BANCFIRST CORP /OK/
Form 10-Q
August 09, 2010

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 30, 2010

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 0-14384

BancFirst Corporation

(Exact name of registrant as specified in charter)

Oklahoma	**73-1221379**
(State or other Jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
101 N. Broadway, Oklahoma City, Oklahoma	**73102-8405**
(Address of principal executive offices)	**(Zip Code)**

(405) 270-1086

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 x. 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 (sec. 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 x.

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.

Large accelerated filer ¨	Accelerated filer x
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 by Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of July 31, 2010 there were 15,356,300 shares of the registrant s Common Stock outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

BANCFIRST CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)	December 31, 2009 (see Note 1)
ASSETS			
Cash and due from banks	$ 114,655	$ 111,277	$ 106,856
Interest-bearing deposits with banks	908,653	796,035	929,654
Federal funds sold	5,000	2,200	5,000
Securities (market value: $581,106, $418,468, and $418,112, respectively)	580,317	417,738	417,172
Loans:			
Total loans (net of unearned interest)	2,793,346	2,738,238	2,738,654
Allowance for loan losses	(37,002)	(39,334)	(36,383)
Loans, net	2,756,344	2,698,904	2,702,271
Premises and equipment, net	91,809	91,390	91,794
Other real estate owned	9,517	11,190	9,505
Intangible assets, net	7,837	7,085	7,144
Goodwill	35,886	34,327	34,684
Accrued interest receivable	25,475	25,323	21,670
Other assets	92,529	73,856	90,365
Total assets	$ 4,628,022	$ 4,269,325	$ 4,416,115
LIABILITIES AND STOCKHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	$ 1,253,808	$ 1,085,234	$ 1,157,688
Interest-bearing	2,863,552	2,697,588	2,771,328
Total deposits	4,117,360	3,782,822	3,929,016
Short-term borrowings	2,100	500	100
Accrued interest payable	3,019	4,740	3,886
Other liabilities	33,147	35,257	25,559
Junior subordinated debentures	26,804	26,804	26,804
Total liabilities	4,182,430	3,850,123	3,985,365
Commitments and contingent liabilities			
Stockholders equity:			
Senior preferred stock, $1.00 par; 10,000,000 shares authorized; none issued			
Cumulative preferred stock, $5.00 par; 900,000 shares authorized; none issued			
Common stock, $1.00 par, 20,000,000 shares authorized; shares issued and outstanding:			
15,346,800, 15,301,641 and 15,308,741, respectively	15,347	15,302	15,309
Capital surplus	71,196	68,919	69,725
Retained earnings	347,979	322,508	334,693
	11,070	12,473	11,023

Accumulated other comprehensive income, net of income tax of $(5,960), $(6,716) and $(5,915), respectively			
Total stockholders equity	445,592	419,202	430,750
Total liabilities and stockholders equity	$ 4,628,022	$ 4,269,325	$ 4,416,115

The accompanying notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
INTEREST INCOME				
Loans, including fees	$ 38,714	$ 38,467	$ 76,076	$ 76,735
Securities:				
Taxable	2,994	3,464	6,004	7,090
Tax-exempt	310	357	639	738
Interest-bearing deposits with banks	618	537	1,192	896
Total interest income	42,636	42,825	83,911	85,459
INTEREST EXPENSE				
Deposits	6,471	9,786	13,395	20,166
Short-term borrowings	1	1	1	11
Junior subordinated debentures	494	492	983	983
Total interest expense	6,966	10,279	14,379	21,160
Net interest income	35,670	32,546	69,532	64,299
Provision for loan losses	871	4,851	1,767	8,216
Net interest income after provision for loan losses	34,799	27,695	67,765	56,083
NONINTEREST INCOME				
Trust revenue	1,547	1,407	2,945	2,722
Service charges on deposits	9,901	9,168	18,964	17,736
Securities transactions	(150)	(37)	(14)	302
Income from sales of loans	464	1,057	807	1,382
Insurance commissions	2,166	1,600	4,020	3,534
Cash management services	1,640	2,565	3,216	5,253
Gain on sale of other assets	272	145	377	160
Other	1,170	1,138	2,655	2,576
Total noninterest income	17,010	17,043	32,970	33,665
NONINTEREST EXPENSE				
Salaries and employee benefits	19,710	19,896	39,658	40,013
Occupancy and fixed assets expense, net	2,085	1,997	4,193	4,207
Depreciation	1,836	1,841	3,647	3,612
Amortization of intangible assets	268	229	510	459
Data processing services	1,024	880	2,178	1,785
Net expense from other real estate owned	164	102	251	209
Marketing and business promotion	1,277	1,163	2,685	2,615
Deposit insurance	1,574	3,117	3,063	3,932
Other	6,567	5,993	13,221	12,915

Total noninterest expense	34,505	35,218	69,406	69,747
Income before taxes	17,304	9,520	31,329	20,001
Income tax expense	(6,262)	(3,260)	(10,984)	(6,616)
Net income	11,042	6,260	20,345	13,385
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities	805	(597)	56	(2,400)
Reclassification adjustment for (losses) gains included in net income	(98)	(24)	(9)	196
Comprehensive income	$ 11,749	$ 5,639	$ 20,392	$ 11,181
NET INCOME PER COMMON SHARE				
Basic	$ 0.72	$ 0.41	$ 1.33	$ 0.88
Diluted	$ 0.71	$ 0.40	$ 1.30	$ 0.86

The accompanying notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
COMMON STOCK				
Issued at beginning of period	$ 15,337	$ 15,292	$ 15,309	$ 15,281
Shares issued	10	10	38	21
Issued at end of period	$ 15,347	$ 15,302	$ 15,347	$ 15,302
CAPITAL SURPLUS				
Balance at beginning of period	$ 70,728	$ 68,380	$ 69,725	$ 67,975
Common stock issued	157	218	748	325
Tax effect of stock options	78	56	120	89
Stock options expense	233	265	603	530
Balance at end of period	$ 71,196	$ 68,919	$ 71,196	$ 68,919
RETAINED EARNINGS				
Balance at beginning of period	$ 340,473	$ 319,615	$ 334,693	$ 315,858
Net income	11,042	6,260	20,345	13,385
Dividends on common stock	(3,536)	(3,367)	(7,059)	(6,735)
Balance at end of period	$ 347,979	$ 322,508	$ 347,979	$ 322,508
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized gains on securities:				
Balance at beginning of period	$ 10,363	$ 13,093	$ 11,023	$ 14,677
Net change	707	(620)	47	(2,204)
Balance at end of period	$ 11,070	$ 12,473	$ 11,070	$ 12,473
Total stockholders equity	$ 445,592	$ 419,202	$ 445,592	$ 419,202

The accompanying notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2010	**2009**
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES [1]	$ (43,706)	$ 23,886
INVESTING ACTIVITIES		
Net cash and due from banks used for acquisitions	(1,000)	
Purchases of securities:		
Held for investment	(140)	
Available for sale	(191,369)	(20,160)
Maturities of securities:		
Held for investment	2,862	4,689
Available for sale	21,366	42,442
Proceeds from sales and calls of securities:		
Held for investment	11	15
Available for sale	3,232	6,267
Net increase in federal funds sold		(1,200)
Purchases of loans	(2,244)	(23,622)
Proceeds from sales of loans	30,085	53,160
Net other increase in loans	(16,291)	(17,366)
Purchases of premises, equipment and other	(3,962)	(3,948)
Proceeds from the sale of other assets	3,763	3,518
Net cash (used) provided by investing activities	(153,687)	43,795
FINANCING ACTIVITIES		
Net increase in demand, transaction and savings deposits	245,089	308,759
Net (decrease) increase in certificates of deposits and IRA s	(56,745)	96,454
Net increase (decrease) in short-term borrowings	2,000	(12,384)
Issuance of common stock	906	435
Cash dividends paid	(7,059)	(6,734)
Net cash provided by financing activities	184,191	386,530
Net (decrease) increase in cash, due from banks and interest bearing deposits	(13,202)	454,211
Cash, due from banks and interest bearing deposits at the beginning of the period	1,036,510	453,101
Cash, due from banks and interest bearing deposits at the end of the period	$ 1,023,308	$ 907,312
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 15,246	$ 22,246
Cash paid during the period for income taxes	$ 10,600	$ 3,800

[1] Includes $69.9 million net loan originations of loans held for sale for the six months ended June 30, 2010.

The accompanying notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) GENERAL

The accompanying consolidated financial statements include the accounts of BancFirst Corporation, Council Oak Partners, LLC, BancFirst Insurance Services, Inc., and BancFirst and its subsidiaries (the Company). The operating subsidiaries of BancFirst are Council Oak Investment Corporation, Council Oak Real Estate, Inc., BancFirst Agency, Inc., Lenders Collection Corporation and BancFirst Community Development Corporation. All significant intercompany accounts and transactions have been eliminated. Assets held in a fiduciary or agency capacity are not assets of the Company and, accordingly, are not included in the consolidated financial statements.

The unaudited interim financial statements contained herein reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the financial position and results of operations of the Company for the interim periods presented. All such adjustments are of a normal and recurring nature. There have been no significant changes in the accounting policies of the Company since December 31, 2009, the date of the most recent annual report.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States inherently involves the use of estimates and assumptions that affect the amounts reported in the financial statements and the related disclosures. These estimates relate principally to the determination of the allowance for loan losses, income taxes, the fair values of financial instruments and the valuation of intangibles. Such estimates and assumptions may change over time and actual amounts realized may differ from those reported.

(2) RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, Fair Vale Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends Codification Subtopic 820-10 to now require entities to make new disclosures about the different classes of assets and liabilities measured at fair value. The new requirements are as follows: (1) a reporting entity should disclose separately the amounts of significant transfers between Level 1 and Level 2 fair-value measurements and the reasons for the transfers, and (2) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information on purchases, sales, issuances and settlements on a gross basis. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation of assets and liabilities, and information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair-value measurements. Except for certain detailed Level 3 disclosures, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those fiscal years, the new guidance is effective for the Company s financial statements for the periods ending after December 15, 2009. The adoption of this disclosure-only guidance will not have an effect on the Company s results of operation or its financial position. See Note 14 for disclosure.

In July 2010, the FASB issued ASU 2010-20 Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses which expands the disclosure requirements concerning the credit quality of an entity s financing receivables and its allowance for loan losses. ASU 2010-20 is effective for the Company as of December 31, 2010 and is not expected to have a significant impact on the Company s financial statements.

(3) RECENT DEVELOPMENTS: MERGERS, ACQUISITIONS AND DISPOSALS

On July 13, 2010, the Company announced it had entered into an agreement to purchase Union National Bancshares, Inc., and its subsidiary bank, Union Bank of Chandler with offices in Chandler and Tulsa, Oklahoma. The Company expects to pay a premium of $7 million above the tangible equity of Union National Bancshares, Inc. Union Bank of Chandler has approximately $135 million in total assets, $86 million in loans, $120 million in deposits, and $14 million in equity capital. The bank will operate as Union Bank of Chandler until it is merged into the BancFirst, which is expected to be during the fourth quarter of 2010. The transaction is scheduled to be completed by October 15, 2010, and is subject to regulatory approval. The acquisition is not expected to have a material effect on the results of operations for the Company.

In April 2010 the Company elected to cease participation as of June 30, 2010 in the Transaction Account Guarantee Program for extended coverage of noninterest bearing transaction deposit accounts. As of June 30, 2010, the Company had approximately $641 million of deposits

covered under this program.

On April 1, 2010, the Company s insurance agency, BancFirst Insurance Services, Inc. (formerly known as Wilcox, Jones & McGrath, Inc.) completed its acquisition of RBC Agency, Inc., which had offices in Shawnee and Stillwater. BancFirst Insurance Services, Inc. also has offices in Oklahoma City, Tulsa, Lawton and Muskogee. The acquisition did not have a material effect on the results of operations of the Company.

On March 21, 2010, Congress passed student loan reform centralizing student lending in a governmental agency, which resulted in an end to the student loan programs provided by the Company effective June 30, 2010. The Company had approximately $206 million of student loans with $146 million held for sale as of that date.

On December 8, 2009, the Company completed the acquisition of First Jones Bancorporation. First State Bank, Jones operated as a subsidiary of BancFirst Corporation until it was merged into BancFirst in early March 2010. The acquisition enhanced the presence of BancFirst in eastern Oklahoma County. The acquisition did not have a material effect on the results of operations of the Company.

On May 22, 2009, the FDIC imposed a Special Assessment on member financial institutions that was based on June 30, 2009 assets less tier one capital. The amount of $1.9 million was expensed on June 30, 2009.

(4) SECURITIES

The following table summarizes securities held for investment and securities available for sale **(dollars in thousands)**:

	June 30,		December 31,
	2010	**2009**	**2009**
Held for investment, at cost (market value; $27,850, $30,494 and $30,736, respectively)	$ 27,061	$ 29,764	$ 29,796
Available for sale, at market value	553,256	387,974	387,376
Total	$ 580,317	$ 417,738	$ 417,172

The following table summarizes the maturity of securities **(dollars in thousands)**:

	June 30,		December 31,
	2010	**2009**	**2009**
Contractual maturity of debt securities:			
Within one year	$ 261,284	$ 91,189	$ 69,093
After one year but within five years	297,726	289,185	267,375
After five years	10,825	26,528	70,196
Total debt securities	569,835	406,902	406,664
Equity securities	10,482	10,836	10,508
Total	$ 580,317	$ 417,738	$ 417,172

The Company held 216, 220 and 219 debt securities available for sale that had unrealized gains as of June 30, 2010 and 2009 and December 31, 2009, respectively. These securities had a market value totaling $378.8 million, $377.0 million and $336.9 million, respectively, and unrealized gains totaling $14.7 million, $16.6 million and $15.4 million, respectively. The Company also held 13, 6 and 29 debt securities available for sale that had unrealized losses, respectively. These securities had a market value totaling $163.8 million, $553,000 and $40.2 million and unrealized losses totaling $250,000, $6,000 and $290,000, respectively. These unrealized losses occurred due to increases in interest rates and spreads and not as a result of a decline in credit quality. The Company has both the intent and ability to hold these debt securities until the unrealized losses are recovered.

Securities having book values of $519.5 million, $375.3 million and $292.8 million as of June 30, 2010 and 2009 and December 31, 2009, respectively, were pledged as collateral for public funds on deposit, repurchase agreements and for other purposes as required or permitted by

law.

(5) LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a schedule of loans outstanding by category **(dollars in thousands)**:

	June 30, 2010		June 30, 2009		December 31, 2009	
	Amount	Percent	Amount	Percent	Amount	Percent
Commercial and industrial	$ 503,561	18.02%	$ 523,667	19.13%	$ 515,762	18.83%
Oil & gas production & equipment	80,853	2.90	91,285	3.33	84,199	3.07
Agriculture	77,751	2.78	79,225	2.89	83,519	3.05
State and political subdivisions:						
Taxable	9,749	0.35	7,425	0.27	12,066	0.44
Tax-exempt	10,580	0.38	8,988	0.33	8,840	0.32
Real Estate:						
Construction	213,635	7.65	217,159	7.93	201,704	7.37
Farmland	87,255	3.13	88,190	3.22	85,620	3.13
One to four family residences	572,927	20.51	558,085	20.38	569,592	20.80
Multifamily residential properties	29,798	1.07	48,640	1.78	29,964	1.09
Commercial	773,203	27.68	755,615	27.60	765,911	27.97
Consumer	404,183	14.47	331,055	12.09	352,477	12.88
Other	29,851	1.06	28,904	1.05	29,000	1.05
Total loans	$ 2,793,346	100.00%	$ 2,738,238	100.00%	$ 2,738,654	100.00%
Loans held for sale (included above)	$ 157,687		$ 79,849		$ 94,140	

The Company s loans are mostly to customers within Oklahoma and over half of the loans are secured by real estate. Credit risk on loans is managed through limits on amounts loaned to individual borrowers, underwriting standards and loan monitoring procedures. The amounts and types of collateral obtained, if any, to secure loans are based upon the Company s underwriting standards and management s credit evaluation. Collateral varies, but may include real estate, equipment, accounts receivable, inventory, livestock and securities. The Company s interest in collateral is secured through filing mortgages and liens, and in some cases, by possession of the collateral.

Loans held for sale include $146.1 million, $68.5 million and $82.4 million of guaranteed student loans for the periods ended June 30, 2010, June 30, 2009 and December 31, 2009, respectively. Student loans are classified as consumer loans in the preceding table and valued at the lower of cost or market.

The amount of estimated loss due to credit risk in the Company s loan portfolio is provided for in the allowance for loan losses. The amount of the allowance required to provide for all existing losses in the loan portfolio is an estimate based upon evaluations of loans, appraisals of collateral and other estimates which are subject to rapid change due to changing economic conditions and the economic prospects of borrowers. Given the current environment of instability in the economy at large, it is reasonably possible that a material change could occur in the estimated allowance for loan losses in the near term.

Changes in the allowance for loan losses are summarized as follows **(dollars in thousands)**:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Balance at beginning of period	$ 36,780	$ 36,765	$ 36,383	$ 34,290
Charge-offs	(770)	(2,419)	(1,408)	(3,487)
Recoveries	121	137	260	315
Net charge-offs	(649)	(2,282)	(1,148)	(3,172)
Provisions charged to operations	871	4,851	1,767	8,216
Balance at end of period	$ 37,002	$ 39,334	$ 37,002	$ 39,334

The net charge-offs by category are summarized as follows **(dollars in thousands)**:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Commercial, financial and other	$ 100	$ 1,157	$ 192	$ 1,534
Real estate construction	7	24	11	159
Real estate mortgage	380	911	654	1,135
Consumer	162	190	291	344
Total	$ 649	$ 2,282	$ 1,148	$ 3,172

(6) NONPERFORMING AND RESTRUCTURED ASSETS

The following table is a summary of nonperforming and restructured assets **(dollars in thousands)**:

	June 30,		December 31,
	2010	**2009**	**2009**
Past due over 90 days and still accruing	$ 1,911	$ 21,530	$ 853
Nonaccrual	38,328	24,186	37,133
Restructured	1,677	357	1,970
Total nonperforming and restructured loans	41,916	46,073	39,956
Other real estate owned and repossessed assets	9,748	11,543	9,881
Total nonperforming and restructured assets	$ 51,664	$ 57,616	$ 49,837
Nonperforming and restructured loans to total loans	1.50%	1.68%	1.46%
Nonperforming and restructured assets to total assets	1.12%	1.35%	1.13%

(7) INTANGIBLE ASSETS AND GOODWILL

The following is a summary of intangible assets **(dollars in thousands)**:

	June 30, 2010		June 30, 2009		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangibles	$ 7,222	$ (3,920)	$ 6,722	$ (3,223)	$ 7,222	$ (3,558)
Customer relationship intangibles	5,651	(1,116)	4,429	(843)	4,448	(968)
Total	$ 12,873	$ (5,036)	$ 11,151	$ (4,066)	$ 11,670	$ (4,526)

Amortization of intangible assets and estimated amortization of intangible assets are as follows **(dollars in thousands)**:

Amortization:	
Three months ended June 30, 2010	$ 268
Three months ended June 30, 2009	229
Six months ended June 30, 2010	510
Six months ended June 30, 2009	459
Year ended December 31, 2009	920
Estimated Amortization	
Year ending December 31:	
2010	$ 1,044
2011	1,070
2012	1,058
2013	915
2014	686

The following is a summary of goodwill by business segment **(dollars in thousands)**:

	Metropolitan Banks	Community Banks	Other Financial Services	Executive, Operations & Support	Consolidated
For the Six Months Ended June 30, 2010					
Balance at beginning of period	$ 6,150	$ 23,652	$ 4,258	$ 624	$ 34,684
Acquisitions			1,202		1,202
Balance at end of period	$ 6,150	$ 23,652	$ 5,460	$ 624	$ 35,886
For the Six Months Ended June 30, 2009					
Balance at beginning and end of period	$ 6,150	$ 23,295	$ 4,258	$ 624	$ 34,327
For the Year Ended December 31, 2009					
Balance at beginning of period	$ 6,150	$ 23,295	$ 4,258	$ 624	$ 34,327
Acquisitions		357			357
Balance at end of period	$ 6,150	$ 23,652	$ 4,258	$ 624	$ 34,684

(8) CAPITAL

The Company is subject to risk-based capital guidelines issued by the Board of Governors of the Federal Reserve System. These guidelines are used to evaluate capital adequacy and involve both quantitative and qualitative evaluations of the Company s assets, liabilities, and certain off-balance-sheet items calculated under regulatory practices. Failure to meet the minimum capital requirements can initiate certain mandatory or discretionary actions by the regulatory agencies that could have a direct material effect on the Company s financial statements. The required minimums and the Company s respective ratios are shown as follows **(dollars in thousands):**

	Minimum Required	June 30, 2010	June 30, 2009	December 31, 2009
Tier 1 capital		$ 416,791	$ 391,294	$ 403,875
Total capital		$ 453,793	$ 428,597	$ 440,258
Risk-adjusted assets		$ 2,966,905	$ 2,982,198	$ 2,942,152

Leverage ratio	3.00%	9.09%	9.26%	9.23%
Tier 1 capital ratio	4.00%	14.05%	13.12%	13.73%
Total capital ratio	8.00%	15.30%	14.37%	14.96%

As of June 30, 2010 and 2009, and December 31, 2009, BancFirst was considered to be well capitalized . There are no conditions or events since the most recent notification of BancFirst s capital category that management believes would change its category.

(9) STOCK REPURCHASE PLAN

In November 1999, the Company adopted a Stock Repurchase Program (the SRP). The SRP may be used as a means to increase earnings per share and return on equity, to purchase treasury stock for the exercise of stock options or for distributions under the Deferred Stock Compensation Plan, to provide liquidity for optionees to dispose of stock from exercises of their stock options, and to provide liquidity for shareholders wishing to sell their stock. The timing, price and amount of stock repurchases under the SRP may be determined by management and approved by the Company s Executive Committee. At June 30, 2010 there were 560,000 shares remaining that could be repurchased under the SRP. The Company did not repurchase shares under the SRP for the six months ended June 30, 2010 or 2009.

(10) SHARE-BASED COMPENSATION

BancFirst Corporation adopted a nonqualified incentive stock option plan (the BancFirst ISOP) in May 1986. The Company amended the BancFirst ISOP to increase the number of shares to be issued under the plan to 2,650,000 shares in May 2009. At June 30, 2010, 84,860 shares were available for future grants. The BancFirst ISOP will terminate December 31, 2014. The options are exercisable beginning four years from the date of grant at the rate of 25% per year for four years. Options granted expire at the end of fifteen years from the date of grant. Options outstanding as of June 30, 2010 will become exercisable through the year 2017. The option price must be no less than 100% of the fair market value of the stock relating to such option at the date of grant.

In June 1999, the Company adopted the BancFirst Corporation Non-Employee Directors Stock Option Plan (the BancFirst Directors Stock Option Plan). Each non-employee director is granted an option for 10,000 shares. The Company amended the BancFirst Directors Stock Option Plan to increase the number of shares to be issued under the plan to 205,000 shares in May 2009. At June 30, 2010, 50,000 shares were available for future grants. The options are exercisable beginning one year from the date of grant at the rate of 25% per year for four years, and expire at the end of fifteen years from the date of grant. Options outstanding as of June 30, 2010 will become exercisable through the year 2011. The option price must be no less than 100% of the fair value of the stock relating to such option at the date of grant.

The following is a summary of the activity under both the BancFirst ISOP and the BancFirst Directors Stock Option Plan **(dollars in thousands, except per share data):**

	Six Months Ended June 30, 2010			
	Options	Wgtd. Avg. Exercise Price	Wgtd. Avg. Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	1,209,553	$ 27.41		
Options granted	29,000	43.75		
Options exercised	(37,722)	20.55		
Options cancelled	(6,400)	30.53		
Outstanding at June 30, 2010	1,194,431	28.00	8.91	$ 10,136
Exercisable at June 30, 2010	706,331	21.28	6.55	$ 10,610

The following is additional information regarding options granted and options exercised under both the BancFirst ISOP and the BancFirst Directors Stock Option Plan (**dollars in thousands, except per share data**):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted average grant-date fair value per share of options granted	$ 18.57	N/A	$ 18.57	N/A
Total intrinsic value of options exercised	278	181	831	199
Cash received from options exercised	167	228	775	237
Tax benefit realized from options exercised	108	70	322	77

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model and is based on certain assumptions including risk-free rate of return, dividend yield, stock price volatility, and the expected term. The fair value of each option is expensed over its vesting period.

