

VARIAN MEDICAL SYSTEMS INC  
Form DEF 14A  
December 28, 2004  
**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

**VARIAN MEDICAL SYSTEMS, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required  
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- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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- (3) Filing Party:
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**Varian Medical Systems, Inc.**

**3100 Hansen Way  
Palo Alto, CA 94304**

December 28, 2004

**Dear Stockholder:**

You are cordially invited to attend Varian Medical Systems, Inc.'s 2005 Annual Meeting of Stockholders to be held on Thursday, February 17, 2005 at 1:00 p.m. at the Sheraton Palo Alto Hotel, Justine's Room, 625 El Camino Real, Palo Alto, California 94301.

The Secretary's formal notice of the meeting and the Proxy Statement appear on the following pages and describe the matters to be acted upon at the annual meeting. You also will have the opportunity to hear what has happened in our business in the past year.

We hope that you can join us. However, whether or not you plan to be there, please sign and return your proxy card in the enclosed envelope as soon as possible so that your vote will be counted.

Sincerely,

Richard M. Levy  
*Chairman of the Board  
President and Chief Executive Officer*

**Varian Medical Systems, Inc.**  
**3100 Hansen Way**  
**Palo Alto, CA 94304**

**December 28, 2004**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
AND PROXY STATEMENT**

Varian Medical Systems, Inc. will hold its Annual Meeting of Stockholders on Thursday, February 17, 2005 at 1:00 p.m. at the Sheraton Palo Alto Hotel, Justine s Room, 625 El Camino Real, Palo Alto, California 94301.

At this annual meeting we will ask you:

- to elect three directors to serve until the 2008 Annual Meeting of Stockholders and one director to serve until the 2007 Annual Meeting of Stockholders;
- to approve the adoption of the Varian Medical Systems, Inc. 2005 Omnibus Stock Plan;
- to ratify the selection of PricewaterhouseCoopers LLP as our independent auditors for fiscal year 2005; and
- to transact any other business that properly comes before the annual meeting.

Your Board of Directors has selected December 20, 2004 as the record date for determining stockholders entitled to vote at the annual meeting. A list of stockholders as of that date will be available for inspection during ordinary business hours at our offices at 3100 Hansen Way, Palo Alto, California 94304 for ten days before the meeting.

This Proxy Statement, a proxy card and our 2004 Annual Report on Form 10-K are being distributed on or about December 28, 2004 to those entitled to vote.

By Order of the Board of Directors,  
Joseph B. Phair  
*Secretary*

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## GENERAL INFORMATION

### Q: Who is soliciting my proxy?

A: The Board of Directors the Board of Varian Medical Systems, Inc. the Company is sending you this Proxy Statement in connection with our solicitation of proxies for use at the 2005 Annual Meeting of Stockholders the Annual Meeting. Certain directors, officers and employees also may solicit proxies on our behalf by mail, phone, fax or in person. Georgeson Shareholder Communications, Inc., 111 Commerce Road, Carlstadt, New Jersey 07072-2586, has been hired to assist in soliciting proxies from brokers, bank nominees and other stockholders.

### Q: Who is paying for this solicitation?

A: The Company will pay for the solicitation of proxies. The Company's directors, officers and employees will not receive extra remuneration. The Company will pay Georgeson Shareholder Communications, Inc. not more than \$25,000, plus reasonable out-of-pocket expenses, and also will reimburse banks, brokers, custodians, nominees and fiduciaries for their reasonable charges and expenses to forward our proxy materials to the beneficial owners of our common stock.

### Q: What am I voting on?

A: Proposal One is for the election of Susan L. Bostrom, R. Andrew Eckert, Richard M. Levy and Allen S. Lichter, M.D. to the Board. Mr. Levy, Dr. Lichter and Ms. Bostrom have been nominated for election for three-year terms ending at the 2008 Annual Meeting of Stockholders. Mr. Eckert has been nominated for election for a two-year term ending at the 2007 Annual Meeting of Stockholders.

Proposal Two is for the approval of the Varian Medical Systems, Inc. 2005 Omnibus Stock Plan the 2005 Omnibus Stock Plan.

Proposal Three is for the ratification of the Company's selection of PricewaterhouseCoopers LLP as the Company's independent auditors for fiscal year 2005.

### Q: Who can vote?

A: Only those people who owned the Company's common stock at the close of business on December 20, 2004, the record date for the Annual Meeting, may vote. Each share of common stock outstanding on that date is entitled to one vote on all matters to come before the meeting, except that cumulative voting will apply in the election of directors. Under the cumulative voting method of election, the stockholder computes the number of votes available to the stockholder by multiplying the number of shares the stockholder owned on the record date by the number of directors to be elected, and may cast the votes all for a single nominee or may distribute them in any manner among the nominees.

### Q: How do I vote?

A: You may vote your shares either in person or by proxy. To vote by proxy, you should mark, date, sign and mail the enclosed proxy card in the prepaid envelope. Giving a proxy will not affect your right to vote your shares if you attend the Annual Meeting and want to vote in person by voting you automatically revoke your proxy. You also may revoke your proxy at any time before the voting by giving our Secretary written notice of your revocation or by submitting a later-dated proxy. If you sign and return your proxy card in time, the individuals named as proxyholders will vote your shares as you instruct. If you sign and return your proxy card but do not mark your voting instructions, the individuals named as proxyholders will vote your shares **FOR** the election of the nominees for director, **FOR** approval of the 2005 Omnibus Stock Plan and **FOR** the ratification of the Company's selection of

PricewaterhouseCoopers LLP as the Company's independent auditors.

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**Q: What constitutes a quorum?**

A: On the record date, Varian Medical Systems, Inc. had 133,520,672 shares of common stock, \$1.00 par value, outstanding. Voting can take place at the Annual Meeting only if stockholders owning a majority of the issued and outstanding stock entitled to vote at the meeting are present in person or represented by proxy. We include the shares of persons who abstain in determining those present and entitled to vote. We also include shares held by brokers in street or nominee name when the broker has discretionary authority to vote on at least one matter.

**Q: What vote is needed?**

A: For Proposal One, the election of directors, the four nominees receiving the highest number of votes of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting on the election of directors shall be elected as directors. As a result, if you withhold your authority to vote for any nominee, your vote will not affect the outcome of the election. Broker non-votes votes that brokers do not have the discretion to cast because they have not received instructions from the beneficial holders also have no effect on the outcome of the election.

For Proposal Two, the approval of the 2005 Omnibus Stock Plan, an affirmative vote of the majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote on Proposal Two is required in order to approve the 2005 Omnibus Stock Plan. An abstention on Proposal Two will be included in the total number of shares entitled to vote and, therefore, will have the effect of a vote against the proposal. Broker non-votes in respect of this proposal will not affect the outcome of the proposal.

For Proposal Three, the ratification of the Company's selection of PricewaterhouseCoopers LLP as the Company's independent auditors, an affirmative vote of the majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote on Proposal Three is required in order to ratify the selection of PricewaterhouseCoopers LLP. An abstention on Proposal Three will be included in the total number of shares entitled to vote and, therefore, will have the effect of a vote against the proposal. Broker non-votes in respect of this proposal will not affect the outcome of the proposal.

**Q: Can I vote on other matters?**

A: Our by-laws limit the business conducted at any annual meeting to (1) business in the notice of the meeting, (2) business directed by the Board and (3) business brought by a stockholder of record entitled to vote at the meeting so long as the stockholder has notified our Secretary in writing (at our Palo Alto headquarters) not less than 60 days nor more than 90 days before the anniversary of the mailing of the proxy statement for the prior year's annual meeting. The notice must briefly describe the business to be brought and the reasons; give the name, address and number of shares owned by the stockholder of record and any beneficial holder for which the proposal is made; and identify any material interest the stockholder of record or any beneficial owner has in the business.

We do not expect any matters other than the election of the directors, the approval of the 2005 Omnibus Stock Plan and the ratification of the Company's selection of PricewaterhouseCoopers LLP as the Company's independent auditors to come before the Annual Meeting. If any other matter is presented, your signed proxy card gives the individuals named as proxyholders the authority to vote your shares to the extent authorized by Rule 14a-4(c) under the Securities Exchange Act of 1934 the Exchange Act (which would include matters that the proxyholders did not know were to be presented at least 60 days before the anniversary of the mailing of last year's proxy statement).

**Q: When are stockholder proposals due for the 2006 Annual Meeting?**

A: To be considered for presentation in the proxy statement and on the proxy card for our 2006 Annual Meeting of Stockholders, a stockholder proposal must be received no later than August 30, 2005.

**Q: How do I nominate someone to be a director?**

A: A stockholder may nominate one or more persons for election as a director of the Company at an annual meeting of stockholders by notifying our Secretary in writing (at our Palo Alto headquarters) not less than 60 days nor more than 90 days before the anniversary of the mailing of the proxy statement for the prior year's annual meeting. The notice must include the full name, age, business and residence addresses, principal occupation or employment of the potential candidate, the number of shares of the Company's common stock the nominee beneficially owns, any other information about the nominee that must be disclosed in proxy solicitations under Rule 14(a) of the Exchange Act and the nominee's written consent to the nomination and to serve, if elected.

**Q: How does the Board select nominees for the Board?**

A: The Company's Nominating and Corporate Governance Committee will consider potential candidates for directors submitted by stockholders, in addition to those suggested by other Board members and the Company's management, and does not evaluate candidates differently based upon the source of the nominee. The Nominating and Corporate Governance Committee considers and evaluates each properly submitted potential candidate for directorship in an effort to achieve a balance of knowledge, experience and capability on the Board, as well as to ensure that the composition of the Board at all times adheres to the independence requirements applicable to New York Stock Exchange listed companies and other regulatory requirements applicable to the Company. A stockholder may recommend potential candidates for director by notifying our Secretary in writing (at our Palo Alto headquarters).

**Q: Are there any minimum qualifications required for a director nominee?**

A: As set forth in its charter and in the Company's Corporate Governance Guidelines, the Nominating and Corporate Governance Committee's criteria for selecting director nominees include: knowledge, skills, experience in business, finance, administration and relevant technical disciplines; business management experience; international business experience and experience in industries beyond healthcare; knowledge about our industry and technology or other areas of knowledge useful to the Company's business and product lines; social experience; gender and racial diversity and other attributes that the Nominating and Corporate Governance Committee determines will contribute to the Company's success and achievement of its business and social goals. The Nominating and Corporate Governance Committee will also consider the candidate's ability to serve the long-term interests of the Company's stockholders and availability to devote time to the Company's affairs. Please see our Corporate Governance Guidelines for additional details on our policy, process and membership criteria.

**Q: How may I communicate with the Board of Directors?**

A: Stockholders may communicate directly with the Board through the Board's lead director by sending and e-mail to [lead.director@varian.com](mailto:lead.director@varian.com). Messages intended for a specific director will be forwarded to such director.



**PROPOSAL ONE  
ELECTION OF DIRECTORS**

Varian Medical Systems, Inc.'s Board of Directors is divided into three classes serving staggered three-year terms. At the Annual Meeting, you and the other stockholders will elect three individuals to serve as directors for three-year terms that expire at the 2008 Annual Meeting and one individual to serve as a director for a two-year term that expires at the 2007 Annual Meeting. All four nominees, Susan L. Bostrom, R. Andrew Eckert, Richard M. Levy and Allen S. Lichter, M.D., are now members of the Board. Ms. Bostrom was appointed by the Board in June, 2004 to fill a newly created seat on the Board for the term expiring at the 2005 Annual Meeting. Mr. Eckert was appointed to the Board in October, 2004 to fill the seat left vacant by the death of Terry R. Lautenbach, which term expires at the 2007 Annual Meeting, with stockholder approval at the 2005 Annual Meeting.

