

VARIAN MEDICAL SYSTEMS INC

Form 11-K

June 23, 2014

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

FORM 11-K

(Mark One):

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-7598

VARIAN MEDICAL SYSTEMS, INC. RETIREMENT PLAN

(Full title of the plan and the address of the plan if different from that of the issuer named below)

VARIAN MEDICAL SYSTEMS, INC.

(Name of issuer of the securities held pursuant to the plan)

3100 HANSEN WAY

PALO ALTO, CALIFORNIA 94304-1129

(Address of issuer's principal executive office)

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VARIAN MEDICAL SYSTEMS, INC.

RETIREMENT PLAN

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Note: Other schedules required by 29 CFR 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA) have been omitted because they are not applicable.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Participants and Administrator of the

Varian Medical Systems, Inc. Retirement Plan

We have audited the accompanying statements of net assets available for benefits of the Varian Medical Systems, Inc. Retirement Plan (the Plan) as of December 31, 2013 and 2012, and the related statement of changes in net assets available for benefits for the year ended December 31, 2013. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2013 and 2012, and the changes in net assets available for benefits for the year ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of Schedule H, Line 4i - Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ BURR PILGER MAYER, INC.

San Francisco, California

June 23, 2014

Table of Contents**Varian Medical Systems, Inc. Retirement Plan****Statements of Net Assets Available for Benefits**

<i>(in thousands of dollars)</i>	December 31,	
	2013	2012
Assets		
Investments, at fair value (Note 4)	\$ 751,346	\$ 643,488
Receivables		
Notes receivable from participants	8,200	7,766
Employer contributions	790	826
Total receivable	8,990	8,592
Net assets available for benefits at fair value	760,336	652,080
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(775)	(1,532)
Net assets available for benefits	\$ 759,561	\$ 650,548

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

Table of Contents**Varian Medical Systems, Inc. Retirement Plan****Statement of Changes In Net Assets Available for Benefits**

	Year Ended December 31, 2013
<i>(in thousands of dollars)</i>	
Additions to net assets attributed to:	
Investment income:	
Net unrealized and realized appreciation in the fair value of investments	\$ 100,378
Dividends and interest income	26,493
Total investment income	126,871
Interest on notes receivable from participants	322
Contributions:	
Participant	27,569
Rollovers	2,362
Employer	15,307
Total contributions	45,238
Total additions	172,431
Deductions from net assets attributed to:	
Benefits paid to participants	63,188
Deemed distributions	5
Administrative expenses	225
Total deductions	63,418
Net change	109,013
Net assets available for benefits	
Beginning of year	650,548
End of year	\$ 759,561

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

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Varian Medical Systems, Inc. Retirement Plan

Notes to Financial Statements

December 31, 2013 and 2012

1. Description of the Plan

The following brief description of the Varian Medical Systems, Inc. Retirement Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan Document and the Summary Plan Description/Plan Prospectus for more detailed information.

General

The Plan was established to provide benefits to those eligible employees of Varian Medical Systems, Inc. (the Company) who elect to participate. The Plan is intended to comply with the applicable requirements of the Internal Revenue Code and the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan was restated effective January 1, 2013 to incorporate Plan amendments that were adopted since the last Plan restatement.

Administration

The Company is the designated administrator of the Plan. The Company has contracted with Fidelity Institutional Retirement Services Company (Fidelity) to maintain the Plan's individual participant accounts and with Fidelity Management Trust Company (Fidelity Trust) to act as the custodian and trustee. Expenses for administering the Plan are primarily the responsibility of the Plan participants. In May 2011, the Company entered into an agreement with the trustee to establish an account in the Plan for an expense reimbursement credit, also referred to as a revenue credit funded by the trustee in the amount of \$100,000 per annum. Effective July 1, 2013, funding decreased to \$60,000. The account is used to offset the cost of certain Fidelity provided services or reimburse the Company for direct, reasonable and necessary expenses of the Plan. Effective January 1, 2013, the revenue credit amount unused for expenses may be allocated to participant accounts. No amount of unused revenue credit was allocated in fiscal year 2013. As of December 31, 2013, the balance of the revenue credit account was \$12,135.

