VARIAN MEDICAL SYSTEMS INC
Form 10-Q
May 12, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 3, 2015
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-7598

VARIAN MEDICAL SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-2359345 (I.R.S. Employer Identification Number)
3100 Hansen Way, Palo Alto, California	94304-1038
(Address of principal executive offices)	(Zip Code)

(650) 493-4000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer	x	Accelerated filer	o
Non-Accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 99,797,043 shares of common stock, par value $1 per share, outstanding as of May 1, 2015.

VARIAN MEDICAL SYSTEMS, INC.
FORM 10-Q for the Quarter Ended April 3, 2015
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PART I
FINANCIAL INFORMATION
Item 1. Financial Statements
VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended		Six Months Ended	
	April 3,	March 28,	April 3,	March 28,
(In thousands, except per share amounts)	2015	2014	2015	2014
Revenues:				
Product	$513,765	$541,940	$989,595	$1,023,376
Service	245,641	236,566	507,665	466,632
Total revenues	759,406	778,506	1,497,260	1,490,008
Cost of revenues:				
Product	330,458	344,512	636,275	643,046
Service	106,410	105,684	211,439	209,073
Total cost of revenues	436,868	450,196	847,714	852,119
Gross margin	322,538	328,310	649,546	637,889
Operating expenses:				
Research and development	59,312	60,677	116,388	118,680
Selling, general and administrative	117,190	114,959	257,672	224,541
Litigation settlement	—	25,130	—	25,130
Total operating expenses	176,502	200,766	374,060	368,351
Operating earnings	146,036	127,544	275,486	269,538
Interest income	3,044	2,458	6,084	4,723
Interest expense	(2,001)	(1,855)	(4,046)	(3,748)
Earnings before taxes	147,079	128,147	277,524	270,513
Taxes on earnings	41,110	35,359	78,241	79,765
Net earnings	$105,969	$92,788	$199,283	$190,748
Net earnings per share - basic	$1.06	$0.89	$1.99	$1.82
Net earnings per share - diluted	$1.05	$0.88	$1.97	$1.79
Shares used in the calculation of net earnings per share:				
Weighted average shares outstanding - basic	100,157	104,152	100,315	105,038
Weighted average shares outstanding - diluted	101,026	105,446	101,341	106,414

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
(In thousands)	April 3, 2015	March 28, 2014	April 3, 2015	March 28, 2014
Net earnings	$105,969	$92,788	$199,283	$190,748
Other comprehensive earnings (loss), net of tax:				
Defined benefit pension and post-retirement benefit plans:				
Amortization of prior service cost included in net periodic benefit cost, net of tax (expense) benefit of $39 and $80 for the three and six months ended April 3, 2015, respectively, and ($6) and ($12) for the corresponding periods of fiscal year 2014, respectively	(40)	37	(78)	75
Amortization of net actuarial loss included in net periodic benefit cost, net of tax expense of ($115) and ($231) for the three and six months ended April 3, 2015, respectively, and ($100) and ($201) for the corresponding periods of fiscal year 2014, respectively	505	435	1,009	870
	465	472	931	945
Unrealized gain (loss) on derivatives:				
Increase (decrease) in unrealized gain, net of tax (expense) benefit of ($455) and ($739) for the three and six months ended April 3, 2015, respectively, and $419 and ($779) for the corresponding periods of fiscal year 2014, respectively	763	(685)	1,238	1,299
Reclassification adjustments, net of tax benefit of $701 and $1,027 for the three and six months ended April 3, 2015, respectively, and $610 and $479 for the corresponding periods of fiscal year 2014, respectively	(1,176)	(1,017)	(1,721)	(798)
	(413)	(1,702)	(483)	501
Currency translation adjustment	(18,170)	(479)	(30,460)	990
Other comprehensive earnings (loss)	(18,118)	(1,709)	(30,012)	2,436
Comprehensive earnings	$87,851	$91,079	$169,271	$193,184

See accompanying notes to the condensed consolidated financial statements.

VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except par values)	April 3, 2015	September 26, 2014 (1)
Assets		
Current assets:		
Cash and cash equivalents	$862,223	$849,275
Short-term investment	70,075	66,176
Accounts receivable, net of allowance for doubtful accounts of $26,973 at April 3, 2015 and $20,317 at September 26, 2014	707,927	731,929
Inventories	651,779	572,261
Prepaid expenses and other current assets	177,770	148,562
Deferred tax assets	120,577	125,962
Total current assets	2,590,351	2,494,165
Property, plant and equipment, net	334,807	337,999
Goodwill	232,633	240,626
Other assets	301,745	284,500
Total assets	$3,459,536	$3,357,290
Liabilities and Equity		
Current liabilities:		
Accounts payable	$164,075	$187,377
Accrued expenses	285,377	324,409
Deferred revenues	447,755	421,845
Advance payments from customers	182,256	170,724
Product warranty	41,305	47,299
Short-term borrowings	100,000	—
Current maturities of long-term debt	50,000	50,000
Total current liabilities	1,270,768	1,201,654
Long-term debt	362,500	387,500
Other long-term liabilities	147,945	151,716
Total liabilities	1,781,213	1,740,870
Commitments and contingencies (Note 8)		
Equity:		
Varian stockholders' equity:		
Preferred stock of $1 par value: 1,000 shares authorized; none issued and outstanding	—	—
Common stock of $1 par value: 189,000 shares authorized;100,201 and 100,942 shares issued and outstanding at April 3, 2015 and at September 26, 2014, respectively	100,201	100,942
Capital in excess of par value	687,348	642,848
Retained earnings	975,383	931,241
Accumulated other comprehensive loss	(88,623)	(58,611)
Total Varian stockholders' equity	1,674,309	1,616,420
Noncontrolling interest	4,014	—
Total equity	1,678,323	1,616,420
Total liabilities and equity	$3,459,536	$3,357,290

(1) The condensed consolidated balance sheet as of September 26, 2014 was derived from audited financial statements as of that date, but does not include all disclosures required by accounting principles generally accepted in the United

States of America.

