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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended October 1, 2021

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-37860

VAREX IMAGING CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**81-3434516**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
1678 S. Pioneer Road, Salt Lake City, Utah	**84104**
(Address of principal executive offices)	**(Zip Code)**

(801) 972-5000
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	VREX	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer	☒	Accelerated filer	☐
Non-Accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 2, 2021, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of shares of the registrant's common stock held by non-affiliates of the registrant (based upon the closing sale price of such shares on the NASDAQ Global Select Market on April 2, 2021) was approximately $584.8 million. Shares of the registrant's common stock held by the registrant's executive officers and directors and by each entity that owned 10% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of November 8, 2021, there were 39.5 million shares of the registrant's common stock outstanding.

Documents Incorporated by Reference

Portions of registrant's proxy statement relating to registrant's 2022 annual meeting of stockholders have been incorporated by reference in Part III of this annual report on Form 10-K.

VAREX IMAGING CORPORATION

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Forward-Looking Statements

This Annual Report on Form 10-K (this “Annual Report”), including the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) contains “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a "safe harbor" for statements about future events, products and financial performance that are based on the beliefs of, estimates made by, and information currently available to the management of Varex Imaging Corporation (“we,” “our,” “us,” the “Company,” “Varex,” or “Varex Imaging”). Actual results and the outcome or timing of certain events described in these forward-looking statements are subject to risk and uncertainties and may differ significantly from those projected in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ significantly from those projections or expectations include, among other things, the risks described in the Summary of Principal Risk Factors below and further described in the Risk Factors listed under Part I, Item 1A of this Annual Report, MD&A and other factors described from time to time in our other filings with the U.S. Securities and Exchange Commission (the “SEC”), or other reasons.

Statements concerning: supply chain and logistic challenges; cost increases; the impact of the ongoing coronavirus ("COVID-19") pandemic on the global economy or the Company; industry or market segment outlook; market acceptance of or transition to new products or technology such as advanced X-ray tube and digital flat panel detector products; growth drivers; future orders, revenues, backlog, earnings or other financial results; and any statements using the terms “believe,” “expect,” “anticipate,” “can,” “should,” “would,” “could,” “estimate,” “may,” “intended,” “potential,” and “possible” or similar statements are forward-looking statements that involve risks and uncertainties that could cause our actual results and the outcome and timing of certain events to differ materially from those projected or management’s current expectations.

Any forward-looking statement made in this Annual Report (including in any exhibits or documents incorporated by reference) is based only on information currently available to Varex and its management and speaks only as of the date on which it is made. We have not assumed any obligation to, and you should not expect us to, update or revise those statements because of new information, future events or otherwise.

Summary of Principal Risk Factors

Investing in our common stock involves risks. See Item 1A. “Risk Factors” beginning on page 14 of this Annual Report for a discussion of the following principal risks and other risks that make an investment in Varex speculative or risky:

- Supply chain and logistic challenges and disruptions, including increased difficulty in obtaining supplies of important components, and increasing costs have impacted our ability to manufacture products, have caused product delivery delays, and have increased our manufacturing costs. These challenges and disruptions are likely to continue throughout our 2022 fiscal year.
- It has become more difficult to attract and retain employees, which has impacted, and is likely to continue to impact, our ability to manufacture products.
- We sell products and services to a limited number of original equipment manufacturers (“OEMs”) customers, many of which are also competitors, and a reduction in or loss of business of one or more of these customers may materially reduce our sales.
- We may not be able to accurately predict customer demand for our products, which is subject to matters beyond our control.
- We compete in highly competitive markets, and we may lose business to our customers or other companies with greater resources or the ability to develop more effective technologies, or we could be forced to reduce our prices.
- Our success depends on the successful development, introduction, and commercialization of new generations of products and enhancements to or simplifications of existing product lines.
- Changes in import/export regulatory regimes and tariffs could continue to negatively impact our business.
- A disruption at our manufacturing facilities, as well as fluctuating manufacturing costs, could materially and adversely affect our business.
- Our operations, cash flow, and financial position, and the demand for our security, industrial and inspection products, have been adversely impacted, and in the future could continue to be adversely impacted by the COVID-19 pandemic and associated economic disruptions.
- Our international manufacturing operations subject us to volatility and other risks, including high security risks, which could result in harm to our employees and contractors or substantial costs.
- Warranty claims may materially and adversely affect our business.
- Product defects or misuse may result in material product liability or professional errors and omissions claims, litigation, investigation by regulatory authorities, or product recalls that could harm our future revenues and require us to pay material uninsured claims.

- Our competitive position would be harmed if we are not able to maintain our intellectual property rights and protecting our intellectual property can be costly.
- Disruption of critical information systems or material breaches in the security of our systems may materially and adversely affect our business and customer relations.
- Compliance with laws and regulations across the globe applicable to the marketing, manufacture, and distribution of our products may be costly, and failure to comply may result in significant penalties and other harm to our business.
- Conversion of our Convertible Notes may dilute the ownership interest of Varex's stockholders or may otherwise depress the market price of Varex's common stock.
- We have significant debt obligations that could adversely affect our business, profitability and ability to meet our obligations.
- Our Asset-based Loan Credit Facility and our indentures impose significant operating and financial restrictions that may limit current and future operating flexibility, and make it difficult to respond to economic or industry changes or to take certain actions, which could harm our long-term interest.
- Potential indemnification liabilities to Varian, a Siemens Healthineers Company ("Varian"), could materially and adversely affect our business, financial condition, results of operations, and cash flows.

PART I

Item 1. Business

Overview

Varex Imaging Corporation is a leading innovator, designer and manufacturer of X-ray tubes, digital detectors, linear accelerators and other image software processing solutions, which are critical components in a variety of X-ray based imaging equipment. Our components are used in medical diagnostic imaging, security inspection systems, and industrial quality inspection systems, as well as for analysis and measurement applications in industrial manufacturing applications. Global OEMs incorporate our X-ray imaging components in their systems to detect, diagnose, protect and inspect. Varex has approximately 2,100 full-time employees, located at engineering, manufacturing and service center sites in North America, Europe, and Asia.

Our products are sold worldwide in three geographic regions: the Americas, EMEA, and APAC. The Americas includes North America and South America. EMEA includes Europe, Russia, the Middle East, India and Africa. APAC includes Asia (other than India) and Australia. Revenues by region are based on the destination of products being sold.

Our success depends, among other things, on our ability to anticipate and respond to changes in our markets, the direction of technological innovation and the demand from our customers. We continually invest in research and development and employ approximately 500 individuals in product development related activities. Our focus on innovation and product performance along with strong and long-term customer relationships allows us to collaborate with our customers to bring industry-leading products to the X-ray imaging market. We continue to work to improve the life and quality of our imaging components and leverage our scale as one of the largest independent X-ray imaging component suppliers to provide cost-effective solutions for our customers.

Operating Segments and Products

We have two reportable operating segments: Medical and Industrial. The segments align our products and service offerings with customer use in medical and industrial markets.

Medical

In our Medical segment, we design, manufacture, sell and service X-ray imaging components, including X-ray tubes, digital detectors, high voltage connectors, image-processing software and workstations, 3D reconstruction software, computer-aided diagnostic software, collimators, automatic exposure control devices, generators, heat exchangers, ionization chambers and buckys. These components are used in a range of medical imaging applications including CT, mammography, oncology, cardiac, surgery, dental, and other diagnostic radiography uses.

Our X-ray imaging components are primarily sold to OEM customers. These OEM customers then design-in our products into their X-ray imaging systems for a variety of medical modalities. A substantial majority of medical X-ray imaging OEMs globally are our customers, and many of these have been our customers for over 25 years. We believe one of the reasons for customer loyalty is that our hardware and software products are tightly integrated with our customers' systems. We work very closely with our customers to create custom built components for their systems based on technology platforms that we have developed. Because our products are often customized for our customers' specific equipment, it can be costly and complex for our customers to switch to another provider.

Once our components are designed into our customers' equipment, our customers will typically continue to buy from us for any replacement components and for service and support for that equipment. Some of our products are also included in product registrations for our customers' equipment that require regulatory approval to change. In addition to sales to OEM customers, we sell our products to independent service companies and distributors as well as directly to end-users for replacement purposes.

We are one of the largest global manufacturers of X-ray components and each year we produce over 27,000 X-ray tubes and 20,000 X-ray detectors. We estimate that our world-wide installed base of products includes more than 150,000 X-ray tubes, 150,000 X-ray detectors, 300,000 connect and control components and 15,000 software instances. Replacement and service of our existing installed base makes up a significant portion of our revenue. Many of our components need to be replaced regularly depending upon usage and other factors. For example, CT X-ray tubes generally need to be replaced every 2 to 4 years. In China, the replacement cycle for CT X-ray tubes can be as frequent as every 6 to 12 months due to high utilization of imaging equipment. Other products such as X-ray detectors have a useful life of as much as 7 years or more, but can require more frequent service and repairs during their useful life. In addition, our detector customers often elect to upgrade products to newer technology before the end of a current product's useful life. X-ray imaging software is a relatively small part of our business and includes maintenance revenue for software licenses.

The COVID-19 pandemic had a significant effect on hospitals, clinics and outpatient imaging centers as they encountered declines in elective procedures volume. As a result, they reduced the capital purchases of imaging equipment from OEMs, which led to lower demand for X-ray imaging components for us. Additionally, equipment installations were delayed, due to reduced access to healthcare institutions. Partially offsetting this was an increased demand for imaging equipment used to diagnose respiratory diseases, such as radiographic X-ray imaging systems and CT imaging systems. The Company has experienced growth in demand for its products as health systems globally have continued to address healthcare services gaps. However, the Company is not able to convert all the demand into sales due to on-going supply chain related interruptions and uncertainties, particularly with the availability of semiconductor and other electronic components. As a result, uncertainty in overall sales volume is expected to continue into calendar year 2022.

In China, the government is broadening the availability of healthcare services. As a result, the number of diagnostic X-ray imaging systems, including CT, has grown significantly. We are developing CT X-ray tubes and related subsystems for Chinese OEMs as they introduce new systems in China. Over the long-term, our objective is to become the partner of choice both for OEMs and in the replacement market as CT systems become more widely adopted throughout the Chinese market. In China, despite a COVID-19 related slowdown in the beginning of the year, demand for our products has returned, and full fiscal year 2021 results for China exceeded our pre-pandemic expectations.

In recent years our business in China has been impacted by the trade war with the United States in three principal ways: (1) imports of raw materials from China to the U.S. have become more expensive, (2) imports of raw materials and sub-assemblies from the U.S. to China have become more expensive, and (3) importing finished U.S. manufactured products into China have become more difficult and expensive. In order to mitigate the impact of tariffs on materials imported from China, we have implemented changes to secure more non-China sources of materials used to manufacture our X-ray imaging products. With respect to imports into China, the additional tariffs imposed by the Chinese government have led to a decrease in sales of radiographic detector manufactured in the U.S. To help address these issues, and to be closer to our global customer base, we continue to expand manufacturing capabilities at our facilities in China, Germany and the Philippines. We have also implemented local sourcing strategies to offer local content. This local-for-local strategy has been well received by both our local customers as well as global OEMs, and acts as a natural hedge against trade wars and other potential supply chain disruptions.

Industrial

In our Industrial segment, we design, develop, manufacture, sell and service X-ray imaging products for use in a number of markets, including security applications for cargo screening at ports and borders, baggage screening at airports, and nondestructive testing and inspection applications used in a number of other markets. Our Industrial products include Linatron® X-ray linear accelerators, X-ray tubes, digital detectors and high voltage connectors. In addition, we license proprietary image-processing and detection software designed to work with other Varex products to provide packaged sub-assembly solutions to our Industrial customers. Our Industrial business benefits from the research and development investment and manufacturing economies of scale on the Medical side of our business, as we continue to find new applications for our technology. Along with more favorable pricing dynamics, this allows us to generally achieve higher gross profit for industrial products relative to our Medical business. In addition, our Industrial business benefits from our long-term service agreements for our Linatron® products.

The security market primarily consists of cargo security for the screening of trucks, trains, and cargo containers at ports and borders as well as airport security for carry-on baggage, checked baggage and palletized cargo. The end customers for border protection systems are typically government agencies, many of which are in oil-based economies and war zones where there can be significant variation in buying patterns.

Non-destructive testing and inspection markets utilize X-ray imaging to scan items for inspection of manufacturing defects and product integrity in a wide range of industries including the aerospace, automotive, electronics, oil and gas, food packaging, metal castings and 3D printing industries. In addition, new applications for X-ray sources are being developed, such as sterilization of food and its packaging. We provide X-ray sources, digital detectors, high voltage connectors and image processing software to OEM customers, system integrators and manufacturers in a variety of these markets. We believe that the nondestructive testing market represents a significant growth opportunity for our business, and we are actively pursuing new potential applications for our products.

The economic downturn triggered by the COVID-19 pandemic reduced the demand for X-ray imaging equipment utilized in the non-destructive testing market as manufacturers focused on cash preservation and reduced spending for capital equipment. During the twelve months ended October 1, 2021, we have continued to see improved conditions in this market. Separately, the unprecedented decrease in passenger air traffic led to a decrease in demand in the security market for carry-on baggage and checked baggage.

