VARIAN MEDICAL SYSTEMS INC
Form 10-Q
May 08, 2018

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 March 30, 2018
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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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: 91,504,711 shares of common stock, par value $1 per share, outstanding as of April 27, 2018.

VARIAN MEDICAL SYSTEMS, INC.
FORM 10-Q for the Quarter Ended March 30, 2018
INDEX

Part I.	Financial Information	3
Item 1.	Unaudited Financial Statements	3
	Condensed Consolidated Statements of Earnings (Loss)	3
	Condensed Consolidated Statements of Comprehensive Earnings (Loss)	4
	Condensed Consolidated Balance Sheets	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to the Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	45
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	67
Item 4.	Controls and Procedures	69
Part II.	Other Information	70
Item 1.	Legal Proceedings	70
Item 1A.	Risk Factors	70
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	72
Item 3.	Defaults Upon Senior Securities	72
Item 4.	Mine Safety Disclosures	72
Item 5.	Other Information	72
Item 6.	Exhibits	73
Signatures		74

PART I
FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

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

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Revenues:				
Product	$393.8	$ 364.9	$759.4	$ 674.1
Service	336.1	298.3	649.0	590.6
Total revenues	729.9	663.2	1,408.4	1,264.7
Cost of revenues:				
Product	264.2	246.9	488.1	453.1
Service	147.2	140.7	299.0	269.0
Total cost of revenues	411.4	387.6	787.1	722.1
Gross margin	318.5	275.6	621.3	542.6
Operating expenses:				
Research and development	58.9	53.3	114.8	103.2
Selling, general and administrative	134.5	131.6	258.5	292.7
Impairment charges	11.1	—	11.1	38.3
Acquisition-related expenses	19.7	0.6	21.2	0.9
Total operating expenses	224.2	185.5	405.6	435.1
Operating earnings	94.3	90.1	215.7	107.5
Interest income	3.6	2.7	6.8	7.5
Interest expense	(2.3)	(2.4)	(4.4)	(5.3)
Earnings from continuing operations before taxes	95.6	90.4	218.1	109.7
Taxes on earnings	22.4	20.9	257.1	32.2
Net earnings (loss) from continuing operations	73.2	69.5	(39.0)	77.5
Net loss from discontinued operations	—	(13.3)	—	(6.8)
Net earnings (loss)	73.2	56.2	(39.0)	70.7
Less: Net (loss) earnings attributable to noncontrolling interests	—	(0.1)	0.1	0.5
Net earnings (loss) attributable to Varian	$73.2	$ 56.3	$(39.1)	$ 70.2
Net earnings (loss) per share - basic				
Continuing operations	$0.80	$ 0.75	$(0.43)	$ 0.83
Discontinued operations	—	(0.15)	—	(0.08)
Net earnings (loss) per share - basic	$0.80	$ 0.60	$(0.43)	$ 0.75
Net earnings (loss) per share - diluted				
Continuing operations	$0.79	$ 0.74	$(0.43)	$ 0.82
Discontinued operations	—	(0.14)	—	(0.08)
Net earnings (loss) per share - diluted	$0.79	$ 0.60	$(0.43)	$ 0.74

Shares used in the calculation of net earnings per share:				
Weighted average shares outstanding - basic	91.5	93.0	91.6	93.2
Weighted average shares outstanding - diluted	92.6	93.7	91.6	93.9

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
(In millions)	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Net earnings (loss)	$73.2	$ 56.2	$(39.0)	$ 70.7
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 benefit of $0.0* and $0.1 for the three and six months ended March 30, 2018, respectively, and $0.0* and $0.1 for the corresponding periods of fiscal year 2017, respectively.	(0.3)	(0.1)	(0.5)	(0.2)
Amortization of net actuarial loss included in net periodic benefit cost, net of tax expense of ($0.1) and ($0.3) for three and six months ended March 30, 2018, respectively, and ($0.2) and ($0.4) for the corresponding periods of fiscal year 2017, respectively.	0.7	0.9	1.2	1.8
	0.4	0.8	0.7	1.6
Derivative instruments:				
Change in unrealized loss, net of tax benefit of $0.2 and $0.3 for the three and six months ended March 30, 2018.	(0.4)	—	(0.6)	—
Reclassification adjustments, net of tax expense of ($0.3) for both the three and six months ended March 30, 2018.	0.7	—	0.6	—
	0.3	—	—	—
Currency translation adjustment	6.6	2.9	9.7	(10.2)
Other comprehensive earnings (loss)	7.3	3.7	10.4	(8.6)
Comprehensive earnings (loss)	80.5	59.9	(28.6)	62.1
Less: Comprehensive (loss) earnings attributable to noncontrolling interests	—	(0.1)	0.1	0.5
Comprehensive earnings (loss) attributable to Varian	$80.5	$ 60.0	$(28.7)	$ 61.6

* Tax expense or benefit related to the periods presented are not material.

See accompanying notes to the condensed consolidated financial statements.

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

(In millions, except par values)	March 30, 2018	September 29, 2017
Assets		
Current assets:		
Cash and cash equivalents	$739.9	$ 716.2
Trade and unbilled receivables, net of allowance for doubtful accounts of $40.3 at March 30, 2018 and $45.9 at September 29, 2017	936.7	961.5
Inventories	433.8	417.7
Prepaid expenses and other current assets	226.4	190.3
Current assets of discontinued operations	8.6	11.1
Total current assets	2,345.4	2,296.8
Property, plant and equipment, net	247.0	255.3
Goodwill	236.2	222.6
Intangible assets	82.0	71.6
Deferred tax assets	114.9	147.3
Other assets	282.0	300.8
Total assets	$3,307.5	$ 3,294.4
Liabilities and Equity		
Current liabilities:		
Accounts payable	$164.9	$ 162.3
Accrued liabilities	365.1	374.9
Deferred revenues	766.5	755.4
Short-term borrowings	230.0	350.0
Current liabilities of discontinued operations	3.7	2.5
Total current liabilities	1,530.2	1,645.1
Other long-term liabilities	320.7	127.4
Total liabilities	1,850.9	1,772.5
Commitments and contingencies (Note 10)		
Equity:		
Varian stockholders' equity:		
Preferred stock of $1 par value: 1.0 shares authorized; none issued and outstanding	—	—
Common stock of $1 par value: 189.0 shares authorized; 91.7 shares issued and outstanding at both March 30, 2018, and at September 29, 2017, respectively	91.7	91.7
Capital in excess of par value	754.7	716.1
Retained earnings	664.2	778.6
Accumulated other comprehensive loss	(58.4)	(68.8)
Total Varian stockholders' equity	1,452.2	1,517.6
Noncontrolling interests	4.4	4.3
Total equity	1,456.6	1,521.9
Total liabilities and equity	$3,307.5	$ 3,294.4

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 millions)	March 30, 2018	March 31, 2017
Cash flows from operating activities:		
Net (loss) earnings	$ (39.0)	$ 70.7
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	21.2	23.6
Depreciation	25.4	31.9
Amortization of intangible assets	10.4	9.1
Deferred taxes	41.8	(7.5)
Loss on hedges related to the Sirtex acquisition	16.4	—
Provision for doubtful accounts receivable	2.0	38.8
Impairment charges	11.1	38.3
Other, net	—	(0.7)
Changes in assets and liabilities:		
Trade and unbilled receivables	28.4	(14.5)
Inventories	(10.9)	(14.3)
Prepaid expenses and other assets	—	(55.5)
Accounts payable	0.9	(9.9)
Accrued liabilities and other long-term liabilities	125.3	(25.5)
Deferred revenues	11.5	29.9
Net cash provided by operating activities	244.5	114.4
Cash flows from investing activities:		
Purchases of property, plant and equipment	(17.8)	(32.1)
Acquisitions, net of cash acquired	(29.6)	—
Issuance of notes receivable	—	(11.5)
Principal payments on notes receivable	5.2	—
Investment in available-for-sale securities	(6.0)	(1.1)
Sale of available-for-sale securities	8.0	—
Loans to CPTC	(5.3)	—
Purchase of foreign currency option related to the Sirtex acquisition	(5.5)	—
Investment in privately-held companies	(3.1)	(5.0)
Amounts paid to deferred compensation plan trust account	(1.3)	(4.4)
Other, net	0.3	0.9
Net cash used in investing activities	(55.1)	(53.2)
Cash flows from financing activities:		
Repurchases of common stock	(92.7)	(222.3)
Proceeds from issuance of common stock to employees	44.6	25.4
Employees' taxes withheld and paid for restricted stock and restricted stock units	(11.1)	(10.5)
Cash received from Varex Imaging Corporation	—	200.0
Cash and cash equivalents contributed to Varex Imaging Corporation	—	(81.3)
Borrowings under credit facility agreement	234.3	90.0
Repayments under credit facility agreement	(209.3)	(100.0)
Net repayments under the credit facility agreements with maturities less than 90 days	(120.0)	(107.0)
Other	—	0.7
Net cash used in financing activities	(154.2)	(205.0)

Effects of exchange rate changes on cash and cash equivalents	(11.5)	7.3
Net increase (decrease) in cash and cash equivalents	23.7	(136.5)
Cash and cash equivalents at beginning of period	716.2	843.5
Cash and cash equivalents at end of period	$739.9	$ 707.0

See accompanying notes to the condensed consolidated financial statements.

6

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Varian Medical Systems, Inc. (“VMS”) and subsidiaries (collectively, the “Company”) designs, manufactures, sells and services hardware and software products for treating cancer with radiotherapy, stereotactic radiosurgery, stereotactic body radiotherapy, and brachytherapy. Software solutions also include informatics software for information management, clinical knowledge exchange, patient care management, practice management and decision-making support for comprehensive cancer clinics, radiotherapy centers and medical oncology practices. The Company also develops, designs, manufactures, sells and services proton therapy products and systems for cancer treatment.

Distribution

On January 28, 2017 (the "Distribution Date"), the Company completed the separation and distribution (the "Distribution") of Varex Imaging Corporation ("Varex"), the Company's former Imaging Components business segment. On the Distribution Date, each of Varian's stockholder of record as of the close of business on January 20, 2017 (the "Record Date") received 0.4 of a share of Varex common stock for every one share of Varian common stock as of the Record Date. Varex is now an independent publicly traded company and is listed on The NASDAQ Global Select Market under the ticker “VREX.” Varian continues to trade on the New York Stock Exchange under the ticker “VAR.” See Note 2, "Discontinued Operations" for additional information.

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 29, 2017 (the “2017 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 March 30, 2018 and September 29, 2017, results of operations and statements of comprehensive earnings (loss) for the three and six months ended March 30, 2018 and March 31, 2017, and cash flows for the six months ended March 30, 2018 and March 31, 2017. The results of operations for the six months ended March 30, 2018 are not necessarily indicative of the operating results to be expected for the full fiscal year or any future period.

At the beginning of the Company's fiscal year 2018, the Company early adopted the new revenue recognition Accounting Standard Codification 606 "Revenues from Contracts with Customers" ("ASC 606") by using the full retrospective method. All financial statements and disclosures have been recast to comply with ASC 606. See "Recently Adopted Accounting Pronouncements" below for further information.

The historical financial position and results of operations of the Imaging Components business and costs relating to the Distribution are reported in the condensed consolidated financial statements as discontinued operations for all the periods presented. Information in the accompanying notes to the condensed consolidated financial statements have been recast to reflect the effect of the Distribution. The Condensed Consolidated Statements of Comprehensive Earnings (Loss) and Cash Flows have not been recast to reflect the effect of the Distribution.

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 2018 is the 52-week period ending September 28, 2018. Fiscal year 2017 was the 52-week period that ended on September 29, 2017. The fiscal quarters ended March 30, 2018 and March 31, 2017 were both 13-week periods.

7

Principles of Consolidation

The condensed consolidated financial statements include those of VMS and its wholly-owned and majority-owned or controlled 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.

Significant Accounting Policies

The Company's significant accounting policies are detailed in "Note 1: Summary of Significant Accounting Policies" within Item 8 of the Company's Annual Report on Form 10-K for the year ended September 29, 2017. Significant changes to these accounting policies as a result of adoption of ASC 606 are discussed below:

Revenue Recognition

The Company's revenues are derived primarily from the sale of radiotherapy and proton therapy hardware and software products, support, training and maintenance of all those products, installation services and the sale of parts. The Company accounts for a contract with a customer when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

The Company's revenues are measured based on consideration specified in the contract with each customer, net of any sales incentives and amounts collected on behalf of third parties such as sales taxes. The Company recognizes revenues as the performance obligations are satisfied by transferring control of the product or service to a customer. The majority of the Company's revenue arrangements consist of multiple performance obligations including hardware, software, and services. Determining the stand-alone selling price ("SSP") and allocation of consideration from an arrangement to the individual performance obligations, and the appropriate timing of revenue recognition are significant judgments with respect to these arrangements.

The Company's products are generally not sold with a right of return, and the Company does not provide credits or incentives, which may be required to be accounted for as variable consideration when estimating the amount of revenue to be recognized.

