

VARIAN MEDICAL SYSTEMS INC
Form 10-Q
May 08, 2006

**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 March 31, 2006

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
(Registrant's telephone number, including area code)

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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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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: 131,387,751 shares of Common Stock, par value \$1 per share, outstanding as of April 28, 2006.

VARIAN MEDICAL SYSTEMS, INC.

FORM 10-Q for the Quarter Ended March 31, 2006

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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		Six Months Ended	
	March 31, 2006	April 1, 2005	March 31, 2006	April 1, 2005
Revenues:				
Product	\$ 351,721	\$ 296,950	\$ 626,694	\$ 545,121
Service contracts and other	62,137	53,929	121,395	104,714
Total revenues	413,858	350,879	748,089	649,835
Cost of revenues:				
Product	206,337	168,528	368,082	314,114
Service contracts and other	36,436	32,196	70,158	60,382
Total cost of revenues	242,773	200,724	438,240	374,496
Gross margin	171,085	150,155	309,849	275,339
Operating expenses:				
Research and development	25,012	20,228	47,229	38,596
Selling, general and administrative	66,549	50,667	123,332	96,857
Total operating expenses	91,561	70,895	170,561	135,453
Operating earnings	79,524	79,260	139,288	139,886
Interest income	3,633	1,987	6,383	3,945
Interest expense	(1,099)	(1,335)	(2,183)	(2,840)
Earnings from operations before taxes	82,058	79,912	143,488	140,991
Taxes on earnings	26,260	25,760	46,530	46,530
Net earnings (1)	\$ 55,798	\$ 54,152	\$ 96,958	\$ 94,461
Net earnings per share - Basic	\$ 0.42	\$ 0.41	\$ 0.74	\$ 0.71
Net earnings per share - Diluted	\$ 0.41	\$ 0.39	\$ 0.71	\$ 0.68
Weighted average shares used in the calculation of:				
Net earnings per share - Basic	131,926	133,082	131,492	133,532
Net earnings per share - Diluted	136,821	138,427	136,368	139,223

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(1) For the three months and six months ended March 31, 2006, net earnings included total share-based compensation expense, net of taxes under SFAS 123(R), of \$7,501 and \$12,966, respectively. For the three months and six months ended April 1, 2005, net earnings included share-based compensation expense, net of taxes, related to restricted stock, of \$155 and \$423, respectively. See Note 11 of the Notes to the Condensed Consolidated Financial Statements for additional information.

See accompanying notes to the consolidated financial statements.

VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par values)	March 31, 2006	September 30, 2005 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 266,265	\$ 243,086
Short-term marketable securities	127,290	135,356
Accounts receivable, net	371,301	351,899
Inventories	177,365	164,873
Prepaid expenses and other	27,472	26,211
Deferred tax assets	101,329	95,470
Total current assets	1,071,022	1,016,895
Property, plant and equipment, net	119,811	114,540
Long-term marketable securities		3,679
Goodwill	121,389	121,389
Other assets	67,752	60,899
Total assets	\$ 1,379,974	\$ 1,317,402
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 70,643	\$ 71,007
Accrued expenses	282,826	315,287
Current maturities of long-term debt	2,697	2,689
Product warranty	39,421	39,407
Advance payments from customers	128,277	115,543
Total current liabilities	523,864	543,933
Long-term accrued expenses and other	55,837	57,124
Long-term debt	57,210	57,318
Total liabilities	636,911	658,375
Commitments and contingencies (Note 8)		
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; 131,805 and 130,715 shares issued and outstanding at March 31, 2006 and at September 30, 2005, respectively	131,805	130,715
Capital in excess of par value	239,225	152,263
Deferred stock compensation		(1,797)
Retained earnings	377,854	383,667
Accumulated other comprehensive loss	(5,821)	(5,821)
Total stockholders' equity	743,063	659,027
Total liabilities and stockholders' equity	\$ 1,379,974	\$ 1,317,402

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(1) The condensed consolidated balance sheet as of September 30, 2005 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.

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

(In thousands)	Six Months Ended	
	March 31, 2006	April 1, 2005
Cash flows from operating activities:		
Net earnings	\$ 96,958	\$ 94,461
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Tax benefits from exercises of share-based payment awards	46,061	13,080
Excess tax benefits from share-based compensation	(43,455)	
Share-based compensation expense	19,876	631
Depreciation	11,773	10,528
Provision for doubtful accounts receivable	233	736
Amortization of intangibles	2,928	2,728
Amortization of premium/discount on marketable securities, net	80	279
Deferred taxes	(6,064)	(30)
Net change in fair value of derivatives and underlying commitments	3,877	(2,388)
Gain on equity investment in affiliate	(1,357)	(1,054)
Loss/(gain) on disposal of property, plant and equipment	(13)	121
Other	72	405
Changes in assets and liabilities:		
Accounts receivable	(25,254)	(17,986)
Inventories	(10,705)	(34,820)
Prepaid expenses and other current assets	(7,165)	(1,907)
Accounts payable	(114)	8,491