share-based compensation	(7,805)	(21,768)
Depreciation	39,711	36,708
Amortization of intangible assets	2,848	2,280
Deferred taxes	(275)	9,585
Provision for doubtful accounts receivable	6,240	2,065
Income on equity investment in affiliate	(1,225)	(4,488)
Other	(858)	34
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(4,170)	24,961
Inventories	(49,271)	(68,310)
Prepaid expenses and other current assets		