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if the Company expects the benefit of those costs to be longer than one year. The Company applies a practical expedient to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. These costs mainly include the Company's internal sales force compensation program; under the terms of these programs these are generally earned and the costs are recognized at the time the revenue is recognized.

The majority of the Company’s products and services are sold in bundled arrangements (e.g., hardware, software, and services). For bundled arrangements, the Company accounts for individual products and services separately if they are distinct, that is, if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The consideration (including any discounts) is allocated between separate products and services in a bundle based on their individual SSP. The SSP is determined based on observable prices at which the Company separately sells the products and services. If an SSP is not directly observable, then the Company will estimate the SSP considering marketing conditions, entity-specific factors, and information about the customer or class of customer that is reasonably available.

The following is a description of the principal activities, separated by reportable segment, from which the Company generates its revenues.

Oncology Systems

The Company's Oncology Systems linear accelerators are generally sold in a bundled arrangement with hardware and software accessory products that enhance efficiency and enable delivery of advanced radiotherapy and radiosurgery treatments, however, certain products are occasionally sold on a stand-alone basis. The majority of machine and software sales include installation services and training. Delivery of different elements in a revenue arrangement often span more than one reporting period. For example, a linear accelerator and software may be delivered in one reporting period, but the related installation of those products may be completed in a later period. Hardware and software extended maintenance and service contracts are occasionally sold during the initial product sale, but the majority are sold separately near or at the end of the initial warranty period. Revenues related to extended warranty and service contracts are earned after the expiration of the initial warranty period.

Payment terms and conditions vary by contract type, although terms are generally commensurate with a significant milestone, such as contract signing, shipment, delivery, acceptance or service commencement. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined its contracts generally do not include a significant financing component. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products and services, not to receive financing from the Company's customers, such as invoicing at the beginning of a contract term with revenue recognized ratably over the contract period for a service contract. Payment terms can also vary based on the type of customer, such as government purchases. There are occasions where the Company provides extended payment terms in which case a portion of the transaction price is allocated to imputed interest income.

From time to time, the Company's contracts are modified to account for additional, or change existing, performance obligations. The Company's contract modifications are generally accounted for prospectively.

Hardware Products and Installation

Hardware products may include software that the hardware is dependent on and highly interrelated with and cannot operate without. The Company typically has a standard base configuration for its hardware products, but there are typically multiple options and configuration choices. Revenues from the sale of hardware are recognized when the Company transfers control to the customer.

Product installation includes uncrating, moving the machine to the treatment room, connection and validating configuration. In addition, a number of testing protocols are completed to confirm the equipment is performing to the contracted specifications. The Company recognizes revenues for hardware installation over time as the customer receives and consumes benefits provided as the Company performs the installation services.

Software Products and Installation

Software products include information management, treatment planning, image processing, clinical knowledge exchange, patient care management, decision-making support, and practice management software. Software installation includes transferring software to the customer’s computers, configuration of the software and potentially data migration. The Company recognizes revenues for software and software installation upon the customer's acceptance of the software and installation services.

Service

Service revenues include revenues from initial and extended software support agreements, extended hardware warranty agreements, training, paid service arrangements when a customer does not have an extended warranty and parts that are sold by the service department.

Revenues from hardware and software support agreements are accounted for ratably over the term of the agreement. Services and training revenues are recognized in the period the services and training are performed. Revenues for sales of parts are recognized when the parts are delivered to the customer and control is transferred.

Warranties
The Company's sale of hardware includes a one-year warranty. The Company uses the cost accrual method to account for assurance-type warranties. The standard warranty provision further includes services in addition to an assurance-type warranty (preventative maintenance inspections, help desk support, when and if available operating system upgrades). These service-type warranty features are recorded as a separate performance obligation and recognized ratably over the one-year warranty period.
Varian Particle Therapy ("VPT")
The manufacturing of the major components of a proton therapy system, installation, and commissioning typically lasts 18 to 24 months. The Company's proton therapy system is highly customized. A proton therapy system typically includes hardware, software that the hardware is dependent upon and highly interrelated with, and without which the hardware cannot operate, and installation. The Company also sells software products that include information management, treatment planning, image processing, clinical knowledge exchange, patient care management, decision-making support, and practice management software, and software installation.
The Company provides operations and maintenance services related to the proton therapy system under a separate arrangement. These contracts are typically executed at or about the same time as the proton therapy system contracts; however, the pricing and performance of the proton therapy system contracts are not typically related to the pricing or performance of the operations and maintenance contracts. Therefore, the Company recognizes operations and maintenance services as a separate performance obligation.
Under the typical payment terms of the Company's fixed-price contracts, the customer pays the Company an up-front advance payment and then performance-based payments based on quantifiable measures of performance or on the achievement of specified events or milestones. As the revenue is recognized over time relative to the costs incurred and the customer billing milestones are typically event driven, this may result in revenue recognized in excess of billings at some point during the contract which the Company presents as unbilled receivables on the Condensed Consolidated Balance Sheets. Amounts billed and due from the Company's customers are classified as trade accounts receivable on the Condensed Consolidated Balance Sheets. In most contracts, the Company is entitled to receive an advance payment at the beginning of the contract. The Company recognizes a liability for these advance payments in excess of revenue recognized and presents it as deferred revenues on the Condensed Consolidated Balance Sheets. The advance payment typically is not considered a significant financing component because it is used to ensure the customer's commitment to the project.
The Company recognizes revenue for its proton therapy systems over time because the customer controls the work in process, the Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right to payment for performance completed to date.
Due to the nature of the work required to be performed on many of the Company's performance obligations, the estimation of total revenues and costs at completion is complex, subject to many variables and requires significant judgment. The Company's contracts generally do not include award fees, incentive fees or other provisions that may be considered variable consideration.
The Company has a standard quarterly progress review process in which management reviews the progress and execution of the Company's performance obligations. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and costs to achieve the schedule (e.g., the number and type of milestone events), technical and other contract requirements. Management must make assumptions and estimates regarding the complexity of the work to be performed, the availability of materials and outside services, the length of time to complete the performance obligation and labor and overhead cost rates, among other significant judgments. Based on this analysis, any quarterly adjustments to revenues, cost of revenues, and the related impact to operating earnings are recognized as necessary in the period they become known on a cumulative catch-up basis.

When estimates of total costs to be incurred on a performance obligation exceed total estimates of revenues to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined. Similar to the Oncology Systems segment, the Company recognizes VPT revenues for software and installation upon completion and acceptance of the software and installation services.

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

Unfulfilled Performance Obligations for Oncology Systems and VPT

The following table represents the Company's unfulfilled performance obligations as of March 30, 2018 and the estimated revenue expected to be recognized in the future related to these unfulfilled performance obligations:

	Fiscal years of revenue recognition			
(In millions)	2018	2019	2020	Thereafter
Unfulfilled Performance Obligations	$1,060.8	$2,089.5	$729.4	$ 1,276.3

The table above includes both product and service unfulfilled performance obligations, which includes a component of service performance obligations which have not been invoiced. The time bands reflect management's best estimate of when the Company will transfer control to the customer and may change based on timing of shipment, readiness of customers' facilities for installation, installation requirements, and availability of products or customer acceptance terms.

As part of the Company's adoption of ASC 606, the Company elected to use the following practical expedients (i) to exclude disclosures of transaction prices allocated to remaining performance obligations when the Company expects to recognize such revenue for all periods prior to the date of initial application of ASC 606 (ii) not to adjust the promised amount of consideration for the effects of a significant financing component when the Company expects, at contract inception, that the period between the Company's transfer of a promised product or service to a customer and when the customer pays for that product or service will be one year or less (iii) to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less, which mainly includes the Company's internal sales force compensation program and certain partner sales incentive programs (iv) not to recast revenue for contracts that begin and end in the same fiscal period, and (v) not to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.

Contract Balances

The timing of revenue recognition, billings and cash collections results in trade and unbilled receivables, and deferred revenues on the Condensed Consolidated Balance Sheet. In Oncology Systems, the Company often collects an advance payment and the balance is typically billed on a combination of delivery and/or acceptance. In VPT, the Company usually collects an advance payment and additional amounts are billed as work progresses in accordance with agreed-upon contractual terms upon achievement of contractual milestones. Service contracts are usually billed at the beginning of the contract period or at periodic intervals (e.g. monthly or quarterly) during the contract which could result in a contract asset and contract liability. At times, billing occurs subsequent to revenue recognition, resulting in an unbilled receivable which represents a contract asset. However, when the Company receives advances or deposits from customers, which can be higher in the initial stages of the contract, particularly international contracts in the case of Oncology Systems, before revenue is recognized, this results in deferred revenues which represents a contract liability. These contract assets and liabilities are reported as unbilled receivables and deferred revenues, respectively, on the Condensed Consolidated Balance Sheet on a contract-by-contract basis at the end of each reporting period.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASC 606. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. Effective September 30, 2017, the Company elected to early adopt the requirements of ASC 606 using the full retrospective method, which required the Company to recast the prior reporting periods presented.

The most significant impacts on adoption were in the Oncology Systems segment and are primarily due to the removal of the contingent revenue cap which limited revenue recognition to the amount of cash received from the customer, the elimination of the mandatory revenue deferral for software sold with extended payment terms and the removal of the vendor-specific objective evidence requirement for the separation of bundled software products. The Company also identified additional performance obligations for training and certain elements of warranty that are recognized as separate performance obligations, and identified that certain new performance obligations were previously accounted

for as part of hardware products and will result in a change in classification of revenues from product to service. In preparation for adoption of the standard, the Company implemented internal controls and key system functionalities to enable the preparation of financial information.

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

The Company has recast its condensed consolidated financial statements from amounts previously reported due to the adoption of ASC 606. Select Condensed Consolidated Statements of Earnings (Loss) line items, which reflect the adoption of ASC 606 are as follows:

	Three Months Ended March 31, 2017			Six Months Ended March 31, 2017		
(In millions, except per share amounts)	As Previously Reported	Adjustments	As Adjusted	As Previously Reported	Adjustments	As Adjusted
Revenues:						
Product	$386.1	$ (21.2)	$364.9	$729.7	$ (55.6)	$674.1
Service	268.9	29.4	298.3	537.1	53.5	590.6
Total revenues	655.0	8.2	663.2	1,266.8	(2.1)	1,264.7
Cost of revenues:						
Product	254.2	(7.3)	246.9	478.6	(25.5)	453.1
Service	125.5	15.2	140.7	237.2	31.8	269.0
Total cost of revenues	379.7	7.9	387.6	715.8	6.3	722.1
Gross margin	275.3	0.3	275.6	551.0	(8.4)	542.6
Earnings from continuing operations before taxes	90.1	0.3	90.4	118.1	(8.4)	109.7
Taxes on earnings	20.8	0.1	20.9	34.3	(2.1)	32.2
Net earnings from continuing operations	69.3	0.2	69.5	83.8	(6.3)	77.5
Net loss from discontinued operations	(13.3)	—	(13.3)	(6.8)	—	(6.8)
Net earnings	$56.0	$ 0.2	$56.2	$77.0	$ (6.3)	$70.7
Net earnings attributable to Varian	$56.1	$ 0.2	$56.3	$76.5	$ (6.3)	$70.2
Diluted net earnings per share from continuing operations attributable to Varian	$0.74	$ —	$0.74	$0.89	(0.07)	$0.82

Select Condensed Consolidated Statements of Balance Sheet line items, which reflect the adoption of ASC 606 are as follows:

	September 29, 2017		
(In millions)	As Previously Reported	Adjustments	As Adjusted
Assets:			
Trade and unbilled receivables, net	$823.5	$ 138.0	$ 961.5
Inventories	439.7	(22.0)	417.7
Prepaid expenses and other current assets	199.8	(9.5)	190.3
Deferred tax assets	138.8	8.5	147.3
Liabilities and Equity:			
Accrued liabilities	394.7	(19.8)	374.9
Deferred revenues	640.6	114.8	755.4
Other long-term liabilities	130.0	(2.6)	127.4
Retained earnings	756.0	22.6	778.6

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

In addition, the cumulative effect of ASC 606 to the Company's retained earnings at October 2, 2015 was $56.7 million. Adoption of ASC 606 had no impact to net cash from or used in operating, investing or financing activities in the Company's Condensed Consolidated Statements of Cash Flows.

In the first quarter of fiscal year 2018, the Company elected to early adopt the FASB guidance which targeted improvements to the accounting for hedging activities. The guidance allows companies to more accurately present the economic effects of risk management activities in the financial statements. This amendment is required to be applied prospectively. The primary impact of the adoption is the required disclosure changes. The adoption of the new guidance did not have a material impact on the Company's condensed consolidated financial statements.

In the first quarter of fiscal year 2018, the Company adopted the FASB guidance related to employee share-based payments. The amendment simplifies several aspects of the accounting for employee share-based payments including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company elected to use the prospective transition method for the presentation of excess tax benefits on the statement of cash flows. Under the new standard, excess tax benefits are now included in taxes on earnings in the Consolidated Statement of Earnings (Loss). The Company elected to recognize forfeitures as they occur, and the impact of this change in accounting policy was recorded as a $0.4 million reduction, net, to its beginning retained earnings balance as of September 30, 2017. See Note 12, "Income Taxes" for more information on the impact of this accounting guidance. The remaining provisions of this amendment did not have a material impact on the Company's condensed consolidated financial statements.