Customers

Our customers are primarily large OEMs. Our top five customers, measured by revenue, are Canon Medical Systems Corporation (“Canon”), General Electric Company, Elekta AB, United Imaging Healthcare and Varian Medical Systems, Inc., which collectively accounted for approximately 39% of total revenue in fiscal year 2021. Our largest customer, Canon, accounted for approximately 18%, 21% and 17% of our total revenue for fiscal years 2021, 2020, and 2019, respectively, while our ten largest customers as a group accounted for approximately 51%, 52% and 51% of our revenue for fiscal years 2021, 2020 and 2019, respectively.

Competition

The imaging components market is highly competitive. OEMs may choose to develop and manufacture X-ray imaging components in-house or they may choose to out-source to a supplier such as Varex or our competitors. Our success depends upon our ability to anticipate changes in our markets, the direction of technological innovation and the demand from our customers. To remain competitive, we must continually invest in research and development focused on innovation, improve product performance and quality, and continue to reduce the cost of our imaging components. Significant capital investment is required to manufacture imaging components. We believe we have sufficient manufacturing scale to leverage our high volume to reduce overall costs by spreading fixed costs over more units.

Medical

We often compete with the in-house X-ray tube manufacturing operations of major diagnostic imaging systems companies, which are the primary OEM customers for our Medical products. To effectively compete with these in-house capabilities, we must have a competitive advantage in one or more significant areas, such as innovative technology and greater product performance, better product quality or lower product price. We sell a significant volume of our X-ray tubes to OEM customers that have in-house X-ray tube production capability. In addition, we compete with some OEM customers, such as Canon, Philips Healthcare and other companies who sell X-ray tubes to smaller OEMs and other manufacturers, such as Industria Applicazioni Elettroniche S.p.A, as well as emerging X-ray tube manufacturers in China. High capital costs and mastery of complex manufacturing processes that drive production yield and product life are significant characteristics of the X-ray tubes business.

The market for digital detectors is highly competitive. We sell our digital detectors to a number of OEM customers that incorporate our detectors into their medical diagnostic, oncology, 3D dental and veterinary imaging systems. Our amorphous silicon based digital detector technology, our photon counting technology and our complementary metal-oxide-semiconductor technology competes with other detector technologies, such as amorphous selenium, charge-coupled devices and variations of amorphous silicon scintillators. We believe that our products provide a competitive advantage due to product quality and performance and lower total cost of ownership over the product lifecycle. In the digital flat panel detector market, we primarily compete against Trixell S.A.S., Canon, Vieworks Co., Ltd., Hamamatsu Corporation, iRay Technology (Shanghai) Limited and Jiangsu CareRay Medical Systems Co., Ltd.

Industrial

In the low-energy market of the Industrial segment, we compete with other OEM suppliers, such as iRay, Teledyne, Nuctech Company Limited (“Nuctech”) and Comet AG. While there are other manufacturers of low-energy X-ray tubes and digital detectors for specialized and niche industrial applications, our products are designed for a broad range of applications in inspection, analysis, and non-destructive testing. In the high-energy market, we compete against technologies from Nuctech, Siemens AG, ETM Electromatic Inc., and Foton Ltd., whose X-ray sources are used in applications that include cargo and container scanning, border security, aerospace applications, castings and pressure vessel inspections.

Customer Services and Support

We generally warranty our products for 12 to 24 months. In certain cases, the warranty is specified by usage metrics such as number of scans. We provide technical advice and consultation to major OEM customers from our U.S. offices in Utah, California, Nevada, New York and Illinois; and internationally in the Philippines, China, the Netherlands, Germany, France, Sweden, Switzerland, the United Kingdom, Italy and Japan. Our application specialists and engineers make recommendations to meet the customer’s technical requirements within the customer’s budgetary constraints. We often develop specifications for a unique product that will be designed and manufactured to meet a specific customer’s requirements.

Manufacturing and Supplies

We manufacture our products at facilities in Salt Lake City, Utah; Las Vegas, Nevada; Liverpool, New York; Franklin Park, Illinois; Doetinchem, the Netherlands; Walluf and Bremen, Germany; Espoo, Finland; Calamba City, Philippines; and Wuxi, China. These facilities employ state-of-the-art manufacturing techniques and several have been recognized by the press, governments and trade organizations for their commitment to quality improvement. Each of these manufacturing facilities are certified by International Standards Organization (“ISO”) under ISO 9001 (for industrial products) or ISO 13485 (for medical devices). In addition, we have a regional service center in Willich, Germany. The combined medical and industrial manufacturing infrastructure enables us to leverage production scale to achieve productivity and low cost advantage as well as research and development synergies.

Manufacturing processes at our various facilities include machining, fabrication, subassembly, system assembly and final testing. We have invested in various automated and semi-automated equipment for the fabrication and machining of the parts and assemblies that we incorporate into our products. We may, from time to time, invest further in such equipment. Our quality assurance program includes various quality control measures from inspection of raw materials, purchased parts and assemblies through in-line inspection. In some cases, we outsource the manufacturing of sub-assemblies while still performing system design, final assembly and testing in-house. In such cases, we believe outsourcing enables us to reduce or maintain fixed costs and capital expenditures, while also providing the flexibility to increase production capacity. We purchase material and components from various suppliers that are either standard products or customized to our specifications. Some of the components included in our products may be sourced from a limited group of suppliers or from a single source supplier, such as the wave guides for linear accelerators; transistor arrays and cesium iodide coatings for digital detectors and specialized integrated circuits, X-ray tube targets, housings, bearings and various other components. We require certain raw materials, such as copper, nickel, silver, gold, lead, tungsten, iridium, rhenium, molybdenum, rhodium, niobium, zirconium, and various high grades of steel alloy for X-ray tubes and industrial products. Worldwide demand, availability and pricing of these raw materials have been volatile, and we expect that availability and pricing will continue to fluctuate in the future.

Research and Development

Innovation and developing products, systems and services based on advanced technology is essential to our ability to compete effectively in the marketplace. We maintain a research and development and engineering staff responsible for product design and engineering.

Research and development are primarily conducted domestically at our facilities in Salt Lake City, Utah; San Jose, California; Las Vegas, Nevada; Liverpool, New York; and Franklin Park, Illinois and internationally at our facilities in the Netherlands, UK, Sweden and Germany. Our research and development activities are primarily focused on developing and improving imaging component technology. Current X-ray source development areas include smaller footprint linear accelerators, improvements to tube life and tube stability, reductions of tube noise and tube designs that will enable OEMs to continue to reduce dose delivered, and improve image resolution, cost effectively. Research in digital detector imaging technology is aimed at developing new panel technologies (such as photon counting) with better dose utilization, improved image quality and materials discrimination, lower product costs and new image processing tools for advanced applications.

Industrial products share some of the same base technology competencies and platforms as medical products and our medical and industrial development teams are therefore co-located in Salt Lake City, San Jose, Doetinchem, Danderyd and Walluf. One of our competitive advantages is that some of the foundational technologies and software components developed for medical applications may also be applicable in industrial components, and vice versa. In addition to these product development synergies, we are also able to realize sourcing, production, service center, and logistics synergies across the different products and market sectors.

Product and Other Liabilities

Our business exposes us to potential product liability claims that are inherent in the manufacture, sale, installation, servicing and support of X-ray imaging devices, related software and other devices that contain hazardous material or deliver radiation. Because our products are involved in the intentional delivery of radiation to the human body and other situations where people may come in contact with radiation (for example, when our Industrial products are being used to scan cargo) as well as the detection, planning and treatment of medical problems, the possibility for significant injury or death exists if our products fail to work or are not used properly. We may face substantial liability to patients, our customers and others for damages resulting from the faulty, or allegedly faulty, design, manufacture, installation, servicing, support, testing or interoperability of our products and our customers' products, or their misuse or failure. We may also be subject to claims for property damages or economic loss related to or resulting from any errors or defects in our products, or the installation, servicing and support of our products. Any accident or mistreatment could subject us to legal costs, litigation, adverse publicity and damage to our reputation, whether or not our products or services were a factor. In addition, if a product we design or manufacture were defective (whether due to design, labeling or manufacturing defects, improper use of the product or other reasons), or found to be so by a regulatory authority, we may be required to correct or recall the product and notify other regulatory authorities. We maintain limited product liability, professional liability and omissions liability insurance coverage.

Government Regulation

U.S. Regulations

Laws governing marketing a medical device. In the United States, as a manufacturer and seller of medical devices and devices emitting radiation or utilizing radioactive by-product material, we and some of our suppliers and distributors are subject to extensive regulation by federal governmental authorities, such as the U.S. Food and Drug Administration (the "FDA"), the Nuclear Regulatory Commission ("NRC"), and state and local regulatory agencies, to ensure the devices are safe and effective and comply with laws governing products which emit, produce or control radiation. Similar international regulations apply overseas. These regulations, which include the U.S. Food, Drug and Cosmetic Act (the "FDC Act") and regulations promulgated by the FDA, govern, among other things, the design, development, testing, manufacturing, packaging, labeling, distribution, import/export, sale and marketing and disposal of medical devices, post market surveillance and reporting of serious injuries and death, repairs, replacements, recalls and other matters relating to medical devices, radiation emitting devices and devices utilizing radioactive by-product material. State regulations are extensive and vary from state to state. Our X-ray tube products, imaging workstations and flat panel detectors are considered medical devices. Under the FDC Act, each medical device manufacturer must comply with quality system regulations that are strictly enforced by the FDA.

Unless an exception applies, the FDA requires that the manufacturer of a new medical device or a new indication for use of, or other significant change in, existing currently marketed medical device obtain 510(k) pre-market notification clearance before it can market or sell those products in the United States. The 510(k) clearance process is applicable when the device introduced into commercial distribution is substantially equivalent to a legally marketed device. Obtaining the 510(k) clearance generally takes at least six months from the date an application is filed, but could take significantly longer, and generally requires submitting supporting testing data. After a product receives 510(k) clearance, any modifications or enhancements to a product that could significantly affect its safety or effectiveness, or that would constitute a major change in the intended use of the device, technology, materials, labeling, packaging, or manufacturing process, may require a new 510(k) clearance. The FDA requires each manufacturer to make this determination in the first instance, but the FDA can review any such decision. If the FDA disagrees with the manufacturer's decision, it may retroactively require the manufacturer to submit a request for 510(k) pre-market notification clearance and may require the manufacturer to cease marketing and recall the product until 510(k) clearance is obtained. The FDA adopted guidance in September 2019 that we expect will increase the number and frequency of clearances for changes made to legally marketed devices. Most of our products are non-classified or Class I medical devices, which do not require 510(k) clearance.

Quality systems. Our manufacturing operations for medical devices, and those of our third-party manufacturers, are required to comply with the FDA's Quality System Regulation ("QSR"), which addresses a company's responsibility for product design, testing, and manufacturing quality assurance, and the maintenance of records and documentation. The QSR requires that each manufacturer establish a quality systems program by which the manufacturer monitors the manufacturing process and maintains records that show compliance with FDA regulations and the manufacturer's written specifications and procedures relating to the devices. QSR compliance is necessary to receive and maintain FDA clearance or approval to market new and existing products. The FDA makes announced and unannounced periodic and ongoing inspections of medical device manufacturers to determine compliance with the QSR. If in connection with these inspections the FDA believes the manufacturer has failed to comply with applicable regulations and/or procedures, it may issue observations that would necessitate prompt corrective action. If FDA inspection observations are not addressed and/or corrective action is not taken in a timely manner and to the FDA's satisfaction, the FDA may issue a warning letter (which would similarly necessitate prompt corrective action) and/or proceed directly to other forms of enforcement action. Failure to respond timely to FDA inspection observations, a warning letter or other notice of noncompliance and to promptly come into compliance could result in the FDA bringing enforcement action against us, which could include the total shutdown of our production facilities, denial of importation rights to the United States for products manufactured in overseas locations and denial of export rights for U.S. products and criminal and civil fines.

The FDA and the Federal Trade Commission (the "FTC") regulate advertising and promotion of our products to ensure that the claims we make are consistent with our regulatory clearances, that we have adequate and reasonable scientific data to substantiate the claims and that our promotional labeling and advertising is neither false nor misleading. We may not promote or advertise our products for uses not within the scope of our intended use statement in our clearances or approvals or make unsupported safety and effectiveness claims.

It is also important that our products comply with electrical safety and environmental standards, such as those of Underwriters Laboratories ("UL"), the Canadian Standards Association ("CSA"), and the International Electrotechnical Commission ("IEC"). In addition, the manufacture and distribution of medical devices utilizing radioactive material requires a specific radioactive material license. For the United States, manufacture and distribution of these radioactive sources and devices also must be in accordance with a model-specific certificate issued by either the NRC or by an Agreement State. In essentially every country and state, installation and service of these products must be in accordance with a specific radioactive materials license issued by the applicable radiation control agency. Service of these products must be in accordance with a specific radioactive materials license. We are also subject to a variety of additional environmental laws regulating our manufacturing operations and the handling, storage, transport and disposal of hazardous substances, and which impose liability for the cleanup of any contamination from these substances.

Other applicable U.S. regulations. As a participant in the healthcare industry, we are also subject to extensive laws and regulations protecting the privacy and integrity of patient medical information that we receive, including the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), "fraud and abuse" laws and regulations, including physician self-referral prohibitions, and false claims laws. From time to time, these laws and regulations may be revised or interpreted in ways that could make it more difficult for our customers to conduct their businesses, such as recent proposed revisions to the laws prohibiting physician self-referrals, and such revisions could have an adverse effect on the demand for our products, and therefore our business and results of operations. We also must comply with numerous federal, state and local laws of more general applicability relating to such matters as environmental protection, safe working conditions, manufacturing practices, fire hazard control and other matters.