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended	
(In thousands)	April 3, 2015	March 28, 2014
Cash flows from operating activities:		
Net earnings	$199,283	$190,748
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	25,238	18,640
Tax benefits from exercises of share-based payment awards	11,144	8,544
Excess tax benefits from share-based compensation	(11,138)	(8,482)
Depreciation	30,111	28,701
Amortization of intangible assets	3,286	1,938
Deferred taxes	16,399	(14,567)
Provision for doubtful accounts receivable	6,682	5,633
(Income) loss from equity investment in affiliate	(525)	600
Other, net	2,039	(1,553)
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(17,457)	(99,465)
Inventories	(92,951)	(23,062)
Prepaid expenses and other assets	(20,987)	(5,354)
Accounts payable	(12,833)	(16,309)
Accrued expenses and other liabilities	(43,159)	45,074
Deferred revenues and advance payments from customers	37,134	38,027
Net cash provided by operating activities	132,266	169,113
Cash flows from investing activities:		
Purchases of property, plant and equipment	(36,722)	(43,805)
Increase in restricted cash	(35,710)	—
Investment in available-for-sale corporate debt securities	(942)	(13,746)
Notes receivable	(5,000)	(500)
Net amounts received from deferred compensation plan trust account	3,102	—
Other	104	(856)
Net cash used in investing activities	(75,168)	(58,907)
Cash flows from financing activities:		
Repurchases of common stock	(201,181)	(314,525)
Proceeds from issuance of common stock to employees	67,221	64,085
Excess tax benefits from share-based compensation	11,138	8,482
Employees' taxes withheld and paid for restricted stock and restricted stock units	(16,046)	(8,478)
Net borrowings under revolving credit facility agreements	100,000	—
Repayments under term loan facility	(25,000)	(37,500)
Capital contribution from noncontrolling interest holders	1,777	—
Other	(1,073)	(408)
Net cash used in financing activities	(63,164)	(288,344)
Effects of exchange rate changes on cash and cash equivalents	19,014	(726)
Net increase/(decrease) in cash and cash equivalents	12,948	(178,864)
Cash and cash equivalents at beginning of period	849,275	1,117,861
Cash and cash equivalents at end of period	$862,223	$938,997

See accompanying notes to the condensed consolidated financial statements.

VARIAN MEDICAL SYSTEMS, INC. AND SUBSDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Varian Medical Systems, Inc. ("VMS") and its subsidiaries (collectively, the "Company") design, manufacture, sell and service hardware and software products for treating cancer with radiotherapy, stereotactic radiosurgery, stereotactic body radiotherapy, and brachytherapy. The Company also designs, manufactures, sells and services X-ray imaging components for use in a range of applications, including radiographic or fluoroscopic imaging, mammography, specific procedures, computed tomography and industrial applications. In addition, the Company designs, manufactures, sells and services linear accelerators, image processing software and image detection products for security and inspection purposes. The Company also develops, designs, manufactures, sells and services proton therapy products and systems for cancer treatment.

Basis of Presentation

The condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements and the accompanying notes are unaudited and should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 26, 2014 (the "2014 Annual Report"). In the opinion of management, the condensed consolidated financial statements herein include adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the Company's financial position as of April 3, 2015 and September 26, 2014, results of operations and statements of comprehensive earnings for the three and six months ended April 3, 2015 and March 28, 2014, and cash flows for the six months ended April 3, 2015 and March 28, 2014. The results of operations for the three and six months ended April 3, 2015 are not necessarily indicative of the operating results to be expected for the full fiscal year or any future period.

Fiscal Year

The fiscal years of the Company as reported are the 52- or 53- week periods ending on the Friday nearest September 30. Fiscal year 2015 is the 53-week period ending October 2, 2015, and fiscal year 2014 was the 52-week period ended September 26, 2014. The fiscal quarters ended April 3, 2015 and March 28, 2014 were both 13-week periods.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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 the Company beginning in its first quarter of fiscal year 2017. Early adoption is permitted. The amendment can be adopted either

prospectively or retrospectively. The Company is evaluating the impact of adopting this guidance to its 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 the Company beginning in its first quarter of fiscal 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 the Company's 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 the Company beginning in its 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 the Company's 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 the Company beginning in its 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 the Company's 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 the Company beginning in its 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 the Company's 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 the Company beginning in its 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 the Company beginning in its first quarter of fiscal year 2019, with early adoption permitted, but not before 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. The Company is evaluating the impact of adopting this guidance to its consolidated financial statements.

2. BALANCE SHEET COMPONENTS:

(In millions)	April 3, 2015	September 26, 2014
Available-for-sale Securities:		
Corporate debt securities:		
Amortized cost	$80.0	$75.6
Unrealized gain (loss)	—	—
Fair value	$80.0	$75.6

The available-for-sale securities represent loans to California Proton Treatment Center, LLC ("CPTC"). As of April 3, 2015, of the total amount of $80.0 million of the available-for-sale securities, $70.1 million is included in short-term investment and $9.9 million is included in other assets on the Condensed Consolidated Balance Sheet. As of September 26, 2014, of the total amount of $75.6 million of the available-for-sale securities, $66.2 million is included in short-term investment and $9.4 million

is included in other assets on the Condensed Consolidated Balance Sheet. Refer to Note 15, "CPTC Loans" for additional discussion.

(In millions)	April 3, 2015	September 26, 2014
Inventories:		
Raw materials and parts	$328.0	$296.1
Work-in-process	136.8	124.5
Finished goods	187.0	151.7
Total inventories	$651.8	$572.3

(In millions)	April 3, 2015	September 26, 2014
Other long-term liabilities:		
Long-term income taxes payable	$46.1	$55.2
Long-term deferred income taxes	41.7	31.5
Other	60.1	65.0
Total other long-term liabilities	$147.9	$151.7

3. FAIR VALUE

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. There is a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(Unaudited)

Assets/Liabilities Measured at Fair Value on a Recurring Basis
In the tables below, the Company has segregated all assets and liabilities that are measured at fair value on a recurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

