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.

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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.

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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.

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

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.

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

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	