The laws and regulations and their enforcement are constantly undergoing change, and we cannot predict what effect, if any, changes to these laws and regulations may have on our business. For example, national and state laws regulate privacy and may regulate our use of data. Furthermore, HIPAA was amended by the Health Information Technology for Economic and Clinical Health Act to provide that business associates who have access to patient health information provided by hospitals and healthcare providers are now directly subject to HIPAA, including the associated enforcement scheme and inspection requirements.

Medicare and Medicaid Reimbursement

The federal and state governments of the United States establish guidelines and pay reimbursements to hospitals and free-standing clinics for diagnostic examinations and therapeutic procedures under Medicare at the federal level and Medicaid at the state level. Private insurers often establish payment levels and policies based on reimbursement rates and guidelines established by the government.

The federal government and Congress review and adjust rates annually, and from time to time consider various Medicare and other healthcare reform proposals that could significantly affect both private and public reimbursement for healthcare services in hospitals and free-standing clinics. In the past, we have seen demand for our customers' systems (in which our products are incorporated) negatively impacted by the uncertainties surrounding reimbursement rates in the United States. State government reimbursement for services is determined pursuant to each state's Medicaid plan, which is established by state law and regulations, subject to requirements of federal law and regulations.

Various healthcare reform proposals have also emerged at the state level, and we are unable to predict which, if any, of these proposals will be enacted. In addition, it is possible that changes in federal health care law and policy could result in additional proposals and/or changes to health care system legislation which could have a material adverse effect on our business. Uncertainty created by healthcare reform complicates our customers' decision-making process and, therefore, impacts our business, and may continue to do so.

The sale of medical devices, the referral of patients for diagnostic examinations and treatments utilizing such devices, and the submission of claims to third-party payors (including Medicare and Medicaid) seeking reimbursement for such services, are subject to various federal and state laws pertaining to healthcare "fraud and abuse." Anti-kickback laws make it illegal to solicit, induce, offer, receive or pay any remuneration in exchange for the referral of business, including the purchase of medical devices from a particular manufacturer or the referral of patients to a particular supplier of diagnostic services utilizing such devices. False claims laws prohibit anyone from knowingly and willfully presenting, or causing to be presented, claims for payment to third-party payors (including Medicare and Medicaid) that are false or fraudulent, for services not provided as claimed, or for medically unnecessary services. The Office of the Inspector General prosecutes violations of fraud and abuse laws and any violation may result in criminal and/or civil sanctions, including, in some instances, imprisonment and exclusion from participation in federal healthcare programs such as Medicare and Medicaid, which may negatively impact the demand for our products.

Foreign Regulations

Our operations, sales and service of our products outside the United States are subject to regulatory requirements that vary from country to country and may differ significantly from those in the United States. In general, our products are regulated outside the United States as medical devices by foreign governmental agencies similar to the FDA.

Marketing a medical device internationally. For us to market our products internationally, we must obtain clearances or approvals for products and product modifications. We are required to affix the CE mark to our products to sell them in member countries of the European Union ("EU"). The CE mark is an international symbol of adherence to certain essential principles of safety and effectiveness, which once affixed enables a product to be sold in member countries of the EEA. The CE mark is also recognized in many countries outside the EU, such as Finland and Norway and can assist in the clearance process. To receive permission to affix the CE mark to our medical devices products, we must obtain approvals and Quality System certification, e.g., ISO 13485, through an accredited Notified Body and must otherwise have a quality management system that complies with the EU Medical Device Directive superseded by the EU MDR-Medical Device Regulations in May 2021. The ISO promulgates standards for certification of quality assurance operations. We are certified as complying with the ISO 9001 for our security and inspection products and ISO 13485 for our medical devices. Several Asian countries, including Japan and China, have adopted regulatory schemes that are comparable, and in some cases more stringent, than the EU scheme. To import medical devices into Japan, the requirements of the Japanese Pharmaceutical and Medical Device Act must be met and an approval to sell medical products in Japan, must be obtained. Similarly, a registration certification issued by the National Medical Products Administration and a China Compulsory Certification mark for certain products are required to sell medical devices in China. Obtaining such certifications on our products can be time-consuming and can cause us to delay marketing or sales of certain products in such countries. Similarly, prior to selling a device in Canada, manufacturers of Class II devices must obtain a medical device license from Health Canada. Additionally, many countries have laws and regulations relating to radiation and radiation safety that apply to our products. In most countries, radiological regulatory agencies require some form of licensing or registration by the facility prior to acquisition and operation of an X-ray generating device or a radiation source. The handling, transportation and recycling of radioactive metals and source materials are also highly regulated.

A number of countries, including the members of the EU, have implemented or are implementing regulations that would require manufacturers to dispose, or bear certain disposal costs, of products at the end of a product's useful life and restrict the use of some hazardous substances in certain products sold in those countries. While these regulations could impose a future cost on the Company, the compliance programs are in place to anticipate or establish best estimates of what the potential exposure of such costs could be should they arise.

Manufacturing and selling a device internationally. We are subject to laws and regulations outside the United States applicable to manufacturers of radiation-producing devices and products utilizing radioactive materials, and laws and regulations of general applicability relating to matters such as environmental protection, safe working conditions, manufacturing practices and other matters, in each case that are often comparable to, if not more stringent than, regulations in the United States. In addition, our sales of products in foreign countries are subject to regulation of matters such as product standards, packaging requirements, labeling requirements, import restrictions, environmental and product recycling requirements, tariff regulations, duties and tax requirements. In some countries, we rely on our foreign distributors and agents to assist us in complying with foreign regulatory requirements.

Other applicable international regulations. In addition to the U.S. laws regarding the privacy and integrity of patient medical information, we are subject to similar laws and regulations in foreign countries covering data privacy and other protection of health and employee information. Particularly within Europe, data protection legislation is comprehensive and complex and there has been a recent trend toward more stringent enforcement of requirements regarding protection and confidentiality of personal data, as well as enactment of stricter legislation. We are also subject to international "fraud and abuse" laws and regulations, as well as false claims and misleading advertisement laws. We also must comply with numerous international laws of more general applicability relating to such matters as environmental protection, safe working conditions, manufacturing practices, fire hazard control and other matters.

Anti-Corruption Laws and Regulations

We are subject to the U.S. Foreign Corrupt Practices Act and anti-corruption laws, and similar laws in foreign countries, such as the U.K. Bribery Act of 2010 and the law "On the Fundamentals of Health Protection in the Russian Federation". In general, there is a worldwide trend to strengthen anti-corruption laws and their enforcement, and the healthcare industry and medical equipment manufacturers have been particular targets of these investigation and enforcement efforts. Any violation of these laws by us or our agents or distributors could create a substantial liability for us, subject our officers and directors to personal liability and also cause a loss of reputation in the market.

Transparency International's 2020 Corruption Perceptions Index measured the degree to which public sector corruption is perceived to exist in 180 countries/territories around the world and found that two-thirds of the countries in the index, including many that we consider to be high-growth areas for our products, such as China and India, scored below 50, on a scale from 100 (very clean) to 0 (highly corrupt). We currently operate in many countries where the public sector is perceived as being more or highly corrupt and our strategic business plans include expanding our business in regions and countries that are rated as higher risk for corruption activity by Transparency International.

Increased business in higher-risk countries could subject us and our officers and directors to increased scrutiny and increased liability. In addition, becoming familiar with and implementing the infrastructure necessary to comply with laws, rules and regulations applicable to new business activities and mitigating and protecting against corruption risks could be quite costly. Failure by us or our agents or distributors to comply with these laws, rules and regulations could delay our expansion into high-growth markets and could materially and adversely affect our business.

Competition and Trade Compliance Laws

We are subject to various competition and trade compliance laws in the jurisdictions where we operate. Regulatory or government authorities where we operate may have enforcement powers that can subject us to sanctions and can impose changes or conditions in the way we conduct our business. For example, local authorities may disagree with how we classify our products, and we may be required to change our classifications, which could increase our operating costs or subject us to increased taxes or fines and penalties. In addition, an increasing number of jurisdictions also provide private rights of action for competitors or consumers to seek damages asserting claims of anti-competitive conduct. Increased government scrutiny of our actions or enforcement or private rights of action could materially and adversely affect our business or damage our reputation. In addition, we may conduct, or we may be required to conduct, internal investigations or face audits or investigations by one or more domestic or foreign government or regulatory agencies, which could be costly and time-consuming, and could divert our management and key personnel from our business operations. An adverse outcome under any such investigation or audit could subject us to increased costs, fines or criminal or other penalties, which could materially and adversely affect our business and financial results. Furthermore, competition laws may prohibit or increase the cost of future acquisitions that we may desire to undertake.

International sales of certain of our Linatron® X-ray accelerators are subject to U.S. export licenses that are issued at the discretion of the U.S. government. Orders and revenues for our security and inspection products have been and may continue to be unpredictable as governmental agencies may place large orders with us or with our customers over a short period of time and then may not place additional orders until complete deployment and installation of previously ordered products. We have seen domestic and international governments postpone purchasing decisions and delay installations of products for security and inspection systems. Furthermore, tender awards in this business may be subject to challenge by third parties, as we have previously encountered, which can make the conversion of orders to revenues unpredictable for some security and inspection products. The market for border protection systems has slowed significantly and end customers, particularly in oil-based economies and war zones in which we have a significant customer base, are delaying system deployments or tenders and have considered moving to alternative sources.

Intellectual Property

We place considerable importance on obtaining and maintaining patent, copyright and trade secret protection for significant new technologies, products and processes, because of the length of time and expense associated with bringing new products through the development process and to the marketplace.

We generally rely on a combination of patents, copyrights, trademarks, trade secret and other laws, and contractual restrictions on disclosure, copying and transferring title, including confidentiality agreements with vendors, strategic partners, co-developers, employees, consultants and other third parties, to protect our proprietary rights in the developments, improvements and inventions that we have originated and which are incorporated in our products or that fall within our fields of interest. As of October 1, 2021, we own over 275 patents issued in the United States, over 400 patents issued throughout the rest of the world and had approximately another 150 patent applications pending with various patent agencies worldwide. The patents and patents issuing from the pending applications generally expire between 2021 and 2040. We intend to file additional patent applications as appropriate. We have trademarks, both registered and unregistered, that are maintained and enforced to provide customer recognition for our products in the marketplace. We also have agreements with third parties that provide for licensing of patented or proprietary technology, including royalty-bearing licenses and technology cross-licenses. These licenses generally can only be terminated for breach. See Item 1A. “Risk Factors - Risks Relating to our Intellectual Property and Information Systems.”

In conjunction with the January 2017 separation from Varian, we entered into an Intellectual Property Matters Agreement with Varian, pursuant to which, among other things, we each granted the other licenses to use certain intellectual property.

Environmental Matters

Our operations and facilities, past and present, are subject to environmental laws, including laws that regulate the handling, storage, transport and disposal of hazardous substances. Certain of those laws impose cleanup liabilities under certain circumstances. In connection with those laws and certain of our past and present operations and facilities, we are obligated to indemnify Varian for 20% of the cleanup liabilities related to prior corporate restructuring activities while a division of Varian and fully indemnify Varian for other liabilities arising from the operations of the business transferred to it as part of those activities. Those include facilities sold as part of Varian’s electron devices business in 1995 and thin film systems business in 1997. The U.S. Environmental Protection Agency (“EPA”) or third parties have named Varian as a potentially responsible party under the amended Comprehensive Environmental Response Compensation and Liability Act of 1980 (“CERCLA”), at sites to which Varian or the facilities of the businesses sold in 1995 and 1997 were alleged to have shipped waste for recycling or disposal (the “CERCLA sites”). We anticipate that we will be obligated to reimburse Varian for 20% of the liabilities of Varian related to these CERCLA sites (after adjusting for any insurance proceeds or tax benefits received by Varian). In connection with the CERCLA sites, to date Varian has been required to pay only a small portion of the total cleanup costs and we anticipate that any reimbursement to Varian in the future will not be material. As of October 1, 2021, we had an existing environmental liability of approximately $0.6 million, net of expected insurance proceeds, related to the CERCLA sites.

Working Capital

Our working capital needs and our credit practices are comparable to those of other companies manufacturing and selling similar products in similar markets. We endeavor to carry sufficient levels of inventory to meet the product delivery needs of our customers. We also provide payment terms to customers in the normal course of business. The product warranty obligations contained in our standard terms and conditions typically range from 12 to 24 months, depending on the product.

Human Capital Resources

Talent Management

To remain a leading innovator, designer and manufacturer of critical components of X-ray based diagnostic equipment, it is crucial that we continue to attract and retain exceptional talent. Our business results depend on our ability to successfully manage our human capital resources, including attracting, identifying, and retaining key talent. Factors that may affect our ability to attract and retain qualified employees include employee morale, our reputation, competition from other employers, and availability of qualified individuals.

As of October 1, 2021, we had approximately 2,100 full-time and part-time employees worldwide. None of our employees based in the United States are unionized or subject to collective bargaining agreements. Employees based in some foreign countries may, from time to time, be represented by works councils or unions or subject to collective bargaining agreements. We consider our relations with our employees to be good.

As part of our people management strategy, we monitor employee morale and our market reputation. To better understand how to measure the effectiveness of our people management strategy, and to establish a baseline understanding of employee loyalty and retention, we solicit feedback from our employees in the form of an employee net promoter survey. The results of this survey are aggregated, and we hold meetings with employees to share and discuss areas of improvement. We believe this is an effective process to inform how future decisions are made in order to improve employee morale and engagement.