In the first quarter of fiscal year 2018, the Company adopted the FASB accounting guidance related to inventory measurement. The amendment requires inventory measured using first-in, first-out (FIFO) or average cost to be subsequently measured at the lower of cost and net realizable value, thereby simplifying the current guidance that requires an entity to measure inventory at the lower of cost or market. This amendment is required to be applied prospectively. The adoption of this new guidance did not have a material impact to the Company’s condensed consolidated financial statements.

In the first quarter of fiscal year 2018, the Company elected to early adopt the FASB guidance on the definition of a business in accounting for transactions when determining whether they represent acquisitions or disposals of assets or of a business. The Company adopted this amendment prospectively. The adoption of this new guidance did not have an impact to the Company’s condensed consolidated financial statements.

In the first quarter of fiscal year 2018, the Company elected to early adopt the FASB guidance simplifying the measurement of goodwill by eliminating the Step 2 impairment test. The new guidance requires companies to perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The Company adopted this amendment prospectively. The adoption of this new guidance did not have an impact to the Company’s condensed consolidated financial statements.

Recent Accounting Standards or Updates Not Yet Effective

In February 2018, the FASB amended its guidance that will allow companies to reclassify disproportionate tax effects in accumulated other comprehensive income caused by the Tax Cuts and Jobs Act to retained earnings. The amendment will be effective for the Company beginning in its first quarter of fiscal year 2020. Early adoption is permitted. The Company is evaluating the impact of adopting this amendment to its condensed consolidated financial statements.

In May 2017, the FASB provided guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The guidance is effective for the Company beginning in the first quarter of fiscal 2019. Early adoption is permitted. The Company does not expect that the adoption of this guidance will have a material impact on its condensed consolidated financial statements.

In March 2017, the FASB amended its guidance on the accounting related to defined benefit plans and other post-retirement benefits. This amendment requires the service cost component of net periodic pension and post-retirement benefit cost be presented in the same line item as other employee compensation costs, while the other

components be presented separately as non-operating income (expense). The amendment will be effective for the Company beginning in its first quarter of fiscal year 2019. Early adoption is permitted. The Company is evaluating the impact of adopting this amendment to its condensed consolidated financial statements.

In November 2016, the FASB amended its guidance on the classification and presentation of restricted cash in the statement of cash flow. The amendment requires entities to include restricted cash and restricted cash equivalents in its cash and cash

equivalents in the statement of cash flows. The amendment will be effective for the Company beginning in its first quarter of fiscal year 2019 with early adoption permitted. The amendment is required to be adopted retrospectively. The amendment is not expected to have a material impact to the Company’s condensed consolidated financial statements.

In October 2016, the FASB amended its guidance for tax accounting for intra-entity asset transfers. The amendment removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The amendment will be effective for the Company beginning in its first quarter of fiscal year 2019. Early adoption is permitted. The amendment is required to be adopted on a modified retrospective basis. The Company is evaluating the impact of adopting this amendment to its condensed consolidated financial statements.

In August 2016, the FASB issued an amendment to its accounting guidance related to the classification of certain cash receipts and cash payments. The amendment was issued to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. The amendment will be effective for the Company beginning in its first quarter of fiscal year 2019 with early adoption permitted. The amendment is required to be adopted retrospectively unless it is impracticable. The Company is evaluating the impact of adopting this amendment to its condensed consolidated financial statements.

In June 2016, the FASB issued an amendment to its accounting guidance related to impairment of financial instruments. The amendment adds a new impairment model that is based on expected losses rather than incurred losses. The amendment will be effective for the Company beginning in its first quarter of fiscal year 2021 with early adoption permitted beginning in the first quarter of fiscal year 2020. The Company is evaluating the impact of adopting this amendment to its condensed consolidated financial statements.

In February 2016, the FASB issued a new standard on accounting for leases. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new standard will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of earnings. The new standard is required to be adopted using a modified retrospective method to each prior reporting period presented with various optional practical expedients. The new standard will be effective for the Company beginning in its first quarter of fiscal year 2020 with early adoption permitted. The Company is evaluating the impact of adopting this new standard to its condensed consolidated financial statements.

In January 2016, the FASB issued an amendment to its accounting guidance related to recognition and measurement of financial assets and financial liabilities. The amendment addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendment will be effective for the Company beginning in its first quarter of fiscal year 2019. The Company is evaluating the impact of adopting this amendment to its condensed consolidated financial statements.

2. DISCONTINUED OPERATIONS

On January 28, 2017, the Company completed the Distribution of Varex. In connection with the Distribution, the Company and Varex entered into a separation and distribution agreement as well as various other agreements that governs the relationships between the parties, including a transition services agreement, a tax matters agreement, an employee matters agreement, an intellectual property matters agreement, a trademark license agreement and supply/distribution agreements. The separation and distribution agreement and other agreements related to the separation were entered into on January 27, 2017. Services under the transition services agreement were for 60 days to 24 months following the Distribution Date, depending on the service provided.

On January 25, 2017, the Company entered into a term facility ("Varex Term Facility"), and on the same day drew down $203.0 million under the facility. In conjunction with the Distribution, the Company used $200.0 million of those proceeds to repay a portion of its outstanding 2013 Revolving Credit Facility. At the Distribution Date, the Company contributed $81.3 million in cash and cash equivalents to Varex as part of the distribution and transfer of

certain legal entities. In fiscal year 2017, the Company received $38.7 million from Varex for excess cash and cash equivalents contributed at the Distribution Date. In fiscal year 2017, the Company recorded a $334.1 million reduction to retained earnings as a result of the Distribution of Varex, which included assets and liabilities transferred to Varex on the Distribution Date, including $203.0 million of debt outstanding under the Varex Term Facility.

Following the Distribution, Varex retained a specified amount of cash that would enable Varex to pay the Company consideration for certain net assets outside of the United States that were required to be transferred to Varex but which did not occur on the Distribution Date due to not having received regulatory approvals for such transfers. Once those regulatory

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

approvals are received, the Company will receive a cash payment from Varex in consideration for such net asset transfers. At March 30, 2018, the Company had $4.9 million in assets (net of liabilities) on its Condensed Consolidated Balance Sheet related to Varex net assets to be transferred. The Company expects the remainder of Varex's net assets will be transferred in fiscal year 2018. If the Company does not receive the necessary regulatory approvals during a specified time period, Varex will be required to transfer such cash amounts to Varian.

The financial results of Varex are presented as net earnings from discontinued operations on the Condensed Consolidated Statements of Earnings (Loss), and primarily include the financial results of the Company's former Imaging Components operating segment and costs relating to the Distribution. Corporate costs previously allocated to the Company's Imaging Components operating segment are not included in discontinued operations. See Note 17, "Segment Information" for more information related to corporate allocated costs.

The following table summarizes the key components of net loss from discontinued operations:

(In millions)	Three Months Ended [(1)] March 31, 2017	Six Months Ended March 31, 2017
Revenues	$ 42.5	$ 194.0
Cost of revenues	24.6	117.3
Gross margin	17.9	76.7
Operating expenses [(2)]	29.7	76.1
Operating earnings	(11.8)	0.6
Taxes on earnings	1.5	7.4
Net loss from discontinued operations	(13.3)	(6.8)
Less: Net earnings from discontinued operations attributable to noncontrolling interests	—	0.1
Net loss from discontinued operations attributable to Varian	$ (13.3)	$ (6.9)

(1) There was no activity in net loss from discontinued operations during the three and six months ended March 30, 2018.

(2) Operating expenses included separation costs of $19.3 million and $34.2 million during the three and six months ended March 31, 2017, respectively. Separation costs include expenses for transaction advisory services, consulting services, restructuring and other expenses.

The following table summarizes the major classes of assets and liabilities of discontinued operations that were included in the Company's Condensed Consolidated Balance Sheets:

(In millions)	March 30, 2018	September 29, 2017
Assets:		
Trade accounts receivable, net	$ 7.1	$ 8.1
Inventories	1.1	2.9
Prepaid expenses and other current assets	0.4	0.1
Current assets of discontinued operations	8.6	11.1
Total assets of discontinued operations	$ 8.6	$ 11.1
Liabilities:		
Accounts payable	$ 2.0	$ 2.0
Accrued liabilities	1.7	0.5
Current liabilities of discontinued operations	3.7	2.5
Total liabilities of discontinued operations	$ 3.7	$ 2.5

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

The following table presents supplemental cash flow information of discontinued operations:

(In millions)	Six Months Ended [(1)] March 31, 2017
Operating activities:	
Share-based compensation expense	$ 2.0
Depreciation expense	4.4
Amortization expense	1.8
Investing activities:	
Purchases of property, plant and equipment	$ (6.3)

(1) There was no significant cash flow activity from discontinued operations during the six months ended March 30, 2018.

3. BUSINESS COMBINATIONS

Sirtex

On January 30, 2018, the Company signed an agreement to acquire Sirtex Medical Limited ("Sirtex"), an Australian company that is listed on the Australian Securities Exchange, for A$28 per share or approximately A$1.6 billion ($1.2 billion as of March 30, 2018). Sirtex is an Australian-based global life sciences company focused on interventional oncology therapies. The Company plans to fund the acquisition primarily using its 2018 Revolving Credit Facility, as well as cash on hand. The transaction has received all necessary regulatory approvals, is subject to the approval of the Sirtex shareholders, the Federal Court of Australia and the satisfaction of other customary closing conditions.

On May 4, 2018, Sirtex received an unsolicited non-binding, indicative and conditional proposal from CDH Investments ("CDH"), a China-based alternative asset manager, for the acquisition of all of the issued shares in Sirtex for A$33.60 per share. The Sirtex board of directors has determined to engage with CDH to further understand the conditions associated with the CDH proposal. As a result, the meeting of Sirtex shareholders to approve the acquisition by Varian, which was scheduled to occur on Monday, May 7, 2018 (Sydney time), was adjourned to a time and date to be determined.

Other Acquisitions

In fiscal year 2018, the Company acquired two privately-held software companies for a purchase price of $29.6 million. The purchase price primarily consisted of $20.4 million in finite-lived intangible assets and $11.5 million in goodwill. The Company has integrated these two acquisitions into its Oncology Systems reporting unit.

Other Information

The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisitions completed above. The Company believes the factors that contributed to goodwill include synergies that are specific to the Company's acquisitions completed and not available to market participants and the acquisition of a talented workforce. The goodwill for the recent acquisitions mentioned above is deductible for income tax purposes.

The fair value of assets acquired and liabilities assumed has been determined on a preliminary basis, and the Company will finalize these amounts as it obtains the information necessary to complete the measurement process. Any changes resulting from facts and circumstances that existed as of the date of the acquisitions may result in adjustments to the amounts of goodwill, intangible assets and deferred revenue balances recorded. The Company expects to finalize these amounts no later than one year from the date of each acquisition.

The condensed consolidated financial statements include the operating results from the date of acquisition. The impact of the acquisitions completed to the periods presented was not material. Pro forma results of operations for the acquisitions completed

16

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

have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to the Company's condensed consolidated financial statements.

4. BALANCE SHEET COMPONENTS

The following table provides the Company's unbilled receivables and deferred revenues from contracts with customers:

(In millions)	March 30, 2018	September 29, 2017
Unbilled receivables - current	$ 311.5	$ 259.1
Unbilled receivables - long-term [1]	28.2	10.9
Deferred revenues - current	(766.5)	(755.4)
Deferred revenues - long-term [2]	(9.1)	(7.2)
Total net unbilled receivables (deferred revenues)	$ (435.9)	$ (492.6)

[1] Included in other assets on the Company's Condensed Consolidated Balance Sheets.
[2] Included in other long-term liabilities on the Company's Condensed Consolidated Balance Sheets.

During the six months ended March 30, 2018, unbilled receivables net of deferred revenues increased by $56.7 million primarily due to the contractual timing of billings occurring after the revenues were recognized, as well as the timing of milestone payments.

During the three and six months ended March 30, 2018, the Company recognized revenues of $108.8 million and $305.2 million, respectively, which was included in the deferred revenues balance at September 29, 2017. During the three and six months ended March 31, 2017, the Company recognized revenues of $127.2 million and $346.0 million, respectively, which was included in the deferred revenues balance at September 30, 2016.

The Company did not have any impairment losses on its unbilled receivables during the six months ended March 30, 2018. The Company recognized an impairment loss of $17.2 million from long-term unbilled receivables during the six months ended March 31, 2017. See Note 16, "VPT Loans and Securities" for further information.