The individuals named as proxyholders will vote your proxy for the election of the four nominees unless you direct them to withhold your votes. If any nominee becomes unable to serve as a director before the meeting (or decides not to serve), the individuals named as proxyholders may vote for a substitute.

Below are the names and ages of the Company's directors, the years they became directors, their principal occupations or employment for at least the past five years and directorships they hold in other public companies.

**Nominees for Election for a Three-Year Term Ending with the 2008 Annual Meeting**

- Susan L. Bostrom Age 44, a director of the Company since 2004. Senior Vice President of the Internet Business Solutions Group at Cisco Systems, Inc. (a networking equipment provider) since February 2000 and added responsibility for Worldwide Government Affairs in October, 2000. From 1998 to February 2000, Vice President of the Internet Business Solutions Group at Cisco Systems, Inc. Also a director of Cadence Design Systems, Inc. (a provider of electronic design automation technologies and engineering services).
- Richard M. Levy Age 66, a director since 1999. Our Chairman of the Board since February 14, 2003 and President and Chief Executive Officer since April 2, 1999. Previously, our Executive Vice President responsible for our medical systems business from 1990 to April 2, 1999. Also a director of Pharmacyclics, Inc. (a pharmaceutical company).
- Allen S. Lichter, M.D. Age 58, a director since 2003. Dean of the University of Michigan Medical School since 1999, after first serving as interim Dean starting December 1, 1998 while concurrently maintaining his position as professor of radiation oncology in the University's Department of Radiation Oncology.

**Nominee for Election for Two-Year Term Ending with the 2007 Annual Meeting**

- R. Andrew Eckert Age 43, a director of the Company since 2004. Chief Executive Officer of SumTotal Systems, Inc. (a enterprise software provider). From 2002 to 2004, Chief Executive Officer of Docent Inc. (a enterprise software provider). Previously, Chairman and Chief Executive Officer of ADAC Laboratories (a medical imaging company) from 1997 to 2000. Also a director of Connetics Corporation (a specialty pharmaceutical company) and for Chordiant Software, Inc. (an enterprise software company).

**Directors Continuing in Office Until the 2007 Annual Meeting**

- **John Seely Brown** Age 64, a director since 1998. Retired; former Vice President of Xerox Corporation from 1986 to 2002 and Chief Scientist from 1992 to 2002. Director of the Xerox Palo Alto Research Center from 1990 to 2000. Also a director of Corning Incorporated (a diversified technology company) and Polycom, Inc. (a provider of video, voice, data and web conferencing solutions).
- **Samuel Hellman, M.D.** Age 70, a director since 1992. A. N. Pritzker Distinguished Service Professor in the Department of Radiation and Cellular Oncology at the University of Chicago since 1993.

**Directors Continuing in Office Until the 2006 Annual Meeting**

- **David W. Martin, Jr., M.D.** Age 63, a director since 1994. Chairman and Chief Executive Officer of AvidBiotics, Inc. (a biotech company) since 2004. Previously, Chairman and Chief Executive Officer of GangaGen, Inc. (a biotechnology company) from 2003 to 2004. From 1997 to 2003, Chief Executive Officer of Eos Biotechnology, Inc. (a biotechnology company). Also a director of Cubist Pharmaceuticals, Inc. (a biopharmaceutical company).
- **Ruediger Naumann-Etienne** Age 58, a director since 2003. Chairman of the Board of Directors of Quinton Cardiology Systems (a medical equipment company) since 2000. From 1993 to 1999, Chairman of the Board of Directors of OEC Medical Systems (a provider of interoperative imaging solutions, acquired by General Electric Corporation). Owner and Managing Director of Intertec Group (an investment company specializing in the medical technology field) since 1989. Also a director of BioRad Laboratories, Inc. (a provider of research and clinical diagnostic products).

**Corporate Governance; the Board and Committees of the Board; and Meetings**

The Company has policies and practices that are compliant with the New York Stock Exchange listing requirements and the Exchange Act, including the following:

- The Board has adopted clear corporate governance policies articulated in the Company's Corporate Governance Guidelines, which includes basic director duties and responsibilities.
- The Board has also adopted a Code of Business Ethics applicable to all of the Company's employees, including the executive officers.
- The Company has hotlines for employees to report ethics and financial matters, including accounting, internal controls and audit concerns, and the Audit Committee has established procedures for anonymous submission of these matters.
- The Board conducts an annual self-assessment on its effectiveness and the effectiveness of each of its committees.
- Directors are expected to attend all stockholder meeting, and all directors were in attendance at the Company's 2004 annual meeting of stockholders (except Ms. Bostrom and Mr. Eckert, neither of whom were serving as directors at that time).
- The Board has a retirement age of 70, which the Board has suspended for Samuel Hellman, M.D. so that he may serve until the 2007 Annual Meeting, which is the expiration of the full 3-year term to which he was elected by the stockholders of the Company.



The Board met four times in fiscal year 2004, with executive sessions of the independent directors at each of these Board meetings that was led by the lead director. The Board has determined that all directors, except Mr. Levy, our Chairman of the Board, President and Chief Executive Officer, are independent directors as defined in the Exchange Act and New York Stock Exchange listing requirements and under the Company's Corporate Governance Guidelines. In making this determination, the Board considered transactions and relationships between each director or his or her immediate family and the Company and its subsidiaries, including those of Drs. Hellman and Lichter reported in the section below captioned, Certain Relationships and Transactions. The purpose of this review was to determine whether any such relationships or transactions were material and, therefore, inconsistent with a determination that the director is independent. As a result of this review, the Board affirmatively determined, based on its understanding of such transactions and relationships, that Drs. Hellman and Lichter are independent directors.

We have six standing committees: Audit Committee, Compensation and Management Development Committee, Executive Committee, Nominating and Corporate Governance Committee, Strategy and Technology Committee and Stock Grant Committee. Each of these committees, except for the Stock Grant Committee, has a written charter approved by the Board. A copy of the charters for the Audit Committee, the Compensation and Management Development Committee and the Nominating and Corporate Governance Committee, as well as the Company's Corporate Governance Guidelines and Code of Business Ethics, can be found at the Corporate Governance link under the Investor Relations webpage at [www.varian.com](http://www.varian.com) and are available in printed hardcopy format upon written request to our Secretary at our Palo Alto headquarters. Mr. Lautenbach was a member of the Board; a member of the Audit Committee, Compensation and Management Development Committee, Executive Committee, Nominating and Corporate Governance Committee and Strategy and Technology Committee; and our lead director until he passed away in June, 2004. Dr. Martin was appointed lead director in August, 2004.

#### *Audit Committee*

- Oversees the Company's accounting and financial reporting process and audits of financial statements.
- Assists the Board in oversight and monitoring of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence and (iv) the performance of the Company's internal audit function and of the independent auditors.
- Reports to the Board the results of its monitoring and recommendations.
- Provides to the Board such additional information and materials as the committee may determine is necessary to make the Board aware of significant financial matters requiring the Board's attention.

The current members are Mr. Naumann-Etienne (Chairman), Ms. Bostrom, Mr. Eckert and Dr. Martin. Mr. Eckert was just appointed to the Audit Committee at the Board's November 19, 2004 meeting, so he did not have an opportunity to attend any meetings of this committee in fiscal year 2004. The Audit Committee met six times in fiscal year 2004. The Board has determined that each member of the Audit Committee is an independent director as defined in the Exchange Act and New York Stock Exchange listing requirements and under the Company's Corporate Governance Guidelines. The Board has determined that Mr. Naumann-Etienne is an audit committee financial expert as defined in Item 401(k) of Regulation S-K of the Exchange Act based upon his experience as the chief financial officer and principal accounting officer of Dasonics, Inc. between 1984 and 1987 and as group controller for Texas Instruments between 1982 and 1984, and his formal education represented by his doctorate degree in international finance from the University of Michigan.

*Compensation and Management Development Committee*

- Provides advice on management matters that have major implications to the development of the Company.
- Administers the Company's stock and cash incentive plans.
- Discharges the Board's responsibilities relating to compensation of the Company's executive officers, including the determination of compensation of the President and Chief Executive Officer and the other senior executives.
- Evaluates the Company's compensation plans, policies and programs for executive officers and recommends the establishment of policies dealing with various compensation and employee benefit plans.

The current members are Dr. Hellman (Chairman), Ms. Bostrom, Mr. Brown, Mr. Eckert, Dr. Lichter, Dr. Martin and Mr. Naumann-Etienne. Mr. Eckert was just appointed to the Compensation and Management Development Committee at the Board's November 19, 2004 meeting, so he did not have an opportunity to attend any meetings of this committee in fiscal year 2004. The Compensation and Management Development Committee met four times in fiscal year 2004. Each of the members of this committee is an independent director as defined in the Exchange Act and New York Stock Exchange listing requirements and under the Company's Corporate Governance Guidelines and is an outside director for purposes of Section 162(m) of the Internal Revenue Code Section 162(m).

*Executive Committee*

- Acts on matters when a meeting of the full Board is impracticable.
- Has all the powers of the Board except those powers reserved by law to the full Board.

The current members are Mr. Levy (Chairman) and Drs. Hellman and Martin. The Executive Committee did not meet in fiscal year 2004, but conducted all of its business by unanimous written consent.

*Nominating and Corporate Governance Committee*

- Develops and recommends to the Board the governance principles applicable to the Company and assists the Company in following appropriate corporate governance standards.
- Identifies and recommends to the Board potential nominees to the Board, including stockholder suggestions.
- Recommends to the Board the director nominees for committee assignments.
- Oversees the evaluation of the Board's performance.

The current members are Dr. Martin (Chairman), Ms. Bostrom, Mr. Brown, Dr. Hellman, Dr. Lichter and Mr. Naumann-Etienne. The Nominating and Corporate Governance Committee met four times in fiscal year 2004. Each member of this committee is an independent director as defined in the Exchange Act and New York Stock Exchange listing requirements and under the Company's Corporate Governance Guidelines.

*Strategy and Technology Committee*

- Reviews the Company's long term research and development programs.
- Evaluates technologies that may be candidates for investment or acquisition.



- Identifies and evaluates emerging technologies which could be an opportunity or disruption to the Company's business.
- Makes recommendations and provides advice to the Board, as appropriate, on the above.

The current members are Mr. Brown (Co-Chairman), Dr. Martin (Co-Chairman), Ms. Bostrom, Mr. Eckert, Dr. Hellman, Mr. Levy, Dr. Lichter and Mr. Naumann-Etienne. Mr. Eckert was just appointed to the Strategy and Technology Committee at the Board's November 19, 2004 meeting, so he did not have an opportunity to attend any meetings of this committee in fiscal year 2004. The Strategy and Technology Committee did not meet in fiscal year 2004.

#### *Stock Grant Committee*

- Grants and administers stock options, restricted stock and other awards, subject to certain limitations, to non-officers of the Company.