Total Rewards

We invest in our workforce by offering a competitive total rewards package that includes a combination of salaries and wages, health and wellness benefits, equity incentives, retirement benefits, and educational benefits. We strive to offer competitive total rewards package that is responsive to local needs. In the United States, where our largest employee base resides, our benefits for eligible employees have included:

- Affordable health insurance coverage available to full-time employees;
- Tuition reimbursement up to a specified dollar amount on an annual basis;
- Matching contributions to a tax-qualified defined contribution savings ("401(k)") plan, on a dollar-for-dollar basis up to four percent of the employee's base compensation;
- An employee assistance program; and
- Training and development programs designed to help employees improve workplace performance.

Approximately 90% of our eligible employees participate in our 401(k) plan, which positions us as a top performer among similarly situated companies. In addition, in an effort to further align the interests of our employees with our stockholders, we have an equity-based incentive plan that provides for the grant of nonqualified stock options and restricted stock units to directors, officers and other eligible employees. Additionally, to create performance incentives and to encourage share ownership by our employees, we have implemented an employee stock purchase plan, which enables eligible employees to purchase our common stock at a discount through payroll contributions.

During fiscal year 2020, due to the impact of COVID-19 on our business, it was necessary to modify or freeze certain benefits historically provided to our employees, such as 401(k) plan matching contributions and tuition reimbursements. During the second half of fiscal year 2021, we reinstated both the 401(k) matching contributions and tuition reimbursement program.

Safety and Wellness

The health and safety of our workforce is fundamental to the success of our business. We provide our employees upfront and ongoing safety training to ensure that safety policies and procedures are effectively communicated and implemented. Personal protective equipment is provided to those employees where needed for the employee to safely perform their job function. We have experienced personnel on site at each of our manufacturing locations that are tasked with environmental, health and personal safety education and compliance and, in Salt Lake City, we have an onsite nurse practitioner available to our employees for medical needs.

Because our business involves the manufacture of physical products, many of our employees are unable to work from home. In an effort to keep our employees safe and to maintain operations during the COVID-19 pandemic, we have implemented a number of new health-related measures, including social-distancing, restrictions on visitors to our facilities, limiting in-person meetings and other gatherings, and providing employees with additional time-off for COVID-19 related absences. As COVID-19 vaccinations became available we incentivized our employees to become vaccinated, and then discontinued additional time-off programs in June 2021. In September 2021, we made the decision to bring non-essential workers back to facilities in the U.S., at the time of the decision we estimated that 72% of the workforce had been vaccinated based on vaccine incentive payments. In addition, we implemented a hybrid-office work program where non-essential employees could work a portion of the workweek from a home office if approved by their leadership to encourage social distancing.

Diversity and Inclusion

As one of our values states "we embrace equality," and are committed to a diverse and inclusive workplace that is respectful to all. Some of our initiatives include providing scholarships to the Society of Women Engineers ("SWE") and science, technology, engineering, and mathematics ("STEM") programs, regularly analyzing pay equity, and engaging in on-campus events that increase our exposure to diverse populations to promote diversity in our hiring. We do not tolerate discrimination and harassment, and we expect our teams to conduct themselves ethically at all times in accordance with Varex's Code of Conduct.

Information Available to Investors

The Securities and Exchange Commission ("SEC") maintains an internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding the Company and other issuers that file electronically with the SEC. As soon as reasonably practicable after filing with or furnishing to the SEC, we also make the following reports and information available free of charge on the Investors page of our website www.vareximaging.com:

- our annual reports on Form 10-K;
- quarterly reports on Form 10-Q;
- current reports on Form 8-K (including any amendments to those reports); and
- proxy statements.

Additionally, our Code of Conduct, Corporate Governance Guidelines and the charters of the Audit Committee, Compensation and Management Development Committee, and Nominating and Corporate Governance Committee are also available on the Investors page of our website. Investors and others should note that we announce material financial and operational information to our investors using our investor relations website (http://investors.vareximaging.com/), press releases, SEC filings and public conference calls and webcasts. Please note that information on, or that can be accessed through, our website is not deemed “filed” with the SEC and is not to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended (the “Securities Act”), or the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Executive Officers of the Registrant

The biographical summaries of our executive officers are as follows:

Sunny S. Sanyal, 57, has served as President, Chief Executive Officer, and Director since January 2017. Prior to the separation of Varex from Varian, Sunny served as senior vice president and president of Varian’s Imaging Components business for Varian since February 2014. Prior to joining Varian in 2014, Sunny was chief executive officer of T-System, a privately held company providing information technology solutions and services to hospitals and urgent care facilities. He also served as president of McKesson Provider Technologies, where he led the company to significant market expansion with its clinical software, medical imaging technology, and services solutions. Sunny has held executive positions at GE Healthcare, Accenture, and IDX Systems. He received a Master of Business Administration ("MBA") from Harvard Business School, a Master of Science in industrial engineering from Louisiana State University, and a Bachelor of Engineering in electrical engineering from the University of Bombay.

Shubham Maheshwari, 50, has served as Chief Financial Officer ("CFO") since July 2020. Shubham (Sam) joined Varex from SiFive, Inc., a leading provider of hardware and software solutions for developing RISC-V based processors and semiconductor chips, where he served as CFO. Before SiFive, Sam served for six years as CFO, and later as CFO and COO, of Veeco Instruments Inc. (Nasdaq: VECO), a manufacturer of semiconductor process equipment. Previous notable positions include Senior Vice President, Finance for semiconductor company Spansion, Inc., where he helped lead the company through its restructuring and IPO in 2010, and more than 10 years in various senior positions, including Vice President of M&A and Corporate Controller, at KLA-Tencor Corp., a global semiconductor equipment company. Sam holds an MBA in Finance from Wharton, and a bachelor’s degree in chemical engineering from the Indian Institute of Technology, Delhi.

Kimberley E. Honeysett, 50, has served as Senior Vice President, General Counsel, and Corporate Secretary since January 2017. Prior to the separation of Varex from Varian, Kim served as vice president and assistant general counsel and assistant corporate secretary for Varian, where she advised Varian’s Board of Directors, executive management and corporate functions, including business development, investor relations, human resources, information technology and was responsible for corporate governance, general compliance matters, litigation and global subsidiary governance. Prior to joining Varian in 2005, Kim served as group director, legal affairs at Siebel Systems, Inc., an enterprise software company, and as an associate with the law firm Brobeck, Phleger & Harrison LLP. Kim holds a juris doctor degree from Cornell Law School and a bachelor’s degree in communications from the University of California, Los Angeles.

Brian W. Giambattista, 62, has served as Senior Vice President, and General Manager - X-ray Detectors since May 2017 and joined Varex after the acquisition of the PerkinElmer Medical Imaging business. He has nearly 30 years of experience in the industry, having held various management and engineering roles at PerkinElmer and General Electric Company, and received his doctorate degree in physics from the University of Virginia.

Mark S. Jonaitis, 60, has served as Senior Vice President and General Manager - X-Ray Sources since January 2017. Prior to the separation of Varex from Varian, Mark served in various management positions at Varian, including most recently vice president and general manager, X-ray Tube Products and global manufacturing. Mark joined Varian’s predecessor, Varian Associates, in 1983, where he served in various product and engineering positions. Mark received his Bachelor of Science in physics from the University of Utah.

Andrew Hartmann, 59, has served as Senior Vice President, Medical Sales & Marketing since July 2018. Prior to joining Varex he worked for a number of leading OEMs in various leadership rolls, most recently as General Manager of the X-ray and Ultrasound Business for Carestream Health, Inc., a worldwide provider of X-ray imaging systems, from April 2012 to June 2018. Prior to Carestream, Andrew worked for Siemens Medical Solutions USA, Inc. (Siemens Healthineers), a leading medical technology company, in sales and marketing rolls both domestically in the United States and internationally for Siemens' ultrasound business. Prior to Siemens, he held leadership roles at Acuson Corp. (subsequently acquired by Siemens), including General Manager for Acuson's Australia and New Zealand business. Andrew received a Master of Business Administration ("EMBA") from Ashridge Business School in London, United Kingdom, and received a diploma in electronics from Sydney Technical College in Australia.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. Although the risk factors described below are the ones management deems material, additional risks and uncertainties not presently known to us or that we presently deem not material may also adversely affect our business operations. If any of the following risks or additional risks and uncertainties actually occur, our business, operating results, and financial condition could be adversely affected.

Risks Relating to Our Business

Current economic conditions, including supply chain disruptions and logistical challenges, have increased our costs, and are impacting our ability to obtain materials needed to manufacture our products and to deliver those products to our customers.

Current economic conditions have had, and we believe will continue to have, an adverse impact on our manufacturing capacity, supply chain and distribution systems. We have experienced difficulties in obtaining materials used to build our products and these difficulties have impacted our ability to deliver finished products to our customers. We believe that it will continue to be difficult to obtain certain materials throughout fiscal year 2022. If our actions to mitigate such challenges are not successful, material shortages could cause us to temporarily stop production of certain products. Production delays could have a material adverse effect on our business and results of operations. For example, if we are unable to deliver products to our customers without unreasonable delay, those customers may seek alternative suppliers or decide to in-source certain products. In addition to material shortages, supply chain logistics have become more challenging, could remain challenging, and result in higher costs and efforts. Our ability to move unfinished goods and finished products around the world has been impacted by the decreased availability of global transportation networks. We have been subject to price increases on both the components used to make our products, and for moving unfinished goods and finished products across the globe. If we are not able to mitigate these price increases and/or raise prices for our products, our operations, cash flow, and financial position could be adversely impacted. In addition, regulatory approvals for certain of our products may continue to be delayed due to COVID-19 related closures.

COVID-19 has adversely impacted our operations, cash flow, and financial position, and in the future we could continue to be adversely impacted, by the COVID-19 pandemic and associated economic disruptions.

The pandemic caused by the spread of COVID-19 adversely impacted our operations, cash flow, and financial position. The pandemic has also created significant volatility, uncertainty and economic disruption. Emerging variants and uneven vaccination rates across the globe could lead to additional volatility, uncertainty, and economic disruption. New or continuing outbreaks of COVID-19 could lead to future decreases in demand for our products. The actions taken to combat COVID-19 could have a negative impact on future operating results, cash flows and financial condition. We believe that COVID-19's adverse impact on our operating results, cash flows and financial condition will be primarily driven by: the severity and duration of the COVID-19 pandemic; the COVID-19 pandemic's impact on the U.S. and international healthcare systems, the U.S. economy and worldwide economy; and the timing, scope and effectiveness of U.S. and international governmental responses to the COVID-19 pandemic and associated economic disruptions. In addition, government action related to the COVID-19 pandemic, such as new regulations mandating vaccines for companies with over 100 employees and for government contractors could have an adverse impact on our business and operating results by, among other things, increasing costs to verify compliance and making it more difficult to retain existing employees or hire new workers.

Varex sells its products and services to a limited number of OEM customers, many of which are also its competitors, and a reduction in or loss of business of one or more of these customers may materially reduce its sales.

Varex had one customer during fiscal year 2021 that accounted for 18% of its revenue. Varex's ten largest customers as a group accounted for approximately 51%, 52% and 51% of its revenue for fiscal years 2021, 2020 and 2019, respectively.

Varex sells its products to a limited number of OEM customers, many of which are also its competitors with in-house X-ray component manufacturing operations. Although Varex seeks to broaden its customer base, it will continue to depend on sales to a relatively small number of major customers. Because it often takes significant time to replace lost business, it is likely that Varex's operating results would be materially and adversely affected if one or more of its major OEM customers were to cancel, delay, or reduce orders in the future.

Furthermore, Varex generates significant accounts receivables from the sale of its products and the provision of services directly to its major customers. If one or more of these customers were to cancel a product order or service contract (whether in accordance with its terms or otherwise), become insolvent or otherwise be unable or fail to pay for Varex products and services, Varex's operating results and financial condition could be materially and adversely affected.

Varex may not be able to accurately predict the demand for its products by its customers.

End-user product demand, economic uncertainties, the COVID-19 pandemic, natural disasters, and other matters beyond Varex's control make it difficult for its customers to accurately forecast and plan future business activities; which makes it difficult for Varex to accurately predict the demand for its products. Because the manufacture of our products requires some lead-time, changes in customer purchasing forecasts have previously impacted Varex's business, resulting in excess inventory and slowdowns in sales. Similar inventory adjustments and slowdowns in sales are likely to occur in the future. Changes to customer forecasts can occur on short notice. Varex's customers also face inherent competitive issues and new product introduction delays which can result in changes in forecasts. The market and regulatory risks faced by Varex's customers also ultimately impact Varex's ability to forecast future business. Varex's agreements for imaging components, such as its three-year pricing agreement with Canon Medical Systems, may contain purchasing estimates that are based on its customers' historical purchasing patterns rather than firm commitments, and actual purchasing volumes under the agreements may vary significantly from these estimates. The variation from forecasted purchasing volume may be due, in part, to the increasing life of X-ray tubes, which can result in reduced demand for replacement X-ray tubes in ways Varex may not be able to accurately forecast. Reductions in purchasing patterns have in the past and may in the future materially and adversely affect Varex's operating results. Decreased economic activity associated with the COVID-19 pandemic has had a significant negative impact on the demand for our industrial products and that impact could continue or return.

Varex competes in highly competitive markets, and it may lose business to its customers or other companies with greater resources or the ability to develop more effective technologies, or it could be forced to reduce its prices.