	Fair Value Measurement Using			
Type of Instruments	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
(In millions)				
Assets at April 3, 2015:				
Available-for-sale corporate debt securities	$—	$—	$80.0	$80.0
Derivative assets	—	1.0	—	1.0
Total assets measured at fair value	$—	$1.0	$80.0	$81.0
Liabilities at April 3, 2015:				
Derivative liabilities	$—	$(0.2)	$—	$(0.2)
Contingent consideration	—	—	(6.3)	(6.3)
Total liabilities measured at fair value	$—	$(0.2)	$(6.3)	$(6.5)
Assets at September 26, 2014:				
Available-for-sale corporate debt securities	$—	$—	$75.6	$75.6
Derivative assets	—	1.5	—	1.5
Total assets measured at fair value	$—	$1.5	$75.6	$77.1
Liabilities at September 26, 2014:				
Contingent consideration	$—	$—	$(7.5)	$(7.5)
Total liabilities measured at fair value	$—	$—	$(7.5)	$(7.5)

Available-for-sale corporate debt securities are included under short-term investment and other assets, derivative assets are included under prepaid expenses and other current assets, derivative liabilities are included under accrued liabilities and contingent consideration is included under accrued liabilities and other long-term liabilities on the Condensed Consolidated Balance Sheets.
The Company has elected to use the income approach to value its derivative instruments using standard valuation techniques and Level 2 inputs, such as currency spot rates, forward points and credit default swap spreads. The Company's derivative instruments are short-term in nature, typically one month to thirteen months in duration.
The fair value of the Company's Level 3 available-for-sale corporate debt securities is 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 loans to CPTC. If the estimated discount rates used were to increase or decrease, the fair value of the debt securities would decrease or increase, respectively. However, the Company does not increase the fair value of these securities above their par values as ORIX Capital Markets, LLC ("ORIX"), the loan agent, has the option to purchase these loans from the Company under the original terms and conditions at par value.

The Company measures the fair value of its Level 3 contingent consideration liabilities based on the income approach by using a discounted cash flow model with key assumptions that include estimated sales units or revenues of the acquired business or completion of certain milestone targets during the earn-out period, volatility, and estimated discount rates corresponding to the periods of expected payments. If the estimated sales units, revenues or probability of completing certain milestones were to increase or decrease during the respective earn-out period, the fair value of the contingent consideration would increase or decrease, respectively. If the estimated discount rates were to increase or decrease, the fair value of contingent consideration would decrease or increase, respectively. Changes in volatility may result in an increase or decrease in the fair value of contingent consideration.

VARIAN MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(Unaudited)

The following table presents the reconciliation for all assets and liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3):

(In millions)	Available-For-Sale Corporate Debt Securities	Contingent Consideration
Balance at September 26, 2014	$ 75.6	$ (7.5)
Additions [(1)]	4.4	—
Settlements [(2)]	—	1.1
Change in fair value recognized in earnings	—	0.1
Balance at April 3, 2015	$ 80.0	$ (6.3)

(1) Amounts reported under available-for-sale corporate debt securities include accrued interest.
(2) Amounts reported under contingent consideration represent cash payments to settle contingent consideration liabilities.

There were no transfers of assets or liabilities between fair value measurement levels during either the three and six months ended April 3, 2015, or the three and six months ended March 28, 2014. Transfers between fair value measurement levels are recognized at the end of the reporting period.

Fair Value of Other Financial Instruments

The fair values of certain of the Company’s financial instruments, including bank deposits included in cash and cash equivalents, restricted cash, accounts receivable, net of allowance for doubtful accounts, notes receivable, accounts payable, and short-term borrowings approximate their carrying amounts due to their short maturities.

As of both April 3, 2015 and September 26, 2014, the fair value of current maturities of long-term debt approximated its carrying value of $50.0 million, due to its short-term maturity. The fair value of the long-term debt payable in installments through fiscal year 2018 approximated its carrying value of $362.5 million and $387.5 million, at April 3, 2015 and September 26, 2014, respectively, because it is carried at a market observable interest rate that resets periodically and is categorized as level 2 in the fair value hierarchy.

4. GOODWILL AND INTANGIBLE ASSETS

The following table reflects the activity of goodwill by reportable operating segment:

(In millions)	Oncology Systems	Imaging Components	Other	Total
Balance at September 26, 2014	$ 148.3	$ 36.0	$ 56.3	$ 240.6
Foreign currency translation adjustments	—	—	(8.0)	(8.0)
Balance at April 3, 2015	$ 148.3	$ 36.0	$ 48.3	$ 232.6

The following table reflects the gross carrying amount and accumulated amortization of the Company’s intangible assets subject to amortization included in other assets in the Condensed Consolidated Balance Sheets as follows:

(In millions)	April 3, 2015	September 26, 2014
Intangible Assets:		
Acquired existing technology	$ 54.6	$ 54.6
Patents, licenses and other	29.0	28.8
Customer contracts and supplier relationship	12.4	12.4
Accumulated amortization	(59.8)	(56.9)
Net carrying amount subject to amortization	$ 36.2	$ 38.9

As of April 3, 2015 and September 26, 2014, the Company also had $2.0 million of in-process research and development assets. Amortization expense for intangible assets was $1.7 million and $0.8 million in the three months ended April 3, 2015 and March 28, 2014, respectively. Amortization expense for intangible assets was $3.3 million and $1.9 million in the six months ended April 3, 2015 and March 28, 2014, respectively. The Company estimates amortization expense for the remaining six months of fiscal year 2015, fiscal year 2016, fiscal year 2017, fiscal year 2018, fiscal year 2019, fiscal year 2020 and thereafter, will be as follows (in millions): $4.9, $9.4, $5.2, $5.0, $4.9, $3.9, and $2.9, respectively.

5. RELATED PARTY TRANSACTIONS

VMS has a 40% ownership interest in dpiX Holding LLC ("dpiX Holding"), a two-member consortium which has a 100% ownership interest in dpiX LLC ("dpiX"), a supplier of amorphous silicon based thin film transistor arrays ("flat panels") for the Company's Imaging Components' digital image detectors and for its Oncology Systems' On-Board Imager® and PortalVision™ imaging products. In accordance with the dpiX Holding agreement, net profits or losses are allocated to the members, in accordance with their ownership interests.

