

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-02-10** | Period of Report: **1993-12-31**  
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FILER

**VARIAN ASSOCIATES INC /DE/**

CIK: **203527** | IRS No.: **942359345** | State of Incorporation: **DE** | Fiscal Year End: **0930**  
Type: **10-Q** | Act: **34** | File No.: **001-07598** | Film No.: **94505879**  
SIC: **3670** Electronic components & accessories

Mailing Address	Business Address
3100 HANSEN WAY M\SE-224 PALO ALTO CA 94304	3050 HANSEN WAY PALO ALTO CA 94304-1000 415-424-5322

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended December 31, 1993

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

Exact name of registrant as specified in its charter:  
VARIAN ASSOCIATES, INC.

&lt;TABLE&gt;

<S> State or other jurisdiction of incorporation or organization: DELAWARE	<C> IRS Employer Identification No.: 94-2359345
---	--

&lt;/TABLE&gt;

Address of principal executive offices:  
3050 Hansen Way, Palo Alto, California 94304-1000

Telephone No., including area code:  
(415) 493-4000

Securities registered pursuant to Section 12(b) of the Act:

<TABLE>  
<CAPTION>

Title of each class	Name of each exchange on which registered
<S> Common Stock, \$1 par value	<C> New York Stock Exchange Pacific Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange Pacific Stock Exchange

&lt;/TABLE&gt;

Securities registered pursuant to Section 12(g) of the Act:

None

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

An index of exhibits filed with this Form 10-Q is located on page 13.

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of January 28, 1994: 17,272,000 shares of \$1 par

## PART 1. FINANCIAL INFORMATION

VARIAN ASSOCIATES, INC. AND SUBSIDIARY COMPANIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
UNAUDITED

&lt;TABLE&gt;

&lt;CAPTION&gt;

(Dollars in thousands except per share amounts)	First Quarter Ended	
	December 31, 1993	January 1, 1993
<S>	<C>	<C>
SALES	\$323,750	\$291,332
OPERATING COSTS AND EXPENSES		
Cost of sales	219,645	200,419
Research and development	18,425	16,961
Marketing	41,707	40,760
General and administrative	24,097	21,955
Total operating costs and expenses	303,874	280,095
OPERATING EARNINGS	19,876	11,237
Interest expense, net	1,062	654
EARNINGS BEFORE TAXES	18,814	10,583
Taxes on Earnings	7,150	4,020
NET EARNINGS	\$ 11,664	\$ 6,563
Average Shares Outstanding Including Common Stock Equivalents	17,822	18,460
EARNINGS PER SHARE - FULLY DILUTED	\$ 0.65	\$ 0.36
OTHER DATA		
Dividends Declared Per Share	\$ 0.10	\$ 0.09
Order Backlog	\$737,500	\$614,200

&lt;/TABLE&gt;

See accompanying notes to the consolidated financial statements.

VARIAN ASSOCIATES, INC. AND SUBSIDIARY COMPANIES  
CONSOLIDATED BALANCE SHEETS  
UNAUDITED

&lt;TABLE&gt;

&lt;CAPTION&gt;

(Dollars in thousands except par values)	December 31, 1993		October 1, 1993	
<S>	<C>	<C>	<C>	<C>
ASSETS				

Current Assets		
Cash and cash equivalents	\$ 64,696	\$ 73,307
Accounts receivable	293,946	290,513
Inventories		
Raw materials and parts	101,710	89,708
Work in process	55,256	44,705
Finished goods	18,463	27,000
	-----	-----
Total Inventories	175,429	161,413
Other current assets	69,253	65,793
	-----	-----
Total Current Assets	603,324	591,026
Property, Plant, and Equipment		
Property, Plant, and Equipment	550,566	544,316
Accumulated depreciation and amortization	(323,818)	(313,841)
	-----	-----
Net Property, Plant, and Equipment	226,748	230,475
Other Assets		
Other Assets	52,612	57,506
	-----	-----
TOTAL ASSETS	\$ 882,684	\$ 879,007
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Notes payable	\$ 46,159	\$ 22,858
Accounts payable - trade	57,504	58,654
Accrued expenses	181,580	203,848
Product warranty	36,387	35,615
Advance payments from customers	63,291	61,282
	-----	-----
Total Current Liabilities	384,921	382,257
Long-Term Debt	60,405	60,470
Deferred Taxes	21,361	21,361
	-----	-----
Total Liabilities	466,687	464,088
	-----	-----
Shareholders' Equity		
Preferred stock		
Authorized 1,000,000 shares, par value \$1, issued none	-	-
Common stock		
Authorized 99,000,000 shares, par value \$1, issued and outstanding 17,251,000 shares at December 31, 1993 and 17,342,000 shares at October 1, 1993	17,251	17,342
Retained earnings	398,746	397,577
	-----	-----
Total Shareholders' Equity	415,997	414,919
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 882,684	\$879,007
	=====	=====

</TABLE>

See accompanying notes to the consolidated financial statements.