For the three months ended June 30, 2010 and 2009, the Company recorded share-based employee compensation expense, net of tax, of approximately $143,000 and $163,000, respectively; and approximately $370,000 and $325,000 for the six months ended June 30, 2010 and 2009, respectively.

The Company will continue to amortize the remaining fair value of these stock options of approximately $6.0 million, net of tax, over the remaining vesting period of approximately seven years. Share-based employee compensation expense under the fair value method was measured using the following assumptions for the options granted:

	2010	2009
Risk-free interest rate	4.00%	2.64%
Dividend yield	2.00%	1.50%
Stock price volatility	38.61%	74.84%
Expected term	10 Yrs	10 Yrs

The risk-free interest rate is determined by reference to the spot zero-coupon rate for the U.S. Treasury security with a maturity similar to the expected term of the options. The dividend yield is the expected yield for the expected term. The stock price volatility is estimated from the recent historical volatility of the Company s stock. The expected term is estimated from the historical option exercise experience.

(11) COMPREHENSIVE INCOME

The only component of comprehensive income reported by the Company is the unrealized gain or loss on securities available for sale. The amount of this unrealized gain or loss, net of tax, has been presented in the statement of income for each period as a component of other comprehensive income. The following is a summary of the tax effects of this unrealized gain or loss **(dollars in thousands)**:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Unrealized gain (loss) during the period:				
Before-tax amount	$ 1,087	$ (955)	$ 92	$ (3,391)
Tax (expense) benefit	(380)	334	(45)	1,187
Net-of-tax amount	$ 707	$ (621)	$ 47	$ (2,204)

The amount of unrealized gain included, net of tax, in accumulated other comprehensive income is summarized in the following **(dollars in thousands)**:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Unrealized gain (loss) on securities:				
Beginning balance	$ 10,363	$ 13,094	$ 11,023	$ 14,677
Current period change	805	(597)	56	(2,400)
Reclassification adjustment for (losses) gains included in net income	(98)	(24)	(9)	196
Ending balance	$ 11,070	$ 12,473	$ 11,070	$ 12,473

(12) NET INCOME PER COMMON SHARE

Basic and diluted net income per common share are calculated as follows **(dollars in thousands, except per share data)**:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Three Months Ended June 30, 2010			
Basic - Income available to common stockholders	$ 11,042	15,344,374	$ 0.72
Effect of stock options		308,247	
Diluted - Income available to common stockholders plus assumed exercises of stock options	$ 11,042	15,652,621	$ 0.71
Three Months Ended June 30, 2009			
Basic - Income available to common stockholders	$ 6,260	15,298,075	$ 0.41
Effect of stock options		306,204	
Diluted - Income available to common stockholders plus assumed exercises of stock options	$ 6,260	15,604,279	$ 0.40
Six Months Ended June 30, 2010			
Basic - Income available to common stockholders	$ 20,345	15,331,812	$ 1.33
Effect of stock options		309,519	
Diluted - Income available to common stockholders plus assumed exercises of stock options	$ 20,345	15,641,331	$ 1.30
Six Months Ended June 30, 2009			
Basic - Income available to common stockholders	$ 13,385	15,294,873	$ 0.88

Effect of stock options		297,527	
Diluted - Income available to common stockholders plus assumed exercises of stock options	$ 13,385	15,592,400	$ 0.86

The following table contains the number and average exercise prices of options that were excluded from the computation of diluted net income per share for each period because the options exercise prices were greater than the average market price of the common shares.

	Shares	Average Exercise Price
Three Months Ended June 30, 2010	403,244	$ 41.08
Three Months Ended June 30, 2009	266,000	$ 39.73
Six Months Ended June 30, 2010	411,233	$ 40.58
Six Months Ended June 30, 2009	266,704	$ 38.37

(13) SEGMENT INFORMATION

The Company evaluates its performance with an internal profitability measurement system that measures the profitability of its business units on a pre-tax basis. The four principal business units are metropolitan banks, community banks, other financial services, and executive, operations and support. Metropolitan and community banks offer traditional banking products such as commercial and retail lending, and a full line of deposit accounts. Metropolitan banks consist of banking locations in the metropolitan Oklahoma City and Tulsa areas. Community banks consist of banking locations in communities throughout Oklahoma. Other financial services are specialty product business units including guaranteed small business lending, guaranteed student lending, residential mortgage lending, trust services, securities brokerage, electronic banking and insurance. The executive, operations and support groups represent executive management, operational support and corporate functions that are not allocated to the other business units.

The results of operations and selected financial information for the four business units are as follows **(dollars in thousands)**:

	Metropolitan Banks	Community Banks	Other Financial Services	Executive, Operations & Support	Elimin-ations	Consol-idated
Three Months Ended:						
June 30, 2010						
Net interest income (expense)	$ 11,485	$ 22,979	$ 2,050	$ (844)	$	$ 35,670
Noninterest income	2,581	9,125	4,777	12,102	(11,575)	17,010
Income before taxes	6,987	13,634	2,263	5,954	(11,534)	17,304
June 30, 2009						
Net interest income (expense)	$ 9,739	$ 21,959	$ 1,917	$ (1,069)	$	$ 32,546
Noninterest income	2,647	8,695	4,848	7,428	(6,575)	17,043
Income before taxes	2,011	12,169	2,987	(1,105)	(6,542)	9,520
Six Months Ended:						
June 30, 2010						
Net interest income (expense)	$ 22,743	$ 44,970	$ 3,501	$ (1,682)	$	$ 69,532
Noninterest income	5,143	17,480	9,119	22,526	(21,298)	32,970
Income before taxes	13,992	25,558	3,882	9,103	(21,206)	31,329
June 30, 2009						
Net interest income (expense)	$ 18,984	$ 43,296	$ 3,763	$ (1,744)	$	$ 64,299
Noninterest income	5,515	16,993	9,643	15,577	(14,063)	33,665
Income before taxes	6,439	23,746	4,978	(1,175)	(13,987)	20,001
Total Assets:						
June 30, 2010	$ 1,471,112	$ 2,857,377	$ 359,901	$ 442,798	$ (503,166)	$ 4,628,022
June 30, 2009	$ 1,380,136	$ 2,651,317	$ 209,279	$ 514,822	$ (486,229)	$ 4,269,325
December 31, 2009	$ 1,386,748	$ 2,779,110	$ 221,033	$ 523,350	$ (494,126)	$ 4,416,115

The financial information for each business unit is presented on the basis used internally by management to evaluate performance and allocate resources. The Company utilizes a transfer pricing system to allocate the benefit or cost of funds provided or used by the various business units. Certain revenues related to other financial services are allocated to the banks whose customers receive the services and, therefore, are not reflected in the income for other financial services. Certain services provided by the support group to other business units, such as item processing, are allocated at rates approximating the cost of providing the services. Eliminations are adjustments to consolidate the business units and companies.

(14) FAIR VALUE MEASUREMENTS

FASB ASC Topic 820 (formerly FAS 157), establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company s financial assets and financial liabilities carried at fair value.

Securities Available for Sale

Securities classified as available for sale are reported at fair value. U.S. Treasuries are valued using Level 1 inputs. Other securities available for sale including U.S. federal agencies, mortgage backed securities, and states and political subdivisions are valued using prices from an independent pricing service utilizing Level 2 data. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. The Company also invests in equity securities classified as available for sale for which observable information is not readily available. These securities are reported at fair value utilizing Level 3 inputs. For these securities, management determines the fair value based on replacement cost, the income approach or information provided by outside consultants or lead investors.

Derivatives

Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains dealer and market quotations to value its oil and gas swaps and options. The Company utilizes dealer quotes and observable market data inputs to substantiate internal valuation models.

Loans Held For Sale

The Company originates mortgage and student loans to be sold. At the time of origination, the acquiring bank or governmental agency has already been determined and the terms of the loan, including interest rate, have already been set by the acquiring bank, allowing the Company to originate the loan at fair value. Mortgage loans are generally sold within 30 days of origination and student loans are generally sold within one year. Loans held for sale are carried at lower of cost or market. Gains or losses recognized upon the sale of the loans are determined on a specific identification basis.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value **(dollars in thousands)**:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Securities available for sale	$ 5,440	$ 537,334	$ 10,482	$ 553,256
Derivative assets		11,098		11,098
Derivative liabilities		9,253		9,253
Loans held for sale		157,687		157,687

The changes in Level 3 assets measured at estimated fair value on a recurring basis were as follows **(dollars in thousands)**:

	Six Months Ended June 30,	
	2010	**2009**
Beginning balance	$ 10,508	$ 16,345
Purchases, issuances and settlements	58	13
Sales	(622)	(4,923)
Losses included in earnings	(196)	
Total unrealized gains (losses)	734	(599)
Ending balance	$ 10,482	$ 10,836

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Due from Banks; Federal Funds Sold and Interest-Bearing Deposits

The carrying amount of these short-term instruments is a reasonable estimate of fair value.

Securities

For securities, fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

For certain homogeneous categories of loans, such as some residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. For residential mortgage loans held for sale and guaranteed student loans, the carrying amount is a reasonable estimate of fair value. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Derivatives

Derivatives are reported at fair value using dealer quotes and observable market data.

Deposits

The fair value of transaction and savings accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Short-term Borrowings

The amount payable on these short-term instruments is a reasonable estimate of fair value.

Junior Subordinated Debentures

The fair value of fixed-rate junior subordinated debentures is estimated using the rates that would be charged for junior subordinated debentures of similar remaining maturities.

Loan Commitments and Letters of Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the terms of the agreements. The fair value of letters of credit is based on fees currently charged for similar agreements.

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The estimated fair values of the Company s financial instruments are as follows **(dollars in thousands)**:

	June 30,			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(dollars in thousands)			
FINANCIAL ASSETS				
Cash and due from banks	$ 114,655	$ 114,655	$ 111,277	$ 111,277
Federal funds sold and interest-bearing deposits	913,653	913,653	798,235	798,235
Securities	580,317	581,106	417,738	418,468
Loans:				
Loans (net of unearned interest)	2,793,346		2,738,238	
Allowance for loan losses	(37,002)		(39,334)	
Loans, net	2,756,344	2,781,907	2,698,904	2,700,462
Derivative assets	11,098	11,098	12,572	12,572
FINANCIAL LIABILITIES				
Deposits	4,117,360	4,145,328	3,782,822	3,808,997
Short-term borrowings	2,100	2,100	500	500
Derivative liabilities	9,253	9,253	10,509	10,509
Junior subordinated debentures	26,804	27,608	26,804	26,536
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS				
Loan commitments		1,092		1,134
Letters of credit		460		517

Non-financial Assets and Liabilities

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring and non-recurring basis include goodwill and other intangible assets and other non-financial long-lived assets. These items are evaluated annually for impairment of which there was none as of June 30, 2010 or 2009. The overall level of non-financial assets and liabilities were not significant to the Company at June 30, 2010 or 2009.

The Company is required under current authoritative accounting guidance to disclose the estimated fair value of their financial instrument assets and liabilities including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments as defined.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Impaired loans are reported at the fair value of the underlying collateral if repayment is dependent on liquidation of the collateral. The impaired loans are adjusted to fair value through a specific allocation of the allowance for possible loan losses.

Application of ASC Topic 820 to non-financial assets and non-financial liabilities became effective January 1, 2009. The Corporation has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

Foreclosed assets, upon initial recognition, are measured and adjusted to fair value through a charge-off to the allowance for possible loan losses based upon the fair value of the foreclosed asset.

Other real estate owned is remeasured at fair value subsequent to initial recognition, with any losses recognized in net expense from other real estate owned.

The following table summarizes assets measured at fair value on a nonrecurring basis as of June 30, 2010 and the related gains or losses recognized during the period **(amounts and dollars in thousands)**.

Description	Level 1	Level 2	Level 3	Total Fair Value	Gains (Losses)
Impaired Loans			$ 10,717	$ 10,717	$
Other Real Estate Owned			$ 9,517	$ 9,517	$ (176)

(15) DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into oil and gas swaps and options contracts to accommodate the business needs of its customers. Upon the origination of an oil or gas swap or option contract with a customer, the Company simultaneously enters into an offsetting contract with a counterparty to mitigate the exposure to fluctuations in oil and gas prices. These derivatives are not designated as hedged instruments and are recorded on the Company s consolidated balance sheet at fair value.

The Company utilizes dealer quotations and observable market data inputs to substantiate internal valuation models. The notional amounts and estimated fair values of oil and gas derivative positions outstanding are presented in the following table **(notional amounts and dollars in thousands):**

		June 30, 2010		June 30, 2009		December 31, 2009	
Oil and Natural Gas Swaps and Options	Notional Units	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Oil							
Derivative assets	Barrels	198	$ 4,514	356	$ 6,449	286	$ 6,138
Derivative liabilities	Barrels	(198)	(3,868)	(356)	(5,823)	(286)	(5,682)
Natural Gas							
Derivative assets	MMBTUs	4,841	6,813	8,085	6,460	6,914	4,564
Derivative liabilities	MMBTUs	(4,841)	(5,614)	(8,085)	(5,023)	(6,914)	(3,226)
Total Fair Value	**Included in**						
Derivative assets	Other assets		11,098		12,572		7,544
Derivative liabilities	Other liabilities		9,253		10,509		5,750

The Company recognized income related to the activity, which was included in other noninterest income, of $102,000 and $79,000 for the three months ended June 30, 2010 and 2009, respectively, and $209,000 and $451,000 for the six months ended June 30, 2010 and 2009, respectively.

The Company s credit exposure on oil and gas swaps and options varies based on the current market prices of oil and natural gas. Other than credit risk, changes in the fair value of customer positions will be offset by equal and opposite changes in the counterparty positions. The net positive fair value of the contracts is the profit derived from the activity and is unaffected by market price movements.

Customer credit exposure is managed by strict position limits and is primarily offset by first liens on production while the remainder is offset by cash. Counterparty credit exposure is managed by selecting highly rated counterparties (rated A- or better by Standard and Poor s) and monitoring market information.

The Company had credit exposure relating to oil and gas swaps and options with bank counterparties of approximately $10.9 million at June 30, 2010, $11.1 million at June 30, 2009 and $6.1 million at December 31, 2009.

The Company entered into a $30 million five year guaranty with a counterparty on June 4, 2008 for the timely payment of the obligations BancFirst related to the settlement of oil and gas positions.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis presents factors that the Company believes are relevant to an assessment and understanding of the Company s consolidated financial position and results of operations. This discussion and analysis should be read in conjunction with the Company s December 31, 2009 consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and the Company s consolidated financial statements and the related notes included in Item 1.

FORWARD LOOKING STATEMENTS

The Company may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 with respect to earnings, credit quality, corporate objectives, interest rates and other financial and business matters. Forward-looking statements include estimates and give management s current expectations or forecasts of future events. The Company cautions readers that these forward-looking statements are subject to numerous assumptions, risks and uncertainties, including economic conditions, the performance of financial markets and interest rates; legislative and regulatory actions and reforms; competition; as well as other factors, all of which change over time. Actual results may differ materially from forward-looking statements.

SUMMARY

BancFirst Corporation s net income for the second quarter of 2010 was $11.0 million compared to $6.3 million for the second quarter of 2009. Diluted net income per share was $0.71 and $0.40 for the second quarter of 2010 and 2009, respectively. For the first six months of 2010, net income was $20.3 million, compared to $13.4 million for the first six months of 2009. Diluted net income per share for the first six months of 2010 was $1.30 compared to $0.86 for the first six months of 2009.

Net interest income for the second quarter of 2010 was $35.7 million, compared to $32.5 million for the second quarter of 2009. The Company s net interest margin was constant at 3.44% compared to a year ago, due to continued low interest rates. Provision for loan losses was $871,000 for the second quarter of 2010 compared to $4.9 million for the second quarter of 2009. Noninterest income was $17.0 million for both the second quarter of 2010 and the second quarter of 2009, while noninterest expense was down slightly at $34.5 million for the second quarter of 2010 compared to $35.2 million for the second quarter of 2009. This decrease was due to the FDIC special Assessment of $1.9 million paid during the second quarter of 2009, partially offset by an increase in regular FDIC premiums.

Total assets at June 30, 2010 were $4.6 billion, up $359 million or 8.4% over the second quarter a year ago. Compared to year-end 2009, total assets grew by $212 million or 4.8%. Total loans at June 30, 2010 were $2.8 billion, an increase of $55 million from June 30, 2009 and December 31, 2009. At June 30, 2010 total deposits were $4.1 billion, up $335 million or 8.8% from June 30, 2009 and up $188 million or 4.8% from December 31, 2009. The Company s liquidity remains strong as its average loan-to-deposit ratio was 69.5% at June 30, 2010 compared to 79.7% at June 30, 2009 and 74.6% at December 31, 2009. Stockholders equity was $446 million at June 30, 2010, an increase of $26.4 million from June 30, 2009 and $14.8 million from December 31, 2009. Average stockholders equity to average assets was 9.81% at June 30, 2010, compared to 10.52% at June 30, 2009 and 10.15% at December 31, 2009. The Company s borrowings include no brokered deposits and no Federal Home Loan Bank borrowings at June 30, 2010.

Asset quality has improved somewhat in 2010 after deteriorating in 2009, which resulted in a ratio of nonperforming and restructured assets to total assets of 1.12% at June 30, 2010, compared to 1.35% at June 30, 2009 and 1.13% for the year ended December 31, 2009. The allowance for loan losses equaled 88.3% of nonperforming and restructured loans at June 30, 2010, versus 84.0% at June 30, 2009 and 91.1% at December 31, 2009. Net charge-offs to average loans decreased to 0.09% at June 30, 2010, compared to 0.33% at June 30, 2009 and 0.30% at December 31, 2009. The allowance for loan losses as a percentage of total loans remained fairly constant at 1.32% at June 30, 2010 compared to 1.44% at June 30, 2009 and 1.33% at December 31, 2009.

On July 13, 2010, the Company announced it had entered into an agreement to purchase Union National Bancshares, Inc., and its subsidiary bank, Union Bank of Chandler with offices in Chandler and Tulsa, Oklahoma. The Company expects to pay a premium of $7 million above the tangible equity of Union National Bancshares, Inc. Union Bank of Chandler has approximately $135 million in total assets, $86 million in loans, $120 million in deposits, and $14 million in equity capital. The bank will operate as Union Bank of Chandler until it is merged into BancFirst, which is expected to be during the fourth quarter of 2010. The transaction is scheduled to be completed by October 15, 2010, and is subject to regulatory approval. The acquisition is not expected to have a material effect on the results of operations of the Company.

In April 2010 the Company elected to cease participation as of June 30, 2010 in the Transaction Account Guarantee Program (TAGP) for extended coverage of noninterest bearing transaction deposit accounts. As of June 30, 2010, the Company had approximately $641 million of deposits covered under this program.

On April 1, 2010, the Company s insurance agency, BancFirst Insurance Services, Inc. (formerly known as Wilcox, Jones & McGrath, Inc.) completed its acquisition of RBC Agency, Inc., which had offices in Shawnee and Stillwater. BancFirst Insurance Services, Inc. also has offices in Oklahoma City, Tulsa, Lawton and Muskogee. The acquisition did not have a material effect on the results of operations of the Company.

On March 21, 2010, Congress passed student loan reform centralizing student lending in a governmental agency, which resulted in an end to the student loan programs provided by the Company as of June 30, 2010. The Company had approximately $206 million of student loans with $146 million held for sale as of that date.

On December 8, 2009, the Company completed the acquisition of First Jones Bancorporation. First State Bank, Jones operated as a subsidiary of BancFirst Corporation until it was merged into BancFirst in early March 2010. The acquisition enhanced the presence of BancFirst in eastern Oklahoma County. The acquisition did not have a material effect on the results of operations of the Company.

On May 22, 2009, the FDIC increased deposit insurance premiums in 2009 and imposed a Special Assessment on member financial institutions that was based on June 30, 2009 assets less tier one capital. These increases caused the Company s noninterest expense to increase in 2009. The amount of $1.9 million was expensed on June 30, 2009.

RECENT LEGISLATION

On July 21, 2010, the President signed a financial reform program that will, among other things, tighten capital standards, create a new Consumer Financial Protection Bureau and result in new laws and regulations that are expected to increase our costs of operations.

Congress recently enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near-term impact on the Company. Effective one year after the date of enactment is a provision of the Dodd-Frank Act that eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest-bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Company s net interest margin. The Dodd-Frank Act also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company s proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase the Company s operating and compliance costs and could increase the Company s interest expense.

RESULTS OF OPERATIONS

BANCFIRST CORPORATION

SELECTED CONSOLIDATED FINANCIAL DATA

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Income Statement Data				
Net interest income	$ 35,670	$ 32,546	$ 69,532	$ 64,299
Provision for loan losses	871	4,851	1,767	8,216
Securities transactions	(150)	(37)	(14)	302
Total noninterest income	17,010	17,043	32,970	33,665
Salaries and employee benefits	19,710	19,896	39,658	40,013
Total noninterest expense	34,505	35,218	69,406	69,747
Net income	11,042	6,260	20,345	13,385
Per Common Share Data				
Net income basic	$ 0.72	$ 0.41	$ 1.33	$ 0.88
Net income diluted	0.71	0.40	1.30	0.86
Cash dividends	0.23	0.22	0.46	0.44
Performance Data				
Return on average assets	0.98%	0.61%	0.92%	0.68%
Return on average stockholders equity	10.01	5.95	9.34	6.43
Cash dividend payout ratio	31.94	53.66	34.59	50.00
Net interest spread	3.12	2.86	3.08	2.95
Net interest margin	3.44	3.44	3.40	3.56
Efficiency ratio	65.50	71.02	67.71	71.20
Net charge-offs to average loans	0.09	0.33	0.08	0.23

Net Interest Income

For the three months ended June 30, 2010, net interest income totaled $35.7 million, an increase of $3.1 million, or 9.6%, compared to the three months ended June 30, 2009. Net interest income for the second quarter of 2010 included nonrecurring interest income on nonaccrual loans of $297,000. The Company s net interest margin remained constant at 3.44% for the three months ended June 30, 2010 and 2009 due to the continued low rate environment.

Net interest income for the six months ended June 30, 2010 was $69.5 million, an increase of $5.2 million from the same period in 2009. Net interest income for the six months ended June 30, 2010 included nonrecurring interest income on nonaccrual loans of $662,000. The net interest margin for the six months ended June 30, 2010 decreased to 3.40% from 3.56% for the first six months of 2009. The lower interest rate environment for the first six months of 2010 compared to the first six months of 2009, when rates declined substantially in the first quarter of 2009, has caused the Company s net interest margin to decline. In addition, an increase in earning assets and a higher level of overnight investments at lower rates caused further compression of the net interest margin. This compression was somewhat offset by the implementation of interest rate floors on loans implemented during 2009. If interest rates do not increase, the Company could experience continued compression of its net interest margin in 2010 as higher rate assets mature in a continued low interest rate environment. Furthermore, due to the interest rate floors implemented, short-term interest rates would have to increase approximately 100 basis points before the Company s loan portfolio would experience a measurable increase in yield.

Provision for Loan Losses

The Company s provision for loan losses was $871,000 for the three months ended June 30, 2010, compared to $4.9 million during the three months ended June 30, 2009. The larger provision in 2009 was due to an increase in non-performing loans. Net loan charge-offs were $649,000 for the three months ended June 30, 2010, compared to $2.3 million for the three months ended June 30, 2009. The net charge-offs represent a rate of 0.09% of average total loans for the three months ended June 30, 2010, compared to 0.33% for the three months ended June 30, 2009.