The current members are Mr. Levy (Chairman) and Dr. Martin. The Stock Grant Committee did not meet in fiscal year 2004, but conducted all of its business by unanimous written consent.

#### **Compensation Committee Interlocks and Insider Participation**

None of the Company's executive officers currently serves, or in the past has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on the Board or the Compensation and Management Development Committee.

#### **Certain Relationships and Transactions**

Dr. Hellman is employed as the A. N. Pritzker Distinguished Service Professor in the Department of Radiation and Cellular Oncology at the University of Chicago. The Company has and does sell its products and services to the University of Chicago in the ordinary course of business. In fiscal years 2004, 2003 and 2002, the Company was paid approximately \$105,000, \$637,000 and \$0, respectively, for products and services from The University of Chicago. The University of Chicago's revenues were approximately \$1.8 billion in 2003 and \$1.7 billion in 2002. No revenues have been published for 2004. The Board has determined that Dr. Hellman does not have a direct or indirect material interest in any of these transactions and is an independent director as defined in the Exchange Act and New York Stock Exchange listing requirements and under the Company's Corporate Governance Guidelines.

Dr. Lichter is employed as the Dean of the University of Michigan Medical School. The Company has and does sell its products and services to the University of Michigan in the ordinary course of business. In fiscal years 2004, 2003 and 2002, the Company was paid approximately \$128,000, \$1,520,000 and \$721,000, respectively, for products and services from The University of Michigan. The University of Michigan's revenues were approximately \$3.9 billion in 2004, \$3.9 billion in 2003 and \$3.6 billion in 2002. The Board has determined that Dr. Lichter does not have a direct or indirect material interest in any of these transactions and is an independent director as defined in the Exchange Act and New York Stock Exchange listing requirements and under the Company's Corporate Governance Guidelines.

#### **Recommendation of the Board**

**THE BOARD RECOMMENDS THAT YOU VOTE FOR EACH OF THE ABOVE NOMINEES.**

## PROPOSAL TWO

### APPROVAL OF THE VARIAN MEDICAL SYSTEMS, INC. 2005 OMNIBUS STOCK PLAN

You and other stockholders are also being asked to approve the Varian Medical Systems, Inc. 2005 Omnibus Stock Plan the 2005 Omnibus Stock Plan that provides for equity-based compensation to directors, executive officers and employees.

The 2005 Omnibus Stock Plan was approved by the Board at its November 19, 2004 meeting and is effective upon the approval of a majority of the shares of the Company's Common Stock that are present in person or by proxy at the Annual Meeting Stockholder Approval. The Board and the Compensation and Management Development Committee the Committee reviewed the existing Varian Medical Systems, Inc. Omnibus Stock Plan approved by the Company's stockholders effective April 3, 1999 and the Varian Medical Systems, Inc. 2000 Stock Plan adopted by the Board effective November 17, 2000 the Prior Plans and determined that an insufficient number of shares are available under the Prior Plans to enable the Company to provide future grants of stock options and other stock-based incentives and other awards to our employees and directors.

#### Purpose of the 2005 Omnibus Stock Plan

The 2005 Omnibus Stock Plan is intended to promote the success of the Company by providing a vehicle under which a variety of stock-based incentive and other awards can be granted to employees and consultants and to directors of the Company who are employees of neither the Company nor any affiliate non-employee directors.

#### Description of the 2005 Omnibus Stock Plan

The following paragraphs provide a summary of the principal features of the 2005 Omnibus Stock Plan and its operation. The 2005 Omnibus Stock Plan is set forth in its entirety as *Appendix A* to this Proxy Statement. The following summary is qualified in its entirety by reference to *Appendix A*.

#### General

Upon Stockholder Approval of the 2005 Omnibus Stock Plan by the Company's stockholders at the Annual Meeting, the 2005 Omnibus Stock Plan shall become effective and no further grants may be made by the Company under the Prior Plans.

The 2005 Omnibus Stock Plan provides for the granting of stock options, stock appreciation rights SARs, Restricted Stock, Restricted Stock Units, Performance Units and Performance Shares collectively, Awards to eligible 2005 Omnibus Stock Plan participants. The maximum number of shares of the Company's common stock available for Awards under the 2005 Omnibus Stock Plan will be 4,000,000, plus (i) such number of shares as may be granted in substitution of other options in connection with a transaction described in section 424(a) of the Internal Revenue Code of 1986, as amended (e.g. the acquisition of property or stock from an unrelated corporation), (ii) such number of shares authorized for issuance, but not yet issued, under the Prior Plans and (iii) such number of shares subject to any awards granted under the Prior Plans that terminate, expire or lapse for any reason. As of October 1, 2004, there were a total of 5,286,491 shares authorized but not yet issued under the Prior Plans.

For purposes of determining the number of shares available for grant under the 2005 Omnibus Stock Plan against the maximum number authorized above, Awards of stock options and SARs will count as one (1) share for every one (1) share issued, whereas any shares issued under Awards other than stock options or SARs will count as three (3) shares for every one (1) share issued.

The 2005 Omnibus Stock Plan does not permit the re-pricing of stock options (except for proportional adjustments associated with stock dividends, mergers, consolidations, split-ups, share combinations or



other change in the corporate structure of the Company affecting the shares of common stock), the re-loading of stock options or the granting of discounted stock options, and does not contain an evergreen provision.

#### **Administration of the 2005 Omnibus Stock Plan**

The 2005 Omnibus Stock Plan will be administered by the Committee. The members of the Committee must qualify as non-employee directors under Rule 16b-3 under the Exchange Act, as independent directors under section 303A.02 of the New York Stock Exchange listing standards rules and as outside directors under Section 162(m) (for purposes of qualifying the 2005 Omnibus Stock Plan as performance-based compensation under Section 162(m)).

Subject to the terms of the 2005 Omnibus Stock Plan, and except as described below with respect to stock options granted to non-employee directors, the Committee has the sole discretion to determine the employees and consultants who shall be granted Awards, the size and types of such Awards, and the terms and conditions of such Awards. The Committee may delegate to one or more officers or directors appointed by the Committee its authority to grant and administer Awards, but only the Committee can make Awards to employees who are subject to Section 16 of the Exchange Act.

#### **Eligibility to Receive Awards**

Employees and consultants of the Company and its affiliates are eligible to be selected to receive one or more Awards. The actual number of individuals who will receive Awards under the 2005 Omnibus Stock Plan cannot be determined because eligibility for participation in the 2005 Omnibus Stock Plan is in the discretion of the Committee. The 2005 Omnibus Stock Plan also provides for the grant of non-qualified stock options to the Company's non-employee directors. Options granted to non-employee directors will be determined and administered by the Board.

#### **Options**

The Committee may grant non-qualified stock options, incentive stock options (which are entitled to favorable tax treatment), or a combination thereof. Incentive stock options may only be granted to employees of the Company or its subsidiaries. The number of shares covered by each option will be determined by the Committee, but during any fiscal year of the Company, no participant may be granted options for more than 4,000,000 shares.

The price of the shares of the Company's Common Stock subject to each stock option is set by the Committee but cannot be less than 100% of the fair market value (on the date of grant) of the shares covered by the option. In addition, the exercise price of an incentive stock option must be at least 110% of fair market value if (on the grant date) the participant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its subsidiaries. Nevertheless, substitute options may be granted at less than fair market value to employees or consultants who receive such options in connection with a corporate reorganization. Also, the aggregate fair market value of the shares (determined on the grant date) covered by incentive stock options which first become exercisable by any participant during any calendar year may not exceed \$100,000.

The exercise price of each option must be paid in full at the time of exercise. The Committee also may permit payment through the tender of shares of the Company's Common Stock that are already owned by the participant, or by any other means which the Committee determines to be consistent with the 2005 Omnibus Stock Plan's purpose. Any taxes required to be withheld must be paid by the participant at the time of exercise.

Options become exercisable at the times and on the terms established by the Committee. Options expire at the times established by the Committee which generally will not be more than 10 years after the date of grant (except in certain cases involving the death of the optionee). The Committee may extend the maximum term of any option granted under the 2005 Omnibus Stock Plan, subject to the preceding limits.

#### **Non-Employee Director Options**

Under the 2005 Omnibus Stock Plan, the Board shall, from time to time, determine the number of shares subject to stock options to be issued to each non-employee director. Such non-employee director options may only be non-qualified options. At its November 19, 2004 meeting, the Board determined, subject to Stockholder Approval of the 2005 Omnibus Stock Plan, to give each new non-employee director an initial grant of stock options for 30,000 shares of common stock and each continuing non-employee director annual grants of stock options for 15,000 shares of common stock. The Board did not make a determination as to stock option grants for a non-employee chairman of the Board.

The exercise price of each non-employee director option will be 100% of the fair market value (on the date of grant) of the shares covered by the option. Nevertheless, substitute options may be granted at less than fair market value to non-employee directors who receive such options in connection with a corporate reorganization. Each option will become exercisable on the grant date. All options granted to non-employee directors generally will have a term of ten years from the date of grant. If a director terminates service on the Board prior to an option's normal expiration date, the period of exercisability of the option may be shorter, depending upon the reason for the termination.

In addition, non-employee directors may elect to receive options for shares of the Company's common stock in lieu of cash compensation. Such options will be granted at fair market value on the date that the foregone cash compensation otherwise would have been paid, with a net exercise price of four times the value of the compensation earned.

#### **Stock Appreciation Rights**

The Committee determines the terms and conditions of each SAR. SARs may be granted in conjunction with an option, or may be granted on an independent basis. The number of shares covered by each SAR will be determined by the Committee, but during any fiscal year of the Company, no participant may be granted SARs for more than 2,000,000 shares. Upon exercise of a SAR, the participant will receive payment from the Company in an amount determined by multiplying: (1) the difference between the fair market value of a share on the date of exercise over the grant price (fair market value of a share on the grant date), times (2) the number of shares with respect to which the SAR is exercised. SARs may be paid in cash or shares of the Company's Common Stock, as determined by the Committee. SARs are exercisable at the times and on the terms established by the Committee.

#### **Restricted Stock Awards and Restricted Stock Unit Awards**

Restricted stock Awards and Restricted Stock Unit Awards are shares of the Company's Common Stock that vest in accordance with terms and conditions established by the Committee. The number of shares of restricted stock granted to a participant (if any) will be determined by the Committee, but during any fiscal year of the Company, no participant may be granted more than 400,000 shares.

In determining whether an award of restricted stock or Restricted Stock Units should be made, and/or the vesting schedule for an award, the Committee may impose whatever conditions to vesting as it determines to be appropriate. For example, the Committee may determine to grant restricted stock or Restricted Stock Units only if performance goals established by the Committee are satisfied. Any performance goals may be applied on a company-wide or an individual business unit basis, as determined by the Committee. See discussion below of Performance Goals.

### **Performance Units and Performance Shares**

Performance Units and Performance Shares are Awards that will result in a payment to a participant only if performance goals established by the Committee are satisfied. The initial value of each Performance Unit and each Performance Share shall not exceed the fair market value (on the date of grant) of a share of the Company's common stock. The applicable performance goals will be determined by the Committee, and may be applied on a company-wide or an individual business unit basis, as deemed appropriate in light of the participant's specific responsibilities. See discussion below of Performance Goals.

In addition to the performance requirements discussed above, Performance Units and Performance Shares are subject to additional limits set forth in the 2005 Omnibus Stock Plan. During any fiscal year of the Company, no participant shall receive more than 400,000 Performance Units or Performance Shares.