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VARIAN ASSOCIATES, INC. AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
UNAUDITED

<TABLE>  
<CAPTION>

(Dollars in thousands)

First Quarter Ended	
December 31,	January 1,
1993	1993
-----	-----

<S>	<C>	<C>
OPERATING ACTIVITIES		
Net Cash Used by Operating Activities	\$ (13,175)	\$ (13,410)
INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(8,788)	(9,414)
Other, net	114	(2,069)
	-----	-----
Net Cash Used by Investing Activities	(8,674)	(11,483)
FINANCING ACTIVITIES		
Net borrowings on short-term obligations	23,301	9,189
Purchase of common stock	(14,406)	(16,737)
Other, net	3,755	4,548
	-----	-----
Net Cash Provided/(Used) by Financing Activities	12,650	(3,000)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		
	588	2,313
	-----	-----
Net Decrease in Cash and Cash Equivalents	(8,611)	(25,580)
Cash and Cash Equivalents at Beginning of Period		
	73,307	66,743
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 64,696	\$ 41,163
	=====	=====

</TABLE>

See accompanying notes to the consolidated financial statements.

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VARIAN ASSOCIATES, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

(Dollars in Millions)

NOTE 1: The consolidated financial statements include the accounts of Varian Associates, Inc. and its subsidiaries and have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest Form 10-K annual report. In the opinion of management, the consolidated financial statements include all normal recurring adjustments necessary to present fairly the information required to be set forth therein. The results of operations for the first quarter ended December 31, 1993, and January 1, 1993 are not necessarily indicative of the results to be expected for a full year or for any other periods.

NOTE 2: Inventories are valued at the lower of cost or market (realizable value) using last-in, first-out (LIFO) cost for the U.S. inventories of the Health Care Systems (except for X-Ray Tube Products), Instruments, and Semiconductor Equipment segments. All other inventories are valued principally at average cost. Approximately half of total gross inventories are valued using the LIFO method. If the first-in, first-out (FIFO) method had been used for those operations valuing inventories on a LIFO basis, inventories would have been higher than reported by \$51.4 at December 31, 1993, \$50.8 at October 1, 1993, \$52.0 at January 1,

1993, and \$52.0 at September 28, 1992.

NOTE 3: The Company obtains forward exchange contracts to mitigate the effects of operational and balance sheet exposure to fluctuations in foreign currencies. Gains and losses due to rate fluctuations on such transactions are recognized currently. At December 31, 1993, the Company had forward exchange contracts with maturities of twelve months or less to sell foreign currencies totalling \$44.4 (4.4 million British pounds, 16.4 million Deutsche mark, 6.2 billion Italian lira, 25.5 million Swedish krona, 76.3 million French francs and 945.0 million Japanese yen) and to buy foreign currencies totalling \$17.2 (5.2 million British pounds and 1.0 billion Japanese yen).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4: In November 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 112, Employers' Accounting for Postemployment Benefits. It is effective for the Company's fiscal year 1995. Its adoption will not have a material effect on the financial statements of the Company.

NOTE 5: During the first quarter of fiscal year 1994, the Company adopted SFAS 109, "Accounting for Income Taxes". Adoption was made on a retroactive basis, and resulted in a charge against beginning retained earnings at September 28, 1991 of \$6.9 million. The audited balance sheet at October 1, 1993 has been restated to reflect adoption of this new standard. Adoption of SFAS 109 did not have a material effect on income tax expense, as previously reported, for any periods subsequent to fiscal 1991.