The Company s loan loss provision was $1.8 million in the first six months of 2010, compared to $8.2 million for the same period of 2009 due to an increase in non-performing loans last year. Net loan charge-offs were $1.1 million for the six months ended June 30, 2010, compared to $3.2 million for the six months ended June 30, 2009. The net charge-offs represent an annualized rate of 0.08% of average total loans for the first six months of 2010 compared to 0.23% for the first six months of 2009.

Noninterest Income

Noninterest income was $17.0 million for both the three months ended June 30, 2010 and 2009.

Noninterest income for the six months ended June 30, 2010 decreased slightly to $33.0 million compared to $33.7 million for the same period in 2009. The decrease in noninterest income was due to lower revenue from treasury and cash management services as deposits swept into money-market funds declined. The lower treasury and cash management fees were offset somewhat by higher service charges on deposits.

Noninterest Expense

Noninterest expense totaled $34.5 million for the three months ended June 30, 2010, versus $35.2 million for the three months ended June 30, 2009, which included the FDIC Special Assessment of $1.9 million. Apart from the Special Assessment, noninterest expense increased compared to the previous year due to higher FDIC insurance premium of $360,000 and slightly higher operating expenses.

Noninterest expense totaled $69.4 million for the six months ended June 30, 2010; a decrease of $341,000 compared to the six months ended June 30, 2009. Apart from the Special Assessment of $1.9 million, noninterest expense increased compared to the previous year due to higher FDIC insurance premium of $1.1 million, acquisition expenses of $389,000 and slightly higher operating expenses.

Income Taxes

The Company s effective tax rate on income before taxes was 36.2% for the second quarter of 2010, compared to 34.2% for the second quarter of 2009. The increase is a result of federal and state tax credits combined with an increase in pretax earnings.

The Company s effective tax rate on income before taxes was 35.1% for the first six months of 2010, compared to 33.1% for the first six months of 2009. The increase is a result of federal and state tax credits combined with an increase in pretax earnings.

FINANCIAL POSITION

BANCFIRST CORPORATION

SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in thousands, except per share data)

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)	December 31, 2009
Balance Sheet Data			
Total assets	$ 4,628,022	$ 4,269,325	$ 4,416,115
Total loans	2,793,346	2,738,238	2,738,654
Allowance for loan losses	(37,002)	(39,334)	(36,383)
Securities	580,317	417,738	417,172
Deposits	4,117,360	3,782,822	3,929,016
Stockholders equity	445,592	419,202	430,750
Book value per share	29.03	27.40	28.14
Tangible book value per share	26.19	24.69	25.41
Average loans to deposits (year-to-date)	69.46%	79.67%	74.57%
Average earning assets to total assets (year-to-date)	92.69	92.08	92.56
Average stockholders equity to average assets (year-to-date)	9.81	10.52	10.15
Asset Quality Ratios			
Nonperforming and restructured loans to total loans	1.50%	1.68%	1.46%
Nonperforming and restructured assets to total assets	1.12	1.35	1.13
Allowance for loan losses to total loans	1.32	1.44	1.33
Allowance for loan losses to nonperforming and restructured loans	88.28	83.99	91.06

Cash, Federal Funds Sold and Interest Bearing Balances with Banks

The aggregate of cash and due from banks, interest-bearing deposits with banks, and federal funds sold as of June 30, 2010 increased $119 million from June 30, 2009 and decreased $13 million from December 31, 2009. The increase year-over-year was mainly from deposit growth. The slight decrease from year end was due to deposit growth offset primarily by securities purchases. Federal funds sold consists of overnight investments of excess funds with other financial institutions. Due to the Federal Reserve Bank s intervention into the Federal funds market that has resulted in near zero overnight fed funds rates, the Company has maintained its excess funds with the Federal Reserve Bank. The Federal Reserve Bank pays interest on these funds based upon the lowest target rate for the maintenance period.

Securities

At June 30, 2010, total securities increased $162.6 million compared to June 30, 2009 and $163.1 million compared to December 31, 2009. The increase was due primarily to increased pledging requirements for public deposits with the Company s decision to elect out of the TAGP. The size of the Company s securities portfolio is a function of liquidity management and excess funds available for investment. The Company has maintained a very liquid securities portfolio to provide funds for loan growth. The net unrealized gain on securities available for sale, before taxes, was $17.0 million at June 30, 2010, compared to an unrealized gain of $19.2 million at June 30, 2009, and an unrealized gain of $16.9 million at December 31, 2009.

Loans

At June 30, 2010, total loans were approximately $2.8 billion, up $55 million or 2.0% from June 30, 2009 and December 31, 2009. The increase was due primarily to an increase in student loans. At June 30, 2010, the allowance for loan losses was $37.0 million, a decrease of $2.3 million or 5.9% from June 30, 2009, and a small increase of $619,000 or 1.7% from year-end 2009. The allowance as a percentage of total loans was 1.32%, 1.44% and 1.33% at June 30, 2010, June 30, 2009 and December 31, 2009, respectively. The allowance to nonperforming and restructured loans at the same dates was 88.28%, 83.99% and 91.06%, respectively.

Nonperforming and Restructured Loans

Nonperforming and restructured loans totaled $41.9 million at June 30, 2010, compared to $46.1 million at June 30, 2009 and $40.0 million at December 31, 2009. During the second quarter of 2009, the Company transferred a commercial real estate property consisting of undeveloped land into other real estate owned. The property was recorded at net realizable value. The ratios of nonperforming and restructured loans to total loans were 1.50%, 1.68% and 1.46%, at June 30, 2010, June 30, 2009 and December 31, 2009, respectively. The level of nonperforming loans and loan losses may rise over time as a result of economic conditions.

Potential problem loans are performing loans to borrowers with a weakened financial condition, or which are experiencing unfavorable trends in their financial condition, which causes management to have concerns as to the ability of such borrowers to comply with the existing repayment terms. The Company had approximately $71.4 million of these loans at June 30, 2010 compared to $67.1 million at June 30, 2009 and $73.6 million at December 31, 2009. These loans are not included in nonperforming and restructured assets. In general, these loans are adequately collateralized and have no specific identifiable probable loss. Loans which are considered to have identifiable probable loss potential are placed on nonaccrual status, are allocated a specific allowance for loss or are directly charged-down, and are reported as nonperforming. The Company s nonaccrual loans are primarily commercial and real estate loans.

Deposits

At June 30, 2010 total deposits were $4.1 billion, an increase of $335 million compared to June 30, 2009, and $188 million compared to December 31, 2009. The increase from June 30, 2009 was due largely to overnight sweep funds that moved into low-rate interest-bearing transaction accounts due to low interest rates on money market funds. These deposits were insured because the Company participated in the TAGP and continued to do so until June 30, 2010, at which time the Company elected to terminate coverage under the TAGP. The Company s core deposits provide it with a stable, low-cost funding source. The Company s deposit base continues to be comprised substantially of core deposits, with large denomination certificates of deposit being only 8.5% of total deposits at June 30, 2010, compared to 11.4% at June 30, 2009 and 9.7% at December 31, 2009. Noninterest bearing deposits to total deposits were 30.5% at June 30, 2010, compared to 28.7% at June 30, 2009 and 29.5% at December 31, 2009. At June 30, 2010 the Company held approximately $641 million of deposits covered under TAGP. Some of the deposits previously insured under the TAGP could move back into money market funds or to other depository institutions.

Short-Term Borrowings

Short-term borrowings increased $1.6 million from June 30, 2009, and $2.0 million from December 31, 2009 to $2.1 million at June 30, 2010. Fluctuations in short-term borrowings are a function of Federal funds purchased from correspondent banks, customer demand for repurchase agreements and liquidity needs of the bank.

The Company does not have any borrowings from the Federal Home Loan Bank at June 30, 2010.

Capital Resources

Stockholders equity was $446 million at June 30, 2010 which was an increase of $26 million from the second quarter of 2009 and $15 million from year-end 2009, due to accumulated earnings. Average stockholders equity to average assets as of June 30, 2010 was 9.77%, compared to10.52% at June 30, 2009 and 9.84% at year-end 2009. The Company s leverage ratio and total risk-based capital ratio were 9.09% and 15.30%, respectively, at June 30, 2010, well in excess of the regulatory minimums.

CONTRACTUAL OBLIGATIONS

There have not been material changes in the resources required for scheduled repayments of contractual obligations from the table of Contractual Cash Obligations included in Management s Discussion and Analysis included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See note (2) of the Notes to Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

SEGMENT INFORMATION

See note (13) of the Notes to Consolidated Financial Statements for disclosures regarding business segments.

BANCFIRST CORPORATION

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST MARGIN ANALYSES

(Unaudited)

Taxable Equivalent Basis (Dollars in thousands)

	Three Months Ended June 30,					
	2010			2009		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS						
Earning assets:						
Loans (1)	$ 2,774,473	$ 38,791	5.61%	$ 2,787,199	$ 38,551	5.55%
Securities taxable	411,214	2,994	2.92	391,268	3,464	3.55
Securities tax exempt	34,699	477	5.51	38,926	549	5.66
Interest bearing deposits w/ banks & FFS	979,207	618	0.25	610,372	537	0.35
Total earning assets	4,199,593	42,880	4.10	3,827,765	43,101	4.52
Nonearning assets:						
Cash and due from banks	107,270			109,223		
Interest receivable and other assets	257,105			232,990		
Allowance for loan losses	(36,787)			(36,376)		
Total nonearning assets	327,588			305,837		
Total assets	$ 4,527,181			$ 4,133,602		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Transaction deposits	$ 614,115	$ 362	0.24%	$ 392,130	$ 315	0.32%
Savings deposits	1,364,794	3,007	0.88	1,166,063	4,136	1.42
Time deposits	834,506	3,102	1.49	903,331	5,336	2.37
Short-term borrowings	1,352	1	0.30	1,190	1	0.34
Junior subordinated debentures	26,804	494	7.39	26,804	491	7.35
Total interest-bearing liabilities	2,841,571	6,966	0.98	2,489,518	10,279	1.66
Interest-free funds:						
Noninterest-bearing deposits	1,214,005			1,188,547		
Interest payable and other liabilities	29,104			33,569		
Stockholders equity	442,501			421,968		
Total interest free funds	1,685,610			1,644,084		
Total liabilities and stockholders equity	$ 4,527,181			$ 4,133,602		
Net interest income		$ 35,914			$ 32,822	

Net interest spread	3.12%	2.86%
Net interest margin	3.44%	3.44%

(1) Nonaccrual loans are included in the average loan balances and any interest on such nonaccrual loans is recognized on a cash basis.

BANCFIRST CORPORATION

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST MARGIN ANALYSES

(Unaudited)

Taxable Equivalent Basis (Dollars in thousands)

	Six Months Ended June 30,					
	2010			2009		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS						
Earning assets:						
Loans (1)	$ 2,765,160	$ 76,233	5.56%	$ 2,794,253	$ 76,895	5.55%
Securities taxable	399,402	6,004	3.03	400,039	7,090	3.57
Securities tax exempt	35,696	984	5.56	40,215	1,136	5.70
Interest bearing deposits w/ banks & FFS	948,032	1,192	0.25	441,551	897	0.41
Total earning assets	4,148,290	84,413	4.10	3,676,058	86,018	4.72
Nonearning assets:						
Cash and due from banks	108,507			118,476		
Interest receivable and other assets	255,146			233,234		
Allowance for loan losses	(36,604)			(35,469)		
Total nonearning assets	327,049			316,241		
Total assets	$ 4,475,339			$ 3,992,299		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Transaction deposits	$ 611,792	$ 729	0.24%	$ 374,578	$ 541	0.29%
Savings deposits	1,345,942	6,080	0.91	1,134,467	8,735	1.55
Time deposits	846,744	6,586	1.57	876,721	10,890	2.50
Short-term borrowings	1,059	1	0.19	4,931	11	0.45
Junior subordinated debentures	26,804	983	7.40	26,804	983	7.40
Total interest-bearing liabilities	2,832,341	14,379	1.02	2,417,501	21,160	1.77
Interest-free funds:						
Noninterest-bearing deposits	1,176,357			1,121,684		
Interest payable and other liabilities	27,424			33,217		
Stockholders equity	439,217			419,897		
Total interest free funds	1,642,998			1,574,798		
Total liabilities and stockholders equity	$ 4,475,339			$ 3,992,299		
Net interest income		$ 70,034			$ 64,858	

Net interest spread	3.08%	2.95%
Net interest margin	3.40%	3.56%

(1) Nonaccrual loans are included in the average loan balances and any interest on such nonaccrual loans is recognized on a cash basis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes in the Registrant s disclosures regarding market risk since December 31, 2009, the date of its annual report to stockholders.

Item 4. Controls and Procedures.

The Company s Chief Executive Officer, Chief Financial Officer and Disclosure Committee, which includes the Company s Chief Risk Officer, Chief Asset Quality Officer, Chief Internal Auditor, Treasurer, Controller and General Counsel, have evaluated, as of the last day of the period covered by this report, the Company s disclosure controls and procedures. Based on their evaluation they concluded that the disclosure controls and procedures of the Company are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms. No changes were made to the Company s internal control over financial reporting during the second fiscal quarter of 2010 that materially affected, or are likely to materially affect, the Company s internal control over financial reporting. There have been no changes in the Company s internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

The Corporation and its subsidiaries are subject to various claims and legal actions that have arisen in the normal course of conducting business. None of these actions are believed by management to involve amounts that will be material to the Company s consolidated financial position, results of operations or liquidity.

The Company is not currently aware of any additional or material changes to pending or threatened litigation against the Company or its subsidiaries or that involves any of the Company or its subsidiaries property that could have a material adverse effect on the Company s consolidated financial condition, results of operations or cash flows.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, of the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) Exhibits

Exhibit Number	Exhibit
3.1	Second Amended and Restated Certificate of Incorporation of BancFirst Corporation (filed as Exhibit 1 to the Company s 8-A/A filed July 23, 1998 and incorporated herein by reference).
3.2	Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of BancFirst Corporation (filed as Exhibit 3.5 to the Company s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2004 and incorporated herein by reference).
3.3	Certificate of Designations of Preferred Stock (filed as Exhibit 3.2 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated herein by reference).
3.4	Amended By-Laws (filed as Exhibit 3.2 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1992 and incorporated herein by reference).
3.5	Amendment to the Second Amended and Restated Certificate of Incorporation (filed as Exhibit 3.5 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005 and incorporated herein by reference).
3.6	Resolution of the Board of Directors amending Section XXVII of the Company s By-Laws (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K dated February 26, 2004 and incorporated herein by reference).
3.7	Resolution of the Board of Directors amending Article XVI, Section 1 and Article XVII, Section 1 of the Company s By-Laws (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K dated February 28, 2008 and incorporated herein by reference).
4.1	Instruments defining the rights of securities holders (see Exhibits 3.1, 3.2, 3.3 and 3.4 above).
4.2	Rights Agreement, dated as of February 25, 1999, between BancFirst Corporation and BancFirst, as Rights Agent, including as Exhibit A the form of Certificate of Designations of the Company setting forth the terms of the Preferred Stock, as Exhibit B the form of Right Certificate and as Exhibit C the form of Summary of Rights Agreement (filed as Exhibit 4.1 to the Company s 8-K dated January 28, 2009 and incorporated herein by reference).
4.3	Amendment No. 1 to Rights Agreement, dated as of February 25, 1999, between BancFirst Corporation and BancFirst, as Rights Agent (filed as Exhibit 4.2 to the Company s 8-K dated January 28, 2009 and incorporated herein by reference).
4.4	Form of Amended and Restated Trust Agreement relating to the 7.20% Cumulative Trust Preferred Securities of BFC Capital Trust II (filed as Exhibit 4.5 to the Company s registration statement on Form S-3, File No. 333-112488, and incorporated herein by reference).
4.5	Form of 7.20% Cumulative Trust Preferred Security Certificate for BFC Capital Trust II (included as Exhibit D to Exhibit 4.8).
4.6	Form of Indenture relating to the 7.20% Junior Subordinated Deferrable Interest Debentures of BancFirst Corporation issued to BFC Capital Trust II (filed on Form S-3 to the Company s registration statement, File No. 333-112488, and incorporated herein by reference).
4.7	Form of Certificate of 7.20% Junior Subordinated Deferrable Interest Debenture of BancFirst Corporation (included as Section 2.2 and Section 2.3 of Exhibit 4.6).
4.8	Form of Guarantee of BancFirst Corporation relating to the 7.20% Cumulative Trust Preferred Securities of BFC Capital Trust II (filed on Form S-3 to the Company s registration statement, File No. 333-112488, and incorporated herein by reference).
10.1	Ninth Amended and Restated BancFirst Corporation Stock Option Plan (filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2009 and incorporated herein by reference).
10.2	Amended and Restated BancFirst Corporation Employee Stock Ownership and Thrift Plan, as amended by amendments dated September 19, 1992, November 21, 2002 and December 18, 2003 (filed as Exhibit 10.2 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein by reference).

Exhibit Number	Exhibit
10.3	Second Amended and Restated BancFirst Corporation Non-Employee Directors Stock Option Plan (filed as Exhibit 10.7 to the Company s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2009 and incorporated herein by reference).
10.4	Third Amended and Restated BancFirst Corporation Directors Deferred Stock Compensation Plan (filed as Exhibit 10.8 to the Company s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2009 and incorporated herein by reference).
10.5	Amendment to the Amended and Restated BancFirst Corporation Employee Stock Ownership Plan and Trust Agreement adopted June 25, 2009 (filed as Exhibit 10.9 to the Company s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2009 and incorporated herein by reference).
10.6*	Amended and Restated BancFirst Corporation Thrift Plan adopted March 25, 2010 effective January 1, 2010
10.7*	Amendment (Code Section 415 Compliance) to the Amended and Restated BancFirst Corporation Employee Stock Ownership Plan and Trust Agreement, adopted July 23, 2009.
10.8*	Amendment (Pension Protection Act, Heart Act and the Worker, Retiree, and Employer Recovery Act) to the Amended and Restated BancFirst Corporation Employee Stock Ownership Plan and Trust Agreement, adopted December 17, 2009
31.1*	Chief Executive Officer s Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2*	Chief Financial Officer s Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1*	CEO s Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	CFO s Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BANCFIRST CORPORATION
(Registrant)

Date August 9, 2010

/s/ Joe T. Shockley, Jr.
Joe T. Shockley, Jr.
Executive Vice President
Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

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North America
$
293.1

$
255.9

15
%

$
544.2

$
514.5

6
%
International
288.0

357.1

(19
)%

598.6

631.8

(5
)%
Total Oncology Systems Gross Orders
$
581.1

$
613.0

(5
)%

$
1,142.8

$
1,146.3

—
%
The Americas Oncology Systems gross orders increased in the second quarter and the first half of fiscal year 2015, compared to the respective year-ago periods, primarily due to an increase in gross orders from North America. The increase in gross orders from North America during the second quarter of fiscal year 2015, compared to the year-ago period, was due to an increase in gross orders from hardware products, and to a lesser extent, an increase in gross orders from services, partially offset by a decrease in gross orders from software licenses. The increase in gross orders from North America during the first half of fiscal year 2015, compared to the year-ago period, was due to an increase in gross orders from services, and to a lesser extent, an increase in gross orders from hardware products, partially offset by a decrease in gross orders from software licenses. On a constant currency basis, The Americas Oncology Systems gross orders increased 12% and 5% in the second quarter and first half of fiscal year 2015, compared to the respective year-ago periods.

EMEA Oncology Systems gross orders decreased in the second quarter and the first half of fiscal year 2015, compared to the respective year-ago periods, due to decreases in gross orders from hardware products, and to a lesser extent, decreases in gross orders from services and software licenses. On a constant currency basis, EMEA Oncology Systems gross orders decreased 13% and increased 1% in the second quarter and first half of fiscal year 2015, compared to the respective year-ago periods.

APAC Oncology Systems gross orders decreased in the second quarter of fiscal year 2015, compared to the year-ago period, due to a decrease in gross orders from hardware products, partially offset by an increase in gross orders from software licenses. APAC Oncology Systems gross orders decreased in the first half of fiscal year 2015, compared to the year-ago period, due to a decrease in gross orders from hardware products, partially offset by increases in gross orders from software licenses and services. On a constant currency basis, APAC Oncology Systems gross orders decreased 8% and increased 5% in the second quarter and first half of fiscal year 2015, compared to the respective year-ago periods.

On a constant currency basis, Oncology Systems gross orders were flat and increased 4% in the second quarter and first half of fiscal year 2015, compared to the respective year-ago periods. Oncology Systems gross orders within our international regions were negatively impacted by currency exchange rates in the second quarter and the first half of fiscal year 2015, compared to the respective year-ago periods. On a constant currency basis, international Oncology Systems gross orders decreased 11% and increased 2% in the second quarter and first half of fiscal year 2015, compared to the respective year-ago periods.

The extra week of operations during the first quarter of fiscal year 2015, compared to the year-ago period, contributed to an increase of approximately $7.0 million in Oncology Systems gross orders during the first half of fiscal year 2015.

The trailing 12 months growth in gross orders for Oncology Systems at the end of the second quarter of fiscal year 2015 and at the end of each of the previous three fiscal quarters were:

	Total	North America	International
April 3, 2015	3%	6%	—%
January 2, 2015	5%	4%	6%
September 26, 2014	5%	7%	4%
June 27, 2014	3%	1%	5%

Consistent with the historical pattern, we expect that Oncology Systems gross orders will continue to experience regional fluctuations, with an overall shift of gross orders towards international regions and emerging markets. In addition, the availability of government programs that stimulate the purchase of healthcare products could affect the demand for our products from period to period, and could therefore make it difficult to compare our financial results.

Imaging Components Gross Orders

Gross Orders by region	Three Months Ended			Six Months Ended		
(Dollars in millions)	April 3, 2015	March 28, 2014	Percent Change	April 3, 2015	March 28, 2014	Percent Change
Americas	$33.0	$66.0	(50)%	$82.4	$101.6	(19)%
EMEA	47.6	50.6	(6)%	81.0	88.0	(8)%
APAC	75.7	88.4	(14)%	155.6	136.8	14 %
Total Imaging Components Gross Orders	$156.3	$205.0	(24)%	$319.0	$326.4	(2)%
North America	$30.9	$64.8	(52)%	$78.2	$99.0	(21)%
International	125.4	140.2	(11)%	240.8	227.4	6 %
Total Imaging Components Gross Orders	$156.3	$205.0	(24)%	$319.0	$326.4	(2)%

The Americas Imaging Components gross orders decreased in the second quarter and the first half of fiscal year 2015, compared to the respective year-ago periods, primarily due to a decrease in gross orders from North America. North American gross orders decreased in the second quarter of fiscal year 2015, compared to the year-ago period, primarily due to a decrease in gross orders from X-ray flat panel products, and to a lesser extent, a decrease in gross orders from X-ray tube products. The decrease in North American gross orders from X-ray tube and flat panel products in the second quarter of fiscal year 2015, compared to the year ago period, was primarily due to the timing of gross orders in the second quarter of fiscal year 2014 and, to a lesser extent, market pressures in the second quarter of fiscal year 2015. North American gross orders decreased in the the first half of fiscal year 2015, compared to the year-ago period, primarily due to decreases in gross orders from X-ray tube and flat panel products as a result of market pressures.

EMEA Imaging Components gross orders decreased in the second quarter and the first half of fiscal year 2015, compared to the respective year-ago periods due to a decrease in gross orders from security and inspection products, partially offset by an increase in gross orders from X-ray flat panel products and, to a lesser extent, an increase in gross orders from X-ray tube products. The decrease in gross orders from security and inspection products during the second quarter and the first half of fiscal year 2015, compared to respective year-ago periods, was due to delays in tenders in which our customers participate.

APAC Imaging Components gross orders decreased in the second quarter of fiscal year 2015, compared to the year-ago period, primarily due to decreases in gross orders from X-ray tube and flat panel products. APAC Imaging Components gross orders increased in the first half of fiscal year 2015, compared to the year-ago period primarily due to an increase in gross orders from X-ray flat panel products.