The following table summarizes the Company's inventories:

(In millions)	March 30, 2018	September 29, 2017
Raw materials and parts	$ 306.5	$ 296.5
Work-in-process	54.1	47.7
Finished goods	73.2	73.5
Total inventories	$ 433.8	$ 417.7

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

The following tables summarize the Company's available-for-sale securities:

	March 30, 2018			
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
APTC securities [(1)]	$6.1	$ —	$ —	$6.1
GPTC securities [(2)]	4.6	—	—	4.6
Total available-for-sale securities	$10.7	$ —	$ —	$10.7

	September 29, 2017			
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Original CPTC loans [(2)]	$47.4	$ —	$ —	$47.4
DRTC securities [(2)]	8.3	—	—	8.3
GPTC securities [(2)]	4.4	—	—	4.4
Total available-for-sale securities	$60.1	$ —	$ —	$60.1

(1) Included in prepaid and other current assets on the Company's Condensed Consolidated Balance Sheets because the Company has the ability and intent to sell this security in the next twelve months.

(2) Included in other assets on the Company's Condensed Consolidated Balance Sheets because the maturity dates are greater than one year and the Company does not have the intent and ability to collect or sell all or a portion of its loans or securities in the next twelve months.

See Note 5, "Fair Value" and Note 16, "VPT Loans and Securities" for more information on the Original California Proton Treatment Center, LLC (“Original CPTC”) Loans, Alabama Proton Therapy Center ("APTC"), Delray Radiation Therapy Center (“DRTC”), and Georgia Proton Treatment Center ("GPTC") Securities.

The following table summarizes the Company's other long-term liabilities:

(In millions)	March 30, 2018	September 29, 2017
Long-term income taxes payable	$ 208.1	$ 48.6
Deferred income taxes	26.4	17.1
Long-term debt	25.0	—
Other	61.2	61.7
Total other long-term liabilities	$ 320.7	$ 127.4

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

5. FAIR VALUE

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 Significant Active Markets for Identical Instruments (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
(In millions)				
Assets at March 30, 2018:				
Available-for-sale securities:				
APTC securities	$ —	$ 6.1	$ —	$ 6.1
GPTC securities	—	4.6	—	4.6
Derivative assets	—	0.5	—	0.5
Total assets measured at fair value	$ —	$ 11.2	$ —	$ 11.2
Liabilities at March 30, 2018:				
Derivative liabilities	$ —	$ (12.4)	$ —	$ (12.4)
Contingent consideration	—	—	(2.8)	(2.8)
Total liabilities measured at fair value	$ —	$ (12.4)	$ (2.8)	$ (15.2)
Assets at September 29, 2017:				
Available-for-sale securities:				
Original CPTC loans	$ —	$ —	$ 47.4	$ 47.4
DRTC securities	—	8.3	—	8.3
GPTC securities	—	4.4	—	4.4
Total assets measured at fair value	$ —	$ 12.7	$ 47.4	$ 60.1

The Company's Level 2 available-for-sale securities consist of bonds for APTC, GPTC, and DRTC. The observable inputs for these securities are comparable bond issues, broker/dealer quotations for the same or similar investments in active markets and other observable inputs such as yields, credit risks, default rates, and volatility. As of March 30, 2018 and September 29, 2017, the carrying amount of the Level 2 available-for-sale securities approximated their fair value. See Note 16, "VPT Loans and Securities" for further information about these bonds.

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 generally short-term in nature, typically one month to thirteen months in duration. See Note 9, "Derivative Instruments and Hedging Activities" for more information about the Company's derivative instruments.

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. The Company's contingent consideration are from its business combinations in fiscal year 2018 and is included in accrued liabilities and other long-term liabilities on the Condensed Consolidated Balance Sheets.

In December 2017, the Original CPTC loans were modified and partially satisfied resulting in a Term Loan of $53.5 million, as defined in Note 16, "VPT Loans and Securities". One of the modifications was that the loan agent no longer has the option to purchase these loans from the Company, therefore, the Original CPTC loans are no longer classified as an available-for-sale security. The Company had no unrealized gains or unrealized losses associated with the Original CPTC loans recorded in its other comprehensive income. The modification to the Original CPTC Loans had no impact on the Company's Condensed Consolidated Statements of Earnings (Loss) for the three months ended December 29, 2017. As of September 29, 2017, the Company classified the Original CPTC loans as available-for-sale securities, the fair value of which was 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 as well as underlying cash flow assumptions. However, the Company did not increase the fair value of the Original CPTC loans above their par values as ORIX Capital Markets, LLC (“ORIX”), the loan agent, had the option to purchase these loans from the Company under the original terms and conditions at par value.

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 Securities	Contingent Consideration
Balance at September 29, 2017	$ 47.4	$ —
Additions from business combinations	—	(2.8)
Reclassification of Original CPTC Loans to Term Loan	(47.4)	—
Balance at March 30, 2018	$ —	$ (2.8)

There were no transfers of assets or liabilities between fair value measurement levels during either the three and six months ended March 30, 2018, or the three and six months ended March 31, 2017. 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, trade and unbilled receivables, net of allowance for doubtful accounts, short-term notes receivable, revolving loan to CPTC, RPTC senior secured debt, accounts payable, and short-term borrowings approximate their carrying amounts due to their short maturities.

As of March 30, 2018, the fair value of the Company's long-term debt approximated its carrying value of $25.0 million because it is carried at a market observable interest rate that resets periodically and is categorized as Level 2 in the fair value hierarchy.

As of March 30, 2018, the fair value of the Term Loan with CPTC approximated its carrying value of $44.0 million. See Note 16, "VPT Loans and Securities" for further information. The carrying value is based on the present value of expected future cash payments discounted at a rate reflecting the nature and duration of the loans, risks involved with CPTC, and its industry. As a result, the Term Loan is categorized as Level 3 in the fair value hierarchy.

The fair value of the outstanding long-term notes receivable, including accrued interest, approximated their carrying value of $62.6 million and $100.2 million at March 30, 2018 and September 29, 2017, respectively, because they are based on terms of recent comparable transactions and are categorized as Level 3 in the fair value hierarchy. The fair value 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 as well as underlying cash flow assumptions. See Note 6, "Receivables" for information on the long-term notes receivable.

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

6. RECEIVABLES

The following table summarizes the Company's trade and unbilled receivables, net and notes receivable:

(In millions)	March 30, 2018	September 29, 2017
Trade and unbilled receivables, gross	$1,008.8	$ 1,039.2
Allowance for doubtful accounts	(40.3)	(63.1)
Trade and unbilled receivables, net	$968.5	$ 976.1
Short-term	$936.7	$ 961.5
Long-term [1]	$31.8	$ 14.6
Notes receivable	$87.9	$ 105.2
Short-term [2]	$25.3	$ 5.0
Long-term [1] [3]	$62.6	$ 100.2

(1) Balances are included in other assets on the Company's Condensed Consolidated Balance Sheets.

(2) Balances are included in prepaid expenses and other current assets on the Company's Condensed Consolidated Balance Sheets.

(3) Balances include accrued interest and are recorded in other assets on the Company's Condensed Consolidated Balance Sheets.

A financing receivable represents a financing arrangement with a contractual right to receive money, on demand or on fixed or determinable dates, and that is recognized as an asset on the Company's Condensed Consolidated Balance Sheets. The Company's financing receivables consist of trade receivables with contractual maturities of more than one year and notes receivable. A small portion of the Company's financing trade receivables are included in short-term trade accounts receivable.

As of March 30, 2018, the allowance for doubtful accounts is entirely related to short-term trade and unbilled receivables. As of September 29, 2017, the allowance for doubtful accounts included $45.9 million related to short-term trade and unbilled receivables and $17.2 million related to long-term unbilled receivables, which was written off in the first quarter of fiscal year 2018.

See Note 16, "VPT Loans and Securities" for more information on the Company's short-term and long-term notes receivable balances.

7. GOODWILL AND INTANGIBLE ASSETS

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

(In millions)	Oncology Systems	Varian Particle Therapy	Total
Balance at September 29, 2017	$ 170.2	$ 52.4	$222.6
Business combinations	11.5	—	11.5
Foreign currency translation adjustments	—	2.1	2.1
Balance at March 30, 2018	$ 181.7	$ 54.5	$236.2

See Note 3, "Business Combinations" for more information on the Company's acquisitions in fiscal year 2018.

21

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

The following table reflects the gross carrying amount and accumulated amortization of the Company's intangible assets:

(In millions)	March 30, 2018 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	September 29, 2017 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technologies and patents	$118.0	$ (67.7)	$ 50.3	$102.0	$ (60.9)	$ 41.1
Customer contracts and supplier relationship	38.2	(16.4)	21.8	33.9	(14.3)	19.6
Other	5.7	(4.6)	1.1	5.5	(3.4)	2.1
Total intangible with finite lives	161.9	(88.7)	73.2	141.4	(78.6)	62.8
In-process research and development with indefinite lives	8.8	—	8.8	8.8	—	8.8
Total intangible assets	$170.7	$ (88.7)	$ 82.0	$150.2	$ (78.6)	$ 71.6

Amortization expense for intangible assets was $4.1 million and $3.5 million during the three months ended March 30, 2018 and March 31, 2017, respectively, and $10.4 million and $7.3 million during the six months ended March 30, 2018 and March 31, 2017, respectively.

As of March 30, 2018, the Company estimates its remaining amortization expense for intangible assets with finite lives will be as follows (in millions):

Fiscal Years:	Remaining Amortization Expense
Remainder of 2018	$ 10.9
2019	15.2
2020	12.7
2021	10.4
2022	9.0
Thereafter	15.0
Total remaining amortization for intangible assets	$ 73.2

8. BORROWINGS

The following table summarizes the Company's short-term borrowings and long-term debt:

(In millions, except for percentages)	March 30, 2018 Amount	Weighted-Average Interest Rate	September 29, 2017 Amount	Weighted-Average Interest Rate
Short-term borrowings:				
2017 Revolving Credit Facility	$230.0	2.79 %	$350.0	2.36 %
Total short-term borrowings	$230.0		$350.0	
Long-term debt:				
2017 Revolving Credit Facility	$25.0	4.88 %	$—	— %
Total long-term debt	$25.0		$—	

The Company entered into an agreement, dated September 1, 2017, ("Credit Agreement") with certain lenders and Bank of America, N.A. (“BofA”) as administrative agent ("Debt Lenders"). The Credit Agreement provides for a five-year revolving credit facility (the "2017 Revolving Credit Facility") in an aggregate principal amount of up to $600.0 million. The Company

incurred $1.8 million in debt issuance costs for its 2017 Revolving Credit Facility, which will be amortized over the five-year term. Debt issuance costs are recorded in prepaid expenses and other current assets and other assets on the Condensed Consolidated Balance Sheets.

On April 3, 2018, the Company replaced its 2017 Revolving Credit Facility with a new credit agreement ("2018 Credit Agreement"). See Note 18, "Subsequent Events" for more information on the 2018 Revolving Credit Facility.

Borrowings under the 2017 Revolving Credit Facility accrue interest based on either (i) the Eurodollar Rate plus a margin of 1.125% to 1.875% based on a leverage ratio involving funded indebtedness and EBITDA, or (ii) 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 0.125% to 0.875% based on the same leverage ratio, depending upon instructions from the Company. Borrowings under the 2017 Revolving Credit Facility have a contract repayment date of twelve months, or less, and a final maturity of five years if based on the Eurodollar Rate and all overnight borrowings on the base rate would also have a final maturity of five years.

The Company must pay a commitment fee on the unused portion of the 2017 Revolving Credit Facility at a rate from 0.125% to 0.25% based on a leverage ratio. The Company may prepay, reduce or terminate the commitments without penalty. Swing line loans under the 2017 Credit Facility will bear interest at the base rate plus the then applicable margin for base rate loans.

The Credit Agreement provides that certain material domestic subsidiaries must guarantee the 2017 Revolving Credit Facility, subject to certain limitations on the amount secured. As of March 30, 2018, no subsidiary guaranties were required to be executed under the Credit Agreement.

The Credit Agreement contains provisions that limit the Company's ability to, among other things, incur future indebtedness, contingent obligations or liens, guarantee indebtedness, make certain investments and capital expenditures, sell stock or assets and pay dividends, and consummate certain mergers or acquisitions.

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, and (ii) a minimum consolidated interest coverage ratio. The Company was in compliance with all financial covenants under the Credit Agreement for all periods within these condensed consolidated financial statements.

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 3.0 billion Japanese Yen (the "Sumitomo Credit Facility"). In February 2018, the Sumitomo Credit Facility was extended and will expire in February 2019. 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%.

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

9. 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.

The fair value of derivative instruments reported on the Condensed Consolidated Balance Sheets was as follows:

(In millions)	Balance Sheet Location	March 30, 2018 Fair Value
Derivatives not designated as hedging instruments:		
Foreign exchange option contract	Prepaid expenses and other current assets	$0.5
Foreign exchange forward contracts	Accrued liabilities	(12.4)
Total derivatives		$(11.9)

At March 30, 2018, and September 29, 2017, the Company did not have any outstanding derivatives designated as hedging instruments. As of September 29, 2017, the fair value of the Company's derivatives not designated as hedging instruments was not material. See Note 5, "Fair Value" for the 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 2017 Annual Report for the 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 on 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 in the same currency, with a single net amount payable by one party to the other. As of March 30, 2018, and September 29, 2017, 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 does not enter into foreign currency forward contracts for speculative or trading purposes. Foreign currency forward contracts are entered into up to several times a quarter and range from one to thirteen months in maturity.