Eligibility

Full-time and part-time employees of the Company (and its subsidiaries that have elected to become participating employers in the Plan) are eligible to enroll in the Plan immediately after they are hired by the Company. Leased employees, employees who are covered by a collective bargaining agreement that does not provide for their participation, nonresident aliens with no U.S. source income and independent contractors are not eligible to participate in the Plan.

Participant Contributions

Participants who elect to participate in the Plan may make a minimum contribution of 1% of their eligible base pay up to a maximum of 25% of their eligible base pay on a pre-tax basis. Participants must complete one year of service

before making any after-tax contributions to the Plan, up to a maximum of 15% of their eligible base pay. The Plan includes automatic enrollment for all new employees who do not take affirmative action to enroll or do not decline enrollment, which enrollment will commence as soon as administratively possible after an employee begins work at the Company. Deferral contributions for employees entered under automatic enrollment is 6% of eligible base pay, and is invested in the Vanguard Target Date Funds. Eligible base pay is defined by the Plan and includes an employee's bonus, if applicable, under the Company's Management Incentive Plan and Performance Incentive Plan. Employees of the Company may elect to have their Employee Incentive Plan (EIP) bonus paid out in cash or deposited directly to their Plan account in 10% increments. All participant contributions are subject to statutory annual limitations and Plan rules. Participants may make rollover contributions to the Plan representing distributions from other qualified retirement plans.

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Varian Medical Systems, Inc. Retirement Plan

Notes to Financial Statements (Continued)

December 31, 2013 and 2012

Employer Contributions

Upon completion of one year of service with the Company, participants are entitled to receive Company matching contributions. The Company's matching contribution is 100% of a participant's pre-tax and/or after-tax contribution, up to a maximum of 6% of the participant's eligible base pay. The Company's matching contribution for an employee's EIP bonus that is deferred into the Plan is 6%. The Company may make a discretionary retirement profit sharing contribution to the Plan for participants who have completed one year of service and were employed on the last day of the fiscal year or died during the fiscal year. No discretionary Company retirement profit sharing contributions were made for the year ended December 31, 2013.

Participant Accounts

Each participant's account is credited with the participant's contributions and allocations of the Company's contributions and Plan earnings (losses) and charged with an allocation of certain administrative expenses. Allocations are based on participant contributions, eligible base pay, earnings or account balances, as defined in the Plan.

Participants are immediately fully vested in their contributions and Company contributions. Contributions made to the Plan are allocated among a variety of investment funds, including the Varian Medical Systems Stock Fund, offered by the Plan in 1% increments according to the participant's direction. Participants may transfer account balances and the investment of their future contributions among these funds.

Notes Receivable from Participants

Loans are available to participants who are either active employees or on a leave of absence. Participants are eligible to request a loan from the Plan ranging from \$1,000 to the lesser of 50% of the participant's Plan assets or \$50,000. Note receivable balances are also subject to certain other limitations as provided by the Plan. Note receivable balances are collateralized by the balance in the participant's account and bear interest at the prime rate plus 1% at the date requested. As of December 31, 2013, the interest rates on outstanding notes receivable range from 3.25% to 6% with various maturities. Principal and interest are paid ratably through payroll deductions over five years or less. Upon employment termination, the entire note receivable balance becomes immediately due and payable unless the participant arranges to repay the note receivable through automatic, periodic payments from the participant's bank account or by using a coupon book for remitting payment.