### **Performance Goals**

The Committee in its discretion may make performance goals applicable to a participant with respect to an Award. At the Committee's discretion, one or more of the following performance goals may apply: EBIT, EBITDA, earnings per share, net income, operating cash flow, return on assets, return on equity, return on sales, revenue and stockholder return. The Committee may also use other performance goals.

EBIT means the Company's or a business unit's income before reductions for interest and taxes. EBITDA means the Company's or a business unit's income before reductions for interest, taxes, depreciation and amortization. Earnings per share means the Company's or a business unit's net income, divided by a weighted average number of common shares outstanding and dilutive common equivalent shares deemed outstanding. Net income means the Company's or a business unit's income after taxes. Operating cash flow means the Company's or a business unit's sum of net income plus depreciation and amortization less capital expenditures plus certain specified changes in working capital. Return on assets means the percentage equal to the Company's or a business unit's EBIT (before incentive compensation), divided by the Company's or a business unit's, as applicable, average net assets. Return on equity means the percentage equal to the Company's net income, divided by average stockholders equity. Return on sales means the percentage equal to the Company's or a business unit's EBIT (before incentive compensation), divided by the Company's or the business unit's, as applicable, revenue. Revenue means the Company's or a business unit's sales. Stockholder return means the total return (change in share price plus reinvestment of any dividends) of a share.

### **Nontransferability of Awards**

In general, Awards granted under the 2005 Omnibus Stock Plan may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the applicable laws of descent and distribution, and during his or her lifetime any Awards may be exercised only by the recipient. Notwithstanding the above, the Committee (or the Board, in the case of Awards granted to non-employee directors) may, in its discretion, permit Awards to be transferred to an individual or entity other than the Company subject to such restrictions as the Committee or the Board may impose.

### **Dividend Equivalents**

Recipients of Awards may, if so determined by the Committee (or by the Board in case of Awards to non-employee directors), be entitled to receive cash or stock dividends, or cash payments in amounts equivalent to cash or stock dividends declared with respect to shares of common stock of the Company, and the Committee or the Board may provide that such amounts shall be deemed to have been reinvested in additional shares of common stock or otherwise reinvested.

## Tax Aspects

A recipient of a stock option or SAR will not have taxable income upon the grant of the option. For options and SARs other than incentive stock options, the participant will recognize ordinary income upon exercise in an amount equal to the excess of the fair market value of the shares over the exercise price (the appreciation value) on the date of exercise. In the United States, any gain or loss recognized upon any later disposition of the shares generally will be capital gain or loss.

Purchase of shares upon exercise of an incentive stock option will not result in any taxable income to the participant, except for purposes of the alternative minimum tax. Gain or loss recognized by the participant on a later sale or other disposition will either be long-term capital gain or loss or ordinary income depending upon whether the participant holds the shares transferred upon the exercise for a specified period. Any ordinary income recognized will be in the amount, if any, by which the lesser of the fair market value of such shares on the date of exercise or the amount realized from the sale exceeds the option price.

Unless the participant elects to be taxed at the time of receipt of restricted stock, Restricted Stock Units, Performance Units or Performance Shares, the participant will not have taxable income upon receipt of the Award, but upon vesting. The participant will recognize ordinary income equal to the fair market value of the shares or cash at the time of vesting.

At the discretion of the Committee, the 2005 Omnibus Stock Plan allows a participant to satisfy tax withholding requirements under U.S. federal and state tax laws or applicable foreign tax laws in connection with the exercise or receipt of an Award by electing to have shares of common stock withheld, or by delivering to the Company already-owned shares, having a value equal to the amount required to be withheld.

The Company will be entitled to a tax deduction in connection with an Award under the 2005 Omnibus Stock Plan only in an amount equal to the ordinary income realized by the participant and at the time the participant recognizes such income. In addition, Section 162(m) contains special rules regarding the federal income tax deductibility of compensation paid to the Company's Chief Executive Officer and to each of the other four most highly compensated executive officers. The general rule is that annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, the Company can preserve the deductibility of certain compensation in excess of \$1,000,000 if it complies with conditions imposed by Section 162(m), including the establishment of a maximum number of shares with respect to which Awards may be granted to any one employee during one year, and if for Awards other than options and SARs, the 2005 Omnibus Stock Plan sets forth performance goals which must be achieved prior to payment of the Awards. The 2005 Omnibus Stock Plan has been designed to permit the Committee to grant Awards that satisfy the requirements of Section 162(m), thereby permitting the Company to continue to receive a federal income tax deduction in connection with such Awards.

**Awards Under the 2005 Omnibus Stock Plan**

Awards under the 2005 Omnibus Stock Plan will be made at the discretion of the Committee. The Committee has not yet considered the types and amounts of Awards that will be granted under the 2005 Omnibus Stock Plan, which will not be effective until Stockholder Approval. Accordingly, Awards that will be made under the 2005 Omnibus Stock Plan are not yet determinable. The following table sets forth information concerning stock-related awards made for fiscal year 2004 under the Prior Plans to the Company's named executive officers, executive officers as a group, non-employee directors as a group, and non-executive officer employees as a group. This information is likely not indicative of awards that will be made under the 2005 Omnibus Stock Plan.

Name and Position	Dollar Value \$(1)	Awards Granted(2)
Richard M. Levy President and Chief Executive Officer	11,431,200	330,000
Elisha W. Finney Corporate Vice President and Chief Financial Officer	3,464,000	100,000
Timothy E. Guertin Corporate Executive Vice President	4,849,600	140,000
Robert Kluge Corporate Vice President	3,464,000	100,000
Joseph B. Phair Corporate Vice President, Secretary and General Counsel	3,464,000	100,000
Executive Officers as a Group	28,404,800	820,000
Employees (other than Executive Officers) as a Group	78,621,715	2,269,680
Non-employee Directors as a Group	6,090,474	175,822

(1) Based on the closing price of \$34.64 for the Company's common stock on the NYSE Composite Tape on October 1, 2004.

(2) Only Awards of stock options were made during fiscal year 2004. Options were granted at an exercise price of 100% of the market price of the underlying shares of the Company's common stock on the date of grant, become exercisable over three years at the rate of approximately one-third each year and expire no later than ten years from the date of grant. Amounts have been adjusted for the 2-for-1 stock split, in the form of a 100% dividend, that occurred on July 30, 2004 the 2004 Stock Split.

Furthermore, again, while not indicative of future action, the Company has repurchased in fiscal years 2004, 2003 and 2002, 5,5576,000 shares, 3,969,200 shares and 2,714,800 shares, respectively of its common stock, adjusted for the two 2-for-1 stock splits, in the form of 100% dividends, that occurred on January 15, 2002 and July 30, 2004, respectively.

**Amendment and Termination of the 2005 Omnibus Stock Plan**

The Board generally may amend or terminate the 2005 Omnibus Stock Plan at any time and for any reason; provided, however, that any such amendment shall be subject to the approval of the stockholders to the extent required by applicable law or regulation.

**Recommendation of the Board**

**THE BOARD RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE 2005 OMNIBUS STOCK PLAN.**

**PROPOSAL THREE****RATIFICATION OF INDEPENDENT AUDITORS**

The Board has selected PricewaterhouseCoopers LLP ( PwC ) as its principal independent auditors to perform the audit of the Company's financial statements for fiscal year 2005, and stockholders are being asked to ratify this selection. Since 1962, PwC or its predecessors has been the Company's independent auditors, first as Lybrand, Ross Bros. & Montgomery from 1962 until 1972, then as Coopers & Lybrand from 1972 to 1997, and subsequently as PwC from 1998 to the present.

The Audit Committee annually reviews the independent auditors' independence, including reviewing all relationships between the independent auditors and the Company and any disclosed relationships or services that may impact the objectivity and independence of the independent auditors, and the independent auditors' performance. Additionally, the Audit Committee also noted that the engagement audit partner of PwC for the Company is subject to regular rotation, the most recent rotation occurring in fiscal year 2003. As a matter of good corporate governance, the Audit Committee has determined to submit its selection of independent auditors to stockholders for ratification. In the event that this selection of independent auditors is not ratified by a majority of the shares of common stock present or represented at the Annual Meeting, the Audit Committee will review its future selection of auditors.

A representative of PwC will be present at the Annual Meeting, have an opportunity to make a statement if he or she desires and be available to respond to appropriate questions.

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm**

All audit and permissible non-audit services to be provided by the independent registered public accounting firm must be pre-approved by the Audit Committee. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally requested annually and any pre-approval is detailed as to the particular service, which must be classified in one of the four categories of services. The Audit Committee may also, on a case-by-case basis, pre-approve particular services, which are not contained in the annual pre-approval request. In connection with this pre-approval policy, the Audit Committee also considers whether the categories of pre-approved services are consistent with the SEC's rules on accountant independence.

**Principal Accountant Fees and Services**

The following is a summary of the fees billed or to be billed to the Company by PwC for professional services rendered for the fiscal years ended October 1, 2004 and September 26, 2003:

<b>Fee Category</b>	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2003</b>
Audit Fees	\$ 1,069,629	\$ 894,158
Audit-Related Fees	424,100	99,955
Tax Fees	495,837	1,019,261
All Other Fees	2,600	2,500
<b>Total Fees</b>	<b>\$ 1,992,166</b>	<b>\$ 2,015,874</b>

*Audit Fees.* Consist of fees billed for professional services rendered for the annual audit of the Company's consolidated financial statements and review of the interim consolidated financial statements included in Form 10-Q quarterly reports and services that are normally provided by PwC in connection with statutory and regulatory filings or engagements.

*Audit-Related Fees.* Consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and



are not reported under *Audit Fees*. These services include professional services requested by the Company in connection with its preparation for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, consultations concerning financial accounting and reporting standards and accounting consultations in connection with acquisitions. For fiscal years 2004 and 2003, Audit-Related Fees of approximately \$305,000 and \$37,000, respectively, were related to professional services requested by the Company in connection with its preparation for compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The Company is required to comply with Section 404 as of its fiscal year ending September 30, 2005.

*Tax Fees*. Consist of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance, assistance with tax reporting requirements and audit compliance, tax planning, consulting and assistance on business restructuring and tax advice on mergers and acquisitions. Tax compliance fees were approximately \$241,000 and \$109,000 in fiscal years 2004 and 2003, respectively. Tax fees related to tax planning, consulting and assistance on business restructuring were \$630,000 in fiscal year 2003. All other tax fees were \$255,000 and \$280,000 in fiscal years 2004 and 2003, respectively.

*All Other Fees*. Consist of fees for products and services other than the services reported above. All Other Fees were related to a state environmental program compliance review for both fiscal years 2004 and 2003.

The Audit Committee determined that the provision of the services by PwC, and the fees that Company paid for these services, is compatible with maintaining the accountant's independence. The Audit Committee pre-approved all services provided by PwC in fiscal year 2004 in accordance with the foregoing policy. The Audit Committee pre-approved 95% of all services provided by PwC in fiscal year 2003 in accordance with the foregoing policy and it appears that 5% of all services, which related exclusively to international tax compliance, was not pre-approved. The pre-approval policy became effective in May, 2003, which was approximately half way into the Company's fiscal year in 2003.