The difference in currency exchange rates between the U.S. Dollar and foreign currencies in the second quarter and the first half of fiscal year 2015, compared to the respective year-ago periods, did not have a material impact on Imaging Components international orders because orders in Imaging Components are generally denominated in U.S. Dollars. However, overall, gross orders from Imaging Components in the second quarter and the first half of fiscal year 2015, compared to the respective year-ago periods were impacted by the market pressures resulting from strengthening of the U.S. Dollar against the Japanese Yen and the Euro which caused a decline in demand for X-ray tubes and flat panels from some customers in APAC and EMEA.

Other Gross Orders

The “Other” category gross orders decreased in the second quarter and first half of fiscal year 2015, compared to the respective year-ago periods, due to a decrease in gross orders from VPT.

Backlog

Backlog is the accumulation of all gross orders for which revenues have not been recognized and are still considered valid. Backlog also includes a small portion of billed service contracts that are included in deferred revenue. Backlog is stated at historical foreign currency exchange rates and revenue is released from backlog at current exchange rates, with any difference recorded as a backlog adjustment. Our backlog at April 3, 2015 was $3.1 billion, which was an increase of 10% over the backlog at March 28, 2014. Our Oncology Systems backlog at April 3, 2015 was 8% higher than the backlog at March 28, 2014, which reflected a 17% increase for the international region and a 1% decrease for North America.

We perform a quarterly review to verify that outstanding orders in the backlog remain valid. Aged orders that are not expected to be converted to revenues are deemed dormant and are reflected as a reduction in the backlog amounts in the period identified. Backlog adjustments are comprised of dormancies, cancellations, foreign currency exchange rate adjustments and other adjustments. In the second quarter of fiscal years 2015 and 2014, our backlog adjustments were $52.6 million and $59.1 million, respectively. In the first half of fiscal years 2015 and 2014, our backlog adjustments were $86.4 million and $105.5 million, respectively.

Liquidity and Capital Resources

Liquidity is the measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, acquire businesses or make other investments or loans, repurchase shares of VMS common stock, and fund continuing operations and capital expenditures. Our sources of cash have included operations, borrowings, stock option exercises, employee stock purchases and interest income. Our cash usage is actively managed on a daily basis to ensure the maintenance of sufficient funds to meet our needs.

Cash and Cash Equivalents

The following table summarizes our cash and cash equivalents:

(In millions)	April 3, 2015	September 26, 2014	Increase
Cash and cash equivalents	$862.2	$849.3	$12.9

The increase in cash and cash equivalents in the first half of fiscal year 2015 was primarily due to $132.3 million of cash provided by operating activities, $100.0 million of cash borrowed under our revolving credit facility, $67.2 million of cash provided by stock option exercises and employee stock purchases and $19.0 million due to the effect of foreign currency exchange rates on cash and cash equivalents. These increases were partially offset by $201.2 million of cash used for the repurchase of shares of VMS common stock, $36.7 million used for purchases of property, plant, and equipment, $35.7 million increase in restricted cash primarily related to the acquisition of outstanding shares of MeVis Medical Solutions AG ("MeVis"), $25.0 million used for repayments under our term loan facility, and $5.0 million for notes receivable.

At April 3, 2015, we had approximately $42.2 million, or 5%, of total cash and cash equivalents in the United States. Approximately $820.0 million, or 95%, of total cash and cash equivalents was held abroad and could be subject to additional taxation if it were repatriated to the United States. As of April 3, 2015, most of our cash and cash equivalents that were held abroad were in U.S. Dollars and were primarily held as bank deposits. In addition to cash flows generated from operations, a significant portion of which are generated in the United States, we have used our credit facilities to meet our cash needs from time to time and expect to continue to do so in the future. Borrowings under our credit facilities may be used for working capital, capital expenditures, permitted VMS stock repurchases, acquisitions and other lawful corporate purposes.

Cash Flows

	Six Months Ended	
(In millions)	April 3, 2015	March 28, 2014
Net cash flow provided by (used in):		
Operating activities	$132.3	$169.1
Investing activities	(75.2)	(58.9)
Financing activities	(63.2)	(288.4)
Effects of exchange rate changes on cash and cash equivalents	19.0	(0.7)
Net increase / (decrease) in cash and cash equivalents	$12.9	$(178.9)

Our primary cash inflows and outflows for the first half of fiscal year 2015, as compared to the first half of fiscal year 2014, were as follows:

- In the first half of fiscal year 2015, we generated net cash from operating activities of $132.3 million compared to $169.1 million in the first half of fiscal year 2014. The $36.8 million decrease in net cash from operating activities in the first half of fiscal year 2015, compared to the year-ago period, was primarily driven by a $89.2 million decrease in the net change from operating assets and liabilities (working capital items) partially offset by a $43.8 million increase from non-cash items, and an $8.5 million increase in net earnings.
- The major contributors to the net change in working capital items in the first half of fiscal year 2015 were as follows:
  Inventories increased $93.0 million due to anticipated customer demand for products in Oncology Systems, and Imaging Components and to a lesser extent in VPT.
  Accrued expenses and other liabilities decreased $43.2 million mainly because of the timing of our payments for taxes and employee incentives.
  Deferred revenues and advance payments from customers increased $37.1 million due to receipts of down payments for orders for which revenues have not been recognized and due to the nature of contracts and timing of customer acceptances primarily in Oncology Systems.
- We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, timing of product shipments, product installation or customer acceptance, accounts receivable collections, inventory management, and the timing and amount of tax and other payments. For additional discussion, please refer to the “Risk Factors” in Item 1A.
- In the first half of fiscal year 2015, we used $75.2 million for investing activities compared to $58.9 million used in the first half of fiscal year 2014. In the first half of fiscal year 2015, we used $36.7 million for purchases of property, plant and equipment, $35.7 million to fund restricted cash primarily related to the acquisition of outstanding shares of MeVis, and $5.0 million for notes receivable. In the first half of fiscal year 2014, we used $43.8 million for purchases of property, plant and equipment and $13.7 million to fund a portion of our loan commitment to CPTC.
- In the first half of fiscal year 2015, we used $63.2 million for financing activities compared to $288.4 million used in the first half of fiscal year 2014. In the first half of fiscal year 2015, we used $201.2 million for the repurchase of VMS common stock, $25.0 million for repayments under our term loan facility, and $16.0 million to satisfy employee tax withholding requirements for employees who tendered shares of VMS common stock upon vesting of restricted common stock and restricted stock units. These uses were partially offset by $100.0 million in net borrowings under revolving credit facility agreements, $67.2 million of proceeds from employee stock option exercises and employee stock purchases and $11.1 million in excess tax benefits from share-based compensation. In the first half of fiscal year 2014, we used $314.5 million for the repurchase of VMS common stock, $37.5 million for repayments under our term loan facility and $8.5 million for tendered VMS common stock to satisfy employee tax withholding requirements upon vesting of restricted common stock and restricted stock units. These uses were partially offset by $64.1 million of proceeds from employee stock option exercises and employee stock purchases and $8.5 million in excess tax benefits from share-based compensation.
- We expect our capital expenditures, which typically represent construction and/or purchases of facilities, manufacturing equipment, office equipment and furniture and fixtures, as well as capitalized costs related to the implementation of software applications, will be approximately 4% of revenues in fiscal year 2015.

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As further described under “Contractual Obligations” below, we have loaned $80.0 million (including accrued interest) to CPTC as of April 3, 2015. As of April 3, 2015, our remaining outstanding commitment to loan CPTC is up to $0.3 million to fund the construction and initial operations of the Scripps Proton Therapy Center.

On August 27, 2013, we entered into a Credit Agreement (as amended to date) with certain lenders and Bank of America, N.A. (“BofA”) as administrative agent. The Credit Agreement provides for (i) a five-year term loan facility in an aggregate principal amount of up to $500 million (the “2013 Term Loan Facility”) and (ii) a five-year revolving credit facility in an aggregate principal amount of up to $300 million (the “2013 Revolving Credit Facility” and, collectively with the 2013 Term Loan Facility, the “2013 Credit Facility”). The 2013 Revolving Credit Facility also includes a $50 million sub-facility for the issuance of letters of credit and permits swing line loans of up to $25 million. The aggregate commitments under the 2013 Term Loan Facility may be increased by up to $100 million and the aggregate commitments under the 2013 Revolving Credit Facility may be increased by up to $200 million, subject to certain conditions being met, including lender approval. We may prepay, reduce or terminate the commitments without penalty. The 2013 Credit Facility contains provisions that limit our ability to pay cash dividends. The proceeds of the 2013 Credit Facility will be used for working capital, capital expenditures, permitted Company share repurchases, permitted acquisitions and other lawful corporate purposes.

At April 3, 2015, borrowings under the 2013 Term Loan Facility totaled $412.5 million with a weighted average interest rate of 1.30%. At September 26, 2014, borrowings under the 2013 Term Loan Facility totaled $437.5 million with a weighted average interest rate of 1.28%. At April 3, 2015, there was $100.0 million outstanding on the 2013 Revolving Credit Facility with a weighted average interest rate of 1.55%. As of September 26, 2014, there were no amounts outstanding on the 2013 Revolving Credit Facility.

In addition, our Japanese subsidiary (“VMS KK”) has an unsecured uncommitted credit agreement with Sumitomo Mitsui Banking Corporation that enables VMS KK to borrow and have outstanding at any given time a maximum of 3 billion Japanese Yen (the “Sumitomo Credit Facility”). In February 2015, the Sumitomo Credit Facility was extended and will expire in February 2016. Borrowings under the Sumitomo Credit Facility accrue interest based on the basic loan rate announced by the Bank of Japan plus a margin of 0.5% per annum. There were no outstanding amount under the Sumitomo Credit Facility as of April 3, 2015 and September 26, 2014. On April 6, 2015, we borrowed 3 billion Japanese Yen, or $25.2 million, under the Sumitomo Credit Facility.

See Note 6, "Borrowings" of the Notes to the Condensed Consolidated Financial Statements for a discussion regarding the 2013 Credit Facility and the Sumitomo Credit Facility.

Our liquidity is affected by many factors, some of which result from the normal ongoing operations of our business and some of which arise from uncertainties and conditions in the United States and global economies. Although our cash requirements will fluctuate as a result of the shifting influences of these factors, we believe that existing cash and cash equivalents and cash to be generated from operations and current or future credit facilities will be sufficient to satisfy anticipated commitments for capital expenditures and other cash requirements for at least the next 12 months and into the foreseeable future. We currently anticipate that we will continue to utilize our available liquidity and cash flows from operations, as well as borrowed funds, to make strategic acquisitions, invest in the growth of our business, invest in advancing our systems and processes, repurchase VMS common stock, fund loan commitments and other strategic investments.

Total debt as a percentage of total capital increased to 23.4% at April 3, 2015 from 21.3% at September 26, 2014 primarily due to increased borrowings under our 2013 Credit Facility. The ratio of current assets to current liabilities decreased to 2.07 to 1 at April 3, 2015 from 2.08 to 1 at September 26, 2014.

Days Sales Outstanding

Trade accounts receivable days sales outstanding (“DSO”) was 88 days at April 3, 2015 compared to 95 days at March 28, 2014. Excluding VPT, DSO was 79 days at April 3, 2015 compared to 85 days at March 28, 2014. Our accounts receivable and DSO are impacted by a number of factors, primarily including: the timing of product shipments, product installation or customer acceptance, collections performance, payment terms, the mix of revenues from different regions, and the effects of continued economic instability. As of April 3, 2015, approximately 4% of our accounts receivable balance was related to customer contracts with remaining terms of more than one year.

Stock Repurchase Program

We repurchased a total of 824,849 and 2,324,849 shares of VMS common stock during the three and six months ended April 3, 2015 under our repurchase programs. The repurchased shares include shares of VMS common stock repurchased under the

accelerated share repurchase agreements mentioned below. As of April 3, 2015, 3,925,151 shares of VMS common stock remained available for repurchase. Stock repurchases may be made in the open market, in privately negotiated transactions (including accelerated share repurchase programs), or under Rule 10b5-1 share repurchase plans, and also may be made from time to time or in one or more larger blocks.

All shares that were repurchased under our stock repurchase programs have been retired.

On November 7, 2014, we signed an accelerated share repurchase agreement (the "January 2015 Repurchase Agreement") with J.P. Morgan Chase Bank, N.A. (“J.P. Morgan”). Pursuant to the agreement, on January 6, 2015, we paid $45.0 million to J.P. Morgan and J.P. Morgan delivered 419,874 shares of VMS common stock, representing approximately 80% of the shares expected to be repurchased. The repurchase period ended on March 27, 2015, and we received an additional 74,975 shares of VMS common stock from J.P. Morgan upon settlement of the January 2015 Repurchase Agreement.

On February 3, 2015, we signed an accelerated share repurchase agreement (the "April 2015 Repurchase Agreement") with BofA. Pursuant to the agreement, on April 7, 2015, we paid $70.0 million to BofA and BofA delivered 592,280 shares of VMS common stock, representing approximately 80% of the shares expected to be repurchased. On April 29, 2015, BofA accelerated the share repurchase agreement and delivered an additional 151,604 shares of VMS common stock upon settlement of the April 2015 Repurchase Agreement.

On February 4, 2015, we signed an accelerated share repurchase agreement with J.P. Morgan. Pursuant to the agreement, on July 8, 2015, we will pay $45.0 million to J.P. Morgan and J.P. Morgan will deliver approximately 80% of the shares of VMS common stock expected to be repurchased. We have the right to cancel this agreement at any time prior to July 7, 2015.

See Note 11, "Stockholders' Equity" of the Notes to the Condensed Consolidated Financial Statements for further discussion.

Contractual Obligations

Long-term income taxes payable includes the liability for uncertain tax positions (including interest and penalties) and may also include other long-term tax liabilities. As of April 3, 2015, our liability for uncertain tax positions was $46.1 million, of which we do not anticipate making any payments in the next 12 months. We are unable to reliably estimate the timing of the future payments related to uncertain tax positions; we believe that existing cash and cash equivalents and cash to be generated from operations and current or future credit facilities will be sufficient to satisfy any payment obligations that may arise related to our liability for uncertain tax positions.

As further described in Note 8, "Commitments and Contingencies" of the Notes to the Condensed Consolidated Financial Statements, as of April 3, 2015, we accrued $9.2 million for environmental remediation liabilities. The amount accrued represents estimates of anticipated future costs and the timing and amount of actual future environmental remediation costs may vary as the scope of our obligations become more clearly defined.

As further described in Note 8, "Commitments and Contingencies" of the Notes to the Condensed Consolidated Financial Statements, as of April 3, 2015, the outstanding fixed fees and license fees commitment under the Siemens agreement was $5.0 million and $12.0 million, respectively.

As further described in Note 15, "CPTC Loans" of the Notes to the Condensed Consolidated Financial Statements, as of April 3, 2015, our outstanding commitment under the Tranche A and Tranche B Loans was $0.2 million and $0.1 million, respectively. We intend to sell all or a portion of our Tranche A loan before the maturity date of September 2017.

As further described in Note 5, "Related Party Transactions" of the Notes to the Condensed Consolidated Financial Statements, as of April 3, 2015, we had an estimated fixed cost commitment of $8.9 million related to dpiX’s amended agreement, for the remaining six months of fiscal year 2015. The fixed cost commitment for future years will be determined and approved by the dpiX board of directors at the beginning of each calendar year.

As further described in Note 8, "Commitments and Contingencies" of the Notes to the Condensed Consolidated Financial Statements, in connection with the previously announced restructuring programs, during the second quarter and the first half of fiscal year 2015, we incurred restructuring charges of approximately $3.1 million and $13.6 million, respectively, of which $7.5 million was paid in cash during the first half of fiscal year 2015. The restructuring charges are included in selling, general and administrative expenses in the Condensed Consolidated Statements of

Earnings. Any remaining restructuring charges in connection with the above mentioned programs are expected to be immaterial. We expect to complete the above mentioned restructuring programs by the end of fiscal year 2015.

Except for the change in the outstanding balance under our term loan facility and the other items discussed above, there has been no significant change to the other contractual obligations we reported in our 2014 Annual Report.

Business Combination

In January 2015, one of our German subsidiaries formally launched a voluntary public tender offer to acquire MeVis, a company based in Bremen, Germany that provides image processing software and services for cancer screening. As of April 3, 2015, we segregated restricted cash totaling $34.7 million, which represented the expected total payment to acquire non-par value registered shares of MeVis at a price of €17.50 per share if all outstanding shares were tendered. The restricted cash was included in other assets on our Condensed Consolidated Balance Sheet. On April 21, 2015, we completed the acquisition of 73.5% of the then outstanding shares of MeVis using approximately $25.5 million of restricted cash, with the remainder becoming unrestricted. See Note 14, "Business Combination" of the Notes to the Condensed Consolidated Financial Statements for further discussion.

Contingencies

Environmental Remediation Liabilities

For a discussion of environmental remediation liabilities, see Note 8, "Commitments and Contingencies" of the Notes to the Condensed Consolidated Financial Statements, which discussion is incorporated herein by reference.

Other Matters

From time to time, we are a party to or otherwise involved in legal proceedings, claims and government inspections or investigations and other legal matters both inside and outside the United States, arising in the ordinary course of our business or otherwise. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. See Note 8, "Commitments and Contingencies" of the Notes to the Condensed Consolidated Financial Statements, which discussion is incorporated herein by reference.

Off-Balance Sheet Arrangements

In conjunction with the sale of our products in the ordinary course of business, we provide standard indemnification of business partners and customers for losses suffered or incurred for property damages, death and injury and for patent, copyright or any other intellectual property infringement claims by any third parties with respect to our products. The terms of these indemnification arrangements are generally perpetual. Except for losses related to property damages, the maximum potential amount of future payments we could be required to make under these arrangements is unlimited. As of April 3, 2015, we have not incurred any significant costs since the spin-offs to defend lawsuits or settle claims related to these indemnification arrangements. As a result, we believe the estimated fair value of these arrangements is minimal.

We have entered into indemnification agreements with our directors and officers and certain of our employees that serve as officers or directors of our foreign subsidiaries that may require us to indemnify our directors and officers and those certain employees against liabilities that may arise by reason of their status or service as directors or officers, and to advance their expenses incurred as a result of any legal proceeding against them as to which they could be indemnified.

Recent Accounting Pronouncements or Updates Not Yet Effective

In April 2015, the Financial Accounting Standards Board (“FASB”) issued an amendment to its accounting guidance related to internal use software. The amendment clarifies that the software license element of a cloud computing arrangements should be accounted for consistent with the acquisition of other software licenses. The amendment will be effective for us beginning in the first quarter of fiscal year 2017. Early adoption is permitted. The amendment can be adopted either prospectively or retrospectively. We are evaluating the impact of adopting this guidance to our consolidated financial statements.

In April 2015, the FASB issued an amendment to its accounting guidance related to retirement benefits. The amendment provides a practical expedient that permits an entity with a fiscal year-end that does not coincide with a month-end to measure defined benefit plan assets and obligations using the month-end that is closest to the entity’s fiscal year-end and apply that practical expedient consistently from year to year. The amendment also provides a practical expedient that permits an entity that has a significant event in an interim period to remeasure defined benefit plan assets and obligations using the month-end that is closest to the date of the significant event. The amendment will be effective for us beginning in the first quarter of fiscal

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year 2017 and is required to be applied on a retroactive basis. Early adoption is permitted. The amendment is not expected to have a material impact to our consolidated financial statements.

In March 2015, the FASB issued an amendment to its accounting guidance related to presentation of debt issuance costs. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The amendment will be effective for us beginning in the first quarter of fiscal year 2017. Early adoption is not permitted. The amendment is required to be applied on a retroactive basis. The amendment is not expected to have a material impact to our consolidated financial statements.

In February 2015, the FASB issued an amendment to its accounting guidance related to consolidation. The amendment modifies the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendment will be effective for us beginning in the first quarter of fiscal year 2017. Early adoption is permitted. The amendment permits the use of either the retrospective or cumulative effect transition method. The amendment is not expected to have a material impact to our consolidated financial statements.

In June 2014, the FASB issued an amendment to its accounting guidance related to stock-based compensation. The amendment requires that a performance target that could be achieved after the requisite service period be treated as a performance condition that affects vesting, rather than a condition that affects the grant-date fair value. The new guidance will be effective for us beginning in the first quarter of fiscal year 2017. Early adoption is permitted. The amendment can be applied on a prospective basis to all share-based payments granted or modified on or after the effective date. Entities will also be provided an option to apply the guidance on a modified retrospective basis to existing awards. The amendment is not expected to have a material impact to our consolidated financial statements.

In May 2014, the FASB issued an amendment to its accounting guidance related to revenue recognition. The amendment sets forth a single, comprehensive revenue recognition model for all contracts with customers to improve comparability. The amendment requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance will be effective for us beginning in the first quarter of fiscal year 2018. Early application is not permitted. In April 2015, the FASB proposed a one-year deferral of the amendment. If the proposal is approved, the new guidance will be effective for us beginning in the first quarter of fiscal year 2019, with early adoption permitted after the original effective date. The amendment can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. We are evaluating the impact of adopting this guidance to our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to three primary types of market risks: credit risk and counterparty risk, foreign currency exchange rate risk and interest rate risk.

Credit Risk and Counterparty Risk

We are exposed to credit loss in the event of nonperformance by counterparties on the foreign currency forward contracts used in hedging activities. These counterparties are large international and regional financial institutions and to date, no such counterparty has failed to meet its financial obligation to us under such contracts.

We are also exposed to credit loss in the event of default by counterparties of our notes receivable or by CPTC, the obligor under the loan facility in which we are participating to finance the construction and start-up operations of the Scripps Proton Therapy Center. Even though, to date, CPTC has not made its amortizing principal payments, ORIX, J.P. Morgan and the Company (collectively referred to as the "Lenders") and CPTC continue to operate under the original terms of the loan while CPTC continues to ramp up patient volumes and works with other investors and the Lenders on an additional equity raise and/or modification to the loan terms. Also, during the second quarter of fiscal year 2015, CPTC did not draw down on the CPTC Loans and has been operating using the cash generated from the center's operations.

In addition, cash and cash equivalents held with financial institutions may exceed the Federal Deposit Insurance Corporation insurance limits or similar limits in foreign jurisdictions. We also may need to rely on our credit facilities as described below under “Interest Rate Risk.” Our access to our cash and cash equivalents or ability to borrow could be

reduced if one or more financial institutions with which we have deposits or from which we borrow should fail or otherwise be adversely impacted by conditions in the financial or credit markets. Conditions such as those we experienced as a result of the economic downturn of 2008 and accompanying contraction in the credit markets heighten these risks. Concerns over continued economic instability could make it more difficult for us to collect outstanding receivables and could adversely impact our liquidity.

Foreign Currency Exchange Rate Risk

As a global entity, we are exposed to movements in foreign currency exchange rates. These exposures may change over time as business practices evolve. Adverse foreign currency rate movements could have a material negative impact on our financial results. Our primary exposures related to foreign currency denominated sales and purchases are in Europe, Asia, Australia and Canada.

We have many transactions denominated in foreign currencies and address certain of those financial exposures through a risk management program that includes the use of derivative financial instruments. We sell products throughout the world, often in the currency of the customer's country, and may hedge certain of these larger foreign currency transactions when they are not transacted in the subsidiaries' functional currency or in U.S. Dollars. The foreign currency sales transactions that fit our risk management policy criteria are hedged with foreign currency forward contracts. We may use other derivative instruments in the future. We enter into foreign currency forward contracts primarily to reduce the effects of fluctuating foreign currency exchange rates. We do not enter into foreign currency forward contracts for speculative or trading purposes. The forward contracts range from one to thirteen months in maturity.

We also hedge the balance sheet exposures from our various foreign subsidiaries and business units. We enter into foreign currency forward contracts to minimize the short-term impact of currency fluctuations on assets and liabilities denominated in currencies other than the U.S. Dollar functional currency.

