

VARIAN MEDICAL SYSTEMS INC

Form 11-K

June 08, 2011

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

FORM 11-K

(Mark One):

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

For the fiscal year ended December 31, 2010

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

For the transition period from _____ to _____

Commission file number 1-7598

VARIAN MEDICAL SYSTEMS, INC. RETIREMENT PLAN

(Full title of the plan)

VARIAN MEDICAL SYSTEMS, INC.

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

3100 HANSEN WAY

PALO ALTO, CALIFORNIA 94304-1129

(Address of issuer's principal executive office)

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VARIAN MEDICAL SYSTEMS, INC.

RETIREMENT PLAN

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Participants and Administrator of the

Varian Medical Systems, Inc. Retirement Plan

We have audited the accompanying statements of net assets available for benefits of Varian Medical Systems, Inc. Retirement Plan (the Plan) as of December 31, 2010 and 2009, and the related statement of changes in net assets available for benefits for the year ended December 31, 2010. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An Audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2010 and 2009, and the changes in net assets available for benefits for the year ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules, as listed in the accompanying table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ BURR PILGER MAYER, INC.

San Francisco, California

June 8, 2011

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Varian Medical Systems, Inc. Retirement Plan

Statements of Net Assets Available for Benefits

<i>(in thousands of dollars)</i>	December 31,	
	2010	2009
Assets		
Investments, at fair value (Note 5)	\$ 568,074	\$ 499,717
Receivables		
Notes receivable from participants	6,049	5,018
Employer contributions	918	723
Total receivable	6,967	5,741
Net assets available for benefits at fair value	575,041	505,458
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(524)	624
Net assets available for benefits	\$ 574,517	\$ 506,082

The accompanying notes are an integral part of these financial statements

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

	Year Ended December 31, 2010
<i>(in thousands of dollars)</i>	
Additions to net assets attributed to:	
Investment income:	
Net unrealized and realized appreciation in the fair value of investments	\$ 56,992
Dividends and interest income	13,808
Total investment income	70,800
Interest on notes receivable from participants	281
Contributions:	
Participant	24,054
Employer	12,694
Total contributions	36,748
Total additions	107,829
Deductions from net assets attributed to:	
Benefits paid to participants	39,111
Administrative expenses	283
Total deductions	39,394
Net change	68,435
Net assets available for benefits	
Beginning of year	506,082
End of year	\$ 574,517

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

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Varian Medical Systems, Inc. Retirement Plan

Notes to Financial Statements

December 31, 2010 and 2009

1. Description of the Plan

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

General

The Plan was established to provide benefits to those eligible employees of Varian Medical Systems, Inc. (the "Company") who elect to participate. The Plan is intended to comply with the applicable requirements of the Internal Revenue Code and the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Administration

The Company is the designated administrator of the Plan. The Company has contracted with Fidelity Institutional Retirement Services Company ("Fidelity") to maintain the Plan's individual participant accounts and with Fidelity Management Trust Company ("Fidelity Trust") to act as the custodian and trustee. Expenses for administering the Plan are primarily the responsibility of the Plan participants.

Eligibility

Employees are eligible to enroll in the Plan immediately after they are hired by the Company.

Participant Contributions

Participants in the Plan may make a minimum contribution of 1% of their eligible base pay up to a maximum of 25% of their eligible base pay on a pre-tax basis. Participants must complete one year of service before making any after-tax contributions to the Plan, up to a maximum of 15% of their eligible base pay. Eligible base pay is defined by the Plan and includes an employee's bonus under the Company's Management Incentive Plan and Varian Performance Incentive Plan. Employees of the Company may elect to have their Employee Incentive Plan ("EIP") bonus paid out in cash or deposited directly to their Plan account in 10% increments. All participant contributions are subject to statutory annual limitations and Plan rules. Participants may make rollover contributions to the Plan representing distributions from other qualified retirement plans.