The equity investment in dpiX Holding is accounted for under the equity method of accounting. When VMS recognizes its share of net profits or losses of dpiX Holding, profits or losses in inventory purchased from dpiX are eliminated until realized by VMS. VMS recorded income of $0.9 million and $0.8 million in the three months ended April 3, 2015 and March 28, 2014, respectively, on the equity investment in dpiX Holding. VMS recorded income of $0.5 million and a loss of $0.6 million in the six months ended April 3, 2015 and March 28, 2014, respectively, on the equity investment in dpiX Holding. Income and loss on the equity investment in dpiX Holding is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Earnings. The carrying value of the equity investment in dpiX Holding, which is included in other assets in the Condensed Consolidated Balance Sheets, was $48.4 million at April 3, 2015 and $49.7 million at September 26, 2014.

The Company purchased glass transistor arrays from dpiX totaling $5.6 million and $5.7 million in the three months ended April 3, 2015 and March 28, 2014, respectively. The Company purchased glass transistor arrays from dpiX totaling $9.9 million and $9.2 million in the six months ended April 3, 2015 and March 28, 2014, respectively. These purchases of glass transistor arrays are included as a component of inventories in the Condensed Consolidated Balance Sheets or cost of revenues - product in the Condensed Consolidated Statements of Earnings for these fiscal periods.

In October 2013, VMS entered into an amended agreement with dpiX and other parties that, among other things, provides the Company with the right to 50% of dpiX's total manufacturing capacity produced after January 1, 2014. The amended agreement requires the Company to pay for 50% of the fixed costs (as defined in the amended agreement), as determined at the beginning of each calendar year. As of April 3, 2015, the Company had fixed cost commitments of $8.9 million related to this amended agreement for the remaining six months of fiscal year 2015. The fixed cost commitments for future periods will be determined and approved by the dpiX board of directors at the beginning of each calendar year. The amended agreement will continue unless the ownership structure of dpiX changes (as defined in the amended agreement).

The Company has determined that dpiX is a variable interest entity because at-risk equity holders, as a group, lack the characteristics of a controlling financial interest. Majority votes are required to direct the manufacturing activities, legal operations and other activities that most significantly affect dpiX's economic performance. The Company does not have majority voting rights and no power to direct the activities of dpiX and therefore is not the primary beneficiary of dpiX.

6. BORROWINGS

On August 27, 2013, VMS 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. The 2013 Credit Facility contains provisions that limit the Company's 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.

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 0.00% to 0.25% based on the same leverage Ratio, depending upon instructions from the Company.

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 the Company.

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%. Borrowings under the 2013 Term Loan Facility are included in current maturities of long-term debt and long-term debt in the Condensed Consolidated Balance Sheets. 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%. At September 26, 2014, there were no amounts outstanding on the 2013 Revolving Credit Facility. Borrowings under the 2013 Revolving Credit Facility are included in short-term borrowings in the Condensed Consolidated Balance Sheets.

Subject to certain limitations on the amount secured, a pledge of stock issued by certain present and future subsidiaries of VMS, that are deemed to be material under the terms of the 2013 Credit Facility, serve as security for the 2013 Credit Facility. These stock pledges also serve as security for all hedging or treasury management obligations entered into by the Company with a Lender. As of April 3, 2015, VMS had pledged 65% of the voting shares that it holds in Varian Medical Systems Nederland Holdings B.V., a wholly owned subsidiary. The Credit Agreement provides that certain material domestic subsidiaries must guarantee the 2013 Credit Facility, subject to certain limitations on the amount secured. As of April 3, 2015, the 2013 Credit Facility was not guaranteed by any VMS subsidiary.

The Credit Agreement contains affirmative and negative covenants applicable to the Company and its subsidiaries that are typical for credit facilities of this type, and that are subject to materiality and other qualifications, carve-outs, baskets and exceptions. The Company has also agreed to maintain certain financial covenants including (i) a maximum consolidated leverage ratio, involving funded indebtedness and EBITDA (earnings before interest, tax and depreciation and amortization), and (ii) a minimum cash flow coverage ratio. The Company was in compliance with all covenants under the Credit Agreement for all periods within these condensed consolidated financial statements in which it was in existence.

VMS's Japanese subsidiary ("VMS KK") has an unsecured uncommitted credit agreement with Sumitomo 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. As of April 3, 2015 and September 26, 2014, there were no outstanding balances under the Sumitomo Credit Facility. On April 6, 2015, the Company borrowed 3 billion Japanese yen, or approximately $25.2 million, under the Sumitomo Credit Facility.

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company measures all derivatives at fair value on the Condensed Consolidated Balance Sheets. The accounting for gains or losses resulting from changes in the fair value of those derivatives depends upon the use of the derivative and whether it qualifies for hedge accounting. Changes in the fair value of derivatives that do not qualify for hedge accounting treatment must be recognized in earnings, together with elements excluded from effectiveness testing and the ineffective portion of a particular hedge.

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The fair values of derivative instruments reported on the Company’s Condensed Consolidated Balance Sheets were as follows:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet	April 3, 2015	September 26, 2014	Balance Sheet	April 3, 2015	September 26, 2014
(In millions)	Location	Fair Value	Fair Value	Location	Fair Value	Fair Value
Derivatives designated as hedging instruments:						
Foreign exchange forward contracts	Prepaid expenses and other current assets	$1.0	$1.5	Accrued liabilities	$0.2	$—
Total derivatives		$1.0	$1.5		$0.2	$—

At April 3, 2015 and September 26, 2014, the Company did not have any outstanding derivatives that were not designated as hedging instruments. See Note 3, "Fair Value" regarding valuation of the Company’s derivative instruments. Also see Note 1, "Summary of Significant Accounting Policies" in the Consolidated Financial Statements in the Company’s 2014 Annual Report regarding credit risk associated with the Company’s derivative instruments.

Offsetting of Derivatives

The Company presents its derivative assets and derivative liabilities on a gross basis in the Condensed Consolidated Balance Sheets. However, under agreements containing provisions on netting with certain counterparties of foreign exchange contracts, subject to applicable requirements, the Company is allowed to net-settle transactions on the same date in the same currency, with a single net amount payable by one party to the other. As of April 3, 2015 and September 26, 2014, there were no potential effects of rights of setoff associated with derivative instruments. The Company is neither required to pledge nor entitled to receive cash collateral related to these derivative transactions.