The notional values of our sold and purchased foreign currency forward contracts outstanding as of April 3, 2015 were $350.5 million and $57.4 million, respectively. The notional amounts of foreign currency forward contracts are not a measure of our exposure. The fair value of forward contracts generally reflects the estimated amounts that we would receive or pay to terminate the contracts at the reporting date, thereby taking into account and approximating the current unrealized and realized gains or losses of the open contracts. A move in foreign currency exchange rates would change the fair value of the contracts, and the fair value of the underlying exposures hedged by the contracts would change in a similar offsetting manner.

Interest Rate Risk

Our market risk exposure to changes in interest rates depends primarily on our investment portfolio and borrowings. Our investment portfolio consisted of cash and cash equivalents and available-for-sale investments as of April 3, 2015. The principal amount of cash and cash equivalents at April 3, 2015 totaled $862.2 million with a weighted average interest rate of 0.14%. At April 3, 2015, our available-for-sale investments represented loans of $80.0 million (including accrued interest) to CPTC, which bear interest at the London Interbank Offer Rate ("LIBOR") plus 7.00% per annum with a minimum interest rate of 9.00% per annum. The CPTC loans are classified as available-for-sale securities and carried at fair value.

The 2013 Credit Facility, which includes the 2013 Revolving Credit Facility and the 2013 Term Loan Facility, allows us to borrow up to a maximum amount of $500 million under the 2013 Term Loan Facility and $300 million under the 2013 Revolving Credit Facility.

Borrowings under the 2013 Term Loan Facility accrue interest either (i) based on a Eurodollar Rate, as defined in the Credit Agreement (the "Eurodollar Rate"), plus a margin of 1.00% to 1.25% based on a leverage ratio involving funded indebtedness and EBITDA or (ii) based upon a base rate of (a) the federal funds rate plus 0.50%, (b) BofA's announced prime rate, or (c) the Eurodollar Rate plus 1.00%, whichever is highest, plus a margin of up to 0.25% based on the same leverage ratio, depending upon instructions from VMS. Borrowings under the 2013 Revolving Credit Facility accrue interest either (i) based on the Eurodollar Rate plus a margin of 1.25% to 1.50% based on a leverage ratio involving funded indebtedness and EBITDA or (ii) based upon a base rate of (a) the federal funds rate plus 0.50%, (b) BofA's announced prime rate, or (c) the Eurodollar Rate plus 1.00%, whichever is highest, plus a margin of 0.25% to 0.50% based on the same leverage ratio, depending upon instructions from VMS.

In addition, the Sumitomo Credit Facility allows VMS KK to borrow up to a maximum amount of 3 billion Japanese Yen. Borrowings under the Sumitomo Credit Facility accrue interest based on the basic loan rate announced by the Bank of Japan plus a margin of 0.5% per annum. As of April 3, 2015, there were no outstanding balances under the Sumitomo Credit Facility. On April 6, 2015, we borrowed 3 billion Japanese yen, or approximately $25.2 million, on the Sumitomo Credit Facility.

We are affected by market risk exposure primarily through the effect of changes in interest rates on amounts payable under our term loan facility and revolving credit facility. As of April 3, 2015, borrowings under the 2013 Term Loan Facility totaled $412.5 million with a weighted average interest rate of 1.30% and borrowings under the 2013 Revolving Credit Facility totaled $100.0 million with a weighted average interest rate of 1.55%. If our total borrowings under the 2013 Credit Facility remained

at the level as of April 3, 2015 for an entire year and interest rates increased or decreased by 1%, our annual interest expense would increase or decrease, respectively, by approximately $5.1 million. See Note 6, "Borrowings" of the Condensed Consolidated Financial Statements for a discussion regarding the 2013 Credit Facility.

To date, we have not used derivative financial instruments to hedge the interest rate within our investment portfolio and borrowings, but may consider the use of derivative instruments in the future.

The estimated fair value of our short-term borrowings at April 3, 2015 approximated the principal amounts because of their short maturity.

The estimated fair value of our term loan payable in fiscal year 2018, at April 3, 2015, approximated its carrying value because the term loan is carried at a market observable interest rate that resets periodically.

The fair value of our loans to CPTC was $80.0 million at April 3, 2015, which was estimated based on the income approach by using the discounted cash flow model with key assumptions that include discount rates corresponding to the terms and risks associated with the loan to CPTC. In addition, we do not increase the fair value above its par value as ORIX, the loan agent, has the option to purchase this loan from us under the original terms and conditions at par value. The CPTC loans are classified as Level 3 in the fair value hierarchy.

Although payments under certain of our operating leases for our facilities are tied to market indices, these operating leases do not expose us to material interest rate risk.

Item 4. Controls and Procedures

(a) Disclosure controls and procedures. Based on the evaluation of our disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) required by Exchange Act Rules 13a-15(b) or 15d-15(b), our principal executive officer and principal financial officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting that occurred during the second quarter of fiscal year 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION
Item 1. Legal Proceedings
We are subject to various legal proceedings and claims that are discussed in Note 8, "Commitments and Contingencies" to the Condensed Consolidated Financial Statements, which discussion is incorporated by reference into this item.

Item 1A. Risk Factors
The following risk factors and other information included in this Quarterly Report on Form 10-Q and in our 2014 Annual Report should be carefully considered. Although the risk factors described below are the ones management deems significant, additional risks and uncertainties not presently known to us or that we presently deem less significant may also adversely affect our business operations. If any of the following risks or additional risks and uncertainties actually occur, our business, operating results, and financial condition could be adversely affected.
IF OUR PRODUCTS AND PRODUCT LINES FAIL TO CONTINUE TO MEET CUSTOMER DEMANDS, OUR PRODUCTS MAY BECOME LESS USEFUL OR OBSOLETE AND OUR OPERATING RESULTS WILL SUFFER
We believe that IMRT, including volumetric modulated arc therapy, and IGRT have become accepted standards for treatment in the radiation oncology market. Demand for our IMRT and IGRT products have been the drivers for our gross orders and revenues in Oncology Systems and, because of the significance of Oncology Systems, in our business in general. We have introduced products such as TrueBeam, a line of linear accelerators for radiotherapy and radiosurgery, and UNIQUE, a less complex, low-energy linear accelerator for the more price sensitive emerging markets, to meet the evolving needs of our IMRT and IGRT customers. We believe TrueBeam is a valuable tool for clinicians in the fight against cancer and will stimulate faster replacement of older systems in our installed base. We also believe that our RapidArc products for volumetric modulated arc therapy are a significant advance in IMRT treatments and can help drive longer term demand for our linear accelerators and IMRT- and IGRT-related products. Orders for these products and products lines have contributed greatly to our orders and revenue growth and are keys to our future success. If our customers do not purchase these products or prefer competitive products, or if future studies call into question the effectiveness of these or our other IMRT or IGRT products (including other volumetric modulated arc therapy products) or show negative side effects, or if other more effective technologies are introduced, our gross orders, revenues and financial results could suffer. As more institutions buy or upgrade to achieve IMRT and IGRT capabilities, the market for these products (including volumetric modulated arc therapy products) may become saturated. Alternatively, the marketplace may conclude that functions and features of our products should no longer be an element of a generally accepted diagnostic or treatment regimen. If this occurs, the market for our products may be adversely affected and they may become less useful or obsolete.
Our Imaging Components business sells products primarily to a small number of imaging system OEM customers who use our products in their medical diagnostic, security and industrial imaging systems. To succeed, we must provide products that meet customer demands for product quality, superior technology and product performance at a competitive cost. If we are unable to continue to innovate our Imaging Components and anticipate our customers' demands in the areas of cost, quality, technology and performance, then our customers may purchase from other imaging component manufacturers (including the in-house operations of some of these customers), which would negatively impact this business.
In our Oncology Systems and Imaging Components businesses, as well as in our other product lines, we may be unable to accurately anticipate changes in our markets and the direction of technological innovation and demands of our customers. Our competitors may develop products or processes that are superior to, more cost efficient than, or more compelling than those we offer or can then offer. If this occurs, the market for our products may be adversely affected and our products may become less useful or obsolete. Any development adversely affecting the markets for our products would force us to reduce production volumes or to discontinue manufacturing one or more of our products or product lines and would reduce our revenues and earnings.

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OUR SUCCESS DEPENDS ON THE SUCCESSFUL DEVELOPMENT, INTRODUCTION AND COMMERCIALIZATION OF NEW GENERATIONS OF PRODUCTS AND ENHANCEMENTS TO OR SIMPLIFICATIONS OF EXISTING PRODUCT LINES

Rapid change and technological innovation characterize the markets in which we operate. Our Oncology Systems products often have long development and government approval cycles, so we must anticipate changes in the marketplace, in technology and in customer demands. Our success depends on the successful development, introduction and commercialization of new generations of products, treatment systems and enhancements to and/or simplification of existing product lines. Our Oncology Systems products, including products such as EDGE and TrueBeam, are technologically complex and must keep pace with, if not be superior to, the products of our competitors. Our Imaging Components business must also continually improve products at competitive costs. We are investing in long-term growth initiatives, such as development of our VPT business, and expect that we will need to invest more to develop and commercialize new products and technology for this business. Accordingly, our products may require significant planning, design, development and testing, as well as significant capital commitments, involvement of senior management and other investments on our part. In addition, because of the large footprint and high price of many proton therapy systems, including ours, there is increasing demand for development of a smaller, more compact proton therapy system. Other companies currently offer smaller, less expensive proton therapy systems, and our ability to compete with these companies may depend on our ability to timely develop new technologies to reduce the size and price of our system or provide additional features and functionality that our competitors do not. We may need to spend more time and money than we expect to develop and introduce new products or enhancements and, even if we succeed, they may not be sufficiently profitable that we are able to recover all or a meaningful part of our investment. Once introduced, new products may adversely impact orders and sales of our existing products, or make them less desirable or even obsolete, and could adversely impact our revenues and operating results. In addition, certain costs, including installation and warranty, associated with new products may be proportionately greater than other products, and may therefore adversely affect our gross and operating margins. If we are unable to lower these costs over time, our operating results could be adversely affected. Compliance with regulations, competitive alternatives, and shifting market preferences may also impact our success with new products or enhancements.

Our ability to successfully develop and introduce new products and product enhancements and simplifications, and the revenues and costs associated with these efforts, are affected by our ability to:

- properly identify customer needs or long-term customer demands;
- prove the feasibility of new products;
- limit the time required from proof of feasibility to routine production;
- timely and efficiently comply with internal quality assurance systems and processes;
- limit the timing and cost of regulatory approvals;
- accurately predict and control costs associated with inventory overruns caused by phase-in of new products and phase-out of old products;
- price our products competitively and profitably;
- manufacture, deliver and install our products in sufficient volumes on time, and accurately predict and control costs associated with manufacturing, installation, warranty and maintenance of the products;
- appropriately manage our supply chain;
- manage customer acceptance and payment for products;
- manage customer demands for retrofits of both new and old products; and
- anticipate, respond to and compete successfully with competitors.

Furthermore, we cannot be sure that we will be able to successfully develop, manufacture or introduce new products, treatment systems or enhancements, the roll-out of which involves compliance with complex quality assurance processes, including the Quality System Regulation (“QSR”) of the FDA. Failure to complete these processes timely and efficiently could result in delays that could affect our ability to attract and retain customers, or could cause customers to delay or cancel orders, causing our revenues and operating results to suffer.

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New products generally take longer to install than well-established products. Because a portion of a product's revenue is generally tied to installation and acceptance of the product, our recognition of revenue associated with new products may be deferred longer than expected. In addition, even if we succeed in our product introductions, potential customers may not decide to upgrade their equipment, or customers may delay delivery of some of our more sophisticated products because of the longer preparation and renovation of treatment rooms required. As a result, our revenues and other financial results could be adversely affected.

MORE THAN HALF OF OUR REVENUES ARE INTERNATIONAL, AND ECONOMIC, POLITICAL AND OTHER RISKS ASSOCIATED WITH INTERNATIONAL SALES AND OPERATIONS COULD ADVERSELY AFFECT OUR SALES OR MAKE THEM LESS PREDICTABLE

We conduct business globally. Our international revenues accounted for approximately 53% and 59% of revenues from continuing operations during the second quarter of fiscal year 2015 and 2014, respectively, and approximately 57%, 57% and 56% of our total revenues during fiscal years 2014, 2013 and 2012, respectively. As a result, we must provide significant service and support globally. We intend to continue to expand our presence in international markets and expect to expend significant resources in doing so. We cannot be sure, however, that we will be able to meet our sales, service and support objectives or obligations in these international markets, or recover our investments. For example, we have aligned our resources to support sales and marketing efforts in emerging markets. Our future results could be harmed by a variety of factors, including:

- currency fluctuations, such as the strengthening of the U.S. Dollar since the end of our fiscal year 2014, which has adversely affected our financial results and caused some customers to delay purchasing decisions or consider in-sourcing or moving to lower cost alternatives;
- the lower sales prices and gross margins usually associated with sales of our products in the international region, in particular emerging markets;
- the longer payment cycles associated with many foreign customers;
- difficulties in interpreting or enforcing agreements and collecting receivables through many foreign country's legal systems;
- changes in the political, regulatory, safety or economic conditions in a country or region;
- the imposition by governments of additional taxes, tariffs, global economic sanctions programs (such as the Russia-Ukraine sanctions) or other restrictions on foreign trade;
- the longer period in the international region from placement of any order to revenue recognition;
- any inability to obtain export licenses and other required export or import licenses or approvals;
- failure to comply with export laws and requirements, which may result in civil or criminal penalties and restrictions on our ability to export our products, particularly our industrial linear accelerator products;
- failure to obtain proper business licenses or other documentation, or to otherwise comply with local laws and requirements regarding marketing, sales, service or any other business we conduct in a foreign jurisdiction, which may result in civil or criminal penalties and restrictions on our ability to conduct business in that jurisdiction; and
- the possibility that it may be more difficult to protect our intellectual property in foreign countries.

Although our orders and sales fluctuate from period to period, in recent years our international region has represented a larger share of our business. The more we depend on sales in the international region, the more vulnerable we become to these factors.

As of April 3, 2015, approximately 95% of our cash and cash equivalents were held abroad. If these funds were repatriated to the United States, they could be subject to additional taxation and our overall tax rate and our results of operations could suffer.

Our effective tax rate is impacted by tax laws in both the United States and in the countries in which our international subsidiaries do business. Earnings from our international region are generally taxed at rates lower than U.S. rates. A change in the percentage of our total earnings from the international region, a change in the mix of particular tax jurisdictions within the international region, or a change in currency exchange rates, could cause our effective tax rate to increase or decrease. Also, we are not currently taxed in the United States on certain undistributed earnings of certain foreign subsidiaries. These earnings could become subject to incremental foreign withholding or U.S. federal and state taxes should they either be deemed or actually remitted to the United States, in which case our financial results would be adversely affected. In addition, changes in the valuation of our deferred tax assets or liabilities, changes in tax laws or rates, changes in the interpretation of tax laws or other changes beyond our control could adversely affect our financial position and results of operations.

OUR RESULTS MAY BE IMPACTED BY CHANGES IN FOREIGN CURRENCY EXCHANGE RATES

Because our business is global and payments are generally made in local currency, fluctuations in foreign currency exchange rates can impact our results by affecting product demand, or our revenues and expenses, and/or the profitability in U.S. Dollars of products and services that we provide in foreign markets. For example, since the fourth quarter of fiscal year 2014, the U.S. Dollar has strengthened significantly against the Euro and Japanese Yen, which adversely impacted our financial results in the first half of fiscal year 2015 and is expected to continue to have an adverse impact during the balance of fiscal year 2015.

While we use hedging strategies to help offset the effect of fluctuations in foreign currency exchange rates, the protection these strategies provide is affected by the timing of transactions, and the effectiveness of the hedges, the number of transactions that are hedged and forecast volatility. If our hedging strategies do not offset these fluctuations, our revenues, margins and other operating results may be adversely impacted. Furthermore, movement in foreign currency exchange rates could impact our financial results positively or negatively in one period and not another, making it more difficult to compare our financial results from period to period.

In addition, our hedging program is designed to hedge currency movements on a relatively short-term basis (typically up to the next twelve month period). Therefore, we are exposed to currency fluctuations over the longer term.

Long-term movements in foreign currency exchange rates can also affect the competitiveness of our products in the local currencies of our international customers. Even though our international sales are mostly in local currencies, our cost structure is weighted towards the U.S. Dollar. The volatility of the U.S. Dollar that we have experienced over the last several years, and in particular the strengthening of the U.S. Dollar since the fourth quarter of fiscal year 2014, has affected the competitiveness of our pricing against our foreign competitors, some of which may have cost structures based in other currencies, either helping or hindering our international order and revenue growth, thereby affecting our overall financial performance and results. In addition, the negative impact of foreign currency exchange rates has caused some customers in our Imaging Components business to consider in-sourcing or moving to lower cost alternatives. Even if the U.S. Dollar weakens, these customers may continue using the alternative sources and demand for our products may not increase.

Changes in monetary or other policies here and abroad, including as a result of economic and or political instability, or in reaction thereto, would also likely affect foreign currency exchange rates. Furthermore, in the event that one or more European countries were to replace the Euro with another currency, our sales into these countries, or into Europe generally, would likely be adversely affected until such time as stable exchange rates are established.

OUR RESULTS HAVE BEEN AND MAY CONTINUE TO BE AFFECTED BY CONTINUING WORLDWIDE ECONOMIC INSTABILITY

The global economy has been impacted by a number of economic and political factors, including recently the Russia-Ukraine sanctions. In many markets, these conditions have shrunk capital equipment budgets, slowed decision-making, made financing for large equipment purchases more expensive and more time consuming to obtain, and made it difficult for our customers and our vendors to accurately forecast and plan future business activities. This, in turn, has caused our customers to be more cautious with, and sometimes freeze, delay or dramatically reduce, purchases and capital project expenditures. Some countries have adopted and may in the future adopt austerity or stimulus programs that could positively or negatively affect our results from period to period, making it difficult for investors to compare our financial results. An uncertain economic environment may also disrupt supply or affect our

service business, as customers' constrained budgets may result in pricing pressure, extended warranty provisions and even cancellation of service contracts.

In addition, concerns over continued economic instability could make it more difficult for us to collect outstanding receivables. Historically, our business has felt the effects of market trends later than other sectors in the healthcare industry, such as diagnostic radiology, and we may experience the effects of any economic recovery later than others in the healthcare industry. A continued weak or deteriorating healthcare market would inevitably adversely affect our business, financial conditions and results of operations.

WE FACE SIGNIFICANT COSTS IN ORDER TO COMPLY WITH LAWS AND REGULATIONS APPLICABLE TO THE MANUFACTURE AND DISTRIBUTION OF OUR PRODUCTS, AND FAILURE OR DELAYS IN OBTAINING REGULATORY CLEARANCES OR APPROVALS, OR FAILURE TO COMPLY WITH APPLICABLE LAWS AND REGULATIONS COULD PREVENT US FROM DISTRIBUTING OUR PRODUCTS, REQUIRE US TO RECALL OUR PRODUCTS AND RESULT IN SIGNIFICANT PENALTIES

Our products and those of OEMs that incorporate our products are subject to extensive and rigorous government regulation in the United States. Compliance with these laws and regulations is expensive and time-consuming, and failure to comply with these laws and regulations could adversely affect our business. Furthermore, public media reports on misadministrations of radiotherapy in patients and focus on the role of the FDA in regulating medical devices has led to increased scrutiny of medical device companies and an increased likelihood of enforcement actions.

U.S. laws governing marketing a medical device. In the United States, as a manufacturer and seller of medical devices and devices emitting radiation or utilizing radioactive by-product material, we and some of our suppliers and distributors are subject to extensive regulation by federal governmental authorities, such as the FDA, the Nuclear Regulatory Commission (“NRC”) and state and local regulatory agencies, such as the State of California, to ensure the devices are safe and effective and comply with laws governing products which emit, produce or control radiation. These regulations govern, among other things, the design, development, testing, manufacturing, packaging, labeling, distribution, import/export, sale and marketing and disposal of our products.

Unless an exception applies, the FDA requires that the manufacturer of a new medical device or a new indication for use of, or other significant change in, existing currently marketed medical device obtain either 510(k) pre-market notification clearance or pre-market approval (“PMA”) before it can market or sell those products in the United States. Modifications or enhancements to a product that could significantly affect its safety or effectiveness, or that would constitute a major change in the intended use of the device, technology, materials, labeling, packaging, or manufacturing process also require a new 510(k) clearance. Although manufacturers make the initial determination whether a change to a cleared device requires a new 510(k) clearance, we cannot assure you that the FDA will agree with our decisions not to seek additional approvals or clearances for particular modifications to our products or that we will be successful in obtaining new 510(k) clearances for modifications. Obtaining clearances or approvals is time-consuming, expensive and uncertain, and the PMA process is more complex than the 510(k) clearance process. We may not be able to obtain the necessary clearances or approvals or may be unduly delayed in doing so, which could harm our business. Furthermore, even if we are granted regulatory clearances or approvals, they may include significant limitations on the indicated uses of the product, which may limit the market for the product. If we were unable to obtain required FDA clearance or approval for a product or unduly delayed in doing so, or the uses of that product were limited, our business could suffer. In the past, our devices have generally been subject to 510(k) clearance or exempt from 510(k) clearance. However, there are some in the regulatory field who believe that certain medical devices should be required to use the PMA approval process. If we were required to use the PMA process for future products or product modifications, it could delay or prevent release of the proposed products or modifications, which could harm our business.

Further, as we enter new businesses or pursue new business opportunities, such as radiosurgery and opportunities that require clinical trials, we become subject to additional laws, rules and regulations, including FDA and foreign rules and regulations that are applicable to the clinical trial process and protection of study subjects. Becoming familiar with and implementing the infrastructure necessary to comply with these laws, rules and regulations is costly. In addition, failure to comply with these laws, rules and regulations could delay the introduction of new products and could adversely affect our business.

Quality systems. Our manufacturing operations for medical devices, and those of our third-party manufacturers, are required to comply with the FDA's QSR, as well as other federal and state regulations for medical devices and radiation emitting products. The FDA makes announced and unannounced periodic and on-going inspections of medical device manufacturers to determine compliance with QSR and in connection with these inspections issues reports, known as Form FDA 483 reports when the FDA believes the manufacturer has failed to comply with applicable regulations and/or procedures. If observations from the FDA issued on Form FDA 483 reports are not addressed and/or corrective action taken in a timely manner and to the FDA's satisfaction, the FDA may issue a Warning Letter and/or proceed directly to other forms of enforcement action. Similarly, if a Warning Letter were issued, prompt corrective action to come into compliance would be required. Failure to respond timely to Form FDA 483 observations, a Warning Letter or other notice of noncompliance and to promptly come into compliance could result in the FDA bringing enforcement action against us, which could include the total shutdown of our production facilities, denial of importation rights to the U.S. for products manufactured in overseas locations, adverse publicity and criminal and civil fines. The expense and costs of any corrective actions that we may take, which may include products recalls, correction and removal of products from customer sites and/or changes to our product manufacturing and quality systems, could adversely impact our financial results and may also divert management resources, attention and time. Additionally, if a Warning Letter were issued, customers could delay purchasing decisions or cancel orders, and we could face increased pressure from our competitors who could use the Warning Letter against us in competitive sales situations, either of which could adversely affect our reputation, business and stock price.

In addition, we are required to timely file various reports with the FDA, including reports required by the medical device reporting regulations ("MDRs"), that require that we report to regulatory authorities if our devices may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur. If these reports are not filed timely, regulators may impose sanctions and sales of our products may suffer, and we may be subject to product liability or regulatory enforcement actions, all of which could harm our business.

If we initiate a correction or removal of a device to reduce a risk to health posed by the device, we would be required to submit a publicly available Correction and Removal report to the FDA and in many cases, similar reports to other regulatory agencies. This report could be classified by the FDA as a device recall which could lead to increased scrutiny by the FDA, other international regulatory agencies and our customers regarding the quality and safety of our devices. Furthermore, the submission of these reports have been and could be used by competitors against us in competitive situations and cause customers to delay purchase decisions, cancel orders or adversely affect our reputation.