Significant components of deferred tax assets and liabilities as of the beginning of fiscal 1994 are as follows:

<TABLE>

<S>	<C>
Assets:	
Inventory	\$11.6
Product warranty	11.3
Deferred compensation	8.6
Estimated loss contingencies	6.3
Insurance	3.3
Other	7.3
	-----
	\$48.4
	=====
Liabilities:	
Depreciation	\$22.0
Other	(0.6)
	-----
	\$21.4
	=====

</TABLE>

NOTE 6: On September 21, 1988, Rodney Shields, who purports to be a stockholder of the Company, filed a stockholder's derivative action in the Superior Court of the State of California, County of Santa Clara. The complaint alleged that the Company obtained certain defense contracts by illegal means, overcharged the government in connection with other defense contracts, and that

certain named individuals, including 17 present or former directors or officers of the Company, breached their fiduciary duties. On November 2, 1993, the California Court of Appeal issued a writ of mandate directing entry of summary judgment in favor of all defendants. Mr. Shields did not seek further judicial review of that writ, and a judgment of dismissal was entered by the Superior Court on December 27, 1993.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6: (Continued)

In February 1990 a purported class action was brought by Panache Broadcasting of Pennsylvania, Inc. on behalf of all purchasers of electron tubes in the U.S. against the Company and a joint-venture partner, alleging that the activities of their joint venture in the power-grid tube industry violated antitrust laws. The complaint seeks injunctive relief and unspecified damages which may be trebled under the antitrust laws. In February 1993, the U.S. District Court in Chicago granted the Company's motion to dismiss the complaint with leave to amend. Panache Broadcasting filed an amended complaint in March 1993. The Company has moved to dismiss that complaint. No determination has been made regarding the plaintiffs' request to certify the purported class. The Company believes that it has meritorious defenses to the Panache lawsuit.

In addition to the above-referenced matters, the Company is currently a defendant in a number of legal actions and could incur an uninsured liability in one or more of them. In the opinion of management, the outcome of the above litigation will not have a material adverse effect on the financial condition of the Company.

The Company has also been named by the U.S. Environmental Protection Agency or third parties as a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, at six sites to which Varian is alleged to have shipped manufacturing waste for disposal. The Company is also involved in various stages of environmental investigation and/or remediation under the direction of, or in consultation with, local and/or state agencies at certain current or former Company facilities.

Uncertainty as to (a) the extent to which the Company caused, if at all, the condition being investigated, (b) the extent of environmental contamination and risks, (c) the applicability of changing and complex environmental laws, (d) the number and financial viability of other potentially responsible parties, (e) the stage of the investigation and/or remediation, (f) the unpredictability of investigation and/or remediation costs (including as to when they will be incurred), (g) applicable clean-up standards, (h) the remediation (if any) which will ultimately be required, and (i) available technology make it difficult to assess the likelihood and scope of further investigation or remediation activities or to estimate the future costs of such activities if undertaken. In addition, the Company

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## NOTE 6: (Continued)

believes that it has rights to contribution and/or reimbursement from financially viable, potentially responsible parties and/or insurance companies, and has filed a lawsuit against 36 insurance companies with respect to most of the above-referenced sites. The Company has established reserves for these environmental matters, which reserves management believes are adequate. Based on information currently available, management believes that the costs of these matters are otherwise not reasonably likely to have a material adverse effect on the financial condition of the Company.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On January 20, Varian reported higher sales and a sharp rise in profits for the first quarter of 1994, versus last year's first period. Orders were the highest for any quarter in the Company's history.

Net earnings for the quarter increased 77% to \$11.7 million from \$6.6 million in the year-ago period. Earnings per share of \$.65 were 81% above the prior year's \$.36.

Orders of \$440 million rose 29% over last year's \$342 million. First-quarter sales totaled \$324 million, 11% above the \$291 million of a year ago. Backlog of \$738 million was up by over \$100 million from both the previous quarter and the year-ago period.

Year-to-year earnings improvements were posted by three of the four core businesses, all of which benefited from improved manufacturing and lower cost structure. Two of the businesses, Health Care Systems and Semiconductor Equipment, accounted for most of the orders growth, as both set new quarterly records.

Orders for Health Care Systems advanced strongly during the period, reaching a level that was 21% above the prior year's total. Sales rose as well, even though this is traditionally the slowest shipment period of the year for this business. Backlog also reached a new high, climbing 9% over 1993's first quarter to \$295 million. The business also achieved better operating margins relative to the year-ago period. Demand in Health Care's domestic markets was strong, driven by interest in new-generation cancer therapy systems and a major new contract to supply X-ray tubes to a large U.S. systems manufacturer.

Instruments' orders increased modestly from the strong first quarter of a year ago. Sales fell slightly as did operating margins, but backlog grew 15% over the prior year's level. Varian's Vacuum Products unit has completed its turnaround and is now benefiting from the strength of the semiconductor equipment market, where it is a major supplier of pumps, gauges, and leak detectors.