Cash Flow Hedging Activities

The Company has many transactions denominated in foreign currencies and addresses certain of those financial exposures through a risk management program that includes the use of derivative financial instruments. The Company sells products throughout the world, often in the currency of the customer’s country, and may hedge certain of the larger foreign currency transactions when they are either not denominated in the relevant subsidiary’s functional currency or the U.S. Dollar. These foreign currency sales transactions are hedged using foreign currency forward contracts. The Company may use other derivative instruments in the future. The Company enters into foreign currency forward contracts primarily to reduce the effects of fluctuating foreign currency exchange rates. The Company does not enter into foreign currency forward contracts for speculative or trading purposes. Foreign currency forward contracts may be entered into several times a quarter and range from one to thirteen months.

The Company designates and accounts for certain of its hedges of forecasted foreign currency revenues as cash flow hedges. The Company’s designated cash flow hedges de-designate when the anticipated revenues associated with the transactions are recognized and the effective portion in accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets is reclassified to revenues in the Condensed Consolidated Statements of Earnings. Subsequent changes in fair value of the derivative instrument are recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Earnings to offset changes in fair value of the resulting non-functional currency receivables. For derivative instruments that are designated and qualify as cash flow hedges, the Company formally documents for each derivative instrument at the hedge’s inception the relationship between the

hedging instrument (foreign currency forward contract) and hedged item (forecasted foreign currency revenues), the nature of the risk being hedged, and its risk management objective and strategy for undertaking the hedge. The Company records the effective portion of the gain or loss on the derivative instrument that are designated and qualify as cash flow hedges in accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets and reclassifies these amounts into revenues in the Condensed Consolidated Statements of Earnings in the period during which the hedged transaction is recognized in earnings. The Company assesses hedge effectiveness both at the onset of the hedge and on an ongoing basis using regression analysis. The Company measures hedge ineffectiveness by comparing the cumulative change in the fair value of the effective component of the hedge contract with the cumulative change in the fair value of the hedged item. The Company recognizes any over performance of the derivative as ineffectiveness in revenues, and amounts excluded from the assessment of effectiveness in cost of revenues in the Condensed Consolidated Statements of Earnings. During the

three and six months ended April 3, 2015, the Company did not discontinue any cash flow hedges. At the inception of the hedge, the Company assesses whether the likelihood of meeting the forecasted cash flow is highly probable. As of April 3, 2015, all forecasted cash flows were still probable to occur. As of April 3, 2015, the net unrealized gain on derivative instruments, before tax, of $0.8 million was included in accumulated other comprehensive loss and is expected to be reclassified to earnings over the next 12 months that follows.

The Company had the following outstanding foreign currency forward contracts that were entered into to hedge forecasted revenues and designated as cash flow hedges:

(In millions)	April 3, 2015 Notional Value Sold
Euro	$22.8
Japanese Yen	24.2
Totals	$47.0

The following table presents the amounts, before tax, recognized in accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets and in the Condensed Consolidated Statements of Earnings that are related to the effective portion of the foreign currency forward contracts designated as cash flow hedges:

	Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)				Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Net Earnings (Effective Portion)	Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Net Earnings (Effective Portion)			
	Three Months Ended		Six Months Ended			Three Months Ended		Six Months Ended	
	April 3,	March 28,	April 3,	March 28,		April 3,	March 28,	April 3,	March 28,
(In millions)	2015	2014	2015	2014		2015	2014	2015	2014
Foreign currency forward contracts	$1.2	$(1.1)	$2.0	$2.1	Revenues	$1.8	$1.7	$2.7	$1.3

Balance Sheet Hedging Activities

The Company also hedges balance sheet exposures from its various subsidiaries and business units where the U.S. Dollar is the functional currency. The Company enters into foreign currency forward contracts to minimize the short-term impact of foreign currency fluctuations on monetary assets and liabilities denominated in currencies other than the U.S. Dollar functional currency. The foreign currency forward contracts are short term in nature, typically with a maturity of approximately one month, and are based on the net forecasted balance sheet exposure. These hedging instruments do not qualify for hedge accounting treatment. For derivative instruments not designated as hedging instruments, changes in their fair values are recognized in selling, general and administrative expenses in the Condensed Consolidated Statements of Earnings. Changes in the values of these hedging instruments are offset by changes in the values of foreign-currency-denominated assets and liabilities. Variations from the forecasted foreign currency assets or liabilities, coupled with a significant currency rate movement, may result in a material gain or loss if the hedges are not effectively offsetting the change in value of the foreign currency asset or liability. Other than foreign exchange hedging activities, the Company has no other free-standing or embedded derivative instruments.

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The Company had the following outstanding foreign currency forward contracts:

	April 3, 2015	
(In millions)	Notional Value Sold	Notional Value Purchased
Australian Dollar	$19.9	$—
Brazilian Real	1.7	—
British Pound	13.4	—
Canadian Dollar	—	4.3
Danish Krone	—	0.3
Euro	192.8	—
Hungarian Forint	8.0	—
Indian Rupee	9.1	—
Japanese Yen	50.2	—
New Zealand Dollar	2.8	—
Norwegian Krone	3.0	—
Swedish Krona	2.5	—
Swiss Franc	—	52.8
Totals	$303.4	$57.4

The following table presents the gains (losses) recognized in the Condensed Consolidated Statements of Earnings related to the foreign currency forward exchange contracts that are not designated as hedging instruments:

Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Net Earnings on Derivative			
	Three Months Ended		Six Months Ended	
(In millions)	April 3, 2015	March 28, 2014	April 3, 2015	March 28, 2014
Selling, general and administrative expenses	$22.5	$(3.2)	$34.0	$1.5

The gains (losses) on these derivative instruments were significantly offset by the gains (losses) resulting from the remeasurement of monetary assets and liabilities denominated in currencies other than the U.S. Dollar functional currency.

Contingent Features

Certain of the Company's derivative instruments are subject to master agreements which contain provisions that require the Company, in the event of a default, to settle the outstanding contracts in net liability positions by making settlement payments in cash or by setting off amounts owed to the counterparty against any credit support or collateral held by the counterparty. As of April 3, 2015 and September 26, 2014, the Company did not have significant outstanding derivative instruments with credit-risk-related contingent features that were in a net liability position.