Our medical devices utilizing radioactive material are subject to the NRC clearance and approval requirements, and the manufacture and sale of these products are subject to extensive federal and state regulation that varies from state to state and among regions. Our manufacture, distribution, installation and service (and decommissioning and removal) of medical devices utilizing radioactive material or emitting radiation also requires us to obtain a number of licenses and certifications for these devices and materials. Service of these products must also be in accordance with a specific radioactive materials license. Obtaining licenses and certifications may be time consuming, expensive and uncertain.

In addition, we are subject to a variety of environmental laws regulating our manufacturing operations and the handling, storage, transport and disposal of hazardous materials, and which impose liability for the cleanup of any contamination from these materials. In particular, the handling and disposal of radioactive materials resulting from the manufacture, use or disposal of our products may impose significant costs and requirements. Disposal sites for the lawful disposal of materials generated by the manufacture, use or decommissioning of our products may no longer accept these materials in the future, or may accept them on unfavorable terms.

The FDA and the FTC also regulate advertising and promotion of our products to ensure that the claims we make are consistent with our regulatory clearances, that there are adequate and reasonable scientific data to substantiate the claims and that our promotional labeling and advertising is neither false nor misleading in any respect. If the FDA or FTC determines that any of our advertising or promotional claims are misleading, not substantiated or not permissible, we may be subject to enforcement actions, including Warning Letters, and may be required to revise our promotional claims and make other corrections or restitutions.

If we or any of our suppliers, distributors, agents or customers fail to comply with FDA, FTC and other applicable U.S. regulatory requirements or are perceived to potentially have failed to comply, we may face:

- adverse publicity affecting both us and our customers;
- increased pressures from our competitors;
- investigations by governmental authorities or Warning Letters;
- fines, injunctions, and civil penalties;

- partial suspensions or total shutdown of production facilities, or the imposition of operating restrictions;
- increased difficulty in obtaining required FDA clearances or approvals;
- losses of clearances or approvals already granted;
- seizures or recalls of our products or those of our customers;
- delays in purchasing decisions by customers or cancellation of existing orders;
- the inability to sell our products;
- difficulty in obtaining product liability or operating insurance at a reasonable cost, or at all; and
- civil fines and criminal prosecutions.

Other applicable U.S. regulations. As a participant in the healthcare industry, we are also subject to extensive laws and regulations protecting the privacy and integrity of patient medical information that we receive, including the HIPAA, "fraud and abuse" laws and regulations, including physician self-referral prohibitions, and false claims laws. From time to time, these laws and regulations may be revised or interpreted in ways that could make it more difficult for our customers to conduct their businesses, such as recent proposed revisions to the laws prohibiting physician self-referrals, and such revisions could have an adverse effect on the demand for our products, and therefore our business and results of operations. We also must comply with numerous federal, state and local laws of more general applicability relating to such matters as safe working conditions, manufacturing practices and fire hazard control.

The laws and regulations and their enforcement are constantly undergoing change, and we cannot predict what effect, if any, changes to these laws and regulations may have on our business. For example, national and state laws regulate privacy and may regulate our use of data. Furthermore, HIPAA was amended by the HITECH Act to provide that business associates who have access to patient health information provided by hospitals and healthcare providers are now directly subject to HIPAA, including the new enforcement scheme and inspection requirements. Moreover, there has been a trend in recent years toward more stringent regulation and enforcement of requirements applicable to medical device manufacturers who receive or have access to patient health information.

Government regulation also may cause considerable delay or even prevent the marketing and full commercialization of future products or services that we may develop, and/or may impose costly requirements on our business. Insurance coverage is not commercially available for violations of law, including the fines, penalties or investigatory costs that may flow to us as the consequence of regulatory violations; consequently, we do not have insurance that would cover this type of liability.

COMPLIANCE WITH FOREIGN LAWS AND REGULATIONS APPLICABLE TO THE MANUFACTURE AND DISTRIBUTION OF OUR PRODUCTS MAY BE COSTLY, AND FAILURE TO COMPLY MAY RESULT IN SIGNIFICANT PENALTIES

Regulatory requirements affecting our operations and sales outside the United States vary from country to country, often differing significantly from those in the United States. In general, outside the United States, our products are regulated as medical devices by foreign governmental agencies similar to the FDA.

Marketing a medical device internationally. In order for us to market our products internationally, we must obtain clearances or approvals for products and product modifications. These processes (including for example in the European Union ("EU"), the European Economic Area ("EEA"), Switzerland, China, Japan and Canada) can be time consuming, expensive and uncertain, which can delay our ability to market products in those countries. Delays in receipt of or failure to receive regulatory approvals, the inclusion of significant limitations on the indicated uses of a product, the loss of previously obtained approvals or failure to comply with existing or future regulatory requirements could restrict or prevent us from doing business in a country or subject us to a variety of enforcement actions and civil or criminal penalties, which would adversely affect our business.

Within the EEA, we must affix a CE mark, a European marking of conformity that indicates that a product meets the essential requirements of the Medical Device Directive. This conformity to the Medical Device Directive is done through self-declaration and is verified by an independent certification body, called a “Notified Body.” Once the CE mark is affixed, the Notified Body will regularly audit us to ensure that we remain in compliance with the applicable European laws and Medical Device Directive. By affixing the CE mark marking to our product, we are certifying that our products comply with the laws and regulations required by the EEA countries, thereby allowing the free movement of our products within these countries and others that accept CE mark standards. If we cannot support our performance claims and demonstrate compliance with the applicable European laws and Medical Device Directive, we would lose our right to affix the CE mark to our products, which would prevent us from selling our products within the EU/EEA/Switzerland territory and in other countries that recognize the CE mark. On 26 September 2012, the European Commission adopted a Proposal for a Regulation of the European Parliament and of the Council on medical devices and a Proposal for a Regulation of the European Parliament and of the Council on in vitro diagnostic medical devices which will, once adopted by the European Parliament and by the Council, replace the existing three medical devices directives. Since negotiation by member states of the available drafts are still ongoing, no publication of the new directive is expected until 2016. The new proposal imposes more strict requirements for the placing in the market of medical devices as well as on the Notified Bodies. we may be subject to risks associated with additional testing, modification, certification or amendment of our existing market authorizations, or we may be required to modify products already installed at our customers’ facilities in order to comply with the official interpretations of these revised regulations.

In addition, we are required to timely file various reports with international regulatory authorities, including reports required by international adverse event reporting regulations, that require that we report to regulatory authorities if our devices may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur. If these reports are not timely filed, regulators may impose sanctions, including temporarily suspend our market authorizations or CE mark, and sales of our products may suffer, and we may be subject to product liability or regulatory enforcement actions, all of which could harm our business.

Further, as we enter new businesses or pursue new business opportunities internationally, such as opportunities that require clinical trials, we may become subject to additional laws, rules and regulations. Becoming familiar with and implementing the infrastructure necessary to comply with these laws, rules and regulations is costly. In addition, failure to comply with these laws, rules and regulations could delay the introduction of new products and could adversely affect our business.

Manufacturing and selling a device internationally. We are also subject to laws and regulations that apply to manufacturers of radiation emitting devices and products utilizing radioactive materials, as well as laws and regulations of general applicability relating to matters such as environmental protection, safe working conditions, manufacturing practices and other matters. These are often comparable to, if not more stringent than, the equivalent regulations in the United States. Sales overseas are also affected by regulation of matters such as product standards, packaging, labeling, environmental and product recycling requirements, import and export restrictions, tariffs, duties and taxes.

In some countries, we rely on our foreign distributors and agents to assist us in complying with foreign regulatory requirements, and we cannot be sure that they will always do so. If we or any of our suppliers, distributors, agents or customers fail to comply with applicable international regulatory requirements or are perceived to potentially have failed to comply, we may face:

- adverse publicity affecting both us and our customers;
- investigations by governmental authorities;
- fines, injunctions, civil penalties and criminal prosecutions;
- increased difficulty in obtaining required approvals in foreign countries;
- losses of clearances or approvals already granted;
- seizures or recalls of our products or those of our customers;
- delays in purchasing decisions by customers or cancellation of existing orders; and

- the inability to sell our products in or to import our products into such countries.

Other applicable international regulations. We are subject to laws and regulations in foreign countries covering data privacy and other protection of health and employee information. Particularly within the EU/EEA/Switzerland area, data protection legislation is comprehensive and complex and there has been a recent trend toward more stringent enforcement of requirements regarding protection and confidentiality of personal data. Data protection authorities from the different member states of the EU may interpret the legislation differently, which adds to this complexity, and data protection is a dynamic field where guidance is often revised. Fully understanding and implementing this legislation could be quite costly and timely, which could adversely affect our business. Additionally, in some instances, in order to fulfill the requirements of applicable U.S. laws, we may be faced with deciding whether to comply with EU/EEA/Switzerland data protection rules. Failure or partial failure to comply with data protection rules and regulations across the EU/EEA/Switzerland area could result in substantial monetary fines. New data protection legislation that will entail substantial changes to the current legal framework, some stricter than before, some less strict, is expected to be enacted by the EU Commission in 2015.

We are also subject to international “fraud and abuse” laws and regulations, as well as false claims and misleading advertisement laws. From time to time, these laws and regulations may be revised or interpreted in ways that could make it more difficult for our customers to conduct their businesses, which could have an adverse effect on the demand for our products, and therefore our business and results of operations. The laws and regulations and their enforcement are constantly undergoing change, and we cannot predict what effect, if any, changes to these laws and regulations may have on our business.

THE AFFORDABLE CARE ACT INCLUDES PROVISIONS THAT MAY ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS, INCLUDING AN EXCISE TAX ON THE SALES OF MOST MEDICAL DEVICES

On March 23, 2010, President Obama signed into law the Affordable Care Act. While we are continuing to evaluate the Affordable Care Act, it could adversely impact the demand for our products and services, and therefore our financial position and results of operations, possibly materially.

Specifically, one of the components of the law is a 2.3% excise tax on sales of most medical devices, which include our Oncology Systems and VPT products, which started January 1, 2013. The Congressional Budget Office estimates that the total cost to the medical device industry could exceed $30 billion over ten years. This tax has had and may continue to have a negative impact on our gross margin.

In addition, discussions relating to the Affordable Care Act have included the possibility for bundled reimbursement payments and accountable care organizations (“ACOs”). ACOs and bundled payment programs were established by the Affordable Care Act to reward integrated, efficient care and allow providers to share in any savings they achieve through the coordination of care and meeting certain mandated quality standards. ACOs and the bundled payment programs have primarily focused on primary care. However, some customers appear to be developing new partnerships across clinical specialties to prepare for the possibility of operating in an ACO environment and bundled reimbursement payments. These and other elements of the Affordable Care Act, including comparative effectiveness research, an independent payment advisory board, payment system reforms (including shared savings pilots) and the reporting of certain payments by us to healthcare professionals and hospitals (the “Physician Payment Sunshine Act”), could meaningfully change the way healthcare is developed and delivered, and may materially impact numerous aspects of our business, including the demand and availability of our products, the reimbursement available for our products from governmental and third-party payors, and reduced medical procedure volumes. We believe that growth of the radiation oncology market, which includes both traditional radiation therapy as well as proton therapy, in the United States is being adversely impacted as customers’ decision-making processes are complicated by the uncertainties surrounding the implementation of the Affordable Care Act and reimbursement rates for radiotherapy and radiosurgery, and that this uncertainty will likely continue into the next fiscal year and result in a high degree of variability of gross orders and revenue from quarter-to-quarter.

Various healthcare reform proposals have also emerged at the state level, and we are unable to predict which, if any of these proposals will be enacted. We are also unable to predict what effect ongoing uncertainty surrounding federal and state health reform proposals will have on our customer’s purchasing decisions. However, an expansion in government’s role in the U.S. healthcare industry may adversely affect our business, possibly materially.

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CHANGES TO RADIATION ONCOLOGY AND OTHER REIMBURSEMENTS AND CHANGES IN INSURANCE DEDUCTIBLES AND ADMINISTRATION MAY AFFECT DEMAND FOR OUR PRODUCTS

Sales of our healthcare products indirectly depend on whether adequate reimbursement is available to our customers from a variety of sources, such as government healthcare insurance programs, including the Medicare and Medicaid programs; private insurance plans; health maintenance organizations; and preferred provider organizations. In general, employers and third-party payors in the United States have become increasingly cost-conscious, with higher deductibles imposed or encouraged in many medical plans. The imposition of higher deductibles tends to restrain individuals from seeking the same level of medical treatments as they might seek if the costs they bear are lower, particularly in the medical diagnostic portion of our business. Third-party payors have also increased utilization controls related to the use of our products by healthcare providers.

Furthermore, there is no uniform policy on reimbursement among third-party payors, and we cannot be sure that third-party payors will reimburse our customers for procedures using our products that will enable us to achieve or maintain adequate sales and price levels for our products. Without adequate support from third-party payors, the market for our products may be limited.

Once Medicare has made a decision to provide reimbursement for a given treatment, these reimbursement rates are generally reviewed and adjusted by Medicare annually. Private third-party payors, although independent from Medicare, sometimes use portions of Medicare reimbursement policies and payment amounts in making their own reimbursement decisions. As a result, decisions by CMS to reimburse for a treatment, or changes to Medicare's reimbursement policies or reductions in payment amounts with respect to a treatment sometimes extend to third-party payor reimbursement policies and amounts for that treatment. We have seen our customers' decision-making process complicated by the uncertainty surrounding Medicare reimbursement rates for radiotherapy and radiosurgery in the United States. From time to time, CMS and third-party payors may review and modify the factors upon which they rely to determine appropriate levels of reimbursement for cancer treatments. For example, CMS and third-party payors have begun to focus on the comparative effectiveness of radiation therapy versus other methods of cancer treatment, including surgery, and could modify reimbursement rates based on the results of comparative effectiveness studies. In addition, discussions relating to the Affordable Care Act have included the possibility for bundled reimbursement payments and ACOs. Any significant cuts in reimbursement rates or changes in reimbursement methodology or administration for radiotherapy, radiosurgery, proton therapy or brachytherapy, or concerns or proposals regarding further cuts or changes in methodology or administration, could further increase uncertainty, influence our customers' decisions, reduce demand for our products, cause customers to cancel orders and have a material adverse effect on our revenues and stock price.

Foreign governments also have their own healthcare reimbursement systems and we cannot be sure that adequate reimbursement will be made available with respect to our products under any foreign reimbursement system.

WE ARE SUBJECT TO FEDERAL, STATE AND FOREIGN LAWS GOVERNING OUR BUSINESS PRACTICES WHICH, IF VIOLATED, COULD RESULT IN SUBSTANTIAL PENALTIES. ADDITIONALLY, CHALLENGES TO OR INVESTIGATION INTO OUR PRACTICES COULD CAUSE ADVERSE PUBLICITY AND BE COSTLY TO RESPOND TO AND THUS COULD HARM OUR BUSINESS

Laws and ethical rules governing interactions with healthcare providers. The Medicare and Medicaid "anti-kickback" laws, and similar state laws, prohibit payments or other remuneration that is intended to induce hospitals, physicians or others either to refer patients or to purchase, lease or order, or arrange for or recommend the purchase, lease or order of healthcare products or services for which payment may be made under federal and state healthcare programs, such as Medicare and Medicaid. These laws affect our sales, marketing and other promotional activities by limiting the kinds of financial arrangements we may have with hospitals, physicians or other potential purchasers of our products. They particularly impact how we structure our sales offerings, including discount practices, customer support, education and training programs, physician consulting, research grants and other service arrangements. These laws are broadly written, and it is often difficult to determine precisely how these laws will be applied to specific circumstances.

Federal and state “false claims” laws generally prohibit knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid or other government payors that are false or fraudulent, or for items or services that were not provided as claimed. Although we do not submit claims directly to payors, manufacturers can be, and have been, held liable under these laws if they are deemed to “cause” the submission of false or fraudulent claims by providing inaccurate billing or coding information to customers, or through certain other activities, including promoting products for uses not approved or cleared by the FDA, which is called off-label promotion. Violating “anti-kickback” and “false claims” laws can result in civil and criminal penalties, which can be substantial, and potential mandatory or discretionary exclusion from healthcare programs for noncompliance. Even an unsuccessful challenge or investigation into our practices could cause adverse publicity, and be costly to defend, and thus could harm our business and results of operations. Additionally, several recently enacted state and federal laws, including the laws in Massachusetts and Vermont, and the federal Physician Payment Sunshine Act, now require, among other things, extensive tracking and maintenance of databases regarding the disclosure of equity ownership and payments to physicians, healthcare providers and hospitals. These laws require us to implement the necessary and costly infrastructure to track and report certain payments to healthcare providers. Failure to comply with these new tracking and reporting laws could subject us to significant civil monetary penalties.

We are subject to similar laws in foreign countries where we conduct business. For example, within the EU, the control of unlawful marketing activities is a matter of national law in each of the member states. The member states of the EU closely monitor perceived unlawful marketing activity by companies. We could face civil, criminal and administrative sanctions if any member state determines that we have breached our obligations under its national laws. Industry associations also closely monitor the activities of member companies. If these organizations or authorities name us as having breached our obligations under their regulations, rules or standards, our reputation would suffer and our business and financial condition could be adversely affected.

Anti-corruption laws and regulations. We are also subject to the U.S. Foreign Corrupt Practices Act and anti-corruption laws, and similar laws in foreign countries, such as the U.K. Bribery Act of 2010, which became effective on July 1, 2011, and the Law “On the Fundamentals of Health Protection in the Russian Federation,” with a significant anti-corruption intent and effective since January 2012. In general, there is a worldwide trend to strengthen anticorruption laws and their enforcement, and the healthcare industry and medical equipment manufacturers have been particular targets of these investigation and enforcement efforts. Any violation of these laws by us or our agents or distributors could create a substantial liability for us, subject our officers and directors to personal liability and also cause a loss of reputation in the market. Transparency International’s 2013 Corruption Perceptions Index measured the degree to which public sector corruption is perceived to exist in nearly 180 countries around the world, and found that nearly three quarters of the countries in the index, including many that we consider to be high growth areas for our products, such as China, India, Russia and Brazil, scored below 50, on a scale from 100 (very clean) to 0 (highly corrupt). We currently operate in many countries where the public sector is perceived as being more or highly corrupt. Our strategic business plans include expanding our business in regions and countries that are rated as higher risk for corruption activity by Transparency International. Becoming familiar with and implementing the infrastructure necessary to comply with laws, rules and regulations applicable to new business activities and mitigate and protect against corruption risks could be quite costly. In addition, failure by us or our agents or distributors to comply with these laws, rules and regulations could delay our expansion into high-growth markets and could adversely affect our business. This notwithstanding, we will inevitably do more business, directly and potentially indirectly in countries, where the public sector is perceived to be more or highly corrupt and be engaging in business in more countries perceived to be more or highly corrupt. Increased business in higher risk countries could subject us and our officers and directors to increased scrutiny and increased liability. In addition, we have conducted, and in the future expect to conduct internal investigations or face audits or investigations by one or more domestic or foreign government agencies, which could be costly and time-consuming, and could divert our management and key personnel from our business operations. An adverse outcome under any such investigation or audit could subject us to fines or criminal or other penalties, which could adversely affect our business and financial results.

Competition laws. Due to our competitive position in many jurisdictions, compliance with competition laws is of increased importance to us. Regulatory authorities under whose laws we operate may have enforcement powers that

can subject us to sanctions, and can impose changes or conditions in the way we conduct our business. In addition, an increasing number of jurisdictions also provide private rights of action for competitors or consumers to seek damages asserting claims of anti-competitive conduct. Increased government scrutiny of our actions or enforcement or private rights of action could adversely affect our business or damage our reputation. In addition, we have conducted, and in the future expect to conduct, internal investigations or face audits or investigations by one or more domestic or foreign government agencies, which could be costly and time-consuming, and could divert our management and key personnel from our business operations. An adverse outcome under any such investigation or audit could subject us to fines or criminal or other penalties, which could adversely affect our business and financial results.

PRODUCT DEFECTS OR MISUSE MAY RESULT IN MATERIAL PRODUCT LIABILITY OR PROFESSIONAL ERRORS AND OMISSIONS CLAIMS, LITIGATION, INVESTIGATION BY REGULATORY AUTHORITIES OR PRODUCT RECALLS THAT COULD HARM FUTURE REVENUES AND REQUIRE US TO PAY MATERIAL UNINSURED CLAIMS

Our business exposes us to potential product liability claims that are inherent in the manufacture, sale, installation, servicing and support of medical devices and other devices that deliver radiation. Because our products are involved in the intentional delivery of radiation to the human body and other situations where people may come in contact with radiation (for example, when our security and inspection products are being used to scan cargo), the collection and storage of patient treatment data for medical analysis and treatment delivery, the planning of radiation treatment and diagnostic imaging of the human body, and the diagnosing of medical problems, the possibility for significant injury and/or death exists to the intended or unintended recipient of the delivery. Our medical products operate within our customers' facilities and network systems, and under quality assurance procedures established by the facility that ultimately result in the delivery of radiation to patients. Human and other errors or accidents may arise from the operation of our products in complex environments, particularly with products from other vendors, where interoperability or data sharing protocol may not be optimized even though the equipment or system operates according to specifications. As a result, we may face substantial liability to patients, our customers and others for damages resulting from the faulty, or allegedly faulty, design, manufacture, installation, servicing, support, testing or interoperability of our products with other products, or their misuse or failure. In addition, third party service providers could fail to adequately perform their obligations, which could subject us to further liability. We may also be subject to claims for property damages or economic loss related to or resulting from any errors or defects in our products, or the installation, servicing and support of our products. Any accident or mistreatment could subject us to legal costs, litigation, adverse publicity and damage to our reputation, whether or not our products or services were a factor. In connection with our products that collect and store patient treatment data, we may be liable for the loss or misuse of such private data, if those products fail or are otherwise defective.

Product liability actions are subject to significant uncertainty and may be expensive, time-consuming, and disruptive to our operations. For these and other reasons, we may choose to settle product liability claims against us, regardless of their actual merit. If a product liability action were finally determined against us, it could result in significant damages, including the possibility of punitive damages and our consolidated financial position, results of operations or cash flows could be materially adversely affected. Adverse publicity regarding any accidents or mistreatments, even ones that do not involve our products, could cause patients to be less receptive to radiotherapy or radiosurgery treatments, to question the efficacy of radiation therapy and radiosurgery and to seek other methods of treatment. Adverse publicity could also result in additional regulation of radiation therapy, radiosurgery, medical devices or the healthcare industry in general, and adversely affect our ability to promote, manufacture and sell our products. Both adverse publicity and increased regulatory activities could negatively impact our business and results of operations. In addition, if a product we design or manufacture were defective (whether due to design, labeling or manufacturing defects, improper use of the product or other reasons), we may be required to correct or recall the product and notify regulatory authorities. The adverse publicity resulting from a correction or recall could damage our reputation and cause customers to review and potentially terminate their relationships with us. A product correction or recall could consume management time and have an adverse financial impact on our business, including incurring substantial costs, losing revenues and accruing losses under GAAP.

We maintain limited product liability insurance coverage and currently self-insure professional liability/errors and omissions liability. Our product liability insurance policies are expensive and have high deductible amounts and self-insured retentions. Our insurance coverage may also prove to be inadequate, and future policies may not be available on acceptable terms or in sufficient amounts, if at all. If a material claim is successfully brought against us relating to a self-insured liability or a liability that is in excess of our insurance coverage, or for which insurance coverage is denied or limited, we could have to pay substantial damages, which could have a material adverse effect on our financial position and results of operations.