#### **Recommendation of the Board**

**THE BOARD RECOMMENDS THAT YOU VOTE FOR RATIFICATION OF THE SELECTION OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT AUDITORS FOR FISCAL YEAR 2005.**



**STOCK OWNERSHIP****Beneficial Ownership of Certain Stockholders, Directors and Executive Officers**

This table shows as of December 1, 2004: (1) the beneficial owners of more than 5 percent of our common stock and the number of shares they beneficially owned based on information provided in the most recent filings with the Securities and Exchange Commission the SEC; and (2) the number of shares each director, each nominee for director, each executive officer named in the Summary Compensation Table and all directors, nominees for director and executive officers as a group beneficially owned, as reported by each person. Except as noted, each person has sole voting and investment power over the shares shown in this table. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. For each individual and group included in the table below, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the 134,020,370 shares of common stock outstanding on December 1, 2004 plus the number of shares of common stock that such person or group had the right to acquire on or within 60 days after December 1, 2004.

	Amount and Nature of Common Stock Beneficially Owned			
	Number of Shares Beneficially Owned(1)		Percent of Class	
<b>Stockholders</b>				
Barclays Global Investors, NA(2). 45 Fremont Street San Francisco, California 94105	5,934,347		8.72	
<b>Directors, Nominees for Director and Named Executive Officers</b>				
Susan L. Bostrom(3)	40,000		*	
John Seely Brown(4)	75,226		*	
R. Andrew Eckert(5)	40,000		*	
Samuel Hellman, M.D.(6)	81,966		*	
Allen S. Lichter, M.D.(7)	60,400		*	
David W. Martin, Jr., M.D.(8).	170,728		*	
Ruediger Naumann-Etienne(9)	54,000		*	
Richard M. Levy(10)	3,462,632		2.52	
Elisha W. Finney(11)	396,583		*	
Timothy E. Guertin(12)	754,644		*	
Robert Kluge(13)	478,611		*	
Joseph B. Phair(14)	747,904		*	
All directors, nominees for director and executive officers as a group (13 persons)(15)	6,574,494		4.84	

\* The percentage of shares of common stock beneficially owned does not exceed one percent of the shares of common stock outstanding at December 1, 2004.

(1) Includes shares the directors and officers could acquire under exercisable stock options or stock options vesting within 60 days of December 1, 2004.

- (2) Based on a Schedule 13G dated February 17, 2004, Barclays Global Investors, NA., has the sole power to vote and dispose of 5,125,791 of these shares.
- (3) Amount shown includes 40,000 shares that may be acquired under exercisable stock options.
- (4) Amount shown includes 72,226 shares that may be acquired under exercisable stock options.
- (5) Amount shown includes 40,000 shares that may be acquired under exercisable stock options.
- (6) Amount shown includes 62,226 shares that may be acquired under exercisable stock options.
- (7) Amount shown includes 60,000 shares that may be acquired under exercisable stock options.
- (8) Amount shown includes 166,688 shares that may be acquired under exercisable stock options.
- (9) Amount shown includes 50,000 shares that may be acquired under exercisable stock options.
- (10) Amount shown includes 3,124,977 shares that may be acquired under exercisable stock options or stock options vesting within 60 days of December 1, 2004. Also, 337,654 shares are held in a trust of which Mr. Levy is co-trustee with his wife, as to which voting and investment powers are shared with Mr. Levy's wife.
- (11) Amount shown includes 370,214 shares that may be acquired under exercisable stock options or stock options vesting within 60 days of December 1, 2004. Also, 23,176 shares are held in a trust of which Ms. Finney is co-trustee with her husband, as to which voting and investment powers are shared with Ms. Finney's husband.
- (12) Amount shown includes 711,011 shares that may be acquired under exercisable stock options or stock options vesting within 60 days of December 1, 2004.
- (13) Amount shown includes 443,214 shares that may be acquired under exercisable stock options or stock options vesting within 60 days of December 1, 2004.
- (14) Amount shown includes 648,214 shares that may be acquired under exercisable stock options or stock options vesting within 60 days of December 1, 2004. Also, 2,460 shares are held by one of Mr. Phair's sons and 5,840 shares held by the other of Mr. Phair's sons and Mr. Phair shares voting and investment powers over such shares held by his sons.
- (15) Amount shown includes 5,989,434 shares that may be acquired under exercisable stock options or stock options vesting within 60 days of December 1, 2004.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Under U.S. securities laws, directors, certain executive officers and persons holding more than 10% of Varian Medical Systems, Inc. common stock must report their initial ownership of the common stock and any changes in that ownership to the SEC. The SEC has designated specific due dates for these reports and the Company must identify in this Proxy Statement those persons who did not file these reports when due. Based solely on its review of copies of the reports filed with the SEC and written representations of its directors and executive officers, the Company believes all persons subject to reporting filed the required reports on time in fiscal year 2004.



## COMPENSATION OF DIRECTORS AND THE NAMED EXECUTIVE OFFICERS

## Compensation of Directors

*Annual Compensation.* For fiscal year 2004, each director who was not a Company employee a non-employee director received an annual retainer of \$35,000, except that the lead outside director received an annual retainer of \$50,000. Because Dr. Martin was appointed lead director in August, 2004, he received an additional \$7,500, representing the prorated increment for the lead director retainer. The chair of the Audit Committee also received an extra \$5,000 annual retainer for serving in such position. Each non-employee director also received \$1,000 for each Board and committee meeting the director attended and reimbursement for out-of-pocket expenses associated with attending such meetings. Directors who are employees receive no compensation for their services as directors. Directors may convert their annual retainers to options to purchase the Company's common stock at the rate of \$1 cash to \$4 of stock options, at an exercise price equal to the fair market value of the common stock on the grant date. These options are immediately exercisable and expire ten years after the grant date unless terminated earlier. Directors may alternatively elect to defer their retainer and/or meeting fees under our Deferred Compensation Plan. See Deferred Compensation Plan below.

During fiscal year 2004, we paid to our directors, or deferred on their behalf, a total of \$352,750 in retainers and fees, of which \$162,500 was converted to stock options at the rate described above. The Board met four times in fiscal year 2004. Each director attended at least 75% of the total Board and applicable committee meetings held in fiscal year 2004.

The following table sets forth the annual retainer, meeting and committee fees received by each non-employee director during fiscal year 2004:

	Annual Retainer Fee (\$)	Board and Committee Meeting Fees (\$)				Total Cash Compensation (\$)
		November	February	May	August	
John S. Brown(1)	35,000	3,000	3,000	3,000	3,000	47,000
R. Andrew Eckert(2)						
Samuel Hellman, M.D.(3)	35,000	3,000	3,000	3,000	3,000	47,000
Terry Lautenbach(4)	50,000	4,000	4,000	4,000		62,000
David W. Martin, Jr., M.D.(5)	42,500	4,000	4,000	4,000	5,000	59,500
Ruediger Naumann-Etienne(6)	40,000	4,000	4,000	4,000	5,000	57,000
Allen S. Lichter, M.D.	35,000	3,000	3,000	3,000	5,000	49,000
Susan L. Bostrom(7)	26,250				5,000	31,250

(1) Mr. Brown elected to convert his annual retainer fee to stock options. He received options for 3,370 shares of common stock at an exercise price of \$41.56 (the closing price on February 20, 2004, adjusted for the 2004 Stock Split) as a result.

(2) Mr. Eckert joined the Board in October, 2004, so he did not receive any director compensation for fiscal year 2004.

(3) Dr. Hellman elected to convert his annual retainer fee to stock options. He received options for 3,370 shares of common stock at an exercise price of \$41.56 (the closing price on February 20, 2004, adjusted for the 2004 Stock Split) as a result.

(4) Mr. Lautenbach elected to convert his annual retainer fee to stock options. He received options for 4,814 shares of common stock at an exercise price of \$41.56 (the closing price on February 20, 2004, adjusted for the 2004 Stock Split) as a result. Mr. Lautenbach passed away in June, 2004.

(5) Dr. Martin was appointed lead director of the Board in August, 2004 and received \$7,500 as the incremental prorated portion of the lead director annual retainer fee. He elected to convert his



annual retainer fee to stock options and, as a result, received options for 3,370 shares of common stock at an exercise price of \$41.56 (the closing price on February 20, 2004, adjusted for the 2004 Stock Split) for the conversion of the annual retainer fee, and options for 898 shares of common stock at an exercise price of \$33.42 (the closing price on August 20, 2004) for the conversion of the incremental prorated lead director annual retainer fee.

(6) Mr. Naumann-Etienne received an additional \$5,000 annual retainer fee in April, 2004 as a result of his appointment as chair of the Audit Committee.

(7) Ms. Bostrom joined the Board in May, 2004 after the Board's May meeting. She received a prorated portion of the annual retainer fee.

Effective on February 18, 2005, the Board approved the following new structure for annual retainer, chair and meeting fees to be paid to non-employee directors:

- Each non-employee director (except the lead outside director) will receive an annual retainer fee of \$35,000.
- The lead outside director will receive an annual retainer fee of \$50,000.
- The chair of the Compensation and Management Development Committee will receive an additional fee of \$5,000.
- The chair of the Nominating and Corporate Governance Committee will receive an additional fee of \$5,000.
- The chair of the Audit Committee will receive an additional fee of \$10,000.
- Each non-employee director will also receive \$1,500 per meeting for each Board meeting attended.
- Each non-employee director will also receive \$1,500 per meeting for each committee meeting attended.
- Each non-employee director will also continue to be reimbursed for out-of-pocket expenses associated with attendance at Board and committee meetings.

*Stock Options.* For fiscal year 2004, each new non-employee director received an initial grant of non-qualified stock options to acquire 40,000 shares of the Company's common stock (adjusted for the 2004 Stock Split) when first appointed or elected to the Board. All continuing non-employee directors received an annual grant of non-qualified stock options to acquire 20,000 shares of the common stock (adjusted for the 2004 Stock Split). The Board determined, subject to stockholder approval of the 2005 Omnibus Stock Plan (see Proposal Two Approval of the Varian Medical Systems, Inc. 2005 Omnibus Stock Plan ) and effective February 18, 2005, to give each new non-employee director an initial grant of stock options for 30,000 shares of common stock and each continuing non-employee director annual grants of stock options for 15,000 shares of common stock. The Board did not make a determination as to stock option grants for a non-employee chairman of the Board.

The following table sets forth the initial and annual stock option grants under the Omnibus Stock Plan received by each non-employee director during fiscal year 2004 (excluding any stock options received as a result of a director's election to convert annual retainer fee to options as described above). Excepted as noted, all stock option grants were made as of February 20, 2004 at an exercise price of \$41.56, the closing price, after adjustment for the 2004 Stock Split, of the Company's common stock that day.

	Awards Granted
John S. Brown	20,000
R. Andrew Eckert(1)	
Samuel Hellman, M.D.	20,000
Terry Lautenbach	20,000
David W. Martin, Jr., M.D.	20,000
Ruediger Naumann-Etienne	20,000
Allen S. Lichter, M.D.	20,000
Susan Bostrom(2)	40,000

(1) Mr. Eckert joined the Board in October, 2004, so he did not receive any director option grants during fiscal year 2004.

(2) Ms. Bostrom joined the Board in May, 2004 and, on May 28, 2004, received the initial director stock option grant for 40,000 shares of common stock at an exercise price of \$41.45, adjusted for the 2004 Stock Split.