Payment of Benefits

Upon termination of service on account of death, disability or retirement, a participant or beneficiary may elect to receive either a lump sum amount equal to the value of their accounts or

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Varian Medical Systems, Inc. Retirement Plan

Notes to Financial Statements (Continued)

December 31, 2013 and 2012

annual installments over a period of years. Upon termination of service for other reasons, a participant's account will be paid in a single lump sum. If the terminated participant's account balance is \$1,000 or less, it will be distributed to the participant without his/her consent, although a rollover option will be made available. A qualified annuity is available to participants who had after-tax contributions or Company matching contributions prior to January 1, 2003. The Plan allows for in-service withdrawals upon a participant attaining the age of 59 $\frac{1}{2}$. A participant who obtains an in-service withdrawal is required to pay such fees as the Company may impose in order to defray the cost of processing the withdrawal.

Hardship Distributions

Participants are allowed to withdraw funds from the Plan in case of hardship. Withdrawals may be made no more than once a month and must be at least \$500 (or such lesser amount as is available for withdrawal). Withdrawals are subject to restrictions as to amount, frequency and intended use of the proceeds. The normal form of payment is cash.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the administrator and trustee to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Such estimates include those regarding fair value. Actual results may differ from those estimates.

Fair Value of Financial Instruments

Financial instruments are valued at fair value, refer to the section below entitled Investment Valuation. Accounts receivable and notes receivable are carried at cost which is not significantly different from fair value as the accounts receivable are for a short term and notes receivable carry a current market interest rate.

Investment Valuation

Investments of the Plan are held by Fidelity Trust and are invested in the investment options available in the Plan based solely upon instructions received from Plan participants.

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Varian Medical Systems, Inc. Retirement Plan

Notes to Financial Statements (Continued)

December 31, 2013 and 2012

Accounting standards for fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under these accounting standards are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012:

Mutual funds: Valued at the net asset value (NAV) of shares held by the Plan.

Varian Medical Systems, Inc. common stock: Valued at fair value as determined by quoted market prices.

Common/collective trust (CCT): Valued at estimated fair value, which has been determined based on the unit value of the CCT as reported by Fidelity Trust. The unit value is determined by Fidelity Trust by dividing the CCT's net assets at fair value by its units outstanding at the valuation date.

Investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Statements of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Table of Contents**Varian Medical Systems, Inc. Retirement Plan****Notes to Financial Statements (Continued)****December 31, 2013 and 2012****Income Recognition**

Purchases and sales of securities are recorded on a trade-date basis. The net appreciation in the fair value of investments consists of both net realized gains or losses and the net unrealized appreciation or depreciation on investments.

Notes Receivable from Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable are reclassified as distributions based upon the terms of the Plan document.

Payment of Benefits

Benefits are recorded when paid.

3. Investments

The following table presents the fair value of investments that represent 5% or more of the Plan's net assets as of December 31, 2013 and 2012:

<i>(in thousands of dollars)</i>	December 31,	
	2013	2012
Fidelity Growth Company K	\$ 150,655	\$ 111,818
Vanguard Institutional Index	\$ 121,445	\$ 95,816
PIMCO Total Return	\$ 89,910	\$ 105,438
Fidelity Managed Income Portfolio II	\$ 55,023	\$ 56,499
Fidelity Balanced K	\$ 54,419	\$ 45,817
NB Genesis Trust	\$ 47,963	\$ 39,484
Vanguard Target Return 2030	\$ 40,109	\$ 27,608 *

* The balance as of December 31, 2012 was less than 5% of total assets
The Plan's investments, including investments bought, sold and held, during 2013 appreciated in value by \$100,378,000 as follows:

(in thousands of dollars)

Mutual funds	\$ 97,962
Company stock fund	2,416
	\$ 100,378

Table of Contents**Varian Medical Systems, Inc. Retirement Plan****Notes to Financial Statements (Continued)****December 31, 2013 and 2012****Investment Contracts**

The Fidelity Managed Income Portfolio II Fund is designed to provide preservation of capital and returns that are consistent regardless of stock and bond market volatility. The Fund seeks to earn a high level of income consistent with those objectives. The Fund holds guaranteed investment contracts which typically have a fixed maturity. Each contract contains a provision that the issuer will, if required, repay principal at the stated contract value for the purpose of paying benefit payments (fully benefit-responsive).