WE COMPETE IN HIGHLY COMPETITIVE MARKETS, AND WE MAY LOSE MARKET SHARE TO COMPANIES WITH GREATER RESOURCES OR THE ABILITY TO DEVELOP MORE EFFECTIVE TECHNOLOGIES, OR WE COULD BE FORCED TO REDUCE OUR PRICES

Rapidly evolving technology, intense competition and pricing pressure characterize the markets for radiation therapy equipment and software. New competitors may enter our markets, and we have encountered new competitors as we have entered new markets such as radiosurgery, volumetric modulated arc therapy and proton therapy. Some of these competitors may have greater financial, marketing and other resources than we have. To compete successfully, we must provide technically superior, proven products that deliver more precise, cost-effective, high quality clinical outcomes, in a complete package of products and services, and do so ahead of our competitors. As our Oncology Systems products are generally sold on a basis of total value to the customer, our business may suffer when purchase decisions are based solely upon price, which can happen if hospitals and clinics give purchasing decision authority to group purchasing organizations. The shift in the proportion of sales within our international region towards emerging market countries, which typically have purchased less complex, lower-priced products compared to more developed countries and which usually have stiffer price competition, could also adversely impact our results of operations. New competitors may also delay customer purchasing decisions as customers evaluate the products of these competitors along with ours, potentially extending our sales cycle and adversely affecting our gross orders.

In Imaging Components, we often compete with companies that have greater financial, marketing and other resources than we have. Some of the major diagnostic imaging systems companies, which are the primary OEM customers for our X-ray components, also manufacture X-ray components, including X-ray tubes, for use in their own imaging systems products. We must compete with these in-house manufacturing operations for business from their affiliated companies. In addition, we compete against other stand-alone, independent X-ray tube manufacturers who compete with us for both the OEM business of major diagnostic imaging equipment manufacturers and the independent servicing business for X-ray tubes. The market for flat panel detectors is also very competitive. As a result, we must have an advantage in one or more significant areas, which may include lower product cost, better product quality and/or superior technology and/or performance.

With our security and inspection products, we compete with other OEM suppliers, primarily outside of the United States. The market for our X-ray tube and flat panel products used for nondestructive testing in industrial applications is small and highly fragmented.

The market for proton therapy products is still developing and is characterized by rapidly evolving technology and pricing pressure. Our ability to compete successfully depends, in part, on our ability to lower our product costs, develop and provide technically superior, proven products that deliver more precise, cost-effective, high quality clinical outcomes, including integration of technologies such as our On-Board Imager (“OBI”) for IGRT and our motion management technologies.

In each of our business segments, existing competitors’ actions and new entrants may adversely affect our ability to compete. These competitors could develop technologies and products that are more effective than those we currently use or produce or that could render our products obsolete or noncompetitive. In addition, the timing of our competitors’ introduction of products into the market could affect the market acceptance and market share of our products. Some competitors offer specialized products that provide, or may be perceived by customers to provide, a marketing advantage over our mainstream cancer treatment products. Also, some of our competitors may not be subject to the same standards, regulatory and/or other legal requirements that we are, and therefore, they could have a competitive advantage in developing, manufacturing and marketing products and services. Any inability to develop, gain regulatory approval for and supply commercial quantities of competitive products to the market as quickly and effectively as our competitors could limit market acceptance of our products and reduce our sales. In addition, some of our smaller competitors could be acquired by larger companies that have greater financial strength, which could enable them to compete more aggressively. Our competitors could also acquire some of our suppliers or distributors, which could disrupt these supply or distribution arrangements and result in less predictable and reduced revenues in our businesses. Any of these competitive factors could negatively affect our pricing, sales, revenues, market share and gross margins and our ability to maintain or increase our operating margins.

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OPEN ARCHITECTURE IS BECOMING INCREASINGLY IMPORTANT, AND SALES OF OUR PRODUCTS COULD FALL IF WE FAIL TO ACHIEVE THIS

As radiation oncology treatment becomes more complex, our customers are increasingly focusing on ease-of-use and interconnectivity. Our equipment and software are highly sophisticated and require a high level of training and education to use them competently and safely-requirements made even more important because they work together within integrated environments. We have directed substantial product development efforts into (i) increasing the interconnectivity of our products for more seamless operation within a system, (ii) making our software products easier to use and (iii) reducing setup and treatment times to increase patient throughput. We have emphasized an “open systems” approach that allows customers to “mix and match” our individual products, incorporate products from other manufacturers, share information with other systems or products and use the equipment for offering various methods of radiation and chemotherapy treatment. We have done this based on our belief that such interconnectivity will increase the acceptance and adoption of IMRT, IGRT and volumetric modulated arc therapy and will stimulate demand for our products. There are competitive “closed-ended” dedicated-use systems, however, that place simplicity of use ahead of flexibility. If we have misjudged the importance to our customers of maintaining an “open systems” approach, or if we are unsuccessful in our efforts to increase interconnectivity, enhance ease-of-use and reduce setup and treatment times, our revenues could suffer.

Obtaining and maintaining interoperability and compatibility can be costly and time-consuming. While we try to use standard published protocols for communication with widely used oncology products manufactured by other companies, if we cannot do this, we may need to develop individual interfaces so that our products communicate correctly with the other company products. When other companies modify the design or functionality of their products, this may affect their compatibility with our products. In addition, when we improve our products, customers may be reluctant to adopt our new technology due to potential interoperability issues. For example, a clinic may be unwilling to implement one of our new technologies because its third-party software does not yet communicate correctly with our new product. Our ability to obtain compatibility with products of other companies may depend on our ability to obtain adequate information from them regarding their products. In many cases, these third parties are our competitors and may schedule their product changes and delay their release of relevant information to place us at a competitive disadvantage. When we modify our products to make them interoperable or compatible with third-party products, we may be required to obtain additional regulatory clearances. This process is costly and could delay our ability to release our products for commercial use. It is also possible that, despite our best efforts, we may not be able to make our products interoperable or compatible with widely used third-party products or may only be able to do so at a prohibitive expense, making our products less attractive or more costly to our customers.

PROTECTING OUR INTELLECTUAL PROPERTY CAN BE COSTLY AND WE MAY NOT BE ABLE TO MAINTAIN LICENSED RIGHTS, AND IN EITHER CASE OUR COMPETITIVE POSITION WOULD BE HARMED IF WE ARE NOT ABLE TO DO SO

We file applications as appropriate for patents covering new products and manufacturing processes. We cannot be sure, however, that our current patents, the claims allowed under our current patents, or patents for technologies licensed to us will be sufficiently broad to protect our technology position against competitors. Issued patents owned by, or licensed to, us may be challenged, invalidated or circumvented, or the rights granted under the patents may not provide us with competitive advantages. We also cannot be sure that patents will be issued from any of our pending or future patent applications. Asserting our patent rights against others in litigation or other legal proceedings is costly and diverts managerial resources. An unfavorable outcome in any such litigation or proceeding could harm us. In addition, we may not be able to detect patent infringement by others or may lose our competitive position in the market before we are able to do so.

We also rely on a combination of copyright, trade secret and other laws, and contractual restrictions on disclosure, copying and transferring title (including confidentiality agreements with vendors, strategic partners, co-developers, employees, consultants and other third parties), to protect our proprietary and other confidential rights. These protections may prove inadequate, since agreements may still be breached and we may not have adequate remedies for a breach, and our trade secrets may otherwise become known to or be independently developed by others. In the event that our proprietary or confidential information is misappropriated, our business and financial results could be

adversely impacted. We have trademarks, both registered and unregistered, that are maintained and enforced to provide customer recognition for our products in the marketplace, but unauthorized third parties may still use them. We also have agreements with third parties that license to us certain patented or proprietary technologies. In some cases products with substantial revenues may depend on these license rights. If we were to lose the rights to license these technologies, or our costs to license these technologies were to materially increase, our business would suffer.

THIRD PARTIES MAY CLAIM WE ARE INFRINGING THEIR INTELLECTUAL PROPERTY, AND WE COULD SUFFER SIGNIFICANT LITIGATION OR LICENSING EXPENSES OR BE PREVENTED FROM SELLING OUR PRODUCTS

There is a substantial amount of litigation over patent and other intellectual property rights in the industries in which we compete. Our competitors, like companies in many high technology businesses, continually review other companies' activities for possible conflicts with their own intellectual property rights. In addition, non-practicing entities may review our activities for conflicts with their patent rights. Determining whether a product infringes a third party's intellectual property rights involves complex legal and factual issues, and the outcome of this type of litigation is often uncertain. Third parties may claim that we are infringing their intellectual property rights. We may not be aware of intellectual property rights of others that relate to our products, services or technologies. From time to time, we have received notices from third parties asserting infringement and we have been subject to lawsuits alleging infringement of third-party patent or other intellectual property rights. For example, in the third quarter of fiscal year 2014 we paid $35.6 million to settle a patent infringement lawsuit relating to our Real-time Position Management™ technology initiated in 2007 by the University of Pittsburgh. Any dispute regarding patents or other intellectual property could be costly and time-consuming, and could divert our management and key personnel from our business operations. We may not prevail in a dispute. We do not maintain insurance for intellectual property infringement, so costs of defense, whether or not we are successful in defending an infringement claim, will be borne by us and could be significant. If we are unsuccessful in defending or appealing an infringement claim, we may be subject to significant damages and our consolidated financial position, results of operations or cash flows could be materially adversely affected. If actual liabilities significantly exceed our estimates regarding potential liabilities, our consolidated financial position, results of operations or cash flows could be materially adversely affected. We may also be subject to injunctions against development and sale of our products, the effect of which could be to materially reduce our revenues. Furthermore, a third party claiming infringement may not be willing to license its rights to us, and even if a third party rights holder is willing to do so, the amounts we might be required to pay under the associated royalty or license agreement could be significant. As such, we could decide to alter our business strategy or voluntarily cease the allegedly infringing actions rather than face litigation or pay a royalty, which could adversely impact our business and results of operations.

UNFAVORABLE RESULTS OF LEGAL PROCEEDINGS COULD MATERIALLY ADVERSELY AFFECT OUR FINANCIAL RESULTS

From time to time, we are a party to or otherwise involved in legal proceedings, claims and government inspections or investigations and other legal matters, both inside and outside the United States, arising in the ordinary course of our business or otherwise. We are currently involved in various legal proceedings and claims, including product liability and intellectual property claims, that have not yet been fully resolved and additional claims may arise in the future. Legal proceedings are often lengthy, taking place over a period of years with interim motions or judgments subject to multiple levels of review (such as appeals or rehearings) before the outcome is final. Litigation is subject to significant uncertainty and may be expensive, time-consuming, and disruptive to our operations. For these and other reasons, we may choose to settle legal proceedings and claims, regardless of their actual merit.

If a legal proceeding were finally resolved against us, it could result in significant compensatory damages, and in certain circumstances punitive or trebled damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief imposed on us. If our existing insurance does not cover the amount or types of damages awarded, or if other resolution or actions taken as a result of the legal proceeding were to restrain our ability to market one or more of our material products or services, our consolidated financial position, results of operations or cash flows could be materially adversely affected. In addition, legal proceedings, and any adverse resolution thereof, can result in adverse publicity and damage to our reputation, which could adversely impact our business.

THE LOSS OF A SUPPLIER OR ANY INABILITY TO OBTAIN SUPPLIES OF IMPORTANT COMPONENTS COULD RESTRICT OUR ABILITY TO MANUFACTURE PRODUCTS, CAUSE DELAYS IN OUR ABILITY TO DELIVER PRODUCTS, OR SIGNIFICANTLY INCREASE OUR COSTS

We obtain some of the components included in our products from a limited group of suppliers or from a single source supplier, such as the radioactive sources for high dose afterloaders, klystrons for linear accelerators; transistor arrays and cesium iodide coatings for flat panel detectors, and specialized integrated circuits, X-ray tube targets, housings, glass frames and various other components; and radiofrequency components, magnets and gantry hardware for proton therapy systems. If we lose any of these suppliers, if their operations were substantially interrupted, or if any of them failed to meet performance or quality specifications, we may be required to obtain and qualify one or more replacement suppliers. Such an event may then also require us to redesign or modify our products to incorporate new parts and/or further require us to obtain clearance, qualification or certification of these products by the FDA or obtain other applicable regulatory approvals in other countries. Events like these could significantly increase costs for the affected product and likely cause material delays in delivery of that and other related products. Although we have insurance to protect against business interruption loss, this insurance coverage may not be adequate or continue to remain available on acceptable terms, if at all. Furthermore, some of our single-source suppliers provide components for some of our rapidly growing product lines. Manufacturing capacity limitations of any of our suppliers or other inability of these suppliers to meet increasing demand could adversely affect us, resulting in curtailed growth opportunities for our affected product lines. Shortage of, and greater demand for, components and subassemblies could also increase manufacturing costs if the supply/demand imbalance increases the price of the components and subassemblies. Disruptions or loss of any of our limited- or sole-sourced components or subassemblies or the capacity limitations of the suppliers for these components or subassemblies, including the ones referenced above, could adversely affect our business and financial results and could damage our customer relationships.

A SHORTAGE OR CHANGE IN SOURCE OF RAW MATERIALS COULD RESTRICT OUR ABILITY TO MANUFACTURE PRODUCTS, CAUSE DELAYS, OR SIGNIFICANTLY INCREASE OUR COST OF GOODS

We rely upon the supplies of certain raw materials such as tungsten, lead, iridium and copper for Oncology Systems and security and inspection products; copper, lead, tungsten, rhenium, molybdenum zirconium, and various high grades of steel alloy for X-ray tubes, and high-grade steel, high-grade copper and iron for VPT. Worldwide demand, availability and pricing of these raw materials have been volatile, and we expect that availability and pricing will continue to fluctuate in the future. If supplies are restricted or become unavailable or if prices increase, this could constrain our manufacturing of affected products, reduce our profit margins or otherwise adversely affect our business.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC has promulgated rules regarding disclosure of the presence in a company’s products of certain metals, known as “conflict minerals,” which are metals mined from the Democratic Republic of the Congo and adjoining countries, as well as procedures regarding a manufacturer’s efforts to identify the sourcing of those minerals from this region. Complying with these rules requires investigative efforts, which has and will continue to cause us to incur associated costs, and could adversely affect the sourcing, supply, and pricing of materials used in our products, or result in process or manufacturing modifications, all of which could adversely affect our results of operations.

CONSOLIDATION AMONG OUR ONCOLOGY SYSTEMS CUSTOMERS COULD ADVERSELY AFFECT OUR SALES OF ONCOLOGY PRODUCTS

We have seen and may continue to see some consolidation among our customers in our Oncology Systems business, as hospitals and clinics combine through mergers and acquisitions, and as they join group purchasing organizations or affiliated enterprises. In addition, we have seen and may continue to see integration of equipment and information systems among hospitals as they consolidate their networks. As customers consolidate and/or integrate, the volume of product sales to these customers might decrease. Alternatively, order size may increase, as what were previously more than one customer combine orders as one entity, or as groups of organizations combine their purchases. As a result, as orders increase in size and require more customer approvals, the purchasing cycle for our Oncology Systems products could lengthen. Both increased order size and extended purchasing cycles could cause our gross orders to be more volatile and less predictable. In addition, some customers appear to be developing new partnerships across clinical

specialties to prepare for the possibility of operating in an ACO environment and the possibility of bundled reimbursement payments. Group purchasing organizations often focus on pricing as the determinant in making purchase decisions. A reduction in gross orders could affect the level of future revenues, which would adversely affect our operating results, financial condition, and the price of VMS common stock.

WE SELL OUR IMAGING COMPONENTS TO A LIMITED NUMBER OF OEM CUSTOMERS, MANY OF WHICH ARE ALSO OUR COMPETITORS, AND A REDUCTION IN BUSINESS OR INABILITY TO PROPERLY FORECAST SALES BY ONE OR MORE OF THESE CUSTOMERS COULD REDUCE OUR SALES

We sell our X-ray tube products to a limited number of OEM customers, many of which are also our competitors with in-house X-ray tube manufacturing operations. If these customers manufacture a greater percentage of their components in-house or otherwise lower external sourcing costs, such as we have begun to see in connection with the recent strengthening of the U.S. Dollar, we could experience reduction in purchasing volume by, or loss of, one or more of these customers. Such a reduction or loss has had and will likely continue to have a material adverse effect on our Imaging Components business. In addition, economic uncertainties over the past few years, natural disasters and other matters beyond our control have made it difficult for our OEM customers to accurately forecast and plan future business activities. Such economic uncertainties and natural disasters, as well as other factors, have previously impacted our Imaging Components business with inventory reduction efforts and slowdowns in sales at some of these customers. Similar inventory adjustments and slowdowns in sales could occur in the future. Our agreements for imaging components may contain purchasing estimates that are based on our customers' historical purchasing patterns, and actual purchasing volumes under the agreements may vary significantly from these estimates.

ORDERS FOR OUR SECURITY AND INSPECTION PRODUCTS TEND TO BE UNPREDICTABLE

Our Imaging Components business designs, manufactures, sells and services Linatron X-ray accelerators, imaging processing software and image detection products for security and inspection, such as cargo screening at ports and borders and nondestructive examination for a variety of applications, as well as industrial applications. We generally sell security and inspection products to OEMs who incorporate our products into their inspection systems, which are then sold to customs and other government agencies, as well as to commercial organizations in the casting, power, aerospace, chemical, petro-chemical and automotive industries. We believe growth in our security and inspection products will be driven by security cargo screening and border protection needs, as well as by the needs of customs agencies to verify shipments for assessing duties and taxes. Orders for our security and inspection products have been and may continue to be unpredictable as governmental agencies may place large orders with us or our OEM customers in a short time period, and then may not place any orders for a long time period thereafter. Because it is difficult to predict our OEM customer delivery, the actual timing of sales and revenue recognition varies significantly.

In addition, demand for our security and inspection products is heavily influenced by U.S. and foreign governmental policies on national and homeland security, border protection and customs revenue activities, which depend upon government budgets and appropriations that are subject to economic conditions, as well as political changes. We have seen customers freeze or dramatically reduce purchases and capital project expenditures, delay projects, or act cautiously as governments around the world wrestle with spending priorities. As economic growth remains sluggish in various jurisdictions and appears to be deteriorating in others, and as concerns about levels of government employment and government debt continue, we expect that these effects will also continue. Furthermore, bid awards in this business may be subject to challenge by third parties, as we have previously encountered with a large government project. These factors make the timing of orders, sales and revenues in this business more unpredictable and could cause volatility in our revenues and earnings, and therefore the price of VMS common stock.

IF WE ARE UNABLE TO PROVIDE THE SIGNIFICANT EDUCATION AND TRAINING REQUIRED FOR THE HEALTHCARE MARKET TO ACCEPT OUR PRODUCTS, OUR BUSINESS WILL SUFFER

In order to achieve market acceptance for our radiation therapy products, we often need to educate physicians about the use of treatment procedures such as IMRT, IGRT, volumetric modulated arc therapy, stereotactic radiotherapy, stereotactic radiosurgery, stereotactic body radiation therapy or proton therapy, overcome physician objections to some of the effects of the product or its related treatment regimen, convince healthcare payors that the benefits of the product and its related treatment process outweigh its costs and help train qualified physicists in the skilled use of the product. For example, the complex and dynamic nature of IMRT and IGRT requires significant education of hospital personnel and physicians regarding the benefits of and practices associated with IMRT and IGRT. Further, the complexity and high cost of proton therapy requires similar significant education, as well as education regarding construction and facility requirements. We have devoted and will continue to devote significant resources on marketing and educational efforts to create awareness of IMRT, IGRT, volumetric modulated arc therapy, stereotactic

radiotherapy, stereotactic radiosurgery, stereotactic body radiation therapy and proton therapy generally, to encourage the acceptance and adoption of our products for these technologies and to promote the safe and effective use of our products in compliance with their operating procedures. Future products may not gain adequate market acceptance among physicians, patients and healthcare payors, even if we spend significant time and expense on their education.

OUR BUSINESS MAY SUFFER IF WE ARE NOT ABLE TO HIRE AND RETAIN QUALIFIED PERSONNEL

Our future success depends, to a great degree, on our ability to retain, attract, expand, integrate and train our management team and other key personnel, such as qualified engineering, service, sales, marketing and other staff. We compete for key personnel with other medical equipment and software manufacturers and technology companies, as well as universities and research institutions. Because this competition is intense, compensation-related costs could increase significantly if the supply of qualified personnel decreases or demand increases. If we are unable to hire and train qualified personnel, we may not be able to maintain or expand our business. Additionally, if we are unable to retain key personnel, we may not be able to replace them readily or on terms that are reasonable, which also could hurt our business.

IF WE ARE NOT ABLE TO MATCH OUR MANUFACTURING CAPACITY WITH DEMAND FOR OUR PRODUCTS, OUR FINANCIAL RESULTS MAY SUFFER

Many of our products have a long production cycle, and we need to anticipate demand for our products in order to ensure adequate manufacturing or testing capacity. If we are unable to anticipate demand and our manufacturing or testing capacity does not keep pace with product demand, we will not be able to fulfill orders in a timely manner, which may negatively impact our financial results and overall business. Conversely, if demand for our products decreases, the fixed costs associated with excess manufacturing capacity may harm our financial results.

WE MAY NOT REALIZE EXPECTED BENEFITS FROM ACQUISITIONS OF OR INVESTMENTS IN NEW BUSINESSES, PRODUCTS, OR TECHNOLOGIES, WHICH COULD HARM OUR BUSINESS

We need to grow our businesses in response to changing technologies, customer demands and competitive pressures. In some circumstances, we may decide to grow our business through the acquisition of complementary businesses, products or technologies rather than through internal development. For example, during fiscal year 2014, we acquired certain assets of Velocity and Transpire to expand our existing software product offerings. Identifying suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to identify suitable candidates or successfully complete identified acquisitions. In addition, completing an acquisition can divert our management and key personnel from our current business operations, which could harm our business and affect our financial results. Even if we complete an acquisition, we may not be able to successfully integrate newly acquired organizations, products, technologies or employees into our operations, or may not fully realize some of the expected synergies.

Integrating an acquisition can also be expensive and time-consuming, and may strain our resources. It may cost us more to commercialize new products than we originally anticipated, as we experienced with our proton therapy systems, or cause us to increase our expenses related to research and development, either of which could impact our results of operations. In many instances, integrating a new business will also involve implementing or improving internal controls appropriate for a public company at a business that lacks them. It is also possible that an acquisition could increase our risk of litigation, as a third party may be more likely to assert a legal claim following an acquisition because of perceived deeper pockets or perceived greater value of a claim. In addition, we may be unable to retain the employees of acquired companies, or the acquired company’s customers, suppliers, distributors or other partners for a variety of reasons, including the fact that these entities may be our competitors or may have close relationships with our competitors.

Further, we may find that we need to restructure or divest acquired businesses, or assets of those businesses. Even if we do so, an acquisition may not produce the full efficiencies, growth or benefits we expected. If we decide to sell assets or a business, as we did in fiscal year 2008 with the scientific research instruments business that we acquired as part of our acquisition of ACCEL GmbH, it may be difficult to identify buyers or alternative exit strategies on acceptable terms, in a timely manner, or at all, which could delay the accomplishment of our strategic objectives. We may be required to dispose of a business at a lower price or on less advantageous terms, or to recognize greater losses, than we had anticipated.

If we acquire a business, we allocate the total purchase price to the acquired businesses’ tangible assets and liabilities, identifiable intangible assets and liabilities based on their fair values as of the date of the acquisition, and record the excess of the purchase price over those fair values as goodwill. If we fail to achieve the anticipated growth from an acquisition, or if we decide to sell assets or a business, we may be required to recognize an impairment loss on the

write down of our assets and goodwill, which could adversely affect our financial results. In addition, acquisitions can result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities or expenses, or other charges, any of which could harm our business and affect our financial results.

Additionally, we have investments in privately held companies that are subject to risk of loss of investment capital. These investments are inherently risky, in some instances because the markets for the technologies or products these companies have under development may never materialize. If these companies do not succeed, we could lose some or all of our investment in these companies. For example, in the third quarter of fiscal year 2014, we recorded a charge relating to the impairment of a portion of a privately-held equity investment when we became aware of certain indicators of impairment.