Rapidly-evolving technology, intense competition and pricing pressure characterize the market in which Varex competes. Varex often competes with companies that have greater financial, marketing and other resources than Varex. Some of the major diagnostic imaging systems companies, which are the primary OEM customers for Varex's X-ray components, also manufacture X-ray components, including X-ray tubes, for use in their own imaging systems products. Varex must compete with these in-house manufacturing operations for business. If these customers manufacture a greater percentage of their components in-house or otherwise decrease purchases from external sources, which may occur for a number of reasons, including a strong U.S. Dollar, or a general economic slowdown, Varex could experience reductions in purchasing volume by, or loss of, one or more of these customers. Such a reduction or loss may have a material and adverse effect on its business. In addition, Varex competes against other stand-alone, independent X-ray tube manufacturers for both the OEM business of major diagnostic imaging equipment manufacturers and the independent servicing business for X-ray tubes.

The market for flat panel detectors is also very competitive, and Varex faces intense competition from over a dozen smaller competitors. As a result of these competitive dynamics, to effectively retain the business of its customers and compete with its competitors Varex must have an advantage in one or more significant areas, such as lower product cost, better product quality and/or superior technology and/or performance. Varex has made price concessions to maintain existing customers and attract new customers, and may have to make additional price concessions in the future.

In its industrial segment, Varex competes with other OEM suppliers, primarily outside of the United States. The market for its X-ray tube and flat panel products used for nondestructive testing in industrial applications is small and highly fragmented. Some of Varex's competitors outside the United States may have resources and support from their governments that Varex does not, such as preferences for local manufacturers, and may not be subject to the same trade compliance regulations as Varex. Therefore, Varex's ability to compete in certain high-growth markets may be limited compared to its competitors.

Varex's competitors could develop technologies and products that are more effective than those Varex currently uses or produces or that could render its products obsolete or noncompetitive. In addition, the timing of Varex's competitors' introduction of products into the market could affect the market acceptance and sales of Varex's products. Some competitors offer specialized products that provide, or may be perceived by customers to provide, an advantage over Varex's products. Also, some of Varex's non-U.S. competitors may not be subject to the same standards, regulatory and/or other legal requirements to which Varex is subject and, therefore, they could have a competitive advantage in developing, manufacturing and marketing products and services. Any inability to develop, gain regulatory approval for and supply commercial quantities of competitive products to the market as quickly and effectively as Varex's competitors could limit market acceptance of Varex's products and reduce its sales. Any of these competitive factors could negatively and materially affect Varex's pricing, sales, revenues, market share and gross margins and its ability to maintain or increase its operating margins.

Varex's success depends on the successful development, introduction, and commercialization of new generations of products and enhancements to or simplifications of existing product lines.

Rapid change and technological innovation characterize the markets in which Varex operates, particularly with respect to flat panel technology. Varex's customers use its products in their medical diagnostic, security, and industrial imaging systems, and Varex must continually introduce new products at competitive costs while also improving existing products with higher quality, lower costs, and increased features. To be successful, Varex must anticipate its customers' needs and demands, as well as potential shifts in market preferences. Varex's failure to do so has in the past resulted, and may in the future result, in the loss of customers and an adverse impact to its financial performance. With a relatively strong U.S. Dollar, Varex's ability to meet its customers' pricing expectations is particularly challenging and may result in erosion of product margin and market share.

Varex has in the past spent, and in the future may need to spend, more time and money than it expects to develop, market and introduce new products or enhancements, and, even if Varex succeeds, Varex may not be able to recover all or a meaningful part of its investment. Once introduced, new products may materially and adversely impact sales of Varex's existing products or make them less desirable or even obsolete, which could materially and adversely impact Varex's revenues and operating results. In addition, certain costs, including installation and warranty costs, associated with new products may be proportionately greater than the costs associated with other products and may therefore disproportionately, materially, and adversely affect Varex's gross and operating margins. If Varex is unable to lower these costs over time, Varex's operating results could be materially and adversely affected. Some of the electronic components and integrated circuits used in Varex's flat panel detectors are susceptible to discontinuance and obsolescence risks, which may force Varex to incorporate newer generations of these components, resulting in unplanned additional R&D expenses, delays in the launch of new products, supply disruption, or inventory write downs.

Varex's ability to successfully develop and introduce new products and product enhancements and simplifications, and the revenues and costs associated with these efforts, are affected by Varex's ability to, among other things:

- properly identify customer needs or long-term customer demands;
- prove the feasibility of new products;
- properly manage and control research and development costs;
- limit the time required from proof of feasibility to routine production;
- timely and efficiently comply with internal quality assurance systems and processes;
- limit the timing and cost of regulatory approvals;
- accurately predict and control costs associated with inventory overruns caused by the phase-in of new products and the phase-out of old products;
- price its products competitively and profitably, which can be particularly difficult with a strong U.S. Dollar;
- manufacture, deliver, and install its products in sufficient volumes on time and accurately predict and control costs associated with manufacturing installation, warranty, and maintenance of the products;
- appropriately manage its supply chain;
- manage customer acceptance and payment for products; and
- anticipate, respond to, and compete successfully with competitors.

Furthermore, as discussed in greater detail elsewhere in this "Risk Factors" section, Varex cannot be sure that it will be able to successfully develop, manufacture, or introduce new products or enhancements, the roll-out of which involves compliance with complex quality assurance processes, including the Quality System Regulation of the U.S. Food and Drug Administration ("FDA"). Failure to complete these processes timely and efficiently could result in delays that could affect Varex's ability to attract and retain customers or cause customers to delay or cancel orders, which would materially and adversely affect Varex's revenues and operating results.

More than half of Varex's revenues are generated from customers located outside the United States, and economic, political, and other risks associated with international sales and operations could materially and adversely affect Varex's sales or make them less predictable.

Varex conducts business globally. Revenues generated from customers located outside the United States accounted for approximately 68%, 66% and 65% of Varex's total revenues during fiscal years 2021, 2020, and 2019, respectively. As a result, Varex must provide significant service and support globally. Varex intends to continue to expand its presence in international markets and expects to expend significant resources in doing so. Varex cannot be sure that it will be able to meet its sales, service, and support objectives or obligations in these international markets or recover its investment in these international markets. Varex's future results could be harmed by a variety of factors, including:

- currency fluctuations, and in particular the strength of the U.S. Dollar (which is our functional and reporting currency) relative to many currencies, which have and may in the future adversely affect Varex's financial results and cause some customers to delay purchasing decisions or move to in-sourcing supply or migrate to lower cost alternatives or ask for additional discounts;
- the longer payment cycles associated with many customers located outside the United States;
- difficulties in interpreting or enforcing agreements and collecting receivables through many foreign countries' legal systems;
- changes in restrictions on trade between the United States and other countries or unstable regional political and economic conditions;
- changes in the political, regulatory, safety or economic conditions in a country or region
- the imposition by governments of additional taxes, tariffs, global economic sanctions programs, or other restrictions on foreign trade such as the tariffs recently put into place by both China and the United States;
- any inability to obtain required export or import licenses or approvals, including the inability to obtain required export licenses during a U.S. government shutdown;
- natural disasters and pandemics;
- failure to comply with export laws and requirements, which may result in civil or criminal penalties and restrictions on Varex's ability to export its products, particularly its industrial linear accelerator products;
- risks unique to the Chinese market, including import barriers and preferences for local manufacturers;
- failure to obtain proper business licenses or other documentation or to otherwise comply with local laws and requirements regarding marketing, sales, service, or any other business Varex conducts in a foreign jurisdiction, which may result in civil or criminal penalties and restrictions on its ability to conduct business in that jurisdiction; and
- difficulties in protecting Varex's intellectual property in foreign countries.

Although Varex's sales fluctuate from period to period, in recent years Varex's international operations have represented a larger share of its business. The more Varex depends on international sales, the more vulnerable Varex becomes to these factors.

Varex's business may suffer if it is not able to hire and retain qualified personnel.

Varex's future success depends, to a great degree, on its ability to retain, attract, expand, integrate, and train its management team and other key personnel, such as qualified engineering, service, sales, marketing, and other staff. Varex competes for key personnel with other medical equipment and software manufacturers and technology companies, as well as universities and research institutions. Competition for qualified personnel has increased over the past year. Because this competition is intense, particularly in Utah, where unemployment rates are relatively low, compensation-related costs could increase significantly if the supply of qualified personnel decreases or demand increases. If Varex is unable to hire and train qualified personnel, Varex may not be able to maintain or expand its business. Additionally, if Varex is unable to retain key personnel, Varex may not be able to replace them readily or on terms that are reasonable, which also could hurt its business.

A change in the percentage of Varex's total earnings from international sales or additional changes in tax laws could increase Varex's effective tax rate.

Varex's effective tax rate is impacted by tax laws in both the United States and in foreign countries. Earnings from Varex's international subsidiaries are generally taxed at rates that differ from U.S. rates. A change in the percentage of Varex's total earnings from the international subsidiaries, a change in the mix of particular tax jurisdictions between the international subsidiaries, or a change in currency exchange rates could cause Varex's effective tax rate to increase. While the Tax Cuts and Jobs Act of 2017 imposed a current tax on cumulative undistributed earnings, these earnings could also become subject to incremental foreign withholding or U.S. state taxes should they be actually remitted to the United States, in which case Varex's financial results could be materially and adversely affected.

Statutory changes included in proposed US legislation, if passed, including interpretive guidance, could have a material impact on income tax expense, the effective rate, or the value of deferred tax assets and liabilities. Changes in the valuation of Varex's deferred tax assets or liabilities, additional changes in tax laws or rates, changes in the interpretation of tax laws in other jurisdictions, or other changes beyond Varex's control could materially and adversely affect its financial position and results of operations.

Varex has entities in certain jurisdictions with cumulative net operating losses for which no income tax benefit can be recorded due to full valuation allowance positions. There could be additional future losses in these and other jurisdictions that would negatively impact Varex's effective tax rate.

Varex may face additional risks from the acquisition or development of new lines of business.

From time to time, Varex may acquire or develop new lines of business. There are substantial risks and uncertainties associated with new lines of business, particularly in instances where the markets are not fully developed. Risks include developing knowledge of and experience in the new business, recruiting market professionals, increasing research and development expenditures, and developing and capitalizing on new relationships with experienced market participants. This may mean significant investment and involvement of Varex's senior management to acquire or develop, then integrate, the business into its operations. Timelines for integration of new businesses may not be achieved, and price and profitability targets may not prove feasible, as new products can carry lower gross margins than existing products. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences may also impact whether implementation of a new business will be successful. Failure to manage these risks could have a material and adverse effect on Varex's business, results of operations, and/or financial condition.

Varex may be unable to complete future acquisitions or realize expected benefits from acquisitions of or investments in new businesses, products, or technologies, which could harm Varex's business.

Varex's ability to identify and take advantage of attractive acquisitions or other business development opportunities is an important component in implementing its overall business strategy. Varex must grow its businesses in response to changing technologies, customer demands, and competitive pressures. In some circumstances, Varex may decide to grow its business through the acquisition of complementary businesses, products, or technologies, rather than through internal development; however, there is no guarantee that these acquisitions will be successful or that Varex will realize a return on its investment.

Identifying suitable acquisition candidates can be difficult, time consuming, and costly, and Varex may not be able to identify suitable candidates or successfully complete or finance identified acquisitions, including as a result of failing to obtain regulatory or competition clearances, which could impair Varex's growth and ability to compete. In addition, completing an acquisition can divert Varex's management and key personnel from its current business operations, which could harm its business and affect its financial results. Even if Varex completes an acquisition, Varex may not be able to successfully integrate newly-acquired organizations, products, technologies, or employees into its operations or may not fully realize some of the expected synergies.

Integrating an acquisition can also be expensive and time consuming and may strain Varex's resources. It may cost Varex more to commercialize new products than originally anticipated or cause Varex to increase its expenses related to research and development, either of which could materially and adversely impact its results of operations. In many instances, integrating a new business will also involve implementing or improving internal controls appropriate for a public company into a business that lacks them. It is also possible that an acquisition could increase Varex's risk of litigation, as a third party may be more likely to assert a legal claim following an acquisition because of perceived deeper pockets or a perceived greater value of a claim. In addition, Varex may be unable to retain the employees of acquired companies or the acquired company's customers, suppliers, distributors, or other partners for a variety of reasons, including the fact that these entities may be Varex's competitors or may have close relationships with its competitors.

Further, Varex may find that it needs to restructure or divest acquired businesses or assets of those businesses. Even if it does so, an acquisition may not produce the full efficiencies, growth, or benefits that were expected. If Varex decides to sell assets or a business, it may be difficult to identify buyers or alternative exit strategies on acceptable terms, in a timely manner, or at all, which could delay the accomplishment of its strategic objectives. Varex may be required to dispose of a business at a lower price or on less advantageous terms, or to recognize greater losses than it had anticipated.

If Varex acquires a business, it allocates the total purchase price to the acquired business' tangible assets and liabilities, identifiable intangible assets, and liabilities based on their fair values as of the date of the acquisition and records the excess of the purchase price over those values as goodwill. If it fails to achieve the anticipated growth from an acquisition, or if it decides to sell assets or a business, it may be required to recognize an impairment loss on the write down of its assets and goodwill, which could materially and adversely affect its financial results. In addition, acquisitions can result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities or expenses, or other charges, any of which could harm Varex's business and affect its financial results.