*Director Stock Ownership Guidelines.* To align the Board's interests with the interests of the stockholders of the Company, the Board also has stock ownership guidelines for its members adopted in August, 2002. The guidelines state that each director should own shares of common stock with a value at least equal to three times his or her applicable annual retainer fee, which shall be achieved within five years after adoption of the guidelines or 5 years after a director's first appointment or election to the Board, whichever is later. At the end of fiscal year 2004, all directors met the guidelines.

**Compensation of the Named Executive Officers Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation				Awards			All Other Compensation (\$)(4)
		Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)(2)	Securities Underlying Options/SARs (#)(3)				
Richard M. Levy	2004	853,856	1,790,217	107,926	330,000			128,009	
President and Chief Executive Officer	2003	793,862	1,614,391	91,870	300,000			109,589	
	2002	723,112	1,443,835	140,887	360,000			90,395	
Elisha W. Finney	2004	335,550	430,136	41,128	100,000			38,077	
Corporate Vice President and Chief Financial Officer	2003	311,844	387,422	33,981	96,000			34,529	
	2002	284,268	347,150	15,249	100,000			29,277	
Timothy E. Guertin	2004	451,966	762,611	25,901	140,000			56,657	
Corporate Executive Vice President	2003	415,228	665,794	28,676	134,000			60,188	
	2002	354,836	771,684	12,016	140,000			10,510	
Robert Kluge	2004	308,918	394,951	33,279	100,000			44,337	
Corporate Vice President	2003	291,002	472,850	31,105	96,000			17,958	
	2002	275,442	130,277	16,536	100,000			26,483	
Joseph B. Phair	2004	300,986	388,636	38,441	100,000			37,075	
Corporate Vice President, Administration, Secretary and General Counsel	2003	285,972	353,278	40,303	96,000			33,475	
	2002	271,072	323,595	18,510	100,000			29,477	

(1) Consists of Management Incentive Plan and Employee Incentive Plan awards, and (in some cases) special cash bonuses. Amounts include amounts deferred under the Deferred Compensation Plan. See Deferred Compensation Plan below.

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(2) For fiscal year 2004, the amounts reflected consist of aggregate incremental costs for perquisites and personal benefits, as well as reimbursement for the payment of taxes associated with such perquisites and personal benefits ( tax reimbursement ). The fiscal year 2004 amounts include the following: Mr. Levy, \$15,408 for car lease and expenses, \$48,689 for tax reimbursement, \$22,856 for tax and financial planning, \$623 for medical physicals and \$20,350 for non-business use of the Company s leased aircraft and spousal travel; Ms. Finney, \$20,816 for car lease and expenses, \$13,652 for tax reimbursement, \$2,381 for tax and financial planning, \$20 for medical physicals and \$4,259 for the purchase of her company-leased car; Mr. Guertin, \$15,996 for car lease and expenses and \$9,905 for tax reimbursement; Mr. Kluge, \$17,411 for car lease and expenses, \$12,666 for tax reimbursement and \$3,202 for tax and financial planning; and Mr. Phair, \$19,509 for car lease and expenses, \$13,132 for tax reimbursement, \$1,851 for tax and financial planning and \$3,949 for the purchase of his company-leased car. The fiscal year 2003 amounts include the following: Mr. Levy, \$39,924 for tax reimbursement, \$22,130 for tax and financial planning and \$8,772 for spousal travel; Ms. Finney, \$16,205 for car lease and expenses and \$15,177 for tax reimbursement; Mr. Guertin, \$14,411 for car lease and expenses and \$12,610 for tax reimbursement; Mr. Kluge, \$13,683 for car lease and expenses and \$13,390 for tax reimbursement; and Mr. Phair, \$17,939 for car lease and expenses and \$16,748 for tax reimbursement. For fiscal year 2002, the amounts reflected (except for Mr. Levy) consist of tax reimbursement and exclude the incremental costs for perquisites and personal benefits that in each case were in the aggregate below the lesser of \$50,000 or 10% of such executive s annual salary and bonus. The fiscal year 2002 amounts for Mr. Levy do include aggregate incremental costs for perquisites and personal benefits (including \$21,840 for tax and financial planning, \$28,254 for the purchase of his company-leased car, \$16,462 for spousal travel and \$14,405 for tax reimbursement related to spousal travel).

(3) Consists of shares of common stock subject to stock options granted pursuant to the Varian Medical Systems, Inc. Omnibus Stock Plan, adjusted for the two 2-for-1 stock splits, in the form of 100% dividends, that occurred on January 15, 2002 and July 30, 2004, respectively. (No stock appreciation rights were granted in these fiscal years.)

(4) Consists of (a) company contributions to Retirement Program and Supplemental Retirement Plan accounts for fiscal years 2004, 2003 and 2002, respectively (Mr. Levy, \$127,011, \$107,685 and \$87,776; Ms. Finney, \$36,778, \$33,109 and \$27,653; Mr. Guertin, \$54,859, \$58,753 and \$8,500; Mr. Kluge, \$43,465, \$17,037 and \$25,068; and Mr. Phair, \$36,167, \$32,336 and \$27,938); (b) company-paid premiums for group term life insurance in fiscal years 2004, 2003 and 2002, respectively (Mr. Levy, \$930, \$1,511 and \$1,812; Ms. Finney, \$1,105, \$1,027 and \$941; Mr. Guertin, \$1,276, \$1,171 and \$1,211; Mr. Kluge, \$872, \$821 and \$907; and Mr. Phair, \$850, \$808 and \$892); and (c) company-paid premiums for disability insurance in fiscal years 2004, 2003 and 2002, respectively (Mr. Levy, \$68, \$394 and \$807; Ms. Finney, \$194, \$393 and \$684; Mr. Guertin, \$522, \$263 and \$799; Mr. Kluge, \$0, \$99 and \$508; and Mr. Phair, \$59, \$332 and \$646).

**Option/SAR Grants in Last Fiscal Year**

		Individual Grants(1)										
		Number of		Percent of						Potential Realizable Value		
		Securities		Options/SARs		Exercise				at Assumed Annual Rate of		
		Underlying		Granted to		Price Per				Stock Price Appreciation		
		Options/SARs		Employees in		Share		Expiration		For Option Term(2)		
Name		Granted(3)		Fiscal Year		(\$/Share)		Date		5%	10%	
Richard M. Levy		330,000		10.11	%	32.095		11/11/2013		6,660,843	16,879,884	
Elisha W. Finney		100,000		3.06	%	32.095		11/11/2013		2,018,437	5,115,116	
Timothy E. Guertin		140,000		4.29	%	32.095		11/11/2013		2,825,812	7,161,163	
Robert Kluge		100,000		3.06	%	32.095		11/11/2013		2,018,437	5,115,116	
Joseph B. Phair		100,000		3.06	%	32.095		11/11/2013		2,018,437	5,115,116	

(1) Consists of a single stock option grant at an exercise price of 100% of the fair market value of the underlying shares on the grant date and expiring ten years from the grant date. The first one-third of the options granted vest twelve months from the date of grant and the remainder then vests monthly during the following twenty-four month period thereafter. The option holder may pay the exercise price in cash or by delivery of already-owned shares. If a change of control of the Company occurs, the options become exercisable in full. What constitutes a change in control for this purpose is described below.

- (2) These assumed rates are not intended to represent a forecast of possible future appreciation of the common stock or total stockholder return.
- (3) Adjusted for the 2004 Stock Split.

#### Aggregated Options/SAR Exercises in Last Fiscal Year and Fiscal Year-End Options/SAR Values

Name	Shares Acquired on Exercise(#)(1)	Value Realized(\$)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End		Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End\$(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Richard M. Levy	360,000	12,372,550	3,123,279	466,721	69,779,142	2,372,048
Elisha W. Finney	90,000	2,257,001	365,097	142,903	6,563,902	730,661
Timothy E. Guertin	102,680	3,532,625	678,888	199,912	13,269,808	1,021,373
Robert Kluge	40,000	1,104,344	413,097	142,903	7,556,873	730,661
Joseph B. Phair	120,000	3,934,388	643,097	142,903	13,411,735	730,661

- (1) Adjusted for the 2004 Stock Split.
- (2) The value of unexercised in-the-money options equals the difference between the stock option exercise price and \$34.64, the closing price of the Company's common stock on the New York Stock Exchange on October 1, 2004, multiplied by the number of shares underlying the stock option.

#### Deferred Compensation Plan

We have a voluntary deferred compensation plan which allows directors, executive officers and certain other management and highly compensated employees to forgo current compensation (up to 75% of base salary, up to 100% of incentive plan payments, stock option gains and, in the case of director participants, directors' fees) and invest it in various mutual funds or on a phantom basis in our common stock. For clarification, the Compensation and Management Development Committee has not permitted any deferral of stock option gains. As required, amounts deferred are included in the compensation of directors and the appropriate columns of the summary compensation table.

#### Change in Control Agreements

Under change of control agreements with senior executives, including the Chief Executive Officer and Chief Financial Officer, the Company will pay any of these executives who are terminated other than for cause or who resign for good reason within 18 months after a change in control a lump sum severance amount equal to 3.0 (in the case of the CEO) or 2.50 (in the case of the other senior executives) times the sum of the executive's annual base salary, plus the highest annual and multi-year bonuses paid to the individual in any of the three years ending before the termination date. Cause includes, generally, failure to perform, fraud and certain wrongful acts, felony convictions and court or regulatory orders requiring termination. Good reason includes generally a change in duties, a reduction in compensation, a material change in employee benefits, relocation and certain breaches of the agreement by the Company.

Under each agreement, unvested stock options will become immediately exercisable and restrictions on restricted stock will be released as of the executive's termination date. In addition, we will continue the insurance and other benefits of the executive under the then-existing terms for up to 24 months (or, if earlier, the start of full-time employment). If any of the payments are subject to excise tax under the excess parachute provisions of the Internal Revenue Code, we will increase the payments so that the person is in the same after-tax economic position.

In general, a change in control occurs when (a) a person becomes the beneficial owner of 30% or more of the Company's voting power, (b) continuing directors generally those already on the Board or

nominated by those on the Board are no longer a majority of the Company's directors, (c) the Company engages in a merger or similar transaction after which our stockholders do not hold more than 50% of the resulting company or (d) the Company dissolves, liquidates or sells all or substantially all of its assets. The officers agree not to voluntarily leave the Company when the Company is faced with a transaction that might result in a change in control.

### Equity Compensation Plan Information

The following table provides information as of October 1, 2004 with respect to the shares of the Company's common stock that may be issued under existing equity compensation plans. The category "Equity compensation plans approved by security holders" in the table below consists of the Omnibus Stock Plan and the Company's Employee Stock Purchase Plan. The category "Equity compensation plans not approved by security holders" in the table below consists solely of the 2000 Stock Option Plan. The table does not include information with respect to shares subject to outstanding options issued by the Company as substitute options in connection with acquisitions or options granted under equity compensation arrangements assumed by the Company in connection with acquisitions of the companies that originally granted those options.

Plan Category	A	B	C
	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted average exercise price of outstanding options, warrants and rights(1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)(1)
Equity compensation plans approved by security holders	9,869,018 (2)	\$ 15.04	7,130,471 (3)
Equity compensation plans not approved by security holders(4)	6,374,722	\$ 23.59	3,731,371
<b>Total</b>	<b>16,243,740</b>	<b>\$ 18.40</b>	<b>10,861,842</b>

(1) Adjusted for the 2004 Stock Split.