The hedges of foreign currency denominated forecasted revenues are designated and accounted for as cash flow hedges. The designated cash flow hedges de-designate when the anticipated revenues associated with the transactions are recognized and the change in fair value of the derivatives in accumulated other comprehensive loss on the Condensed Consolidated Balance Sheets is reclassified to revenues in the Condensed Consolidated Statements of Earnings (Loss). Subsequent changes in fair value of the derivative instrument are recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Earnings (Loss) to offset changes in fair value of the resulting non-functional currency receivables. For derivative instruments that are designated and qualified 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 gain or loss on the derivative instruments that are designated and qualified as

cash flow hedges in accumulated other comprehensive loss on the Condensed Consolidated Balance Sheets and reclassifies these amounts into revenues in the Condensed Consolidated Statements of Earnings (Loss) in the period in which the hedged transaction is recognized in earnings. The Company assesses hedge effectiveness both at the onset of the hedge and

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

on an ongoing basis using regression analysis. The time value of the derivative and hedged item is included in the assessment of hedge effectiveness.

At the inception of the hedge relationship and quarterly thereafter, the Company assesses whether the likelihood of meeting the forecasted cash flow is highly probable. As of March 30, 2018, the Company did not have any outstanding foreign currency forward contracts designated as cash flow hedges.

During the three and six months ended March 30, 2018, the Company recognized an unrealized loss of $0.6 million and $0.9 million, respectively, in other comprehensive earnings (loss) on foreign currency forward contracts designated as cash flow hedges. The Company did not have any foreign currency forward contracts designated as cash flow hedges during the three and six months ended March 31, 2017.

The effect of cash flow hedge accounting on the Condensed Consolidated Statements of Earnings (Loss) was as follows:

	Location and Amount Recognized in Earnings (Loss) on Cash Flow Hedging Relationships	
	Three Months Ended March 30, 2018	Six Months Ended March 30, 2018
(In millions)	Revenues	Revenues
Total amounts of income and expense line items presented in the Condensed Consolidated Statements of Earnings (Loss) in which the effects of fair value and cash flow hedges are recorded	$729.9	$1,408.4
Loss on cash flow hedge relationships:		
Foreign currency forward contracts:		
Amount of loss reclassified from accumulated other comprehensive loss into earnings (loss)	$(1.0)	$(0.9)

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. 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 (Loss). 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.

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

The Company had the following outstanding foreign currency forward contracts relating to balance sheet hedging activities:

(In millions)	March 30, 2018 Notional Value Sold	Notional Value Purchased
Australian Dollar	$35.1	$ —
Brazilian Real	7.7	—
British Pound	33.0	—
Canadian Dollar	12.3	—
Danish Krone	9.9	0.5
Euro	246.6	—
Hungarian Forint	1.9	—
Indian Rupee	17.8	—
Japanese Yen	69.5	—
Polish Zloty	18.6	—
Singapore Dollar	—	5.1
Swedish Krona	12.1	—
South African Rand	8.9	—
Swiss Franc	—	36.2
Thai Baht	3.9	—
Totals	$477.3	$ 41.8

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

Location of Gain (Loss) Recognized in Income on Derivative Instruments	Amount of Gain (Loss) Recognized in Net Earnings (Loss) on Derivative Instruments			
	Three Months Ended		Six Months Ended	
(In millions)	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Selling, general and administrative expenses	$(7.5)	$ (7.5)	$(12.2)	$ 7.4

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

Foreign Currency Forward and Option Contracts related to the Acquisition of Sirtex

In February 2018, the Company entered into foreign currency forward contracts and a foreign currency option contract to economically hedge its foreign currency exchange rate risk on the consideration to be paid for the Sirtex acquisition. The foreign currency forward contracts allow the Company to purchase a notional amount of A$793.0 million for $621.0 million on May 25, 2018. The quoted forward exchange rate on March 30, 2018 would provide that the same amount of Australian Dollars would cost $609.6 million. The Company paid a premium of $5.5 million for a foreign currency option that allows the Company to purchase a notional amount of A$792.0 million for $641.5 million that will expire on May 23, 2018. As of March 30, 2018, the foreign currency option has a fair value of $0.5 million. The foreign currency forward contracts and option contract do not qualify for hedge accounting. As such, changes in the fair value will be recognized in acquisition-related expenses on the Condensed Consolidated Statements of

Earnings. In the three months ended March 30, 2018, the Company recorded losses of $11.4 million on the foreign currency forward contracts and $5.0 million on the foreign currency option contract.

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 March 30, 2018, and September 29, 2017, the Company did not have any outstanding derivative instruments with credit-risk-related contingent features that were in a net liability position in the Company’s outstanding balance sheet hedges.

10. COMMITMENTS AND CONTINGENCIES

Product Warranty

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

(In millions)	Six Months Ended March 30, 2018	March 31, 2017
Accrued product warranty, at beginning of period	$41.3	$ 41.9
Charged to cost of revenues	26.3	17.4
Actual product warranty expenditures	(26.5)	(23.2)
Accrued product warranty, at end of period	$41.1	$ 36.1

Accrued product warranty was included in accrued liabilities and other long-term liabilities on the Condensed Consolidated Balance Sheets.

Contingencies

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 on the Company in connection with its past and present operations. Those include facilities sold as part of the Company’s electron devices business in 1995 and thin film systems business in 1997. As a result, the Company oversees various environmental cleanup projects and receives reimbursements from third parties for a portion of the costs of its cleanup activities.

The Company also reimburses certain third parties for cleanup activities. The Company spent $0.2 million and $0.1 million (net of amounts borne by third parties) in the three months ended March 30, 2018 and March 31, 2017, respectively, on environmental cleanup costs, third-party claim costs, project management costs and legal costs. The Company spent $0.4 million and $0.3 million (net of amounts borne by third parties) in the six months ended March 30, 2018 and March 31, 2017, respectively, on such costs.

With respect to some of these facilities, 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 cleanup sites (“Group A Sites”). Nonetheless, as of March 30, 2018, the Company estimated that, net of third parties’ indemnification obligations, future costs associated with the environmental remediation liabilities for the Group A Sites would range in total from $1.0 million to $7.9 million. The time frames over which these cleanup project costs are estimated vary, ranging from one year to thirty years as of March 30, 2018. Management believes that no amount in that range is more probable of being incurred than any other amount and therefore accrued $1.0 million for these cleanup projects as of March 30, 2018. The accrued amount has not been discounted to present value due to the uncertainties that make it difficult to develop a single best estimate.

In addition to the Group A Sites, there are other past and present facilities (“Group B Sites”) where the Company believes it has gained sufficient knowledge to better estimate the scope and cost of monitoring, cleanup and management activities. 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 March 30,

2018, the Company estimated that the Company’s future exposure on the Group B Sites, net of third parties’ indemnification obligations, for the costs at these

facilities, and reimbursements of third-party's claims for these facilities, ranged in total from $3.4 million to $19.3 million. The time frames over which these costs are estimated to be incurred vary, ranging from one year to thirty years as of March 30, 2018. 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 $5.5 million at March 30, 2018. Accordingly, the Company had accrued $4.7 million as of March 30, 2018 for these costs, which represented the best estimate discounted at 4%, net of inflation. This accrual is in addition to the $1.0 million accrued for the Group A Sites.

These amounts are only estimates of anticipated future costs. The amounts the Company will actually spend may be greater than the estimates. The Company believes its reserve is adequate; however, 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. Based on information currently known to management, 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 financial strength of potential third parties and insurance companies the Company believes it has rights to indemnity or reimbursement. The Company has 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 the portion due to third parties who reimburse the Company, from that insurer amounted to $1.4 million and $1.6 million at March 30, 2018 and September 29, 2017, respectively, with the respective current portion included in prepaid expenses and other current assets and the respective noncurrent portion included in other assets. The payable portion to that insurer is included in other long-term liabilities on the Condensed Consolidated Balance Sheets. The Company believes that this receivable is recoverable because it is based on a binding, written settlement agreement with an insurance company who appears to be financially viable and who has paid the Company's claims in the past.

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. 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). A loss or a range of loss is disclosed when it is reasonably possible that a material loss will be incurred and can be estimated or when it is reasonably possible that the amount of a loss, when material, will exceed the recorded provision.

In addition to the above, the Company is involved in other legal matters. However, such matters are subject to many uncertainties and outcomes are not predictable with assurance. The Company is unable to estimate a loss or a range of reasonably possible losses with respect to such 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. Legal expenses relating to legal matters are expensed as incurred.

Restructuring Charges

In the first quarter of fiscal year 2017, the Company offered an enhanced retirement program to its qualifying employees and implemented a workforce reduction (collectively, the "2017 Restructuring Plan"), primarily in its Oncology Systems and VPT segments, to improve operational performance. The Company did not incur any restructuring charges during the three and six months ended March 30, 2018, respectively, and incurred $2.5 million and $6.3 million in restructuring charges during the three and six months ended March 31, 2017, respectively. As of March 30, 2018, the Company plans to complete this plan in fiscal year 2018 and does not expect any additional

restructuring charges under this plan.

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

The following table provides a summary of changes in the restructuring liability related to the Company's restructuring plans:

(In millions)	September 29, 2017	Restructuring Charges	Cash Payments	March 30, 2018
2017 Restructuring Plan	$ 3.9	$ —	$ (3.3)	$ 0.6
Total	$ 3.9	$ —	$ (3.3)	$ 0.6

The restructuring charges are included in selling, general and administrative expenses in the Condensed Consolidated Statements of Earnings (Loss).

11. RETIREMENT PLANS

The Company sponsors five defined benefit pension plans for regular full-time employees in Germany, Japan, Switzerland and the United Kingdom. The Company also sponsors a post-retirement benefit plan that provides healthcare benefits to certain eligible retirees in the United States.

The components of net defined benefit costs were as follows:

(In millions)	Three Months Ended		Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Defined Benefit Plans				
Service cost	$1.7	$ 1.8	$3.3	$ 3.5
Interest cost	0.8	0.6	1.6	1.2
Expected return on plan assets	(2.0)	(1.8)	(4.0)	(3.5)
Amortization of prior service cost	(0.2)	—	(0.3)	(0.1)
Recognized actuarial loss	0.7	1.1	1.4	2.2
Net periodic benefit cost	$1.0	$ 1.7	$2.0	$ 3.3

12. INCOME TAXES

The Company’s effective tax rate was 23.4% and 23.1% for the three months ended March 30, 2018 and March 31, 2017, respectively, and 117.9% and 29.4% for the six months ended March 30, 2018 and March 31, 2017, respectively. The increase in the Company’s effective tax rate for the three and six months ended March 30, 2018, compared to the year-ago periods, was primarily due to the tax effect of the Tax Cuts and Jobs Act (the "Act"), which was signed into law on December 22, 2017. The Company’s effective tax rate for the six months ended March 31, 2017 was also high due to the impairment of the CPTC loans in December 2016, which were made by one of the Company's Swiss subsidiaries, which has a low tax rate, and a significant portion of the expense associated with the allowance for doubtful accounts recorded in the period being attributable to one of the Company's German subsidiaries which has a full valuation allowance.

The Act was signed into law on December 22, 2017. Among other changes, the Act reduces the U.S. corporate tax rate from 35% to 21%, and imposes a one-time transition tax on the unremitted earnings of the Company's foreign subsidiaries. U.S. GAAP generally requires that the tax effect of a change in tax laws or rates be accounted for in the period of enactment.

The reduction in the U.S. corporate tax rate was effective January 1, 2018. As the Company has a September fiscal year end, the lower corporate tax rate will be phased in, resulting in a U.S. corporate rate of approximately 24.6% for the Company's fiscal year ending September 28, 2018, and 21% for subsequent fiscal years. The reduction in the rate requires the Company to re-measure its net deferred tax assets that were originally recorded assuming a future tax benefit at the 35% rate. Because the rate change is phased in, a portion of the tax impact was included in the period of enactment and a portion is included gradually during the year of enactment. During the three and six months ended March 30, 2018, the Company recorded a provisional discrete tax expense of $2.4 million and $40.2 million, respectively, related to re-measuring its net deferred tax assets as a result of the rate reduction.

As part of the transition to a modified territorial system, the Act imposes a one-time transition tax on the unremitted earnings of the Company's foreign subsidiaries. During the three and six months ended March 30, 2018, the Company recorded a provisional discrete tax expense of $3.8 million and $173.1 million, respectively, related to the one-time transition tax. The Company intends to elect to pay this tax over the eight-year period allowed for in the Act. The transition to a modified territorial regime and the one-time transition tax on unremitted earnings has also caused the Company to re-evaluate its intentions with respect to the unremitted earnings of foreign subsidiaries. In the past, the Company did not accrue U.S. taxes on certain undistributed profits of certain foreign subsidiaries because the earnings were considered to be indefinitely reinvested. In light of the changes to the taxation of foreign earnings in the Act, the Company no longer considers the earnings of its foreign subsidiaries to be indefinitely reinvested.