Semiconductor Equipment orders of \$171 million were more than double those of a year ago and exceeded the previous quarterly record by \$68 million. Sales rose 62% over 1993's similar quarter, while backlog was twice that year's level at \$188 million. The business posted its fourth consecutive quarterly profit as it continues its recovery from a loss in last year's first period. The increase in equipment orders is being driven by the new sub-micron semiconductor fabrication facilities being constructed in most markets outside of Japan, particularly in the U.S. and Korea.



MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Orders, sales, and backlog for Varian's fourth core business, Electron Devices, declined from the same period in 1993. Operating profits, on the other hand, improved as a result of continuing cost reductions and enhanced manufacturing performance.

In November 1992, the FASB issued SFAS 112, Employer's Accounting for Postemployment Benefits. It is effective for the Company's fiscal year 1995. Its adoption will not have a material effect on the financial statements of the Company.

FINANCIAL CONDITION

The Company's financial condition remained strong during the first quarter of fiscal 1994. Operating activities consumed \$13.2 million in the first quarter of fiscal 1994 compared to \$13.4 million in the same period last year. Investing activities used \$8.7 million and \$11.5 million in the first quarters of fiscal 1994 and 1993, respectively, mainly for the purchase of property, plant, and equipment. Long-term financing arrangements were unchanged from fiscal 1993 year end. The ratio of current assets to current liabilities of 1.57 held constant from year end. The Company has available \$50 million in unused lines of credit.

OUTLOOK

Despite the favorable financial results described above, future revenue and profitability remain difficult to predict. The Company continues to face various risks associated with its business operations including uncertain general worldwide economic conditions and lingering worldwide recessionary conditions (particularly in Europe and Japan). Such conditions could affect the Company's future performance.

As discussed in the Annual Report Form 10-K for the fiscal year ended October 1, 1993, the Company is involved in certain environmental matters. The Company has established reserves for these environmental matters, which reserves management believes are adequate. Based on information currently available, management continues to believe that the costs of these matters, individually or in the aggregate, are otherwise not reasonably likely to have a material adverse effect on the financial condition or results of operations of the Company.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Varian Associates, Inc.:

We have reviewed the consolidated balance sheet of Varian Associates, Inc. and subsidiary companies as of December 31, 1993, and the related consolidated statements of earnings and the condensed consolidated statements of cash flows for the quarters ended December 31, 1993 and January 1, 1993. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim



February 10, 1994

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Date

/s/ Wayne P. Somrak

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Wayne P. Somrak  
Vice President and Controller

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INDEX OF EXHIBITS

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Computation of Earnings Per Share  
  
Letter Regarding Unaudited Interim Financial Information

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VARIAN ASSOCIATES, INC. AND SUBSIDIARY COMPANIES  
 COMPUTATION OF EARNINGS PER SHARE IN ACCORDANCE  
 WITH INTERPRETIVE RELEASE NO. 34-9083  
 UNAUDITED

EXHIBIT 11

<TABLE>  
 <CAPTION>

	First Quarter Ended	
	Dec 31, 1993	Jan 1, 1993
(Shares in Thousands)	-----	-----
<S>	<C>	<C>
Actual weighted average shares outstanding for the period	17,277	18,040
Dilutive employee stock options	545	420
Weighted average shares outstanding for the period	17,822	18,460
	=====	=====
(Dollars in thousands, except per share amounts)		
Earnings applicable to fully diluted earnings per share	\$11,664	\$ 6,563
	=====	=====
Earnings per share based on SEC interpretive release No. 34-9083:		
Earnings per share - Fully Diluted (1)	\$0.65	\$0.36
	=====	=====

</TABLE>

(1) There is no significant difference between fully diluted earnings per share and primary earnings per share.

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

RE: Varian Associates, Inc.  
Registrations on Forms S-8 and S-3

We are aware that our report dated January 20, 1994 on our review of the interim financial information of Varian Associates, Inc. for the quarter ended December 31, 1993 included in this Form 10-Q is incorporated by reference in the Company's registration statements on Forms S-8, Registration Statement Numbers 33-46000, 33-33661, 33-33660, and 2-95139 and Forms S-8 and S-3, Registration Statement Number 33-40460. Pursuant to Rule 436(c) under the Securities Act of 1933 this report should not be considered a part of the registration statements prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

/s/ Coopers & Lybrand

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COOPERS & LYBRAND

San Jose, California  
February 9, 1994