WE MAY FACE ADDITIONAL RISKS FROM THE ACQUISITION OR DEVELOPMENT OF NEW LINES OF BUSINESS

From time to time, we may acquire or develop new lines of business, such as particle therapy. There are substantial risks and uncertainties associated with new lines of business, particularly in instances where the markets are not fully developed. Risks include developing knowledge of and experience in the new business, recruiting market professionals, increasing research and development expenditures, and developing and capitalizing on new relationships with experienced market participants. This may mean significant investment and involvement of our senior management to acquire or develop, then integrate, the business into our operations. Timelines for integration of new businesses may not be achieved and price and profitability targets may not prove feasible, as new products can carry lower gross margins than existing products. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact whether implementation of a new business will be successful. Failure to manage these risks could have a material adverse effect on our business, results of operations and financial condition.

WE WORK WITH DISTRIBUTORS FOR SALES IN SOME TERRITORIES, AND LOSING THEM COULD HARM OUR REVENUES IN THAT TERRITORY

We have strategic relationships with a number of key distributors, including Siemens AG, for sales and service of our products. If these strategic relationships end and are not replaced, our revenues from product sales in these territories and/or ability to service our products in the territories serviced by these distributors could be adversely affected.

FLUCTUATIONS IN OUR OPERATING RESULTS, INCLUDING QUARTERLY GROSS ORDERS, REVENUES, AND MARGINS, MAY CAUSE OUR STOCK PRICE TO BE VOLATILE, WHICH COULD CAUSE LOSSES FOR OUR STOCKHOLDERS

We have experienced and expect in the future to experience fluctuations in our operating results, including gross orders, revenues and margins, from period to period. Drivers of orders include the introduction and timing of announcement of new products or product enhancements by us and our competitors, as well as changes or anticipated changes in third party reimbursement amounts or policies applicable to treatments using our products. The availability of economic stimulus packages or other government funding, or reductions thereof, may also affect timing of customer purchases. Many of our products require significant capital expenditures by our customers. Accordingly, individual product orders can be quite large in dollar amounts, which can extend the customer purchasing cycle. We have experienced this with our IGRT products, and it is especially true with our proton therapy products because of the high cost of the proton therapy equipment and the complexity of project financing. In addition, the budgeting cycles of hospitals and clinics for capital equipment purchases are frequently fixed well in advance. Economic uncertainty also tends to extend the purchasing cycle as potential customers more closely scrutinize and prioritize their capital spending budgets, and analyze appropriate financing alternatives. In addition, some of our more sophisticated equipment, such as IGRT and proton therapy products, requires greater site preparation and longer construction cycles, which can delay customer decision cycles and the placement of orders even further. When orders are placed, installation is accomplished and the revenues recognized affect our quarterly results.

Once orders are received and booked into backlog, factors that may affect whether these orders become revenue (or are cancelled or deemed dormant and reflected as a reduction in the net order amounts) and the timing of revenue include:

- delay in shipment due, for example, to an unanticipated construction delay at a customer location where our products are to be installed, cancellations or reschedulings by customers, extreme weather conditions, natural disasters, port strikes or other labor actions;
- a challenge to a bid award for one or more of our products;

- delay in the installation and/or acceptance of a product;
- failure to satisfy contingencies associated with an order;
- the method of accounting used to recognize revenue;
- a change in a customer's financial condition or ability to obtain financing; or

- timing of necessary regulatory approvals or authorizations.

Our quarterly operating results, including our margins, may also be affected by a number of other factors, including:

- changes in our or our competitors' pricing or discount levels;
- changes in foreign currency exchange rates;
- changes in the relative portion of our revenues represented by our various products, including the relative mix between higher margin and lower margin products;
- changes in the relative portion of our revenues represented by our international region as a whole, by regions within the overall region, as well as by individual countries (notably those in emerging markets);
- fluctuation in our effective tax rate, which may or may not be known to us in advance;
- changes to our organizational structure, which may result in restructuring or other charges;
- disruptions in the supply or changes in the costs of raw materials, labor, product components or transportation services;
- disruptions in our operations, including our ability to manufacture products, caused by events such as earthquakes, fires, floods, terrorist attacks or the outbreak of epidemic diseases;
- the impact of changing levels of sales on sole purchasers of certain of our imaging components;
- the unfavorable outcome of any litigation or administrative proceeding or inquiry, as well as ongoing costs associated with legal proceedings; and
- accounting changes and adoption of new accounting pronouncements.

Because many of our operating expenses are based on anticipated capacity levels and a high percentage of these expenses are fixed for the short term, a small variation in the timing of revenue recognition can cause significant variations in operating results from quarter to quarter. Our overall gross margin may also be impacted by the gross margin of our proton therapy products, which are presently below the gross margins for our traditional radiotherapy products and particularly prior to completion because the associated revenues are being accounted for in accordance with the zero profit, percentage-of-completion method. If our gross margins fall below the expectation of securities analysts and investors, the trading price of VMS common stock would almost certainly decline.

We report on a quarterly and annual basis our gross orders and backlog. It is important to understand that, unlike revenues, gross orders and backlog are not governed by GAAP, and are not within the scope of the audit conducted by our independent registered public accounting firm; therefore, investors should not interpret our gross orders or backlog in such a manner. Also, for the reasons set forth above, our gross orders and backlog cannot necessarily be relied upon as accurate predictors of future revenues. Order cancellation or delays in customer purchase decisions or delivery dates will reduce our backlog and future revenues, and we cannot predict if or when orders will mature into revenues. Particularly high levels of cancellations in one period will make it difficult to compare our operating results. Our gross orders, backlog, revenues and net earnings in one or more future periods may fall below the expectations of securities analysts and investors. In that event, the trading price of VMS common stock would almost certainly decline.

THE FINANCIAL RESULTS OF OUR VARIAN PARTICLE THERAPY BUSINESS MAY FLUCTUATE AND BE UNPREDICTABLE

The development of our VPT business enables us to offer products for delivering image-guided, intensity-modulated proton therapy for the treatment of cancer. Our success in this area will depend upon the wide-spread awareness, acceptance and adoption by the oncology market of proton therapy systems for the treatment of cancer. However, this technology has not been widely adopted and future developments may not be adopted as quickly as others.

Since proton therapy projects are generally large, highly customized and more complex than projects in our Oncology Systems radiotherapy business, planning for these projects takes more of our time and uses more of our resources. Many of the components used in proton therapy equipment require long lead times, which may require an increase in our inventory levels. This may cause fluctuations in the operating results of VPT that may make it difficult to predict our results and to compare our results from period to period. The construction of a proton therapy facility requires significant capital investment and may involve complex project financing. Consequently, this business is vulnerable to deterioration in general economic and market conditions. The worldwide economic downturn resulted in a contraction in credit markets. This has made and may continue to make it more difficult for potential customers of this business to find appropriate financing for large proton therapy projects, which could cause them to delay or cancel their projects, or request that we participate in financing arrangements (such as we did for the Scripps Proton Therapy Center) or make payment concessions in their agreements with us, which could impact our operating results. Challenges or delays in obtaining financing or commencing treatment could also impact the viability of one or more of our customers as a going concern. Changes in reimbursement rates for proton therapy treatments, or uncertainty regarding these reimbursement rates, such as we experienced in 2012 with the reductions to reimbursement rates for hospital based proton therapy centers in the United States by CMS, can affect growth or demand for our VPT products and services.

We compete for many proton therapy system sales through tenders, where parties compete on price and other factors. Many companies sell their products at a lower price than we do. If we are unable to lower our prices or our customers are not willing to pay for additional features and functionality that we may provide, there is a risk we will lose sales, and if we lower our prices to gain business, our margins and other financial results may suffer. Further, the award of certain proton therapy system orders may be subject to challenge by third parties, which can make these orders more unpredictable than orders for other products. Because an order for a proton therapy system can be relatively large and complex, the sales and customer decision cycles for proton therapy projects may take several years, and an order in one fiscal period (or the cancellation of an order as a result of bid challenge or otherwise) will cause our gross orders to vary significantly, making comparisons between fiscal periods more difficult. We expect that a limited number of customers will account for a substantial portion of VPT's business for the foreseeable future. In instances where one customer undertakes multiple proton center projects, an adverse event with respect to one project could cause an adverse event with respect to the other projects, which could adversely impact our operating results.

Our estimates as to future operating results include certain assumptions about the results of VPT's business. If we are incorrect in our assumptions, our financial results could be materially and adversely affected. It is possible that VPT could perform significantly below our expectations due to a number of factors that cannot be predicted with certainty, including future market conditions, revenue growth rates, and operating margins. These factors could adversely impact VPT's ability to meet its projected results, which could cause a portion or all of the goodwill of VPT to become impaired. As of April 3, 2015, the goodwill of VPT was $48.3 million. If we determine that VPT's goodwill becomes impaired, we would be required to record a charge that could have a material adverse effect on our results of operations in such period.

OUR VPT BUSINESS MAY SUBJECT US TO INCREASED RISK AND POTENTIAL LIABILITY

VPT's business may subject us to increased risk and potential liability. For example, because proton therapy projects are large in scale and require detailed project planning, failure to deliver or delays in delivering on our commitments could result in greater than expected liabilities, as we could be required to indemnify business partners and customers for losses suffered or incurred if we are unable to deliver our products in accordance with the terms of customer contracts. Additionally, customers have in the past requested and may in the future request that the systems vendor, as the primary technology provider, provide guarantees for and suffer penalties in relation to the overall construction project, as well as in some situations participate in or provide project financing for the project. Since the cost of each proton therapy center project will often exceed $100 million, the amount of potential liability and potential for financial loss would likely be higher than the levels historically assumed by us for our traditional radiation therapy business and may also exceed the project's value. Insurance covering these contingencies may be unobtainable or expensive. If we cannot reasonably mitigate or eliminate these contingencies or risks, our ability to competitively bid upon proton center projects will be negatively impacted or we may be required to assume material amounts of

potential liability, all of which may have adverse consequences to us. In addition, we have encountered and may encounter additional challenges in the commercialization of the proton therapy products, which may increase our research and development costs and delay the introduction of our products. These and other unanticipated events could adversely affect our business and make our results of operations unpredictable.

DISRUPTION OF CRITICAL INFORMATION SYSTEMS OR MATERIAL BREACHES IN THE SECURITY OF OUR PRODUCTS MAY ADVERSELY AFFECT OUR BUSINESS AND CUSTOMER RELATIONS

Information technology helps us operate efficiently, interface with and support our customers, maintain financial accuracy and efficiency, and produce our financial statements. There is an increasing threat of information security attacks that pose risk to companies, including Varian. If we do not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, we could be subject to, among other things, transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through a security breach. If our data management systems do not effectively collect, secure, store, process and report relevant data for the operation of our business, whether due to equipment malfunction or constraints, software deficiencies, or human error, our ability to effectively plan, forecast and execute our business plan and comply with applicable laws and regulations will be impaired, perhaps materially. Any such impairment could materially and adversely affect our financial condition, results of operations, cash flows and the timeliness with which we report our operating results internally and externally.

Moreover, we manufacture and sell products that rely upon software systems to operate properly, that allow our customers to store confidential information about their patients and that often reside within our customers' information technology infrastructures. While we have implemented security measures to protect our products from unauthorized access, these measures cannot fully secure the information stored in our customers’ systems at their locations or at remote servers accessible through the internet. A breach of network security and systems or other events could disrupt access to our customers' stored information, such as the patient treatment delivery instructions used by our products, and could also cause the loss of, damage to or public disclosure of our customers’ stored information, including patient health information. A breach or inappropriate access to our customers' stored information related to our products could have serious negative consequences for our business, including possible injury to patients, regulatory action, fines, penalties and damages, reduced demand for our solutions, an unwillingness of our customers to use our solutions, harm to our reputation and brand, and time-consuming and expensive litigation, any of which could have an adverse effect on our financial results.

WE HAVE ENTERED INTO A CREDIT FACILITY AGREEMENT THAT RESTRICTS CERTAIN ACTIVITIES, AND FAILURE TO COMPLY WITH THIS AGREEMENT MAY HAVE AN ADVERSE EFFECT ON OUR BUSINESS, LIQUIDITY AND FINANCIAL POSITION

We maintain a credit facility with debt outstanding that contains restrictive financial covenants, including financial covenants that require us to comply with specified financial ratios. We may have to curtail some of our operations to comply with these covenants. In addition, our revolving credit facility contains other affirmative and negative covenants that could restrict our operating and financing activities. These provisions limit our ability to, among other things, incur future indebtedness, contingent obligations or liens, guarantee indebtedness, make certain investments and capital expenditures, sell stock or assets and pay dividends, and consummate certain mergers or acquisitions. Because of the restrictions on our ability to create or assume liens, we may find it difficult to secure additional indebtedness if required. Furthermore, if we fail to comply with the credit facility requirements, we may be in default. Upon an event of default, if the credit agreement is not amended or the event of default is not waived, the lender could declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If this happens, we may not be able to make those payments or borrow sufficient funds from alternative sources to make those payments. Even if we were to obtain additional financing, that financing may be on unfavorable terms.

CHANGES IN INTERPRETATION OR APPLICATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES MAY ADVERSELY AFFECT OUR OPERATING RESULTS

We prepare our financial statements to conform to GAAP. These principles are subject to interpretation by the Financial Accounting Standards Board (“FASB”), American Institute of Certified Public Accountants, the SEC and various other regulatory or accounting bodies. A change in interpretations of, or our application of, these principles can have a significant effect on our reported results and may even affect our reporting of transactions completed before a change is announced. In addition, when we are required to adopt new accounting standards, our methods of accounting for certain items may change, which could cause our results of operations to fluctuate from period to period and make it more difficult to compare our financial results to prior periods.

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As our operations evolve over time, we may introduce new products or new technologies that require us to apply different accounting principles, including ones regarding revenue recognition, than we have applied in past periods. Currently, we recognize revenues for our proton therapy systems and proton therapy commissioning contracts and for certain highly customized image detection systems in our Imaging Components business under contract accounting rules, which affects the timing of revenue recognition. We could be required to apply contract accounting rules to other businesses in the future. Under contract accounting rules, the use of the percentage-of-completion method involves considerable use of estimates in determining revenues, costs and profits and in assigning dollar amounts to relevant accounting periods, estimates which must be periodically reviewed and appropriately adjusted. For example, revenues recognized under the percentage-of-completion method are based on contract costs incurred to date compared with total estimated contract costs. In circumstances in which the final outcome of a contract cannot be precisely estimated but a loss on the contract is not expected, we recognize revenues under the percentage-of-completion method based on a zero profit margin until more precise estimates can be made. Recognizing revenues using the percentage-of-completion method based on a zero profit margin, as we had done with the revenues associated with the Scripps Proton Therapy Center in the earlier stages of the project lowers our gross margins and makes it more difficult to compare our financial results from quarter to quarter. In addition, if we were to recognize revenues for our proton therapy systems and services under either the completed contract method or outside of contract accounting rules altogether, we would defer revenue until a contract is completed or substantially completed. This may cause our results of operations to fluctuate from period to period.

If our estimates prove to be inaccurate or circumstances change over time, we would be required to adjust revenues or even record a contract loss in later periods, and our financial results could suffer. In addition, if a loss is expected on a contract under the percentage-of-completion method, the estimated loss would be charged to cost of sales in the period the loss is identified. The application of different types of accounting principles and related potential changes may make it more difficult to compare our financial results from quarter to quarter, and the trading price of VMS common stock could suffer or become more volatile as a result.

AS A STRATEGY TO ASSIST OUR SALES EFFORTS, WE MAY PARTICIPATE IN PROJECT FINANCING OR OFFER EXTENDED PAYMENT TERMS, WHICH MAY ADVERSELY AFFECT OUR FINANCIAL RESULTS

We have provided financing for the construction and start-up operations of the Scripps Proton Therapy Center and Maryland Proton Therapy Center, and we may provide or be requested to provide financing to other potential VPT customers in the future. Providing such financing could adversely affect our financial results, since we cannot provide assurance that a center will be completed on time or within budget, that the center can or will generate sufficient patient volumes and revenues to support scheduled loan payments or to facilitate a refinancing, or that the borrower will have the financial means to pay off any financing at maturity. In addition, in connection with our financing of the Scripps Proton Therapy Center, we cannot provide any assurance that any additional portion of our loan can be syndicated to third parties, or that the loan facility can be successfully refinanced upon the maturity of the loan. If a borrower does not have the financial means to pay off its debts, and if we cannot recover the amounts due us from the sale of any collateral, we may be required to write off all, or a portion of the loan, which would adversely affect our financial results.

In addition, in some circumstances we offer longer or extended payment terms for qualified customers in VPT or our other businesses. Many of the areas where we offer such longer or extended payment terms have under-developed legal systems for securing debt and enforcing collection of debt. As of April 3, 2015, customer contracts with remaining terms of more than one year amounted to approximately four percent of our accounts receivable balance. While we qualify customers to whom we offer longer or extended payment terms, their financial positions may change adversely over the longer time period given for payment. Concerns over continued economic instability could also make it more difficult for us to collect outstanding receivables. This may result in an increase in payment defaults and uncollectible accounts, or could cause us to increase our bad debt expense, which would adversely affect our net earnings. In addition, longer or extended payment terms could impact the timing of our revenue recognition, and they have in the past and may in the future result in an increase in our days sales outstanding.

PROVISIONS OF DELAWARE LAW AND OUR CHARTER DOCUMENTS COULD BE INSUFFICIENT TO DETER A HOSTILE TAKEOVER; AND ACTIONS OF ACTIVIST STOCKHOLDERS COULD ADVERSELY AFFECT OUR BUSINESS

Certain provisions of Delaware law and of our certificate of incorporation and by-laws could deter a hostile takeover, while others could be insufficient to deter a hostile takeover. Our stockholder rights plan expired in December 2008, and we did not renew it. In addition, in February 2014 our stockholders approved, and we filed an amendment to our certificate of incorporation to declassify our Board of Directors commencing in 2016. Both of these changes reduced our ability to defend against a hostile takeover. The remaining provisions of Delaware law and of our charter documents may not be effective in defending against a hostile takeover or attack by an activist stockholder that may not be in the best interest of all of our shareholders, which could distract our management and adversely affect our business. In addition, we may be subject to one or more campaigns by stockholders who desire to increase stockholder value in the short term. Any such campaign could be costly and time-consuming, disrupt our operations and divert the attention of management and our employees from executing on our strategic goals, any of which could have an adverse effect on our business.

ENVIRONMENTAL LAWS IMPOSE COMPLIANCE COSTS ON OUR BUSINESS AND CAN ALSO RESULT IN LIABILITY

We are subject to environmental laws around the world. These laws regulate many aspects of our operations, including our handling, storage, transport and disposal of hazardous materials. They can also impose cleanup liabilities, including with respect to discontinued operations. As a consequence, we can incur significant environmental costs and liabilities, some recurring and others not recurring. Although we follow procedures intended to comply with existing environmental laws, we, like other businesses, can never completely eliminate the risk of contamination or injury from certain materials that we use in our business and, therefore, the prospect of resulting claims and damage payments. We may also be assessed fines or penalties for failure to comply with environmental laws and regulations. Although insurance has provided coverage for portions of cleanup costs resulting from historical occurrences, we maintain only limited insurance coverage for costs or claims that might result from any future contamination.

Future changes in environmental laws could also increase our costs of doing business, perhaps significantly. Several countries, including some in the EU, now require medical equipment manufacturers to bear certain disposal costs of products at the end of the product’s useful life, increasing our costs. The EU has also adopted a directive that may lead to restrictions on the use of certain hazardous substances in some of our products sold there. This directive, along with another that requires material disclosure information to be provided upon request, could increase our operating costs. All of these costs, and any future violations or liabilities under environmental laws or regulations, could have a material adverse effect on our business.

OUR OPERATIONS ARE VULNERABLE TO INTERRUPTION OR LOSS DUE TO NATURAL OR OTHER DISASTERS, POWER LOSS, STRIKES AND OTHER EVENTS BEYOND OUR CONTROL

We conduct a significant portion of our activities, including manufacturing, administration and data processing at facilities located in the State of California and other seismically active areas that have experienced major earthquakes and other natural disasters. We carry limited earthquake insurance that may not be adequate or continue to be available at commercially reasonable rates and terms. A major earthquake or other disaster (such as a major fire, hurricane, flood, tsunami, volcanic eruption or terrorist attack) affecting our facilities, or those of our suppliers, could significantly disrupt our operations, and delay or prevent product manufacture and shipment during the time required to repair, rebuild or replace our or our suppliers’ damaged manufacturing facilities; these delays could be lengthy and costly. If any of our customers’ facilities are adversely affected by a disaster, shipments of our products could be delayed. Additionally, customers may delay purchases of our products until operations return to normal. Even if we are able to quickly respond to a disaster, the ongoing effects of the disaster could create some uncertainty in the operations of our businesses, such as occurred following the March 2011 tsunami in Japan. In addition, our facilities may be subject to a shortage of available electrical power and other energy supplies. Any shortages may increase our costs for power and energy supplies or could result in blackouts, which could disrupt the operations of our affected facilities and harm our business. Further, our products are typically shipped from a limited number of ports, and any

disaster, strike or other event blocking shipment from these ports could delay or prevent shipments and harm our business. In addition, concerns about terrorism, the effects of a terrorist attack, political turmoil or an outbreak of epidemic diseases, such as ebola, could have a negative effect on our business operations, those of our suppliers and customers, and the ability to travel, resulting in adverse consequences on our revenues and financial performance.

WE WORK IN INTERNATIONAL LOCATIONS WHERE THERE ARE HIGH SECURITY RISKS, WHICH COULD RESULT IN HARM TO OUR EMPLOYEES OR CONTRACTORS OR CAUSE US TO INCUR SUBSTANTIAL COSTS

We work in some international locations where there are high security risks, which could result in harm to our employees and contractors or substantial costs. Some of our services are performed in or adjacent to high-risk locations where the country or location and surrounding area is suffering from political, social, or economic issues; war or civil unrest, or has a high level of criminal or terrorist activity. In those locations where we have employees or operations, we may incur substantial costs to maintain the safety of our personnel. Despite these precautions, the safety of our personnel in these locations may continue to be at risk, and we may in the future suffer the loss of employees and contractors, which could harm our business and operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) The following table provides information with respect to the shares of common stock repurchased by us during the second quarter of fiscal year 2015.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs [1]
January 3, 2015 - January 30, 2015 [2]	419,874	$85.74	419,874	4,330,126
January 31, 2015 - February 27, 2015	330,000	$92.87	330,000	4,000,126
February 28, 2015 - April 3, 2015 [3]	74,975	$93.06	74,975	3,925,151
Total	824,849	$91.71	824,849	

(1) In August 2014, the VMS Board of Directors authorized the repurchase of an additional 6,000,000 shares of VMS common stock from August 15, 2014 through December 31, 2015. Stock repurchases may be made in the open market, in privately negotiated transactions (including accelerated share repurchase programs), or under Rule 10b5-1 share repurchase plans, and also may be made from time to time or in one or more larger blocks.

(2) Constitutes 419,874 shares of VMS common stock repurchased under the January 2015 Repurchase Agreement. See Note 11, "Stockholders' Equity" of the Notes to the Condensed Consolidated Financial Statement for further discussion.

(3) Constitutes 74,975 shares of VMS common stock that were received from J.P. Morgan upon settlement of the January 2015 Repurchase Agreement. See Note 11, "Stockholders' Equity" of the Notes to the Condensed Consolidated Financial Statement for further discussion.

The preceding table excludes 50,796 shares of VMS common stock that were withheld by VMS in satisfaction of tax withholding obligations upon the vesting of restricted stock units granted under the Company’s employee stock plans.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits required to be filed by Item 601 of Regulation S-K:

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Form 10-Q.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VARIAN MEDICAL SYSTEMS, INC.
(Registrant)

Dated: May 12, 2015

By: /s/ ELISHA W. FINNEY
Elisha W. Finney
Executive Vice President, Finance and
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

INDEX TO EXHIBITS

Exhibit No.	Description
15.1	Letter Regarding Unaudited Interim Financial Information.
31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document