Other provisions of the Act include a new minimum tax on certain foreign earnings (the Global Intangibles Low-taxed Income, or "GILTI"), a new tax on certain payments to foreign related parties (the Base Erosion Anti-avoidance Tax, or "BEAT"), a new incentive for Foreign-derived Intangibles Income ("FDII"), changes to the limitation on the deductibility of certain executive compensation, and new limitations on the deductibility of interest expense. Generally, these other provisions take effect for the Company in the fiscal year ending September 27, 2019.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”). This guidance allows registrants a “measurement period,” not to exceed one year from the date of enactment, to complete their accounting for the tax effects of the Act. SAB 118 further directs that during the measurement period, registrants who are able to make reasonable estimates of the tax effects of the Act should include those amounts in their financial statements as “provisional” amounts. Registrants should reflect adjustments over subsequent periods as they are able to refine their estimates and complete their accounting for the tax effects of the Act. The amounts of the tax effects related to the Act described in the paragraphs above represent the Company’s current reasonable estimates and are provisional amounts within the meaning of SAB 118. Also, it is expected that the U.S. Treasury will issue regulations and other guidance on the application of certain provisions of the Act. In subsequent periods, but within the measurement period, the Company will analyze that guidance and other necessary information, including the amount of foreign earnings and profits, pools of foreign tax, and the Company's foreign cash position, to refine its estimates and complete its accounting for the tax effects of the Act.

The Company adopted the FASB guidance related to employee share-based payments in the first quarter of fiscal year 2018. Among other changes, this standard changes the treatment of the tax effect of the excess stock deduction. For a share-based compensation instrument, the excess stock deduction is the difference between the amount of the deduction for taxable income and the amount of expense in the financial statements related to that instrument. Under the prior standard, the tax effect of the excess stock deduction related to share-based compensation was recorded to additional paid-in capital in the equity section on the Condensed Consolidated Balance Sheets. Under the new standard, the tax effect of the excess stock deduction related to share-based compensation is recorded as a discrete item to Taxes on Earnings in the Condensed Consolidated Statements of Earnings (Loss). For the three and six months ended March 30, 2018, the Company recorded a discrete tax benefit of $4.7 million and $6.2 million, respectively, related to excess stock deduction activity. The Company expects that the new standard may cause its effective tax rate to be less predictable and more volatile going forward.

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 increased by $11.6 million during the six months ended March 30, 2018, primarily due to the impact of the Act on the Company's unrecognized tax benefits. The impact of this increase in tax expense is included in the amount of the provisional discrete expense related to the one-time transition tax above. In addition, 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 statute of limitations in various jurisdictions.

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

13. STOCKHOLDERS' EQUITY AND NONCONTROLLING INTERESTS
Share Repurchase Program
In November 2016, the VMS Board of Directors authorized the repurchase of an additional 8.0 million shares of VMS common stock commencing on January 1, 2017. Share repurchases under the Company's authorizations may be made in open market purchases, in privately negotiated transactions (including accelerated share repurchase ("ASR") programs), or under Rule 10b5-1 share repurchase plans, and may be made from time to time in one or more blocks. All shares that were repurchased under the Company's share repurchase programs have been retired. As of March 30, 2018, approximately 4.4 million shares of VMS common stock remained available for repurchase under the November 2016 authorization.
The Company repurchased shares of VMS common stock under various authorizations during the periods presented as follows:

(In millions, except per share amounts)	Three Months Ended		Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Number of shares	0.3	2.0	0.8	2.5
Average repurchase price per share	$110.52	$ 86.42	$109.06	$ 88.93
Total cost	$36.0	$ 172.8	$92.7	$ 222.3

Other Comprehensive Earnings
The changes in accumulated other comprehensive loss by component and related tax effects are summarized as follows:

(In millions)	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 Loss
Balance at September 29, 2017	$ (44.1)	$ —	$ (24.7)	$ (68.8)
Other comprehensive earnings (loss) before reclassifications	—	(0.9)	9.7	8.8
Amounts reclassified out of other comprehensive earnings (loss)	0.9	0.9	—	1.8
Tax expense	(0.2)	—	—	(0.2)
Balance at March 30, 2018	$ (43.4)	$ —	$ (15.0)	$ (58.4)

(In millions)	Net Unrealized Gains (Losses) Defined Benefit Pension and Post-Retirement Benefit Plans	Cumulative Translation Adjustment	Accumulated Other Comprehensive Earnings (Loss)
Balance at September 30, 2016	$ (63.3)	$ (37.5)	$ (100.8)
Other comprehensive loss before reclassifications	—	(10.2)	(10.2)
Amounts reclassified out of other comprehensive earnings (loss)	1.9	—	1.9

Tax expense	(0.3)	—	(0.3)
Balance at March 31, 2017	$ (61.7)	$ (47.7)	$ (109.4)

31

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

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

(In millions)	Three Months Ended March 30, 2018	Three Months Ended March 31, 2017	Six Months Ended March 30, 2018	Six Months Ended March 31, 2017	
Comprehensive Earnings Components	Loss Before Taxes		Loss Before Taxes		Line Item in Statements of Earnings (Loss)
Unrealized loss on defined benefit pension and post-retirement benefit plans	$(0.5)	$ (1.0)	$(0.9)	$ (1.9)	Cost of revenues & Operating expenses
Unrealized loss on cash flow hedging instruments	(1.0)	—	(0.9)	—	Revenues
Total amounts reclassified out of other comprehensive earnings (loss)	$(1.5)	$ (1.0)	$(1.8)	$ (1.9)	

Noncontrolling Interests

In connection with the Distribution of Varex in January 2017, the Company's redeemable noncontrolling interests relating to MeVis Medical Solutions AG ("MeVis") were transferred to Varex.

Changes in noncontrolling interests and redeemable noncontrolling interests relating to MeVis and other subsidiaries of the Company were as follows:

(In millions)	Six Months Ended March 30, 2018	March 31, 2017	
	Noncontrolling Interests	Noncontrolling Interests	Redeemable Noncontrolling Interests
Beginning of Period	$4.3	$ 3.7	$ 10.3
Net earnings attributable to noncontrolling interests	0.1	0.4	0.1
Transfer of redeemable noncontrolling interests in MeVis to Varex	—	—	(10.3)
Other	—	—	(0.1)
End of Period	$4.4	$ 4.1	$ —

14. EMPLOYEE STOCK PLANS

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

(In millions)	Three Months Ended March 30, 2018	Three Months Ended March 31, 2017	Six Months Ended March 30, 2018	Six Months Ended March 31, 2017
Cost of revenues - Product	$0.8	$ 0.8	$1.5	$ 1.6
Cost of revenues - Service	1.0	1.1	2.0	2.1
Research and development	1.2	1.4	2.4	2.6
Selling, general and administrative	7.5	8.1	15.3	15.3
Total share-based compensation expense	$10.5	$ 11.4	$21.2	$ 21.6
Income tax benefit for share-based compensation	$(2.6)	$ (3.4)	$(4.7)	$ (6.4)

The Company adopted new accounting guidance in the first quarter of 2018 where it elected to change its accounting policy to account for forfeitures as they occur rather than estimating expected forfeitures. Share-based compensation expense for the three and six months ended March 31, 2017 was recorded net of estimated forfeitures. See Note 1,

"Summary of Significant Accounting Policies" for further information.

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

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	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Employee Stock Option Plans				
Expected term (in years)	3.83	3.99	3.83	3.99
Risk-free interest rate	2.4 %	1.7 %	2.2 %	1.7 %
Expected volatility	19.2 %	21.8 %	19.0 %	21.8 %
Expected dividend	— %	— %	— %	— %
Weighted average fair value at grant date	$21.48	$16.13	$20.73	$16.13

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	
	March 30, 2018	March 31, 2017
Employee Stock Purchase Plan		
Expected term (in years)	0.50	0.50
Risk-free interest rate	1.2 %	0.5 %
Expected volatility	17.9 %	22.3 %
Expected dividend	— %	— %
Weighted average fair value at grant date	$20.97	$19.37

A summary of share-based awards available for grant is as follows:

(In millions)	Shares Available for Grant
Balance at September 29, 2017	2.5
Authorized [(1)]	6.0
Granted	(1.7)
Cancelled or expired	0.3
Balance at March 30, 2018	7.1

(1) On February 8, 2018, the Company's stockholders approved its Fifth Amended and Restated 2005 Omnibus Stock Plan ("2005 Plan") to increase the number of shares authorized for issuance by 6.0 million shares.

For purposes of the total number of shares available for grant under the 2005 Plan, any shares subject to awards of stock options and performance stock options are counted against the available-for-grant limit as one share for every one share subject to the award. Awards other than stock options and performance stock options are counted against the available-for-grant limit as 2.6 shares for every one share awarded on or after February 9, 2012. The shares available for grant limit is further adjusted to reflect a maximum payout that could be issued for each performance grant. The maximum payouts that could be issued for each performance grant are 2.0 shares beginning in fiscal year 2018, 1.75 shares in fiscal years 2017 and 2016, and 2.0 shares in fiscal year 2015. All awards may be subject to restrictions on transferability and continued employment as determined by the Compensation and Management Development Committee.

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

Activity under the Company's employee stock plans related to stock options is presented below:

	Options Outstanding			
(In millions, except per share amounts)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value [1]
Balance at September 29, 2017	2.3	$ 74.08		
Granted	0.6	111.43		
Cancelled or expired [2]	—	75.69		
Exercised	(0.5)	70.67		
Balance at March 30, 2018	2.4	$ 85.00	5.1	$ 89.3
Exercisable at March 30, 2018	1.1	$ 73.65	4.0	$ 52.0

(1) The aggregate intrinsic value represents the total pre-tax intrinsic value, which is computed based on the difference between the exercise price and the closing price of VMS common stock of $122.65 as of March 29, 2018, the last trading date of the second quarter of fiscal year 2018, and which represents the amount that would have been received by the option holders had all option holders exercised their options and sold the shares received upon exercise as of that date.

(2) The cancelled and expired shares were not material for disclosure.

As of March 30, 2018, there was $18.0 million of total unrecognized compensation expense related to stock options granted under the Company's employee stock plans. This unrecognized compensation expense is expected to be recognized over a weighted average period of 2.2 years.

The activity for restricted stock, restricted stock units, deferred stock units and performance units is summarized as follows:

(In millions, except per share amounts)	Number of Shares	Weighted Average Grant-Date Fair Value
Balance at September 29, 2017	0.9	$ 75.37
Granted	0.3	111.81
Vested	(0.3)	76.33
Cancelled or expired	(0.1)	84.16
Balance at March 30, 2018	0.8	$ 88.61

As of March 30, 2018, unrecognized compensation expense totaling $46.9 million was related to awards of restricted stock units, deferred stock units and performance units granted under the Company's employee stock plans. This unrecognized share-based compensation expense is expected to be recognized over a weighted average period of 2.1 years.

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

15. EARNINGS PER SHARE

Basic net earnings per share is computed by dividing net earnings attributable to Varian by the weighted average number of shares of VMS common stock outstanding for the period. Diluted net earnings per share is computed by dividing net earnings attributable to Varian by the sum of the weighted average number of common shares outstanding and dilutive common shares under the treasury stock method.

The following table sets forth the computation of basic and diluted net earnings per share:

(In millions, except per share amounts)	Three Months Ended		Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Net earnings (loss) from continuing operations	$73.2	$ 69.5	$(39.0)	$ 77.5
Less: Net (loss) earnings from continuing operations attributable to noncontrolling interests	—	(0.1)	0.1	0.4
Net earnings (loss) from continuing operations attributable to Varian	$73.2	$ 69.6	$(39.1)	$ 77.1
Net loss from discontinued operations	$—	$ (13.3)	$—	$ (6.8)
Less: Net earnings from discontinued operations attributable to noncontrolling interests	—	—	—	0.1
Net loss from discontinued operations attributable to Varian	$—	$ (13.3)	$—	$ (6.9)
Net earnings (loss) attributable to Varian	$73.2	$ 56.3	$(39.1)	$ 70.2
Weighted average shares outstanding - basic	91.5	93.0	91.6	93.2
Dilutive effect of potential common shares	1.1	0.7	—	0.7
Weighted average shares outstanding - diluted	92.6	93.7	91.6	93.9
Net earnings (loss) per share attributable to Varian - basic				
Continuing operations	$0.80	$ 0.75	$(0.43)	$ 0.83
Discontinued operations	—	(0.15)	—	(0.08)
Net earnings (loss) per share - basic	$0.80	$ 0.60	$(0.43)	$ 0.75
Net earnings (loss) per share attributable to Varian - diluted				
Continuing operations	$0.79	$ 0.74	$(0.43)	$ 0.82
Discontinued operations	—	(0.14)	—	(0.08)
Net earnings (loss) per share - diluted	$0.79	$ 0.60	$(0.43)	$ 0.74
Anti-dilutive employee share-based awards, excluded	0.6	0.6	3.2	0.6

The Company excludes potentially dilutive common shares (consisting of shares underlying stock options and the employee stock purchase plan) from the computation of diluted weighted average shares outstanding if the per share value, either the exercise price of the awards or the sum of (a) the exercise price of the awards and (b) the amount of the compensation cost attributed to future services and not yet recognized and (c) the amount of tax benefit or shortfall that would be recorded in additional paid-in capital when the award becomes deductible, is greater than the average market price of the shares, because the inclusion of the shares underlying these stock awards would be anti-dilutive to earnings per share. For the six months ended March 30, 2018, the diluted net loss per share is the same as the basic net loss per share as the effects of all potential common stock equivalents are anti-dilutive.