Additionally, Varex participates in joint ventures and has investments in privately-held companies, for example, its 40% ownership in dpiX LLC, its major supplier of its amorphous silicon-based thin film transistor arrays (flat panels used in its digital detectors) and VEC Imaging GmbH & Co. KG, a joint venture to develop nanotube based x-ray sources. These investments and joint ventures are subject to risk of loss of investment capital as well as other risks. These investments are inherently risky, in some instances because the markets for the technologies or products these companies have under development may never materialize. If these companies do not succeed, Varex could lose some or all of its investment in these companies. There is no guarantee that the time and money invested by Varex in these projects will yield the expected returns.

Warranty claims may materially and adversely affect Varex's business.

Varex could experience an increase in warranty claims as a result of issues with product quality or product failures as a direct result of Varex's design, manufacturing, or issues in its supply chain. Such an occurrence may damage Varex's market reputation, cause sales to decline, or require repairs or voluntary remedial measures to enhance customer satisfaction, which could materially and adversely impact Varex's financial results. Increased warranty claims on any given product could cause Varex to halt production on that product and significantly impair Varex's liquidity and profitability, and cause reputational harm to Varex. Because some categories of products tend to experience higher numbers of warranty claims than others, a shift in the types of products that Varex's customers purchase could lead to an increase in warranty claims. If actual levels of warranty claims are greater than the level of claims Varex estimates, cost of sales could increase, and Varex's financial condition could be materially and adversely affected. In addition, product quality issues could result in significant follow-on effects for Varex, including, among other things, reputational harm to Varex and its customers, loss of customers, and liability as a result of product quality issues. These outcomes would materially and adversely affect Varex's business and financial condition.

Product defects or misuse may result in material product liability or professional errors and omissions claims, litigation, investigation by regulatory authorities, or product recalls that could harm Varex's future revenues and require it to pay material uninsured claims.

Varex's business exposes it to potential product liability claims that are inherent in the manufacture, sale, installation, servicing, and support of components that are used in medical devices and other devices that deliver radiation. Because Varex's products, through incorporation in OEMs' systems, are involved in the intentional delivery of radiation to the human body and other situations where people may come into contact with radiation (for example, when Varex's security and inspection products are being used to scan cargo or in the diagnosis of medical problems), the possibility for significant personal injury or loss of life exists. Although Varex's products are incorporated into OEMs' systems, and thus only perform pursuant to the design and operating systems of OEMs, Varex may also be subject to claims for property damage, personal injury, or economic loss related to or resulting from any errors or defects in its products or the installation, servicing, or support of its products. Any accident or mistreatment could subject Varex to legal costs, litigation, adverse publicity, and damage to its reputation, whether or not its products or services were a factor.

If Varex's X-ray inspection systems fail to detect the presence of bombs, explosives, weapons, contraband, or other threats to personal safety, Varex could be subject to product and other liability claims or negative publicity, which could result in increased costs, reduced sales, and a decline in the market price of Varex's common stock. There are many factors beyond Varex's control that could result in the failure of its products to detect the presence of bombs, explosives, weapons, contraband, or other threats to personal safety, including operator error and misuse of or malfunction of Varex equipment. The failure of Varex's systems to detect the presence of these dangerous materials may lead to personal injury, loss of life, and extensive property damage and may result in potential claims against Varex.

Product liability actions are subject to uncertainty and may be expensive, time consuming, and disruptive to Varex's operations. For these and other reasons, Varex may choose to settle product liability claims against it regardless of their actual merit. A product liability action determined against Varex could result in adverse publicity or significant damages, including the possibility of punitive damages, and Varex's combined financial position, results of operations, or cash flows could be materially and adversely affected.

If a product Varex designs or manufactures were defective (whether due to design, labeling or manufacturing defects, improper use of the product, or other reasons), Varex may be required to correct or recall the product and notify regulatory authorities. The adverse publicity resulting from a correction or recall could damage Varex's reputation and cause customers to review and potentially terminate their relationships with Varex. A product correction or recall could consume management time and have an adverse financial impact on its business, including incurring substantial costs, losing revenues, and accruing losses.

Varex maintains limited product liability insurance coverage. Varex's product liability insurance policies are expensive and have high deductible amounts and self-insured retentions. Varex's insurance coverage may prove to be inadequate, and future policies may not be available on acceptable terms or in sufficient amounts, if at all. If a material claim is not insured or is in excess of Varex's insurance coverage, Varex could have to pay substantial damages, which could have a material and adverse effect on its financial position and/or results of operations.

Risks Relating to the Manufacture of our Products

Supply chain disruptions, including the loss of a supplier, and any inability to obtain supplies of important components have impacted Varex's ability to manufacture products, have caused delays in its ability to deliver products, and have increased its costs and may continue to do so.

As discussed under the heading "Risks Related to our Business" above, supply chain disruptions have had, and will likely continue to have, an impact on Varex's ability to manufacture its products. Varex has experienced delays in receiving materials used to make its products due both to material shortages and shipping delays. These delays are likely to continue. In recent months, material shortages have increased and if not timely remedied, these material shortages could cause us to temporarily stop production of certain products. If Varex is unable to obtain the materials necessary to make its products or must pay more for those materials, it could have a material adverse effect on Varex's business and financial results.

Varex obtains from a limited group of suppliers or from sole-source suppliers some of the components included in its products, such as wave guides for industrial linear accelerators, transistor arrays, cesium iodide coatings and specialized integrated circuits for flat panel detectors, X-ray tube targets, housings, glass frames, high-voltage cable, bearings and various other components. For example, Varex's major supplier of its amorphous silicon-based thin film transistor arrays (flat panels) used in its digital image detectors is dpiX LLC. Although Varex holds a 40% ownership interest in dpiX, Varex does not have majority voting rights and does not have the power to direct the activities of dpiX. In addition, Varian is Varex's sole source supplier for a key component in linear accelerators used in Varex's security and inspection products subsystems, which are specially made for Varex. If current suppliers cease producing these components, there can be no assurance that the components will be available from other suppliers on reasonable terms or at all.

If Varex loses any of these limited- or sole-source suppliers, if their operations are substantially interrupted, or if any of them fail to meet performance or quality specifications or delivery deadlines, Varex may be required to obtain and qualify one or more replacement suppliers or to manufacture the components internally. Such an event (1) may then also require Varex to redesign or modify its products to incorporate new parts and/or further require Varex to obtain clearance, qualification, or certification of these products, including by the FDA, or obtain other applicable regulatory approvals in other countries, or (2) could significantly increase costs for the affected products and cause material delays in delivery of those and other related products. In addition, manufacturing capacity limitations of any of Varex's suppliers or other inability of these suppliers to meet increasing demand or delivery deadlines could limit growth opportunities for the affected product lines and damage customer relationships. Shortage of, and greater demand for, components and subassemblies could also increase manufacturing costs if the supply/demand imbalance increases the price of the components and subassemblies. Any of these events could materially and adversely affect Varex's business and financial results. If Varex decides to manufacturer a component that was previously purchased from an external supplier, Varex may not be able to manufacture the component as efficiently as the external supplier and may experience delays or problems in successfully manufacturing the component, which could materially and adversely affect Varex's ability to manufacture and supply products to customers.

Shortages, changes in source of, and increased in prices for, raw materials have negatively impacted Varex's ability to manufacture products, have caused delays, and have increased its cost of goods.

Varex relies on the supplies of certain raw materials such as tungsten, lead, iridium, and copper for security and inspection products and copper, lead, tungsten, rhenium, molybdenum zirconium, and various high grades of steel alloy for X-ray tubes. Worldwide demand, availability, and pricing of these raw materials have been volatile. Varex expects that availability and pricing will continue to fluctuate in the future. If supplies are restricted or become unavailable or if prices increase further, this could constrain Varex's manufacturing of affected products, reduce its profit margins, or otherwise materially and adversely affect its business.

Varex is required to disclose (1) the presence in a company's products of certain metals known as "conflict minerals," which are metals mined from the Democratic Republic of the Congo and adjoining countries, and (2) procedures regarding a manufacturer's efforts to identify the sourcing of those minerals from this region. Varex's complex supply chain may inhibit Varex's ability to sufficiently verify the origins of the relevant minerals used in its products through the due diligence procedures that it implements, which may harm Varex's reputation. In addition, Varex may encounter challenges in satisfying customers who require that all of the components of Varex products are certified as conflict-free, which could place Varex at a competitive disadvantage if it is unable to do so. Moreover, complying with these rules requires investigative efforts, which has and will continue to cause Varex to incur associated costs and could materially and adversely affect the sourcing, supply, and pricing of materials used in Varex's products or result in process or manufacturing modifications, all of which could materially and adversely affect its results of operations.

If Varex is not able to match its manufacturing capacity with demand for its products, its financial results may suffer.

Many of Varex's products have a long production cycle, and Varex must anticipate demand for its products to ensure adequate manufacturing or testing capacity. If Varex is unable to anticipate demand, and its manufacturing or testing capacity does not keep pace with product demand, Varex will not be able to fulfill orders in a timely manner, which may negatively impact its financial results and overall business. Conversely, if demand for Varex's products decreases, the fixed costs associated with excess manufacturing capacity may harm its financial results, including by decreasing gross margins and increasing research and development costs as a percentage of revenue.

A disruption at Varex's manufacturing facilities, as well as fluctuating manufacturing costs, could materially and adversely affect its business.

The majority of Varex's products are manufactured at its facility in Salt Lake City, Utah. Varex's manufacturing operations are subject to potential power failures, the breakdown, failure, or substandard performance of equipment, the improper installation or operation of equipment, pandemics, and natural or other disasters. Loss or damage to its manufacturing facility due to any of these factors or otherwise could materially and adversely affect Varex's ability to manufacture sufficient quantities of its products or otherwise deliver products to meet customer demand or contractual requirements, which may result in a loss of revenue and other adverse business consequences. Because of the time required to obtain regulatory approval and licensing of a manufacturing facility, Varex may not be available on a timely basis to replace any lost manufacturing capacity. The occurrence of these or any other operational issues at Varex's manufacturing facilities could have a material and adverse effect on Varex's business, financial condition, and results of operations.

Some of Varex's products are manufactured in Wuxi, China; Walluf, Germany; Doetinchem, the Netherlands; and Calamba City, Philippines, which are subject to similar risks but may also face additional regulatory and political risks, which could impact Varex's ability to manufacture and ship products in a timely manner or at all. Varex also manufactures security products in Las Vegas, Nevada, and these operations are also subject to potential power failures, the breakdown, failure, or substandard performance of equipment, the improper installation or operation of equipment, earthquakes, and other disasters, all of which could materially and adversely affect Varex's ability to deliver products to meet customer demand. In addition, Varex's costs associated with manufacturing its products can vary significantly from quarter to quarter, and fluctuations thereof may adversely affect its business, operating results, and/or financial condition.

Varex's results have been and may continue to be affected by continuing worldwide economic instability, including changes in foreign currency exchange rates and fluctuations in the price of crude oil and other commodities.

The global economy has been impacted by a number of economic and political factors. In many markets, these conditions have shrunk capital equipment budgets, slowed decision-making and made it difficult for Varex's customers and vendors to accurately forecast and plan future business activities. This, in turn, has caused Varex's customers to be more cautious with, and sometimes freeze, delay, or dramatically reduce purchases and capital project expenditures. Some countries have adopted and may in the future adopt austerity or stimulus programs that could negatively affect Varex's results from period to period. In addition, actions taken by the current U.S. administration may also create global economic uncertainty, which may cause our customers to reduce their spending, which, in turn, could adversely affect our business, financial condition, operating results, and cash flows. An uncertain economic environment may also disrupt supply or affect our service business, as customers' constrained budgets may result in pricing pressure, extended warranty provisions, and even cancellation of service contracts. In addition, concerns over continued economic instability could make it more difficult for Varex to collect outstanding receivables. A weak or deteriorating healthcare market would inevitably materially and adversely affect Varex's business, financial conditions, and results of operations.

Because Varex's products are generally priced in U.S. Dollars, the strengthening of the U.S. Dollar in the last several years has caused, and could continue to cause, some customers to ask for discounts, delay purchasing decisions, or consider moving to in-sourcing such components or migrating to lower cost alternatives. Further, because Varex's business is global and some payments may be made in local currency, fluctuations in foreign currency exchange rates can impact its results by affecting product demand, revenues and expenses, and/or the profitability in U.S. Dollars of products and services that Varex provides in foreign markets.

Changes in monetary or other policies here and abroad, including efforts to combat inflation, economic and/or political instability, or in reaction thereto, would also likely affect foreign currency exchange rates. Furthermore, if one or more European countries were to replace the Euro with another currency, Varex's sales in these countries, or in Europe generally, would likely be materially and adversely affected until stable exchange rates are established.

Additionally, fluctuations in commodities prices could materially and adversely affect Varex's performance. Rising commodities prices have increased Varex's costs and those of Varex's medical OEM customers, which could in turn result in reduced demand for Varex's products or impact Varex's financial results. Further, Varex's security product revenues from oil-producing countries, in which Varex has a significant customer base, have in the past suffered as a result of volatility in oil prices and remain sensitive to fluctuations in the future.

Delivery schedules for Varex's security, industrial, and inspection products tend to be unpredictable.