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8. COMMITMENTS AND CONTINGENCIES

Product Warranty

The following table reflects the changes in the Company’s accrued product warranty:

	Six Months Ended			
	April 3,		March 28,	
(In millions)	2015		2014	
Accrued product warranty, at beginning of period	$49.3		$53.2	
Charged to cost of revenues	21.8		25.8	
Actual product warranty expenditures	(28.1	)	(26.9	)
Accrued product warranty, at end of period	$43.0		$52.1	

Long-term accrued product warranty costs of $1.7 million and $2.0 million are included under other long-term liabilities in the Condensed Consolidated Balance Sheets as of April 3, 2015 and September 26, 2014, respectively.

Other Commitments

As of April 3, 2015, the Company’s outstanding commitment under the CPTC Loans was $0.3 million. See Note 15, "CPTC Loans" for additional information.

In April 2012, VMS entered into a strategic global partnership with Siemens AG (“Siemens”) through which, among other things, the Company and Siemens are working on developing interfaces to enable the Company’s ARIA® oncology information system software to connect with Siemens linear accelerators and imaging systems. Under the agreement establishing this collaboration, the Company committed to make certain payments, including up to $10.0 million in fixed fees and $20.0 million in license fees, in the event certain product development milestones are achieved. As of April 3, 2015, the outstanding fixed fees and license fees commitments for the Siemens agreement were $5.0 million and $12.0 million, respectively.

In connection with the acquisition of businesses in prior years, the Company entered into agreements which included provisions to make additional consideration payments upon the achievement of certain milestones by the acquired businesses. As of April 3, 2015, the fair value of potential contingent consideration liabilities under these agreements was $6.3 million. See Note 3, "Fair Value" for additional information.

As of April 3, 2015, the Company 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. See Note 5, "Related Party Transactions" for additional information.

Environmental Remediation Liabilities

The Company’s operations and facilities, past and present, are subject to environmental laws, including laws that regulate the handling, storage, transport and disposal of hazardous substances. Certain of those laws impose cleanup liabilities under certain circumstances. In connection with those laws and certain of the Company’s past and present operations and facilities, the Company oversees various environmental cleanup projects and also reimburses certain third parties for cleanup activities. Those include facilities sold as part of the Company’s electron devices business in 1995 and thin film systems business in 1997. In addition, the U.S. Environmental Protection Agency (“EPA”) or third parties have named the Company as a potentially responsible party under the amended Comprehensive Environmental Response Compensation and Liability Act of 1980 (“CERCLA”), at sites to which the Company or the facilities of the sold businesses were alleged to have shipped waste for recycling or disposal (the “CERCLA sites”). In connection with the CERCLA sites, the Company to date has been required to pay only modest amounts as its contributions to cleanup efforts. Under the agreement that governs the spin-offs of Varian, Inc., which was acquired by Agilent Technologies Inc. (the successor entity hereinafter referred to as “VI”), and Varian Semiconductor Equipment Associates, Inc., which was acquired by Applied Materials, Inc. (the successor entity hereinafter referred to as “VSEA”), VI and VSEA are each

obligated to indemnify the Company for one-third of the environmental cleanup costs associated with corporate, discontinued or sold operations prior to the spin-offs (after adjusting for any insurance proceeds or tax benefits received by the Company), as well as fully indemnify the Company for other liabilities arising from the operations of the business transferred to it as part of the spin-offs.

The Company spent $0.5 million and $0.3 million (net of amounts borne by VI and VSEA) in the three months ended April 3, 2015 and March 28, 2014, respectively, on environmental cleanup costs, third-party claim costs, project management costs and legal costs. The Company spent $0.8 million and $0.5 million (net of amounts borne by VI and VSEA) in the six months ended April 3, 2015 and March 28, 2014, respectively, on such costs.

Inherent uncertainties make it difficult to estimate the likelihood of the cost of future cleanup, third-party claims, project management and legal services for the CERCLA sites and one of the Company's past facilities. Nonetheless, as of April 3, 2015, the Company estimated that, net of VI's and VSEA's indemnification obligations, future costs associated with the CERCLA sites and this facility would range in total from $1.6 million to $9.8 million. The time frames over which these cleanup project costs are estimated vary, ranging from one year to thirty years as of April 3, 2015. Management believes that no amount in that range is more probable of being incurred than any other amount and therefore accrued $1.6 million for these cleanup projects as of April 3, 2015. The accrued amount has not been discounted to present value due to the uncertainties that make it difficult to develop a single best estimate.

The Company believes it has gained sufficient knowledge to better estimate the scope and cost of monitoring, cleanup and management activities for its other past and present facilities. This, in part, is based on agreements with other parties and also cleanup plans approved by or completed in accordance with the requirements of the governmental agencies having jurisdiction. As of April 3, 2015, the Company estimated that the Company's future exposure, net of VI's and VSEA's indemnification obligations, for the costs at these facilities, and reimbursements of third-party's claims for these facilities, ranged in total from $5.3 million to $35.7 million. The time frames over which these costs are estimated to be incurred vary, ranging from one year to thirty years as of April 3, 2015. As to each of these facilities, management determined that a particular amount within the range of estimated costs was a better estimate than any other amount within the range, and that the amount and timing of these future costs were reliably determinable. The best estimate within that range was $9.3 million at April 3, 2015. Accordingly, the Company has accrued $7.6 million for these costs, which represents the best estimate discounted at 4%, net of inflation. This accrual is in addition to the $1.6 million described in the preceding paragraph.

These amounts are only estimates of anticipated future costs. The amounts the Company will actually spend may be greater or less than these estimates, even as the Company believes the degree of uncertainty will narrow as cleanup activities progress. While the Company believes its reserve is adequate, as the scope of the Company's obligations becomes more clearly defined, the Company may modify the reserve, and charge or credit future earnings accordingly. Nevertheless, based on information currently known to management, and assuming VI and VSEA satisfy their indemnification obligations, management believes the costs of these environmental-related matters are not reasonably likely to have a material adverse effect on the consolidated financial statements of the Company in any one fiscal year.