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

16. VPT LOANS AND INVESTMENT

In limited cases, the Company participates, along with other investors and at market terms, in the financing of proton therapy centers. Over time the Company has divested some of its investments, including investments in CPTC, NYPC and DRTC.

The following table lists the Company's outstanding loans and investments, including accrued interest, and commitments for funding development, construction and operations of various proton therapy centers:

	March 30, 2018		September 29, 2017	
(In millions)	Balance	Commitment	Balance	Commitment
Notes receivable and secured debt:				
MPTC loans [(1)]	$58.9	$ —	$67.4	$ —
RPTC senior secured debt [(2)]	26.4	—	25.4	—
NYPC loan [(3)]	26.2	—	24.6	—
PI loan [(3)]	2.6	—	3.1	—
CPTC DIP loan [(3)]	—	—	5.1	2.2
	$114.1	$ —	$125.6	$ 2.2
Available-for-sale Securities:				
APTC securities [(2)]	$6.1	$ —	$—	$ —
GPTC securities [(3)]	4.6	11.8	4.4	11.8
Original CPTC loans [(3)]	—	—	47.4	—
DRTC securities [(4)]	—	—	8.3	—
	$10.7	$ 11.8	$60.1	$ 11.8
CPTC Loans and Investment:				
Short-term revolving loan [(2)]	$3.1	$ 4.1	$—	$ —
Term loan [(3)]	44.0	—	—	—
Equity investment in CPTC [(3)]	9.5	—	—	—
	$56.6	$ 4.1	$—	$ —

(1) Includes $33.8 million and $42.3 million in other assets at March 30, 2018 and September 29, 2017, respectively, and $25.1 million in prepaid and other current assets at March 30, 2018 and other assets at September 29, 2017 on the Company's Condensed Consolidated Balance Sheets.
(2) Included in prepaid and other current assets on the Company's Condensed Consolidated Balance Sheets.
(3) Included in other assets on the Company's Condensed Consolidated Balance Sheets.
(4) Included in other assets at September 29, 2017 on the Company's Condensed Consolidated Balance Sheets.

Alabama Proton Therapy Center ("APTC") Securities

In December 2017, the Company purchased $6.0 million in Subordinate Revenue Bonds from the Public Finance Authority which is financing the APTC. The Subordinate Revenue Bonds carry an interest rate of 8.5% and pay interest semi-annually. The Company is scheduled, based upon the terms, to start receiving annual principal payments on the Subordinate Revenue Bonds beginning on November 1, 2022. The Subordinate Revenue Bonds will mature on October 1, 2047.

Rinecker Proton Therapy Center ("RPTC") Senior Secured Debt

In July 2017, the Company purchased the outstanding senior secured debt related to the RPTC in Munich, Germany for 21.5 million Euros or $24.5 million. By purchasing the senior secured debt, the Company has a right to 89 million Euros in claims against all of RPTC's assets. In September 2017, the management of RPTC filed for bankruptcy in Germany. In January 2018, the final insolvency proceedings commenced, and the Company expects the insolvency proceedings to be finalized within the next twelve months. Upon finalization of bankruptcy proceedings, the Company

believes it is probable it will recover its outstanding senior secured debt balance and trade accounts receivable, net.

At both March 30, 2018, and September 29, 2017, the Company had $4.5 million, in trade receivables, net for RPTC, which does not include any unbilled receivables.

Georgia Proton Treatment Center ("GPTC") Security

In July 2017, the Company committed to purchase up to $16.1 million in Senior Capital Appreciation Bonds ("Senior Bonds") from the Atlanta Development Authority, which is financing the GPTC. In July 2017, the Company purchased $4.3 million of the Senior Bonds that carry an interest rate of 8.0% per annum with interest accruing up to the principal amount of $6.6 million until January 1, 2023 and then will pay cash interest semi-annually. The Company will purchase the remaining commitment in July 2018. The Company is scheduled, based upon the original terms, to start receiving annual principal payments on the Senior Bonds beginning on January 1, 2024. The Senior Bonds will mature on January 1, 2028.

In addition to the outstanding loan, the Company had $6.4 million as of March 30, 2018 in trade and unbilled receivables, which included $6.2 million in unbilled receivables from GPTC. The Company did not have any trade and unbilled receivables as of September 29, 2017 from GPTC.

Delray Radiation Therapy Center ("DRTC") Securities and Loan

In April 2017, the Company purchased $8.0 million in Subordinate Bonds from the Public Finance Authority, which is financing the DRTC. The Subordinate Bonds carried an interest rate of 8.5% and paid interest semi-annually. In January 2018, the Company sold all of its Subordinate Bonds for $8.5 million, which included accrued interest.

In addition to the purchase of the Subordinate Bonds, the Company also loaned $3.0 million to Proton International LLC ("PI") to allow PI to purchase $3.0 million in Subordinate Bonds from the Public Finance Authority. The loan to PI carries an interest rate of 8.5% per annum, paid semi-annually and matures on April 30, 2022, subject to early repayment as proceeds are received by PI from the bonds purchased, and is secured by the related bonds. In the first quarter of fiscal year 2018, the Company received a principal payment of $0.5 million.

New York Proton Center ("NYPC") Loan

In July 2015, the Company committed to loan up to $91.5 million to MM Proton I, LLC in connection with a purchase agreement to supply a proton system to equip the NYPC. In June 2016, the Company assigned $73.0 million of this loan to Deutsche Bank AG. The remaining balance is comprised of an $18.5 million “Subordinate Loan” with a six-and-a-half-year term at up to 13.5% interest. The principal balance and accrued interest on the Subordinate Loan are due in full at maturity in January 2022.

In addition to the outstanding loan, the Company had $13.8 million and $13.3 million, as of March 30, 2018, and September 29, 2017, respectively, in trade and unbilled receivables, which included $13.8 million and $1.3 million in unbilled receivables as of March 30, 2018 and September 29, 2017, respectively, from NYPC.

Maryland Proton Treatment Center ("MPTC") Loans

In May 2015, the Company committed to loan up to $35.0 million to MPTC. The Company completed its funding requirements per the loan agreement in the first quarter of fiscal year 2017. Varian's lending is in the form of a subordinated loan that is due, with accrued interest, in three annual payments from 2020 to 2022. The interest on the loan accrues at 12.0%. In the second quarter of fiscal year 2018, the Company recorded an $11.1 million impairment charge on its MPTC subordinated loan, which included accrued interest, due to the expected difference in value between the security currently held by the Company and the value of the new security that will be issued to the Company in exchange as part of the refinancing expected in the second half of fiscal year 2018.

In addition, the Company had previously entered into an agreement with MPTC to supply it with a proton system, which included a deferral of up to $25.1 million of equipment payments when triggered by achievement of delivery milestones under the contract. As of March 30, 2018, the Company has recorded $25.1 million as a notes receivable related to this deferred payment arrangement. The notes receivable is due September 30, 2018.

As of March 30, 2018, and September 29, 2017, the Company had zero net trade and unbilled receivables from MPTC.

37

Variable Interest Entities

The Company has determined that MM Proton I, LLC, MPTC, and RPTC are variable interest entities and that the Company holds a significant variable interest of each of the entities through its participation in the loan facilities and its agreements to supply and service the proton therapy equipment. The Company has concluded that it is not the primary beneficiary of any of these entities. The Company has no voting rights, has no approval authority or veto rights for these centers' budget, and does not have the power to direct patient recruitment, clinical operations and management of these Centers, which the Company believes are the matters that most significantly affect their economic performance. The Company's exposure to loss as a result of its involvement with MM Proton I, LLC, MPTC, and RPTC is limited to the carrying amounts of the above-mentioned assets on its Condensed Consolidated Balance Sheets.

California Proton Therapy Center ("CPTC") Loans and Investment

Between September 2011 and November 2015, the Company, ORIX and J.P. Morgan ("the Lenders") committed to loan up to $185.0 million (the "Original CPTC Loans"), of which the Company's commitment was $84.7 million, to fund the development, construction, initial operations, and working capital needs of the Scripps Proton Therapy Center in San Diego, California. ORIX is the loan agent. In November 2015, the Lenders and California Proton Treatment Center ("Original CPTC") entered into a forbearance agreement whereby the Lenders agreed not to enforce their rights to principal and interest payments until April 2017, subject to Original CPTC maintaining certain covenants and achieving certain targets, with additional extensions through September 2017 based on hitting additional targets largely around patient volume and cash flow.

As of December 30, 2016, even though patient volumes continued to increase, Original CPTC was not in compliance with one of the patient volume covenants in the forbearance agreement, which would allow the Lenders to cease funding and terminate the forbearance agreement. In January 2017, the Company was informed of actions taken by Original CPTC and the loan agent, including Original CPTC obtaining shareholder consents for voluntary bankruptcy filing and the loan agent deciding that no additional funding would be available outside of a bankruptcy process. As a result of this information and the Company's analysis that these actions would likely lead to insolvency or bankruptcy proceedings of Original CPTC, the Company determined that it was appropriate to record a $38.3 million impairment, as determined by the discounted cash flow model using a single best estimate methodology, of its Original CPTC Loans on the Condensed Consolidated Statements of Earnings in the first quarter of fiscal year 2017. As a result of this impairment, the Original CPTC Loans were written down to their estimated fair value of $60.0 million and reclassified from short-term investments to other assets on the Company's Condensed Consolidated Balance Sheet because the Company did not expect to collect or sell all or a portion of these loans in the next twelve months.

In March 2017, Original CPTC filed for bankruptcy and concurrently entered into a Debtor-in-Possession facility (the "DIP Facility") with the Lenders for up to $16.0 million of additional financing during the bankruptcy process. The Company's pro-rata share of the DIP Facility was $7.3 million. In December 2017, the Company completed its funding commitment under the DIP Facility. The DIP Facility carried an interest rate at the London Interbank Offer Rate ("LIBOR") plus 9.0% per annum and had a senior secured position ahead of the Original CPTC Loans.

Between April 2017 and August 2017, the Company did not become aware of any new information that warranted an impairment assessment. In September 2017, the Lenders and Scripps signed a Transition Agreement to transition the operations of the center from Scripps to Proton Doctors Professional Corporation ("Practice"). Based on the terms of the Transition Agreement, a slower projected growth in patient volume, an increase in additional projected capital needs and the Company's analysis, the Company determined that an additional $13.1 million impairment charge was deemed appropriate on its Original CPTC Loans which was recorded on the Consolidated Statements of Earnings in the fourth quarter of fiscal year 2017.

Pursuant to an order of the Bankruptcy Court, Original CPTC conducted an auction of the Scripps Proton Therapy Center. On December 6, 2017 ("Closing Date"), the Bankruptcy Court approved the sale of Scripps Proton Therapy Center to California Proton Therapy Center, LLC ("CPTC"), an entity owned by the Lenders. The Lenders purchased all

assets and assumed $112.0 million of Original CPTC's outstanding liabilities. On December 13, 2017, the Bankruptcy Court dismissed the bankruptcy filing of Original CPTC.

On the Closing Date, the Lenders entered into a Credit Agreement with Original CPTC of which the terms of the Original CPTC Loans, DIP Facility and accrued interest (collectively "Former Loans") have been modified. In addition to the partially satisfied Original CPTC Loans reinstated by the Bankruptcy Court, the Company received a 47.08% equity ownership in CPTC. Original CPTC has assigned all its Former Loans to CPTC at an amount of $112.0 million, the partially satisfied loan balance. Per the terms of the Credit Agreement, the Company's portion of the $112.0 million is $53.5 million; the remainder is allocated between ORIX and J.P. Morgan. The $53.5 million is composed of four Tranches: Tranche A of $2.0 million, Tranche B of $7.2 million, Tranche C of $15.6 million, and Tranche D of $28.7 million (collectively the "Term Loan"). The maturity date of the Term Loan is three years from the Closing Date. The Term Loan is secured by the assets of CPTC.

In addition, the Lenders have committed to lend up to $15.0 million in a Revolving Loan with a maturity date of one year from the Closing Date. The Company's share of the funding commitment from the Revolving Loan is $7.2 million, and as of March 30, 2018, the Company has funded $3.1 million.