(2) Excludes purchase rights for shares accruing under the Company's Employee Stock Purchase Plan. As of October 1, 2004, 5,575,351 shares remained available under this plan.

(3) Includes 5,575,351 shares available for future issuance under the Employee Stock Purchase Plan and excludes 363,362 shares of restricted performance stock granted on November 17, 2000, which vest on November 17, 2005.

(4) No options under this Plan are held by any directors or officers of the Company.

During November 2000, the Company adopted the 2000 Stock Option Plan (the 2000 Plan) that provides for the granting of stock options, stock appreciation rights (SARs), restricted stock, performance units and performance shares to employees and consultants, but not officers or directors, of the Company. The 2000 Plan is administered by the Compensation and Management Development Committee of the Board. Options may be granted at exercise prices determined by the Compensation and Management Development Committee in its discretion and will be exercisable at such times and be subject to such conditions as the Compensation and Management Development Committee determines, but no option shall be exercisable later than ten years from the date of grant. Options granted under the 2000 Plan all provide for an exercise price of not less than fair market value on the date of grant and have been generally exercisable in the following manner: the first one-third of the options granted vest twelve months from the date of grant and the remainder then vests monthly during the following twenty-four month period thereafter. The Compensation and Management Development Committee similarly has broad discretion with respect to terms and conditions of SARs, restricted stock and other performance awards. The exercise



price of any SARs may not, however, be less than 100% of the fair market value of the common stock at the date of the grant, while the initial value of performance units shall not exceed the fair market value and that of performance shares shall equal the fair market value. Payout of SARs, performance shares or performance unit awards may be in cash, shares or a combination thereof. Restrictions on restricted stock awards may be based upon achievement of specific performance criteria, applicable securities laws or other bases, including continued employment. As of October 1, 2004, the maximum number of shares of common stock available for awards under the 2000 Plan was 3,731,371, exclusive of substitute options issued in connection with acquisitions or options assumed by the Company in connection with acquisitions.

### **Management Incentive Plan**

The Company has a Management Incentive Plan Management Incentive Plan that is intended to motivate key employees to increase stockholder value by (1) linking a portion of their cash compensation to our financial performance, (2) providing rewards for improving financial performance and (3) helping to attract and retain key employees.

The Management Incentive Plan is administered by the Compensation and Management Development Committee of the Board of Directors. The members of the Compensation and Management Development Committee must qualify as outside directors under Section 162(m) for purposes of qualifying the Management Incentive Plan as performance-based compensation under that section. Subject to the terms of the Management Incentive Plan, the Compensation and Management Development Committee has the sole discretion to determine the key employees who shall be granted awards, and the amounts, terms and conditions of each award. The Compensation and Management Development Committee may delegate its authority to grant and administer awards to one or more officers or directors appointed by the Compensation and Management Development Committee, but only with respect to awards that are not intended to qualify as performance-based compensation under Section 162(m).

Eligibility for the Management Incentive Plan is determined in the discretion of the Compensation and Management Development Committee. In selecting participants for the Management Incentive Plan, the Compensation and Management Development Committee chooses key employees of the Company and its affiliates who are likely to have a significant impact on the Company's performance.

Under the Management Incentive Plan, the Compensation and Management Development Committee establishes (1) the performance goals that must be achieved in order for the participant to actually be paid an award and (2) a formula or table for calculating a participant's award, depending upon how actual performance compares to the pre-established performance goals. A participant's award will increase or decrease as actual performance increases or decreases.

The Compensation and Management Development Committee also determines the periods for measuring actual performance (the performance period). Performance periods may last as long as three fiscal years. The Compensation and Management Development Committee may set performance periods and performance goals that differ from participant to participant. For example, the Compensation and Management Development Committee may choose performance goals based on either company-wide or business unit results, as deemed appropriate in light of the participant's specific responsibilities. For purposes of qualifying awards as performance-based compensation under Section 162(m), the Compensation and Management Development Committee will specify performance goals from the following list: EBIT, EBITDA, earnings per share, net income, operating cash flow, return on assets, return on equity, return on sales, revenue and stockholder return.

EBIT means the Company's or a business unit's income before reductions for interest and taxes. EBITDA means the Company's or a business unit's income before reductions for interest, taxes, depreciation and amortization. Earnings per share means the Company's or a business unit's net income, divided by a weighted average number of common shares outstanding and dilutive common equivalent

shares deemed outstanding. Net income means the Company's or a business unit's income after taxes. Operating cash flow means the Company's or a business unit's sum of net income plus depreciation and amortization less capital expenditures plus certain specified changes in working capital. Return on assets means the percentage equal to the Company's or a business unit's EBIT (before incentive compensation), divided by the Company's or such business unit's, as applicable, average net assets. Return on equity means the percentage equal to the Company's net income, divided by average stockholders' equity. Return on sales means the percentage equal to the Company's or a business unit's EBIT (before incentive compensation), divided by the Company's or such business unit's, as applicable, revenue. Revenue means the Company's or a business unit's sales. Stockholder return means the total return (change in share price plus reinvestment of any dividends) of a share of the Company's common stock.

For any performance period, no participant may receive an award of more than the lesser of (1) 200% of the participant's annualized salary rate on the last day of the performance period or (2) \$2 million. Also, the total of all awards for any performance period cannot exceed 8% of the Company's EBIT before incentive compensation for the most recent completed fiscal year of the Company. Awards that exceed this overall limit will be pro-rated so that the total does not exceed such limit.

After the end of each performance period, a determination is made as to the extent to which the performance goals applicable to each participant were achieved or exceeded. The actual award (if any) for each participant is determined by applying the formula to the level of actual performance that was achieved. However, the Compensation and Management Development Committee retains discretion to eliminate or reduce the actual award payable to any participant below that which otherwise would be payable under the applicable formula. Awards under the Management Incentive Plan generally are payable in cash or common stock of the Company within 120 days after the performance period during which the award was earned.

#### **COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE REPORT**

The Compensation and Management Development Committee of the Board (formerly the Organization and Compensation Committee) the Committee determines the compensation of executive officers<sup>(1)</sup>, non-executive officers and certain other executives reporting to the Chief Executive Officer together, the Executives. In addition, the Committee has the responsibility to review and approve any agreements involving severance, termination, and change-in-control agreements between the executive officers and the Company. We, as the members of the Committee, provide you with this report to help you to understand the goals, policies and procedures we follow in making our determinations.

The Committee's executive compensation philosophy is that compensation programs should:

- be closely aligned with the interest of the stockholders;
- be linked with business goals and strategies of the Company;
- be competitive within our industry and community so that the Company can attract and retain high quality executives;
- base a substantial portion of executive officers' compensation on the Company's performance measured against pre-determined objectives; and
- reward for good performance.

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(1) Executive officer as defined by rules under the Securities Exchange Act of 1934

Compensation of Executives, including the Chief Executive Officer CEO, is comprised of four elements: base salary, annual incentives, stock options and other compensation. The last element includes a Supplemental Retirement Plan, also known as a Supplemental Employee Retirement Plan SERP, a Deferred Compensation Plan DCP, and perquisites including the use of company owned or leased automobiles and airplanes for business or personal use.

The Committee reviewed as part of its routine activities the total compensation of the Executives, including any and all perquisites, SERP, DCP and potential benefits resulting from termination, retirement, severance, and change-in-control agreements. In the process of evaluating total compensation of our Executives and placing it in the context of the Company's performance, the Committee also reviewed executive compensation surveys and proxy statements on salaries and incentives paid to executive officers of a peer group of electrical/electronic businesses and medical companies with comparable sales volume from year 2003.

Frederic W. Cook & Co., Inc., an independent executive compensation consulting firm, has provided services to the Committee including the selection of the peer group of companies for comparative purposes and advice on matters relating to executive compensation and equity plan administration. It is the intention of the Committee to consider the recommendations made by the consultant in formulating decisions related to major compensation matters.

### **Base Salaries**

Base salaries are designed primarily to provide compensation at competitive levels that enable the Company to attract and retain executives. The base salary portion is intended to contribute less to total compensation than the total performance-based compensation portions (provided that performance goals are met or exceeded). This is consistent with the Committee's compensation philosophy of basing a substantial portion of compensation on the Company's performance measured against pre-determined objectives to link compensation with business goals and strategies and reward for good performance.

In determining fiscal year 2004 salaries, the Committee considered each Executive's fiscal year 2003 compensation, each Executive's potential incentive compensation in fiscal year 2004, each Executive's position and responsibilities, published market data on other peer group companies anticipated salary increases for 2004 and the Company's financial performance in fiscal year 2003.

### **Annual Incentives**

We also have created annual incentives for Executives through potential cash awards under the Management Incentive Plan MIP intended to link compensation directly to financial performance.

The Committee based awards to Executives for fiscal year 2004 on percentage growth in dollar earnings before interest and taxes EBIT achieved by the Executive's business unit and the Company as a whole. For Mr. Guertin and Mr. Kluge, the Committee based 40% of their awards on Company EBIT growth and 60% on their respective business unit EBIT growth. The Committee based 100% of Mr. Levy's, Mr. Phair's and Ms. Finney's awards on Company EBIT growth. The MIP provides for a limit of two-times fiscal year-end base salary or \$2 million, whichever is less. For fiscal year 2004, the Committee further defined the MIP awards for the Company's Executives so that, depending on the EBIT growth targets achieved, awards ranged from zero to a maximum of 200% of the individual's predetermined MIP participation target level.

### **Stock Ownership Guidelines**

In May 2000, the Committee adopted the Varian Medical Systems Executive Ownership Program the Stock Ownership Program to ensure that executive officers and non-executive officers have a substantial equity position in the Company and to align their interests with those of the stockholders. The

stock ownership levels are based on the face value of the Company's stock as a multiple of such officer's base pay (share times price per share divided by base salary). Specific stock ownership guidelines are set based upon such officer's position in the organization. The multiple for the CEO is three times the CEO's current base salary. The multiple for the next four highly compensated executive officers is two times the individual's current base salary. The multiple for all other executive and non-executive officers is one times the individual's current base salary.

Under the guidelines of the Stock Ownership Program, ownership levels are to be achieved within five years of the adoption of this Stock Ownership Program or the date upon which an individual becomes an executive officer or non-executive officer, whichever is later. One third of the ownership levels must be achieved within the first two and half years after an individual becomes subject to the Stock Ownership Program. The Stock Ownership Program was amended at the August 2002 Committee meeting to add a 25% Share Retention clause, which states that executive officers and non-executive officers who have not attained stock ownership levels applicable to their position shall retain as owned shares such number of shares equal in value to twenty-five percent (25%), on an after-tax basis, of the profit (net of tax withholdings) obtained from all future stock option exercises until which time the applicable ownership level is met.

As of the end of fiscal year 2004, our CEO and all of the other executive officers and non-executive officers met the guidelines as set forth in the Stock Ownership Program.

### **Stock Options**

We believe that Executives and other employees who are in a position to make a substantial contribution to our long-term success and to build stockholder value should have a significant stake in our on-going success. As a result, we have granted non-qualified stock options to our Executives in order to retain talented personnel and to align their compensation with stockholder value. Because the stock options have an exercise price equal to the market price of our stock on the grant date and vest over three years, stock options compensate Executives only if, and in proportion to, the stock price increases after the grant date and only if the Executive remains employed or otherwise qualified under the terms of the grant for the periods required for the stock option to become exercisable.