Varex designs, manufactures, sells, and services Linatron® X-ray accelerators, image-processing software, and image detection products for security and inspection, such as cargo screening at ports and borders and nondestructive examination for a variety of applications, as well as industrial applications. Varex generally sells security and inspection products to OEMs who incorporate its products into their inspection systems, which are then sold to customs and other government agencies, as well as to commercial organizations in the casting, power, aerospace, chemical, petro-chemical, and automotive industries. Varex believes growth in its security and inspection products will be driven by security cargo screening and border protection needs, as well as by the needs of customs agencies to verify shipments for assessing duties and taxes. This business is heavily influenced by domestic and international government policies on border and port security, political change, and government budgets. In addition, Varex believes growth in this product line may be driven in part by industrial customers engaged in 3-D printing, which, as a developing market, may be difficult to predict. Orders for Varex's security and inspection products have been and may continue to be unpredictable, as governmental agencies may place large orders with Varex or its OEM customers in a short time period and then may not place any orders for a long time period thereafter. Because it is difficult to predict Varex's OEM customer delivery, the actual timing of sales and revenue recognition varies significantly. The market for border protection systems has slowed significantly, and end customers, particularly in oil-based economies and war zones in which Varex has a significant customer base, are delaying system deployments or tenders and considering moving to alternative sources, resulting in a decline in the demand for security and inspection products.

The demand for Varex's security and inspection products is heavily influenced by U.S. and foreign governmental policies on national and homeland security, border protection, and customs activities, which depend upon government budgets and appropriations that are subject to economic conditions, as well as political changes and oil prices. Varex has seen customers freeze or dramatically reduce purchases and capital project expenditures, delay projects, or act cautiously as governments around the world wrestle with spending priorities. As economic growth remains sluggish in various jurisdictions and appears to be deteriorating in others, and as concerns about levels of government employment and government debt continue, Varex expects that these effects will also continue. Bid awards in this business may be subject to challenge by third parties, as Varex has previously encountered with a large government project. These factors make this business more unpredictable and could cause volatility in Varex's revenues and earnings.

Varex's international manufacturing operations subject it to volatility and other risks, including high security risks, which could result in harm to its employees and contractors or substantial costs.

Varex conducts certain manufacturing operations internationally to reduce costs and streamline its manufacturing operations. There are administrative, legal, and governmental risks to operating internationally that could increase operating expenses or hamper the development of these operations. The risks from operating internationally that could increase Varex's operating expenses and materially and adversely affect its operating results, financial condition, and ability to deliver its products and grow its business include, among others:

- difficulties in staffing and managing employee relations and foreign operations, particularly in attracting and retaining personnel qualified to design, sell, test, and support its products;
- fluctuations in currency exchange rates;
- difficulties in coordinating its operations globally and in maintaining uniform standards, controls, procedures, and policies across its operations;
- difficulties in enforcing contracts and protecting intellectual property;
- diversion of management attention;

- imposition of burdensome governmental regulations, including changing laws and regulations with respect to collection and maintenance of personally identifiable data;
- regional and country-specific political and economic instability, as discussed in greater detail below; and
- inadequacy of the local infrastructure to support its operations.

Varex’s international locations expose it to higher security risks compared to its United States locations, which could result in both harm to its employees and contractors or substantial costs. Some of its services are performed in or adjacent to high-risk locations where the country or location and surrounding area is suffering from political, social, or economic turmoil, war or civil unrest, or has a high level of criminal or terrorist activity. In those locations where Varex has employees or operations, Varex may incur substantial costs to maintain the safety of its personnel. Despite these precautions, the safety of its personnel in these locations may continue to be at risk, and Varex may in the future suffer the loss of employees and contractors, which could harm its business reputation and operating results.

Varex’s operations are vulnerable to interruption or loss due to natural or other disasters, power loss, strikes, and other events beyond its control.

Varex conducts some of its activities, including manufacturing, research and development, administration, and data processing at facilities located in areas that have in the past experienced or may in the future experience natural disasters. Varex’s insurance coverage for such disasters may not be adequate or continue to be available at commercially-reasonable terms, or at all. A major disaster (such as a major fire, hurricane, earthquake, flood, tsunami, volcanic eruption or terrorist attack) affecting Varex’s facilities, or those of its suppliers, could significantly disrupt its operations and delay or prevent product manufacture and shipment during the time required to repair, rebuild, or replace its or its suppliers’ damaged manufacturing facilities. These delays could be lengthy and costly. If any of Varex’s customers’ facilities are adversely affected by a disaster, shipments of its products could be delayed. Additionally, customers may delay purchases of Varex’s products until its operations return to normal. For example, following the earthquake and tsunami disasters in Japan in 2011, the operations of Canon Medical Systems, our largest customer, were impacted, and, as a consequence, orders to and product shipment from our business were delayed for several months. Even if Varex's suppliers or customers are able to quickly respond to a disaster, the ongoing effects of the disaster could create some uncertainty in the operations of its business. In addition, Varex’s facilities may be subject to a shortage of available electrical power and other energy supplies. Any shortages may increase its costs for power and energy supplies or could result in blackouts, which could disrupt the operations of its affected facilities and harm its business. Further, Varex’s products are typically shipped from a limited number of ports, and any disaster, strike, or other event blocking shipment from these ports could delay or prevent shipments and harm its business. In addition, concerns about terrorism, the effects of a terrorist attack, political turmoil, or an outbreak of epidemic diseases could have a negative effect on Varex’s business operations, those of its suppliers and customers, and the ability to travel, resulting in adverse consequences on its revenues and financial performance.

Risks Relating to our Intellectual Property and Information Systems

Varex’s competitive position would be harmed if it is not able to maintain its intellectual property rights and protecting Varex’s intellectual property can be costly.

Varex files applications as appropriate for patents covering new products and manufacturing processes. Varex cannot be sure, however, that patents will be issued from any of Varex’s pending or future patent applications. Varex also cannot be sure that its current patents, the claims allowed under its current patents, or patents for technologies licensed to Varex will be sufficiently broad to protect its technology position against competitors. Issued patents owned by, or licensed to, Varex may be challenged, invalidated, or circumvented, or the rights granted under the patents may not provide Varex with competitive advantages. Asserting Varex’s patent rights against others in litigation or other legal proceedings is costly and diverts managerial resources. For example, during fiscal year 2019, Varex initiated litigation asserting claims of patent infringement against a third party. Varex intends to prosecute its claims vigorously, and Varex has experienced, and will continue to experience, increased legal expenses related to this litigation that could adversely affect its financial results. An adverse finding in this or similar patent infringement litigation could adversely impact Varex’s competitive position. In addition, Varex may not be able to detect patent infringement by others or may lose its competitive position in the market before Varex is able to do so.

Varex also relies on a combination of copyright, trade secret, and other laws, and contractual restrictions on disclosure, copying and transferring title (including confidentiality agreements with vendors, strategic partners, co-developers, employees, consultants, and other third parties), to protect its proprietary, and other confidential rights. These protections may prove to be inadequate, since agreements may still be breached, and Varex may not have adequate remedies for a breach. Varex’s trade secrets may become known to or be independently developed by others, including as a result of misappropriation by unauthorized access to Varex’s technology systems. If Varex’s proprietary or confidential information is misappropriated, its business and financial results could be materially and adversely impacted. Varex has trademarks, both registered and unregistered, that are maintained and enforced to provide customer recognition for its products in the marketplace, but unauthorized parties may still use them. Varex also licenses certain patented or proprietary technologies from others. In some cases, products with substantial revenues may depend on these license rights. If Varex were to lose the rights to license these technologies, or its costs to license these technologies were to materially increase, its business would suffer. As Varex expands its manufacturing capabilities outside of the United States, more of Varex's intellectual property may be held in jurisdictions that do not have robust intellectual property protections, which may make it harder for Varex to adequately protect its intellectual property.

Third parties may claim that Varex is infringing upon their intellectual property, and Varex could suffer significant litigation or licensing expenses or be prevented from selling its products.

There is a substantial amount of litigation over patent and other intellectual property rights in the industries in which Varex competes. Varex's competitors, like companies in many high technology businesses, continually review other companies' activities for possible conflicts with their own intellectual property rights. In addition, non-practicing entities may review Varex's activities for conflicts with their patent rights. Determining whether a product infringes on a party's intellectual property rights involves complex legal and factual issues, and the outcome of this type of litigation is often uncertain. Parties may claim that Varex is infringing upon their intellectual property rights. Varex may not be aware of intellectual property rights of others that relate to its products, services, or technologies. From time to time, Varex has received notices from parties asserting infringement, and Varex has been subject to lawsuits alleging infringement of patent or other intellectual property rights. Any dispute regarding patents or other intellectual property could be costly and time consuming and could divert Varex's management and key personnel from its business operations. Varex may not prevail in a dispute. Varex does not maintain insurance for intellectual property infringement, so costs of defense, whether or not Varex is successful in defending an infringement claim, will be borne by Varex and could be significant. If Varex is unsuccessful in defending or appealing an infringement claim, Varex may be subject to significant damages, and its combined financial position, results of operations, or cash flows could be materially and adversely affected. Varex may also be subject to injunctions against development and sale of its products, the effect of which could be to materially reduce its revenues. Furthermore, a third party claiming infringement may not be willing to license its rights to Varex, and even if a third-party rights holder is willing to do so, the amounts Varex might be required to pay under the associated royalty or license agreement could be significant. Varex could decide to alter its business strategy or voluntarily cease the allegedly infringing actions rather than face litigation or pay a royalty, which could materially and adversely impact its business and results of operations.

Disruption of critical information systems or material breaches in the security of Varex's systems may materially and adversely affect its business and customer relations.

Information technology (including technology from third-party providers) helps Varex operate efficiently, interface with and support its customers, maintain financial accuracy and efficiency, and produce its financial statements. In the ordinary course of its business, Varex collects, processes and stores sensitive data, including intellectual property, proprietary business information and that of customers, suppliers and business partners, third parties accessing its website, patient data and personally identifiable information of customers and employees, in Varex's data centers, and on its networks, as well as third party off-site infrastructure. Despite security measures, there is an increasing threat of information security attacks, including from computer viruses or other malicious codes, unauthorized access attempts, and cyber-attacks that pose risks to companies, including Varex. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently, have become increasingly sophisticated and generally are not recognized until launched against a target, Varex may be unable to anticipate these techniques or to implement adequate preventative measures, which could result in data leaks or otherwise compromise our confidential or proprietary information and disrupt our operations. If Varex does not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, Varex could be subject to, among other things, transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through a security breach or misappropriation of intellectual property. Such security breaches could expose Varex to a risk of loss of information, litigation, and possible liability to employees, customers, and/or regulatory authorities. If Varex's data management systems do not effectively collect, secure, store, process, and report relevant data for the operation of its business, whether due to equipment malfunction or constraints, software deficiencies, or human error, Varex's ability to effectively plan, forecast, and execute its business plan and comply with applicable laws and regulations will be impaired, perhaps materially. Any such impairment could materially and adversely affect Varex's financial condition, results of operations, cash flows, and the timeliness with which Varex reports its operating results internally and externally.

Varex uses certain cloud-based software. A security breach, whether of Varex's products, of Varex's customers' network security and systems, or of third-party hosting services could disrupt access to Varex's customers' stored information and could lead to the loss of, damage to or public disclosure of Varex's customers' stored information, including patient health information. Such an event could have serious negative consequences, including possible patient injury, regulatory action, fines, penalties and damages, reduced demand for Varex's solutions, an unwillingness of its customers to use its solutions, harm to its reputation and brand, and time-consuming and expensive litigation, any of which could have a material and adverse effect on Varex's financial results.

Risks Relating to Our Legal and Regulatory Environment

Changes in import/export regulatory regimes and tariffs could continue to negatively impact our business.

Tariffs and changes in international trade agreements or trade-related laws and regulations may have an indirect adverse impact on our business. As a component manufacturer, our products are integrated into the systems and products of our OEM customers. If the United States, China or other countries levy tariffs, duties or other additional taxes or restrictions on our customer's products, the demand for such products, and our components included in such products, could decrease, which could have a material adverse effect on our business. Uncertainty over tariffs and trade wars could also cause our customers to delay or cancel orders for our products.

In recent years, the United States has imposed tariffs on items imported from China that are incorporated into our products. Tariffs on items imported by us from China and other countries have increased our costs and has increased prices and lowered gross margins on some of our products. These tariffs have had a direct adverse impact on our business and results of operations, and future tariffs could have a more significant impact on our business. China has imposed retaliatory tariffs that impact a number of Varex products including U.S. origin X-ray tubes, heat exchange units, and certain flat panel detectors. The tariffs levied by China have increased our customers' costs for products imported into China, which has caused us to make price concessions on some products and has caused some customers to stop purchasing products from us. We expect that tariffs will continue to have a negative effect on our business and results of operations, including the possibility of continued price concessions or loss of business. Tariffs could limit our ability to compete for increased market share in China, which could cause our long-term prospects in China to suffer. The imposition of additional tariffs by the United States could result in the adoption of additional tariffs by China and other countries, as well as further retaliatory actions by any affected country, which could negatively impact the global market for imaging equipment and could have a significant adverse effect on our business.

Compliance with foreign laws and regulations applicable to the marketing, manufacture, and distribution of Varex's products may be costly, and failure to comply may result in significant penalties and other harm to Varex's business.

Regulatory requirements affecting Varex's operations and sales outside the United States vary from country to country, often differing significantly from those in the United States. In general, outside the United States, some of Varex's products are regulated as medical devices by foreign governmental agencies similar to the FDA.