The Company evaluates its liability for investigation and cleanup costs in light of the obligations and apparent financial strength of potentially responsible parties and insurance companies with respect to which the Company believes it has rights to indemnity or reimbursement. The Company has asserted claims for recovery of environmental investigation and cleanup costs already incurred, and to be incurred in the future against various insurance companies and other third parties. The Company receives certain cash payments in the form of settlements and judgments from defendants, insurers and other third parties from time to time. The Company has also reached an agreement with an insurance company under which that insurer has agreed to pay a portion of the Company's past and future environmental-related expenditures. Receivables, net of VI's and VSEA's portion, from that insurer amounted to $2.1 million at April 3, 2015 and $2.2 million at September 26, 2014, with the current and noncurrent receivables portion included in prepaid expenses and other current assets and other assets and the payable portion to that insurer is included in other long-term liabilities in the Condensed Consolidated Balance Sheets. The Company believes that this receivable is recoverable because it is based on a binding, written settlement agreement with what appears to be a financially viable insurance company, and the insurance company has paid the Company's claims in the past.

The availability of the indemnities of VI and VSEA will depend upon the future financial strength of VI and VSEA. Given the long-term nature of some of the liabilities, VI and VSEA may be unable to fund the indemnities in the future. It is also possible that a court would disregard this contractual allocation among the parties and require the Company to assume responsibility for obligations allocated to another party, particularly if the other party were to refuse or was unable to pay any of its allocated share. The agreement governing the spin-offs generally provides that if a court prohibits a company from satisfying its shared indemnification obligations, the indemnification obligations will be shared equally by the two other companies.

Other Matters

From time to time, the Company is 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 its business or

otherwise. These matters included a patent infringement lawsuit initiated on April 13, 2007 by the University of Pittsburgh of the Commonwealth System of Higher Education (the "University of Pittsburgh") regarding the Company's Real-time Position Management™ ("RPM") technology. In January 2014, the Company entered into a settlement agreement with the University of Pittsburgh and in the third quarter of fiscal year 2014 paid $35.6 million in full settlement of the lawsuit. Prior to the beginning of the second quarter of fiscal year 2014, the Company had accrued in aggregate approximately $5.0 million for the low end of the range of the probable settlement value for this matter. In the second quarter of fiscal year 2014, the Company accrued an additional $25.1 million of the $35.6 million for all damages and interest related to the case and in the third quarter of fiscal year 2014 recorded the remaining amount of approximately $5.5 million for future royalties as prepaid royalties. The amount of prepaid royalties is being amortized beginning with the third quarter of fiscal year 2014, over the remaining life of the patent of approximately two and a half years.

The Company accrues amounts, to the extent they can be reasonably estimated, that it believes are adequate to address any liabilities related to legal proceedings and other loss contingencies that the Company believes will result in a probable loss (including, among other things, probable settlement value). However, such matters are subject to many uncertainties and outcomes are not predictable with assurance. The Company is unable to estimate a range of reasonably possible losses with respect to all other matters. There can be no assurances as to whether the Company will become subject to significant additional claims and liabilities with respect to ongoing or future proceedings. If actual liabilities significantly exceed the estimates made, the Company's consolidated financial position, results of operations or cash flows could be materially adversely affected.

Restructuring Charges

As part of the Company's plan to enhance operational performance through productivity initiatives, the Company offered an enhanced retirement program to its qualifying employees across all reporting segments during the fourth quarter of fiscal year 2014. The program required the participating employees to submit their applications by October 10, 2014, and as a result, the restructuring charges relating to this program were primarily incurred in the first quarter of fiscal year 2015. The Company incurred additional restructuring charges across all reporting segments for workforce reductions during the first six months of fiscal year 2015. In connection with the above mentioned restructuring programs, during the three and six months ended April 3, 2015, the Company incurred restructuring charges of approximately $3.1 million and $13.6 million, respectively, of which $7.5 million was paid in cash during the six months ended April 3, 2015. The restructuring charges are included in selling, general and administrative expenses in the Condensed Consolidated Statements of Earnings. The Company expects to complete the above mentioned restructuring programs by the end of fiscal year 2015 and any remaining restructuring charges are not expected to be significant.

No restructuring charges were incurred during the three and six months ended March 28, 2014 in relation to this or any restructuring programs.

9. RETIREMENT PLANS

The Company's net defined benefit costs were composed of the following:

	Three Months Ended		Six Months Ended	
(In thousands)	April 3, 2015	March 28, 2014	April 3, 2015	March 28, 2014
Defined Benefit Plans				
Service cost	$1,184	$1,026	$2,371	$2,049
Interest cost	1,270	1,532	2,565	3,046
Expected return on plan assets	(1,778)	(1,957)	(3,594)	(3,892)
Amortization of prior service cost	46	42	93	85
Recognized actuarial loss	613	538	1,227	1,077

Net periodic benefit cost	$1,335	$1,181	$2,662	$2,365

The Company made contributions to the defined benefit plans of $3.0 million during the six months ended April 3, 2015. The Company currently expects total contributions to the defined benefit plans for fiscal year 2015 will be approximately $7.1 million. The Company's post-retirement benefit costs and contributions were not significant during both the three and six months ended April 3, 2015 and March 28, 2014, and are not included in the table above.

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10. INCOME TAXES

The Company's effective tax rate was 28.0% for the three months ended April 3, 2015, compared to 27.6% for the same period of fiscal year 2014. The increase in the Company's effective tax rate during the three months ended April 3, 2015 compared to the year ago period, was primarily due to the geographic mix of earnings impacted by the fluctuation in foreign currency exchange rates and the tax benefit from the patent litigation settlement during the second quarter of fiscal year 2014. The Company's effective tax rate was 28.2% for the six months ended April 3, 2015, compared to 29.5% for the same period of fiscal year 2014. The Company's effective tax rate decreased during the six months ended April 3, 2015 compared to the year ago period, primarily because the current period included the retroactive reinstatement of the federal research and development credit.

The Company's effective income tax rate differs from the U.S. federal statutory rate primarily because the Company's foreign earnings are taxed at rates that are, on average, lower than the U.S. federal rate, and because the Company's domestic earnings are subject to state income taxes.

The total amount of unrecognized tax benefits did not materially change during the six months ended April 3, 2015; however, the amount of unrecognized tax benefits has increased as a result of positions taken during the current and prior years, and has decreased as the result of the expiration of the statutes of limitation and audit settlements in various jurisdictions.