All of the Tranches accrue paid-in-kind interest at 7.5% per annum, except the Tranche B and Revolving Loan which accrue paid-in-kind interest at 10% per annum. The seniority of these loans is as follows: Revolving Loan, Tranche A, Tranche B, Tranche C and Tranche D. If CPTC is in default, the interest rate of the Tranche A, C and D will increase to 9.5% and the interest rate on the Tranche B and the Revolving Loan will increase to 12.0%.

Considering Original CPTC's financial difficulties, the modification of the original terms of the Former Loans, and the Lenders agreement to grant a concession on the Original CPTC Loans, the Company classified the transaction above as a troubled debt restructuring ("TDR"). The Company does not have any unamortized fees from the Former Loans and any prepayment penalties. As a result, the cost basis and fair value of the Company's outstanding Term Loan as of March 30, 2018 is $53.5 million, which approximates the carrying value of the Former Loans prior to the TDR.

The Company, using a discounted cash flow approach, determined that the fair value of CPTC's equity as of Closing Date is $20.1 million. The Company's 47.08% ownership percentage amounts to a $9.5 million equity interest in CPTC. Since the common stock received were in addition to a loan receivable partially satisfied through the bankruptcy proceedings, in accordance with the TDR accounting guidance, the Company recorded the equity interest at fair value and as an offset to the reinstated loan balance. The equity investment in CPTC is accounted for under the equity method of accounting, and the Company accounts for its equity method share of the income or loss of CPTC on a quarter lag basis. The Company recorded a loss of $0.9 million in the three months ended March 30, 2018 in selling, general and administrative expenses on the Condensed Consolidated Statement of Earnings.

Per the terms of the Former Loans, as of September 29, 2017, ORIX had the option to purchase the Company's share of the Original CPTC Loans at par, and therefore they were accounted for as available-for-sale securities. Per the terms of the new agreement, ORIX no longer has the option to purchase the Company's share of the Term Loan at par. As a result, the Term Loan no longer qualified for available-for-sale classification as of December 29, 2017.

Further, the Company has determined that CPTC is a variable interest entity because of the Company's participation in the loan facilities, equity ownership and its operations and maintenance agreement. The Company has one board seat out of five, has no special approval authority or veto rights for CPTC's budget, and does not have the power to direct patient recruitment, clinical operations and management of CPTC, which the Company believes are the matters that most significantly affect their economic performance. Therefore, the Company does not have majority voting rights and no power to direct activities at CPTC as a result it is not the primary beneficiary of CPTC.

17. SEGMENT INFORMATION

The Company has two reportable operating segments: Oncology Systems and VPT. The operating segments were determined based on how the Company's Chief Executive Officer, its Chief Operating Decision Maker ("CODM"), views and evaluates the Company's operations. The CODM allocates resources to and evaluates the financial performance of each operating segment primarily based on operating earnings.

Description of Segments

The Oncology Systems segment designs, manufactures, sells and services hardware and software products for treating cancer with conventional radiation therapy, and advanced treatments such as fixed field intensity-modulated radiation therapy (“IMRT”), image-guided radiation therapy (“IGRT”), VMAT, stereotactic radiosurgery (“SRS”), stereotactic body radiotherapy (“SBRT”) and brachytherapy. Products include linear accelerators, brachytherapy afterloaders, treatment simulation and

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

verification equipment and accessories; as well as information management, treatment planning and image processing, clinical knowledge exchange, patient care management, decision-making support and practice management software. Oncology Systems' products enable radiation oncology departments in hospitals and clinics to perform conventional radiotherapy treatments and offer advanced treatments such as IMRT, IGRT, VMAT, SRS and SBRT, as well as to treat patients using brachytherapy techniques, which involve temporarily implanting radioactive sources. The Company's Oncology Systems products are also used by neurosurgeons to perform stereotactic radiosurgery. Oncology Systems' customers worldwide include university research and community hospitals, private and governmental institutions, healthcare agencies, physicians' offices and cancer care clinics.

The VPT segment develops, designs, manufactures, sells and services products and systems for delivering proton therapy, a form of external beam radiotherapy using proton beams for the treatment of cancer.

Accordingly, the following information is provided for purposes of achieving an understanding of operations, but may not be indicative of the financial results of the reported segments were they independent organizations. In addition, comparisons of the Company's operations to similar operations of other companies may not be meaningful.

The Company allocates corporate costs to its operating segments based on the relative revenues of Oncology Systems and VPT. The Company allocates these costs excluding certain corporate related costs, transactions or adjustments that the Company's CODM considers to be non-operational, such as restructuring and impairment charges, significant litigation charges or benefits and legal costs, acquisition-related expenses and benefits. Although the Company excludes these amounts from segment operating earnings and loss, they are included in the consolidated operating earnings and included in the reconciliation below.

The following table summarizes select operating results information for each reportable segment:

	Three Months Ended		Six Months Ended	
(In millions)	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Revenues				
Oncology Systems	$698.0	$ 631.9	$1,347.4	$1,203.1
Varian Particle Therapy	31.9	31.3	61.0	61.6
Total Company	$729.9	$ 663.2	$1,408.4	$1,264.7
Operating Earnings				
Oncology Systems	$143.1	$ 122.9	$281.3	$239.0
Varian Particle Therapy	(17.5)	(19.8)	(32.7)	(70.1)
Total reportable segments	125.6	103.1	248.6	168.9
Unallocated corporate	(31.3)	(13.0)	(32.9)	(61.4)
Total Company	$94.3	$ 90.1	$215.7	$107.5

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

Disaggregation of Revenues

The Company disaggregates its revenues from contracts by major product categories and by geographic region for each of its reportable operating segments, as the Company believes this best depicts how the nature, amount, timing and uncertainty of revenues and cash flows are affected by economic factors. See details in the tables below.

Total Revenues by product type	Three Months Ended March 30, 2018			Six Months Ended March 30, 2018		
(In millions)	Oncology Systems	Varian Particle Therapy	Total	Oncology Systems	Varian Particle Therapy	Total
Hardware	$311.6	$ 30.1	$341.7	$604.7	$ 57.4	$662.1
Software [(1)]	126.7	—	126.7	241.8	—	241.8
Service	259.7	1.8	261.5	500.9	3.6	504.5
Total Revenues	$698.0	$ 31.9	$729.9	$1,347.4	$ 61.0	$1,408.4

(1) Includes software support agreements that are recorded in revenues from service in the Condensed Consolidated Statements of Earnings (Loss).

Total Revenues by product type	Three Months Ended March 31, 2017			Six Months Ended March 31, 2017		
(In millions)	Oncology Systems	Varian Particle Therapy	Total	Oncology Systems	Varian Particle Therapy	Total
Hardware	$284.5	$ 30.1	$314.6	$523.1	$ 56.9	$580.0
Software [(1)]	118.4	—	118.4	230.6	—	230.6
Service	229.0	1.2	230.2	449.4	4.7	454.1
Total Revenues	$631.9	$ 31.3	$663.2	$1,203.1	$ 61.6	$1,264.7

(1) Includes software support agreements that are recorded in revenues from service in the Condensed Consolidated Statements of Earnings (Loss).

Total Revenues by geographical region	Three Months Ended March 30, 2018			Six Months Ended March 30, 2018		
(In millions)	Oncology Systems	Varian Particle Therapy	Total	Oncology Systems	Varian Particle Therapy	Total
Americas	$321.2	$ 19.0	$340.2	$658.6	$ 38.3	$696.9
EMEA	241.2	12.6	253.8	424.7	22.1	446.8
APAC	135.6	0.3	135.9	264.1	0.6	264.7
Total Revenues	$698.0	$ 31.9	$729.9	$1,347.4	$ 61.0	$1,408.4
North America	$299.6	$ 19.0	$318.6	$625.9	$ 38.3	$664.2
International	398.4	12.9	411.3	721.5	22.7	744.2
Total Revenues	$698.0	$ 31.9	$729.9	$1,347.4	$ 61.0	$1,408.4

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

Total Revenues by geographical region	Three Months Ended March 31, 2017			Six Months Ended March 31, 2017		
(In millions)	Oncology Systems	Varian Particle Therapy	Total	Oncology Systems	Varian Particle Therapy	Total
Americas	$332.0	$ 9.6	$341.6	$622.8	$ 17.0	$639.8
EMEA	167.5	17.8	185.3	336.5	32.8	369.3
APAC	132.4	3.9	136.3	243.8	11.8	255.6
Total Revenues	$631.9	$ 31.3	$663.2	$1,203.1	$ 61.6	$1,264.7
North America	$309.7	$ 9.6	319.3	$584.7	$ 17.0	601.7
International	322.2	21.7	343.9	618.4	44.6	663.0
Total Revenues	$631.9	$ 31.3	$663.2	$1,203.1	$ 61.6	$1,264.7

Timing of revenue recognition	Three Months Ended March 30, 2018			Six Months Ended March 30, 2018		
(In millions)	Products transferred at a point in time	Products and Services transferred over time	Total	Products transferred at a point in time	Products and Services transferred over time	Total
Oncology Systems	$363.7	$ 334.3	$698.0	$702.0	$ 645.4	$1,347.4
Varian Particle Therapy	—	31.9	31.9	—	61.0	61.0
Total Revenues	$363.7	$ 366.2	$729.9	$702.0	$ 706.4	$1,408.4

Timing of revenue recognition	Three Months Ended March 31, 2017			Six Months Ended March 31, 2017		
(In millions)	Products Transferred at a Point in Time	Products and Services Transferred Over Time	Total	Products Transferred at a Point in Time	Products and Services Transferred Over Time	Total
Oncology Systems	$334.8	$ 297.1	$631.9	$617.2	$ 585.9	$1,203.1
Varian Particle Therapy	—	31.3	31.3	—	61.6	61.6
Total Revenues	$334.8	$ 328.4	$663.2	$617.2	$ 647.5	$1,264.7

18. SUBSEQUENT EVENTS

Sirtex. On January 30, 2018, the Company signed an agreement to acquire Sirtex, an Australian company that is listed on the Australian Securities Exchange, for A$28 per share or approximately A$1.6 billion ($1.2 billion as of March 30, 2018). The transaction has received all necessary regulatory approvals, is subject to the approval of the Sirtex shareholders, the Federal Court of Australia and the satisfaction of other customary closing conditions.

On May 4, 2018, Sirtex received an unsolicited non-binding, indicative and conditional proposal from CDH, a China-based alternative asset manager, for the acquisition of all of the issued shares in Sirtex for A$33.60 per share. The Sirtex board of directors has determined to engage with CDH to further understand the conditions associated with the CDH proposal. As a result, the meeting of Sirtex shareholders to approve the acquisition by Varian, which was

scheduled to occur on Monday, May 7, 2018 (Sydney time), was adjourned to a time and date to be determined.

Borrowings. On April 3, 2018, the Company entered into the 2018 Credit Agreement with certain lenders and Bank of America, N.A. as administrative agent. The 2018 Credit Agreement provides for a five-year revolving credit facility (the "2018 Revolving Credit Facility") in an aggregate principal amount of up to $1.8 billion. The 2018 Revolving Credit Facility also includes a $50.0 million sub-facility for the issuance of letters of credit and permits swing line loans of up to $25 million. Under the 2018 Revolving Credit Facility, the Company has the right to make (i) a request to increase the aggregate commitments by an aggregate amount for all such requests of up to $100.0 million and (ii) request an additional increase in the commitments or establish one or more term loans, provided that, in each case, the lenders are willing to provide such new or increased commitments and certain other conditions are met. The proceeds of the 2018 Revolving Credit Facility may be used for working capital, capital expenditures, to pay the consideration for the Sirtex acquisition, Company share repurchases,

permitted acquisitions and other corporate purposes, as well as to satisfy the outstanding obligation under the 2017 Revolving Credit Facility.

The 2018 Revolving Credit Facility replaces the 2017 Revolving Credit Facility of $600 million. The Company borrowed $255.0 million under the 2018 Revolving Credit Facility and repaid in full the $255.0 million then outstanding principal balance on its 2017 Revolving Credit Facility, plus accrued interest and fees.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Varian Medical Systems, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Varian Medical Systems, Inc. and its subsidiaries as of March 30, 2018, and the related condensed consolidated statements of earnings (loss) and of comprehensive earnings (loss) for the three-month and six-month periods ended March 30, 2018 and March 31, 2017 and the condensed consolidated statement of cash flows for the six-month periods ended March 30, 2018 and March 31, 2017. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of September 29, 2017, and the related consolidated statements of earnings and of comprehensive earnings, of equity, and of cash flows for the year then ended (not presented herein), and in our report dated November 27, 2017, we expressed an unqualified opinion on those consolidated financial statements. As discussed in Note 1 to the accompanying condensed consolidated interim financial statements, the Company adopted Accounting Standard Codification 606, Revenue from contracts with customers. The accompanying September 29, 2017 condensed consolidated balance sheet reflects this change.

/s/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP
San Jose, California
May 8, 2018

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a "safe harbor" for statements about future events, products and future financial performance that are based on the beliefs of, estimates made by, and information currently available to the management of Varian Medical Systems, Inc. ("VMS") and its subsidiaries (collectively "we," "our" or the "Company"). The outcome of the events de