Employer Contributions

Upon completion of one year of service with the Company, participants are entitled to receive Company matching contributions. The Company's matching contribution is 100% of a participant's before-tax and/or after-tax contribution, up to a maximum of 6% of the participant's eligible base pay. The Company's matching contribution for an employee's EIP bonus that is deferred into the Plan is 6%. The Company may make a discretionary retirement profit-sharing contribution to the Plan for participants who have completed one year of service and were employed on the last day of the fiscal year or died during the fiscal year. Participants' portions of the Company's retirement profit sharing contribution are based on the percentages of their eligible base salary to the total eligible base pay for all employees during the Plan year. No discretionary Company retirement profit-sharing contributions were made for the year ended December 31, 2010.

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Varian Medical Systems, Inc. Retirement Plan

Notes to Financial Statements (Continued)

December 31, 2010 and 2009

Participant Accounts

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

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

Notes Receivable from Participants

Loans are available to participants who are either active employees or on a leave of absence. Participants are eligible to request a loan from the Plan ranging from \$1,000 to the lesser of 50% of the participant's Plan assets or \$50,000. Note receivable balances are also subject to certain other limitations as provided by the Plan. Note receivable balances are collateralized by the balance in the participant's account and bear interest at the prime rate plus 1% at the date requested. As of December 31, 2010, the interest rates on outstanding notes receivable ranged from 4.25% to 10.5% with various maturities. Principal and interest are paid ratably through payroll deductions over five years or less. Upon employment termination, the entire balance of the note receivable becomes immediately due and payable unless the participant arranges to repay the note receivable through automatic, periodic payments from the participant's bank account or by using a coupon book for remitting payment.

Payment of Benefits

Upon termination of service on account of death, disability or retirement, a participant or beneficiary may elect to receive either a lump sum amount equal to the value of his or her account or annual installments over a period of years. Upon termination of service for other reasons, a participant's account will be paid in a single lump sum. A qualified annuity is available to participants who had after-tax contributions or Company matching contributions prior to January 1, 2003. The Plan allows for in-service withdrawals when a participant reaches the age of 59 ¹/₂. A participant who obtains an in-service withdrawal shall be required to pay such fees as the Company may impose in order to defray the cost of processing the withdrawal.

Hardship Distributions

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

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Varian Medical Systems, Inc. Retirement Plan

Notes to Financial Statements (Continued)

December 31, 2010 and 2009

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

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

Investment Valuation

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

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

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

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

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

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

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

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

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

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

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Varian Medical Systems, Inc. Retirement Plan

Notes to Financial Statements (Continued)

December 31, 2010 and 2009

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009:

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

VMS common stock: Valued at fair value as determined by quoted market prices.

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

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

Income Recognition

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

Payment of Benefits

Benefits are recorded when paid.

Reclassifications

Certain reclassifications have been made to the 2009 balances to conform to the 2010 presentation.

3. New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-06 which expanded the required disclosures about fair value measurements. In particular, this guidance requires 1) separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with the reasons for such transfers, (2) information about purchases, sales, issuances and settlements to be presented separately in the reconciliation for Level 3 fair value measurements, (3) fair value measurement disclosures for each class of assets and liabilities and, (4) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for fair value measurements that fall in either Level 2 or Level 3. This guidance is effective for annual reporting periods beginning after December 15, 2009 except for information required under item (2) above, which will be effective for fiscal years beginning after December 15, 2010. The Company adopted the amendments in ASU 2010-06 effective January 1, 2010. The Plan had no significant transfers between Level 1 or 2 for the year ended December 31, 2010.

Table of Contents**Varian Medical Systems, Inc. Retirement Plan****Notes to Financial Statements (Continued)****December 31, 2010 and 2009**

In September 2010, the FASB issued guidance clarifying the classification and measurement of participant loans by defined contribution pension plans. That guidance requires that participant loans be classified as notes receivable from participants and measured at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Delinquent notes receivable from participants are reclassified as distributions based upon the terms of the plan document. The Plan adopted this new guidance for the fiscal year ended December 31, 2010 and has reclassified participant loans of \$6,049,000 and \$5,018,000 for the years ended December 31, 2010 and 2009, respectively, from investments to notes receivable from participants. Net assets of the Plan were not affected by the adoption of the new guidance.