11. STOCKHOLDERS' EQUITY

Stock Repurchase Program

In August 2012, the VMS Board of Directors authorized the repurchase of 8,000,000 shares of VMS common stock from September 29, 2012 through December 31, 2013. The Company repurchased a total of 2,000,000 shares of VMS common stock during the three months ended December 27, 2013 and thereafter no shares of VMS common stock remained available for repurchase under this repurchase authorization.

In November 2013, the VMS Board of Directors authorized the repurchase of an additional 6,000,000 shares of VMS common stock from December 30, 2013 through December 31, 2014. The Company repurchased a total of 2,000,000 shares of VMS common stock during the three months ended March 28, 2014. The Company repurchased a total of 250,000 shares of VMS common stock during the three months ended January 2, 2015 under this program and thereafter no shares of VMS common stock remained available for repurchase under this repurchase authorization.

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. The Company repurchased a total of 824,849 and 2,074,849 shares of VMS common stock during the three and six months ended April 3, 2015 under this program. 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 under the August 2014 authorization. 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 the Company's stock repurchase programs have been retired.

On November 7, 2014, the Company 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, the Company 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 the Company 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, the Company signed an accelerated share repurchase agreement (the "April 2015 Repurchase Agreement") with BofA. Pursuant to the agreement, on April 7, 2015, the Company 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.

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On February 4, 2015, the Company signed an accelerated share repurchase agreement with J.P. Morgan. Pursuant to the agreement, on July 8, 2015, the Company 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. The Company has the right to cancel this agreement at any time prior to July 7, 2015.

Other Comprehensive Earnings

The changes in accumulated other comprehensive earnings (loss) by component and related tax effects are summarized as follows:

(in thousands)	Net Unrealized Gains (Losses) Defined Benefit Pension and Post-Retirement Benefit Plans	Net Unrealized Gains (Losses) Cash Flow Hedging Instruments	Cumulative Translation Adjustment	Accumulated Other Comprehensive Earnings (Loss)
Balance at September 26, 2014	$ (44,060)	$ 965	$ (15,516)	$ (58,611)
Other comprehensive earnings before reclassifications	—	1,977	(30,460)	(28,483)
Amounts reclassified out of other comprehensive earnings	1,082	(2,748)	—	(1,666)
Tax benefit (expense)	(151)	288	—	137
Balance at April 3, 2015	$ (43,129)	$ 482	$ (45,976)	$ (88,623)

(in thousands)	Net Unrealized Gains (Losses) Defined Benefit Pension and Post-Retirement Benefit Plans	Net Unrealized Gains (Losses) Cash Flow Hedging Instruments	Cumulative Translation Adjustment	Accumulated Other Comprehensive Earnings (Loss)
Balance at September 27, 2013	$ (40,081)	$ (691)	$ 701	$ (40,071)
Other comprehensive earnings before reclassifications	—	2,078	990	3,068
Amounts reclassified out of other comprehensive earnings	1,158	(1,277)	—	(119)
Tax expense	(213)	(300)	—	(513)
Balance at March 28, 2014	$ (39,136)	$ (190)	$ 1,691	$ (37,635)

The amounts reclassified out of other comprehensive earnings into the Condensed Consolidated Statements of Earnings, with line item location, during each period were as follows:

(in thousands)	Three Months Ended		Six Months Ended		
	April 3, 2015	March 28, 2014	April 3, 2015	March 28, 2014	
Comprehensive Earnings Components	Income (Loss) Before Taxes		Income (Loss) Before Taxes		Line Item in Statements of Earnings

Unrealized losses on defined benefit pension and post-retirement benefit plans	$(541)	$(578)	$(1,082)	$(1,158)	Cost of revenues & Operating expenses
Unrealized gains and (losses) on cash flow hedging instruments	1,877	1,627	2,748	1,277	Revenues
Total amounts reclassified out of other comprehensive earnings	$1,336	$1,049	$1,666	$119	

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12. EMPLOYEE STOCK PLANS

The table below summarizes the net share-based compensation expense recognized for employee stock awards and for the option component of the employee stock purchase plan shares:

	Three Months Ended		Six Months Ended	
(In thousands)	April 3, 2015	March 28, 2014	April 3, 2015	March 28, 2014
Cost of revenues - Product	$1,206	$717	$2,315	$1,424
Cost of revenues - Service	986	1,115	1,938	2,062
Research and development	1,654	1,320	3,392	2,621
Selling, general and administrative	8,655	6,444	17,593	12,533
Total share-based compensation expense	$12,501	$9,596	$25,238	$18,640
Income tax benefit for share-based compensation	$(3,943)	$(2,939)	$(7,916)	$(5,737)

During the six months ended April 3, 2015 and March 28, 2014, the Company granted performance units to certain employees under the Third Amended 2005 Plan. The number of shares of VMS common stock ultimately issued under the performance units at vesting depend on the Company’s business performance during the performance period, against specified performance targets, both of which are set by the Compensation and Management Development Committee of the Board of Directors. The performance units vest at the end of a three-year service period with one three-year performance period for both the Company's and total shareholder return performance grants prior to fiscal year 2015 and a one year Company's performance period and a three year total shareholder return performance period for grants made in fiscal year 2015. Subject to certain exceptions, any unvested performance unit awards are forfeited at the time of termination.

The fair value of options granted was estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions:

	Three Months Ended		Six Months Ended	
	April 3, 2015	March 28, 2014	April 3, 2015	March 28, 2014
Employee Stock Option Plans				
Expected term (in years)	4.13	4.11	4.15	4.13
Risk-free interest rate	1.3%	1.2%	1.3%	1.2%
Expected volatility	22.1%	24.6%	22.1%	24.6%
Expected dividend	—%	—%	—%	—%
Weighted average fair value at grant date	$18.53	$18.21	$18.56	$18.23

The option component of employee stock purchase plan shares was estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions:

	Six Months Ended	
	April 3, 2015	March 28, 2014
Employee Stock Purchase Plan		
Expected term (in years)	0.50	0.50
Risk-free interest rate	0.1%	0.1%
Expected volatility	8.3%	14.5%
Expected dividend	—%	—%
Weighted average fair value at grant date	$14.24	