### **Other Compensation**

To attract and retain talented Executives, the Committee also has approved arrangements giving them certain perquisites, such as use of a leased automobile under our Executive Car Program the Program. Under the Program, the Company provides leased vehicles costing up to \$66,000 for all Executives, except for the CEO, who is provided with a vehicle without a cost limit. Related expenses are disclosed in the Summary Compensation Table. Insurance, maintenance expenses and fuel costs are also included in the Program. Participants have an option to purchase the company car at the end of its 3-year lease period or upon retirement at the lower of its depreciated book value or its fair market value (based on the Kelley Blue Book Auto Market Report wholesale value). Additionally, when approved by the CEO, the Company provides to certain Executives the use of fractionally owned aircraft for business purposes. Related compensation for the CEO and the next four highly compensated executive officers is disclosed in the Summary Compensation Table.(2)

(2) Historically, our Executives have not used the fractionally owned aircraft for purely personal trips and virtually all compensation for use of the aircraft reported under the Other Annual Compensation for Mr. Levy in the Summary Compensation Table is attributable to spousal travel deemed valuable and appropriate for business purposes.



The Company reimburses executive officers and non-executive officers for financial planning, estate planning, tax planning, tax return preparation and financial counseling services (to a maximum of \$6,500 per year and unlimited for the CEO). The Company provides reimbursement to certain Executives, including all executive officers and non-executive officers, for annual medical examinations (up to a maximum of \$1,500 per year) as well as reimbursement for any personal taxes paid on certain perquisites, such as personal use of a company automobile, business related spousal travel, financial planning and medical expenses.

In order to make retirement contributions which could not be contributed to the Executives' qualified retirement accounts due to Internal Revenue Code limitations, we also maintain the SERP under which we make supplemental retirement contributions equal to 6% of the participant's base annual salary and applicable incentive payments earned during the year, reduced by the amount of any Company matching contributions that would be made to the 401(k) Retirement Program(3) only if the participant had contributed the maximum 401(k) amount for that plan year. In fiscal year 2001, the Company adopted the DCP under which eligible employees may defer a portion of their cash compensation into this plan. The SERP is now included in the DCP. The funds contributed by the employee or the Company into the DCP and the SERP are deposited into an independently managed program that has no guaranteed rate of return.

We also permit Executives to participate in compensation and benefit programs generally available to other employees, such as the Employee Incentive Plan(4), 401(k) Retirement Program and supplemental life and disability insurance program.

### **Tax Deductibility of Executive Compensation**

U.S. tax law does not let us deduct from the Company's federal taxable income certain compensation paid to the CEO and the next four highly compensated executive officers that is not performance-based and which exceeds \$1,000,000. Stockholders approved both the MIP and the Omnibus Stock Plan so that performance-based awards under those plans would be eligible for continued tax deductibility. Thus, awards made under the MIP during fiscal year 2004 are eligible for deduction under Section 162(m) of the Internal Revenue Code. The Company did not grant any performance-based equity awards under the Omnibus Stock Plan during fiscal year 2004. However, the Committee considers one of its primary responsibilities to be structuring a compensation program that will attract, retain and reward executive talent necessary to maximize stockholder return. Accordingly, the Committee believes that the Company's interests are best served in some circumstances by providing compensation (such as salary, perquisites and special cash bonuses), which might be subject to the limitation in U.S. tax law deductibility.

### **Bases for CEO Compensation**

The Committee followed generally the same policies and programs described above for compensation of Executives in determining fiscal year 2004 compensation for Mr. Levy as Chairman of the Board, President and Chief Executive Officer. We considered this level of pay, cash incentive and equity compensation for Mr. Levy appropriate for the following reasons: his execution of our Company strategy

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- (3) After satisfying the initial 12-month waiting period for company contributions, the company contribution is 100% of the employee contributions, up to 6% of the employee's eligible earnings.
  - (4) This is a company-wide incentive plan whereby eligible employees may receive award payouts - denominated in number of hours - between 0 hours to 120 hours (based on a 40-hour work week). The target achievement level is 60 hours (based on a 40-hour work week). The performance goals are the same as that of the MIP during fiscal year 2004. For corporate employees, the award was based 100% on Company EBIT growth. For business unit employees, the award was based 70% on their respective business unit's EBIT growth and 30% on Company EBIT growth.

to enhance long-term investor value through better profit margins and higher returns on sales; his role in leading the Company to solid financial results in a challenging global economic environment; his actions in making the company a leading global manufacturer of integrated cancer therapy systems; his leadership in driving growth initiatives; and the Company's consistent financial and stock price performance relative to the peer group of companies.

The Committee set Mr. Levy's annual base salary for fiscal year 2004 in accordance with the policies and considerations used to determine the fiscal year 2004 salaries of the other Executives by evaluating his responsibilities and the Company's financial performance in fiscal year 2003 and reviewing executive compensation data provided by Frederic W. Cook & Co., Inc. on salaries paid to chief executive officers of electrical/electronic businesses and medical companies with comparable sales volume and peer group proxy statements in year 2003. Further, the Committee reviewed and noted that Mr. Levy's total cash compensation in fiscal year 2004 was less than two and one-half times that of the next highest compensated employee at the Company.

We also paid Mr. Levy an incentive award for fiscal year 2004 (in accordance with the MIP described above) equal to 200.0% of his fiscal year-end base salary. The 200% value is the maximum permitted under the MIP and was quantitatively attributable to the Company's exceptional financial performance during fiscal year 2004 by achieving 32.1 percent growth in dollar EBIT (excluding acquisitions made during the year).

In fiscal year 2004, the Company also granted Mr. Levy non-qualified stock options for 330,000 shares of the Company's common stock that vest over three years.

#### **The Committee's Conclusion**

In light of our strong financial and operating performance in a challenging global economic environment, we believe it was in your best long-term interest for us to ensure that the overall level of our salary, bonus and other incentive compensation awards was **competitive** with companies in the comparison group, **fair** based on responsibilities and performance of the Company's Executives, and **reasonable** in the context of current fiscal climate based on good business judgment. Quite simply, we continue to believe that the quality, skills and dedication of our executive leaders are critical factors affecting the long-term value of our Company. Therefore, we continue to maintain an executive compensation program that will attract, motivate and retain the highest level of executive leadership possible.

Our decisions concerning the specific fiscal year 2004 compensation elements for individual Executives, including the CEO, were made within this framework and after consultation with an independent executive compensation expert hired by the Committee. We also considered each Executive's level of responsibility, performance, and current total compensation. As noted above, in all cases our specific decisions involving fiscal year 2004 executive compensation were ultimately based upon our judgment about the individual Executive's performance and potential future contributions and about whether each particular payment or award would provide an appropriate incentive and reward for performance that sustains and enhances long-term stockholder value.

In the Summary Compensation Table, we provided full disclosure of cash and all other compensation including all perquisites and tax reimbursements received by our Chief Executive Officer and the next four highly compensated executive officers.

Based on our review of the compensation of the Executives and other relevant data, the Committee finds that the total compensation of the Executives, including the CEO, to be competitive, fair, reasonable, and not excessive.

*Susan L. Bostrom*  
*John Seely Brown*  
*R. Andrew Eckert\*\**  
*Ruediger Naumann-Etienne*

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*David W. Martin, Jr., M.D.*  
*Allen S. Lichter, M.D.*  
*Samuel Hellman, M.D. (Chairman)*

\*\* Mr. Eckert was appointed to the Committee at the November 19, 2004 meeting of the Board.

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## AUDIT COMMITTEE REPORT

The Audit Committee of the Board the Audit Committee consists of four directors whose signatures appear below. Each member of the Audit Committee is independent, as defined in the New York Stock Exchange Rules.

The Audit Committee's general role is to assist the Board in monitoring the Company's financial reporting process and related matters. Its specific responsibilities are set forth in its charter. The Audit Committee reviews its charter annually, and did so in the Company's November, 2004 Committee meeting.

As required by the charter, the Audit Committee reviewed the Company's financial statements for fiscal year 2004 and met with management, as well as with representatives of PricewaterhouseCoopers LLP, our independent public accountants, to discuss the financial statements. The Audit Committee also discussed with representatives of PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards 61, *Communication with Audit Committees*.

In addition, the Audit Committee discussed with representatives of PricewaterhouseCoopers LLP their independence from management and the Company, including the matters in the written disclosures required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*.

Based on these discussions, the financial statements review and other matters it deemed relevant, the Audit Committee recommended to the Board of Directors (and the Board approved) that the Company's audited financial statements for fiscal year 2004 be included in the Company's Annual Report on Form 10-K for the year ended October 1, 2004.

Furthermore, in connection with standards for independence promulgated by the Securities and Exchange Commission, the Audit Committee reviewed the services provided by our independent public accountants, PricewaterhouseCoopers LLP, and the fees the Company paid for these services, and also reviewed whether the provision of the services is compatible with maintaining the accountant's independence. The Audit Committee determined that the provision of the services is compatible with maintaining that independence.

The Audit Committee has selected PricewaterhouseCoopers LLP to be the Company's independent auditors for fiscal year 2005. In doing so, the Audit Committee considered the results from its review of PricewaterhouseCoopers LLP's independence, including all relationships between PricewaterhouseCoopers LLP and the Company and any disclosed relationships or services that may impact their objectivity and independence, and their performance and qualifications as independent auditors and giving due consideration to the fact that the engagement audit partner of PricewaterhouseCoopers LLP for the Company is rotated on a regular basis as required by law. As a matter of good corporate governance, the Audit Committee has determined to submit its selection of independent auditors to stockholders for ratification. In the event that this selection of independent auditors is not ratified by a majority of the shares of common stock present or represented at the annual meeting, the Audit Committee will review its future selection of auditors.

*Ruediger Naumann-Etienne (Chairman)*  
*R. Andrew Eckert\*\**  
*David W. Martin, Jr., M.D.*  
*Susan L. Bostrom*

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**\*\* Mr. Eckert was appointed to the Audit Committee at the November 19, 2004 meeting of the Board.**

**PERFORMANCE GRAPHS**

This graph shows the total return on Varian Medical Systems, Inc. common stock and certain indices from October 1, 1999 until the last day of fiscal year 2004.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

**AMONG VARIAN MEDICAL SYSTEMS, INC., THE S & P MIDCAP 400 INDEX AND  
THE S & P HEALTHCARE EQUIPMENT INDEX**

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\*\$100 invested on October 1, 1999 in Varian Medical Systems, Inc. common stock or in the S & P Midcap 400 Index and S & P Healthcare Equipment Index including reinvestment of dividends.

	<b>Cumulative Total Return</b>					
	<b>10/1/99</b>	<b>9/29/00</b>	<b>9/28/01</b>	<b>9/27/02</b>	<b>9/26/03</b>	<b>10/1/04</b>
VARIAN MEDICAL SYSTEMS, INC.	100.00	205.99	292.42	398.22	516.47	631.61
S & P MIDCAP 400	100.00	143.21	116.00	110.55	140.19	164.80
S & P HEALTH CARE EQUIPMENT	100.00	142.49	123.96	112.75	144.66	179.47

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**Appendix A**

**VARIAN MEDICAL SYSTEMS, INC.**

**2005 OMNIBUS STOCK PLAN**

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