4. Investments

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

<i>(in thousands of dollars)</i>	December 31,	
	2010	2009
PIMCO Total Return	\$ 107,713	\$ 105,591
Fidelity Growth Company K	100,135	84,775
Vanguard Institutional Index	80,442	73,436
Fidelity Managed Income Portfolio II	53,019	49,649
Fidelity Balanced K	40,601	37,311
NB Genesis Trust	36,936	30,571

The Plan's investments, including investments bought, sold and held during 2010, appreciated in value by \$56,992,000 as follows:

<i>(in thousands of dollars)</i>	
Mutual funds	\$ 48,394
Company stock fund	8,598
	56,992

Table of Contents**Varian Medical Systems, Inc. Retirement Plan****Notes to Financial Statements (Continued)****December 31, 2010 and 2009*****Investment Contracts***

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

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

5. Fair Value Measurements

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2010 and 2009.

<i>(in thousands of dollars)</i>	Investments at Fair Value as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Intermediate term bond funds	\$ 115,690	\$	\$	\$ 115,690
Large growth funds	100,135			100,135
Large blend funds	86,260			86,260
Target date funds	55,705			55,705
Small blend funds	49,110			49,110
Moderate allocation funds	40,601			40,601
Foreign large blend	28,150			28,150
Foreign large value	10,592			10,592
Retirement income funds	2,293			2,293
Money market funds	485			485
Total mutual funds	489,021			489,021
Common / collective trust		53,019		53,019
Varian Medical Systems, Inc. common stock	26,034			26,034
	\$ 515,055	\$ 53,019	\$	\$ 568,074

Table of Contents**Varian Medical Systems, Inc. Retirement Plan****Notes to Financial Statements (Continued)****December 31, 2010 and 2009**

<i>(in thousands of dollars)</i>	Investments at Fair Value as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Intermediate term bond funds	\$ 113,156	\$	\$	\$ 113,156
Large growth funds	84,775			84,775
Large blend funds	77,979			77,979
Target date funds	39,730			39,730
Moderate allocation funds	37,311			37,311
Foreign large blend	29,171			29,171
Foreign large value	8,349			8,349
Small blend funds	38,799			38,799
Retirement income funds	1,961			1,961
Money market funds	459			459
Total mutual funds	431,690			431,690
Common / collective trust		49,649		49,649
Varian Medical Systems, Inc. common stock	18,378			18,378
	\$ 450,068	\$ 49,649	\$	\$ 499,717

6. Party-In-Interest and Related Party Transactions

As allowed by the Plan, participants may elect to invest up to 25% of their contributions and/or 25% of their account balance in the Varian Medical Systems Stock Fund. Investments in the Company's common stock at December 31, 2010, and 2009 consisted of 375,817 and 392,698 shares, respectively, with fair market values of approximately \$26,034,000 and \$18,378,000 respectively. The Varian Medical Systems Stock Fund invests primarily in the Company's common stock. The remainder of the Varian Medical Systems Stock Fund, approximately \$485,000 and \$458,000 at December 31, 2010, and 2009, respectively, is invested in the Fidelity Institutional Money Market Portfolio to allow for timely handling of exchanges, withdrawals and distributions.

Certain investments are shares of mutual funds managed by an affiliate of Fidelity Trust, and therefore these transactions qualify as party-in-interest. Any purchases and sales of these funds are open market transactions at fair market value. Consequently, such transactions are permitted under the provisions of the Plan and are exempt from the prohibition of party-in-interest transactions under ERISA. Administrative fees paid by the Plan for the year ended December 31, 2010 were \$283,000.

Table of Contents**Varian Medical Systems, Inc. Retirement Plan****Notes to Financial Statements (Continued)****December 31, 2010 and 2009****7. Income Tax Status**

The Plan obtained its current determination letter, in which the Internal Revenue Service stated that the Plan design is in compliance with the applicable requirements of the Internal Revenue Code, on December 4, 2001. The Plan has been subsequently amended; however, the Company believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code and that the trust, which forms a part of the Plan, is exempt from tax. The Plan has applied for a new determination letter, but a new letter has not been received as of the date of the audit report. Therefore, no provision for income taxes has been included in the Plan's financial statements.