The Fidelity Managed Income Portfolio II Fund is presented at fair value on the Statements of Net Assets Available for Benefits. The adjustment from fair value to contract value is based on the contract value as reported by Fidelity Trust (which represents contributions made under the contracts, plus earnings, less withdrawals and administrative expenses).

4. Fair Value Measurements

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2013 and 2012:

<i>(in thousands of dollars)</i>	Investments at Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Large growth funds	\$ 150,655	\$	\$	\$ 150,655
Large blend funds	121,445			121,445
Target date funds	116,597			116,597
Intermediate term bond funds	98,520			98,520
Small blend funds	72,402			72,402
Moderate allocation funds	54,419			54,419
Foreign large blend	30,516			30,516
Foreign large value	16,834			16,834
Inflation protected bonds	6,253			6,253
Retirement income funds	5,040			5,040
Total mutual funds	672,681			672,681
Money market funds	426			426
Common / collective trust		55,023		55,023
Varian Medical Systems, Inc. common stock	23,216			23,216

\$ 696,323	\$ 55,023	\$	\$ 751,346
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Table of Contents**Varian Medical Systems, Inc. Retirement Plan****Notes to Financial Statements (Continued)****December 31, 2013 and 2012**

<i>(in thousands of dollars)</i>	Investments at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Intermediate term bond funds	\$ 115,739	\$	\$	\$ 115,739
Large growth funds	111,818			111,818
Large blend funds	95,816			95,816
Target date funds	84,871			84,871
Small blend funds	53,052			53,052
Moderate allocation funds	45,817			45,817
Foreign large blend	25,196			25,196
Inflation protected bonds	15,658			15,658
Foreign large value	11,250			11,250
Retirement income funds	3,906			3,906
Total mutual funds	563,123			563,123
Money market funds	399			399
Common / collective trust		56,499		56,499
Varian Medical Systems, Inc. common stock	23,467			23,467
	\$ 586,989	\$ 56,499	\$	\$ 643,488

The carrying amounts equal fair value of the Plan's financial instruments at December 31, 2013 and 2012.

5. Party-In-Interest and Related Party Transactions

As allowed by the Plan, participants may elect to invest up to 25% of their contributions and/or 25% of their account balance in the Varian Medical Systems Stock Fund. Investments in the Company's common stock at December 31, 2013, and 2012 consisted of 376,493 and 419,644 shares, respectively, with fair market values of approximately \$23,216,000 and \$23,467,000, respectively. The Varian Medical Systems Stock Fund invests primarily in the Company's common stock. The remainder of the Varian Medical Systems Stock Fund, approximately \$426,000 and \$399,000 at December 31, 2013, and 2012, respectively, is invested in the Fidelity Institutional Money Market Portfolio to allow for timely handling of exchanges, withdrawals and distributions.

Certain investments are shares of mutual funds managed by an affiliate of Fidelity Trust, and therefore these transactions qualify as party-in-interest. Any purchases and sales of these funds are open market transactions at fair market value. Consequently, such transactions are permitted under the provisions of the Plan and are exempt from the

prohibition of party-in-interest transactions under ERISA. Administrative expenses paid by the Plan for the year ended December 31, 2013 were approximately \$225,000.

6. Income Tax Status

The Plan obtained its current determination letter, in which the Internal Revenue Service stated that the Plan design is in compliance with the applicable requirements of the Internal Revenue Code, on February 6, 2013. Therefore, no provision for income taxes has been included in the Plan's financial statements.

Table of Contents**Varian Medical Systems, Inc. Retirement Plan****Notes to Financial Statements (Continued)****December 31, 2013 and 2012**

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan has not recorded a liability for any uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan Administrator believes that the Plan is no longer subject to income tax examinations for the years prior to 2010.

7. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

8. Risks and Uncertainties

The Plan provides participants with investment options in mutual funds, a CCT, and Varian Medical Systems, Inc. common stock. These investment securities are exposed to various risks, such as those associated with interest rates, market conditions and credit-worthiness of the securities issuers. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect participants' account balances and the amounts reported in the financial statements.

9. Reconciliation to Form 5500

The following schedule is a reconciliation of net assets available for benefits and changes in net assets available for benefits per the financial statements to the Form 5500 as of December 31, 2013 and 2012:

<i>(in thousands of dollars)</i>	2013	2012
Net assets available for benefits per the financial statements	\$ 759,561	\$ 650,548
Adjustment from contract value to fair value for fully benefit- responsive investment contracts	775	1,532
Net assets available for benefits per the Form 5500	\$ 760,336	\$ 652,080
Change in net assets available for benefits per the financial statements	\$ 109,013	

Change in adjustment from contract value to fair value for fully benefit-responsive investment contracts	(757)
Change in net assets available for benefits per the Form 5500	\$ 108,256

10. Subsequent Events

In accordance with accounting standards affecting disclosures of subsequent events, the Plan Administrator evaluated subsequent events for recognition and disclosure through the date which

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Varian Medical Systems, Inc. Retirement Plan

Notes to Financial Statements (Continued)

December 31, 2013 and 2012

these financial statements were issued. Effective January 1, 2014, the revenue credit arrangement annual funding was increased to \$115,000. The Plan Administrator concluded that no other material subsequent event has occurred since December 31, 2013 that requires recognition or disclosure in such financial statements.

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Schedule H, Item 4i Schedule of Assets (Held at End of
Year)****EIN: 94-2359345
Plan #: 002****December 31, 2013**

(a)	(b)	(c)	(e)
		Description of Investment, including	
Identity of Issuer, Borrower,	Maturity Date, Rate of Interest,		
Lessor or Similar Party	Collateral, Par, or Maturity Value		Current Value
* Fidelity Growth Company K		Mutual Fund	\$ 150,655,248
Vanguard Institutional Index		Mutual Fund	121,445,378
PIMCO Total Return		Mutual Fund	89,910,366
* Fidelity Balanced K		Mutual Fund	54,418,850
NB Genesis Trust		Mutual Fund	47,963,268
Vanguard Target Ret 2030		Mutual Fund	40,109,292
Vanguard Target Ret 2020		Mutual Fund	33,377,687
Vanguard Target Ret 2040		Mutual Fund	27,313,914
* Fidelity Diversified International K		Mutual Fund	24,829,496
Vanguard Small Cap Index Inst.		Mutual Fund	24,438,319
Dodge & Cox International Stock		Mutual Fund	16,833,793
Vanguard Total Bond Market Inst.		Mutual Fund	8,609,953
Vanguard Target Ret 2010		Mutual Fund	7,917,822
Vanguard Target Ret 2050		Mutual Fund	7,878,416
PIMCO Real Return Institutional		Mutual Fund	6,252,788
* Spartan International Index		Mutual Fund	5,686,240
Vanguard Target Ret Inc		Mutual Fund	5,040,167
* Fidelity Managed Income Portfolio II		Common/Collective Trust	^ 54,248,884
* Varian Medical Systems, Inc. Stock		Common Stock	23,215,651
* Fidelity Institutional Money Market		Cash, various interest	426,076
* Participant Loans		Interest rates from 3.25% to 6%, various	8,200,097
		maturities	
			\$ 758,771,705

* Party-in-interest.

^ Presented at contract value.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee (or other persons who administer the employee benefit plan) has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

**VARIAN MEDICAL SYSTEMS INC.
RETIREMENT PLAN**

By: Varian Medical Systems, Inc.

By: /s/ Wendy Scott
Wendy Scott
Senior Vice President, Chief Human
Resources Officer

Date: June 23, 2014