8. Plan Termination

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

9. Risks and Uncertainties

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

10. Reconciliation to Form 5500

The following schedule is a reconciliation of net assets available for benefits and changes in net assets available for benefits per financial statements to the Form 5500 as of December 31, 2010 and 2009:

<i>(in thousands of dollars)</i>	2010	2009
Net assets available for benefits per the financial statements	\$ 574,517	\$ 506,082
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	524	(624)
Net assets available for benefits per the Form 5500	\$ 575,041	\$ 505,458
Change in net assets available for benefits per the financial statements	\$ 68,435	
Change in adjustment from contract value to fair value for fully benefit-responsive investment contracts	1,148	
Change in net assets available for benefits per the Form 5500	\$ 69,583	

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Varian Medical Systems, Inc. Retirement Plan

Notes to Financial Statements (Continued)

December 31, 2010 and 2009

11. Subsequent Events

In accordance with accounting standards affecting disclosures of subsequent events, the Plan evaluated subsequent events for recognition and disclosure through the date which these financial statements were issued. Management concluded that no material subsequent event has occurred since December 31, 2010 that requires recognition or disclosure in such financial statements.

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Supplemental Schedules

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Varian Medical Systems Inc. Retirement Plan
Schedule H, Item 4a Schedule of Delinquent Participant Contributions
Year Ended December 31, 2010

EIN: 94-2359345
Plan #: 002

Participant				
Contributions				
Transferred				
Late to Plan	Total that Constitute Nonexempt Prohibited Transactions			Total Fully
				Corrected
Check here if				Under VFCP
Late				and
Participant				Prohibited
Loan				Transaction
Repayments				Exemption
are included: "	Contributions Not	Contributions Corrected	Contributions Pending	2002-51
\$4,233	Corrected	Outside VFCP	Correction in VFCP	\$
	\$	\$	\$4,233 ⁽¹⁾	\$

- ⁽¹⁾ Represents delinquent participant contributions from one pay period in 2010. The Company remitted the delinquent participant contributions as well as lost earnings to the Plan during 2011. The Company intends to file the required Form 5330, Return of Excise Taxes Related to the Employee Benefit Plans.

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Varian Medical Systems Inc. Retirement Plan
Schedule H, Item 4i Schedule of Assets (Held at End of Year)
December 31, 2010

EIN: 94-2359345
Plan #: 002

(a) Identity of Issuer	(b) Description of Investment	(c) Current Value
PIMCO Total Return	Mutual Fund	\$ 107,712,684
* Fidelity Growth Company K	Mutual Fund	100,134,966
Vanguard Institutional Index	Mutual Fund	80,442,412
* Fidelity Balanced K	Mutual Fund	40,600,676
NB Genesis Trust	Mutual Fund	36,936,387
* Fidelity Diversified International K	Mutual Fund	23,567,973
* Fidelity Freedom K 2020	Mutual Fund	19,858,607
* Fidelity Freedom K 2030	Mutual Fund	16,591,474
Vanguard Small Cap Index Inv	Mutual Fund	12,173,833
Dodge & Cox International Stock	Mutual Fund	10,592,163
* Fidelity Freedom K 2040	Mutual Fund	9,687,204
Vanguard Total Bond Market Index	Mutual Fund	7,976,847
* Fidelity Freedom K 2010	Mutual Fund	6,707,199
* Spartan International Index	Mutual Fund	5,818,083
* Spartan Total Market Index	Mutual Fund	4,581,834
* Fidelity Freedom K Income	Mutual Fund	2,292,785
* Fidelity Freedom K 2050	Mutual Fund	2,144,270
* Fidelity Freedom K 2000	Mutual Fund	716,706
* Fidelity Managed Income Portfolio II	Common Collective Trust ^	52,495,803
* Varian Medical Systems, Inc. Stock	Common Stock	26,034,023
* Fidelity Institutional Money Market	Cash, various interest	484,907
* Notes Receivable from Participants	Interest rates from 4.25% to 10.5%, various maturities	6,048,880
		\$ 573,599,716

* Party-in-interest.

^ Presented at contract value.

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SIGNATURE

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

**VARIAN MEDICAL SYSTEMS INC.
RETIREMENT PLAN**

By: Varian Medical Systems, Inc.

By: /s/ WENDY S. REITHERMAN
Wendy S. Reitherman
Corporate Vice President, Human Resources

Date: June 8, 2011