For Varex to market its products internationally, Varex must obtain clearances or approvals for products and product modifications. These processes (including, for example, in the EU, the European Economic Area ("EEA"), Switzerland, Brazil, Australia, China, Japan and Canada) can be time consuming, expensive and uncertain, which can delay Varex's ability to market products in those countries. Delays in the receipt of or failure to receive regulatory approvals, the inclusion of significant limitations on the indicated uses of a product, the loss of previously obtained approvals or failure to comply with existing or future regulatory requirements could restrict or prevent Varex from doing business in a country or subject Varex to a variety of enforcement actions and civil or criminal penalties, which would materially and adversely affect its business. In addition, compliance with changing regulatory schemes may add additional complexity, cost and delays in marketing or selling Varex's products.

Within the EU/EEA, Varex must obtain, and in turn affix, a CE mark certification, which is a European marking of conformity that indicates that a product meets the essential requirements of the Medical Device Directive. Compliance with the Medical Device Directive is done through a self-certification process that is then verified by an independent certification body called a "Notified Body," which is an organization empowered by the legislature to conduct this verification. Once the CE mark is affixed, the Notified Body will regularly audit Varex to ensure that it remains in compliance with the applicable European laws and Medical Device Directive. By affixing the CE mark to its product, Varex is certifying that its products comply with the laws and regulations required by the EU/EEA countries, thereby allowing the free movement of its products within these countries and others that accept CE mark standards. If Varex cannot support its performance claims and demonstrate compliance with the applicable European laws and the Medical Device Directive, Varex would lose its right to affix the CE mark to its products, which would prevent Varex from selling its products within the EU/EEA/Switzerland territory and in other countries that recognize the CE mark. In April 2017, the European Commission adopted two new regulations on medical devices. These new regulations impose stricter requirements for placing medical devices in the EU market, as well as for Notified Bodies. These new regulations have resulted in the limited availability of recognized Notified Bodies, which could delay our ability to obtaining CE marks. Varex may be subject to risks associated with additional testing, modification, certification, or amendment of its existing market authorizations, or Varex may be required to modify products already installed at its customers' facilities to comply with the official interpretations of these revised regulations.

Varex is also subject to international laws and regulations of general applicability relating to matters such as environmental protection, safe working conditions, and manufacturing practices, as well as others. These are often comparable to, if not more stringent than, the equivalent regulations in the United States. Sales overseas are also affected by regulation of matters such as product standards, packaging, labeling, environmental and product recycling requirements, import and export restrictions, tariffs, duties, and taxes.

In addition, Varex is required to timely file various reports with international regulatory authorities similar to the reports it is required to timely file with U.S. regulatory authorities, including reports required by international adverse event reporting regulations. If these reports are not timely filed, regulators may impose sanctions, including temporarily suspending Varex's market authorizations or CE mark, and sales of its products may suffer.

Further, as Varex enters new businesses or pursues new business opportunities internationally, or as regulatory schemes change, Varex may become subject to additional laws, rules, and regulations. Becoming familiar with and implementing the infrastructure necessary to comply with these laws, rules, and regulations is costly. Additionally, in some countries, Varex relies or may rely in the future on foreign distributors and agents to assist in complying with foreign regulatory requirements, and Varex cannot be sure that they will always do so. The failure of Varex or its agents to comply with these laws, rules, and regulations could delay the introduction of new products, cause reputational harm, or result in investigations, fines, injunctions, civil penalties, criminal prosecution, or an inability to sell Varex's products in or to import its products into certain countries, which could materially and adversely affect Varex's business.

Compliance with U.S. laws and regulations applicable to the marketing, manufacture, and distribution of Varex's products may be costly, and failure or delays in obtaining regulatory clearances or approvals or failure to comply with applicable laws and regulations could prevent Varex from distributing its products, require Varex to recall its products, or result in significant penalties or other harm to Varex's business.

Some of Varex's products and those of OEMs that incorporate Varex's products are subject to extensive and rigorous government regulation in the United States. Compliance with these laws and regulations is expensive and time-consuming, and failure to comply with these laws and regulations could materially and adversely affect Varex's business.

Generally, Varex's manufacturing operations for medical devices, and those of its third-party manufacturers, are required to comply with the Quality System Regulations ("QSR") of the FDA, as well as other federal and state regulations for medical devices and radiation-emitting products. The FDA makes announced and unannounced periodic and on-going inspections of medical device manufacturers to determine compliance with QSR and, in connection with these inspections, issues reports known as Form FDA 483 reports when the FDA believes the manufacturer has failed to comply with applicable regulations and/or procedures. If observations from the FDA issued on Form FDA 483 reports are not addressed and/or corrective action is not taken in a timely manner and to the FDA's satisfaction, the FDA may issue a warning letter and/or proceed directly to other forms of enforcement action. Similarly, if a warning letter were issued, prompt corrective action to come into compliance would be required. Failure to respond in a timely manner to Form FDA 483 observations, a warning letter, or any other notice of noncompliance and to promptly come into compliance could result in the FDA bringing an enforcement action, which could include the total shutdown of Varex's production facilities, denial of importation rights to the United States for products manufactured in overseas locations, adverse publicity, and criminal and civil fines. The expense and costs of any corrective actions that Varex may take, which may include product recalls, correction and removal of products from customer sites, and/or changes to its product manufacturing and quality systems, could materially and adversely impact Varex's financial results and may also divert management resources, attention, and time. Additionally, if a warning letter were issued, customers could delay purchasing decisions or cancel orders, and Varex could face increased pressure from its competitors, who could use the warning letter against Varex in competitive sales situations, either of which could materially and adversely affect Varex's reputation, business, and stock price.

In addition, Varex is required to timely file various reports with the FDA, including reports required by the medical device reporting regulations ("MDRs"), that require Varex report to regulatory authorities if its devices may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur. If Varex initiates a correction or removal of a device to reduce a risk to health posed by the device, Varex would be required to submit a publicly-available correction and removal report to the FDA and, in many cases, similar reports to other regulatory agencies. This report could be classified by the FDA as a device recall, which could lead to increased scrutiny by the FDA, other international regulatory agencies, and Varex's customers regarding the quality and safety of Varex's devices. If these MDRs or correction and removal reports are not filed on a timely basis, regulators may impose sanctions, sales of Varex's products may suffer, and Varex may be subject to product liability or regulatory enforcement actions, all of which could harm its business.

Government regulation may also cause significant delays or even prevent the marketing and full commercialization of future products or services that Varex may develop and/or may impose costly requirements on Varex's business. Further, as Varex enters new businesses or pursues new business opportunities, Varex will become subject to additional laws, rules, and regulations, including FDA and foreign rules and regulations. Becoming familiar with and implementing the infrastructure necessary to comply with these laws, rules, and regulations is costly and time consuming. In addition, failure to comply with these laws, rules and regulations could delay the introduction of new products and could materially and adversely affect Varex's business.

If Varex or any of its suppliers, distributors, agents, or customers fail to comply with FDA, Federal Trade Commission, or other applicable U.S. regulatory requirements or are perceived to have failed to comply with regulations, Varex may face:

- adverse publicity affecting both Varex and its customers;
- increased pressures from competitors;
- investigations by governmental authorities;
- fines, injunctions, civil penalties, and criminal prosecution;
- partial suspension or total shutdown of production facilities or the imposition of operating restrictions;
- increased difficulty in obtaining required clearances or approvals or losses of clearances or approvals already granted;
- seizures or recalls of Varex products or those of its customers;
- delays in purchasing decisions by customers or cancellation of existing orders;
- the inability to sell Varex products; and
- difficulty in obtaining product liability or operating insurance at a reasonable cost, or at all.

Varex is also subject to federal and state laws and regulations of general applicability relating to matters such as environmental protection, safe working conditions, manufacturing practices, and other matters. Insurance coverage is not commercially available for violations of law, including the fines, penalties, or investigatory costs that Varex may incur as the consequence of regulatory violations. Consequently, Varex does not have insurance that would cover this type of liability.

Varex sells certain X-ray tube products as replacements which are subject to medical device certification and product registration laws and regulations, which vary by country and are subject to change, and Varex may be unable to receive registration approval or renewal of existing registrations if it fails to meet regulatory approval requirements or if the approval process becomes commercially infeasible or impractical.

Varex markets and distributes certain X-ray tubes through distributors and third-party/multi-vendor service organizations that are used as equivalent replacements for specific OEM tubes. Varex is subject to medical device certification and product registration laws, which vary by country and are subject to periodic reviews and changes by regulatory authorities in those countries. For example, to sell X-ray tubes for replacement applications in China, product registrations must be approved by the new National Medical Products Administration ("NMPA"). Varex must comply with the requirements of the NMPA, and Varex may not be able to receive registration approval or renewal of existing registrations if it fails to meet regulatory approval requirements or if the process of gaining approval becomes commercially infeasible or impractical. Certain of these local laws and regulations have the effect of serving as a barrier to trade and can be difficult to navigate predictably.

In addition, certain countries in which Varex products are sold require products to undergo re-registration if the product is altered in any significant way.

These registration processes can be costly and time consuming, and customers may decide to purchase products from Varex's competitors that do not have to be involved in a re-registration process. In addition, Varex's inability to receive or renew product registrations may prevent Varex from marketing and/or distributing those particular products for replacement applications in the specific country.

Existing and future healthcare reforms may indirectly have a material adverse effect on Varex's business and results of operations.

Sales of Varex's products to OEMs in the medical sector indirectly depend on whether adequate reimbursement is available for its customers' products from a variety of sources, such as government healthcare insurance programs, including U.S. Medicare and Medicaid programs, foreign government programs, private insurance plans, health maintenance organizations, and preferred provider organizations. Without adequate reimbursement, the demand for Varex's customers' products, and therefore indirectly Varex's products, may be limited.

Healthcare reform proposals and medical cost containment measures in the United States and in many foreign countries could limit the use of both Varex's and its customers' products, reduce reimbursement available for such use, further tax the sale or use of Varex's products, and further increase the administrative and financial burden of compliance. These reforms and measures, including the uncertainty in the medical community regarding their nature and effect, could have a material and adverse effect on Varex's and its customers' purchasing decisions regarding its products and treatments and could harm Varex's business, results of operations, financial condition, and prospects. Varex cannot predict the specific healthcare programs and regulations that will be ultimately implemented by local, regional, and national governments globally. However, any changes that lower reimbursements for Varex's or its customers' products and/or procedures using these products, including, for example, existing reimbursement incentives to convert from analog to digital X-ray systems, or changes that reduce medical procedure volumes or increase cost containment pressures on Varex or others in the healthcare sector could materially and adversely affect Varex's business and results of operations.

Varex is subject to federal, state, and foreign laws governing its business practices which, if violated, could result in substantial penalties. Additionally, challenges to or investigations into Varex's practices could cause adverse publicity and be costly to respond to and thus could harm its business.

Anti-corruption laws and regulations. Varex is subject to the U.S. Foreign Corrupt Practices Act and anti-corruption laws, as well as similar laws in foreign countries, such as the U.K. Bribery Act and the Law On the Fundamentals of Health Protection in the Russian Federation. In general, there is a worldwide trend to strengthen anti-corruption laws and their enforcement, and the healthcare industry and medical equipment manufacturers have been particular targets of these investigation and enforcement efforts. Any violation of these laws by Varex or its agents or distributors could create substantial liability for Varex, subject its officers and directors to personal liability, and cause a loss of reputation in the market. Varex operates in many countries, including India and China, where the public sector is perceived as being corrupt. Varex's strategic business plans include expanding its business in regions and countries that are rated as higher risk for corruption activity by Transparency International e.V., an international non-profit that publishes an annual corruption perception index. Becoming familiar with and implementing the infrastructure necessary to comply with laws, rules, and regulations applicable to new business activities and mitigating and protecting against corruption risks could be costly. Failure by Varex or its agents or distributors to comply with these laws, rules, and regulations could delay its expansion into high-growth markets and could materially and adversely affect its business. Varex will likely do more business, directly and potentially indirectly, in countries where the public sector is perceived to be corrupt. Increased business in higher-risk countries could subject Varex and its officers and directors to increased scrutiny and increased liability from its business operations.

Competition and trade compliance laws. Varex is subject to various competition and trade compliance laws in the jurisdictions where it operates. Regulatory authorities in those jurisdictions may have the power to subject Varex to sanctions and impose changes or conditions in the way Varex conducts its business. An increasing number of jurisdictions provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct and seek damages. Increased government scrutiny of Varex's actions or enforcement or private rights of action could materially and adversely affect its business or damage its reputation. Varex may be required to conduct internal investigations or face audits or investigations by one or more domestic or foreign government agencies, which could be costly and time consuming and could divert its management and key personnel from its business operations. An adverse outcome under any such investigation or audit could subject Varex to fines and/or or criminal or other penalties, which could materially and adversely affect Varex's business and financial results. Furthermore, competition laws may prohibit or increase the cost of future acquisitions that Varex may desire to undertake.

Laws and ethical rules governing interactions with healthcare providers. Varex does not generally sell its products directly to healthcare providers, but may occasionally sell its products to healthcare providers through distributors. The U.S. Medicare and Medicaid "anti-kickback" laws, and similar state laws, prohibit payments or other remuneration that is intended to induce hospitals, physicians, or others either to refer patients or to purchase, lease, or order, or to arrange for or recommend the purchase, lease, or order of healthcare products or services for which payment may be made under federal and state healthcare programs, such as Medicare and Medicaid. These laws affect Varex's sales, marketing, and other promotional activities by limiting the kinds of financial arrangements Varex may have with hospitals, physicians, or other potential purchasers of its products. They particularly impact how Varex structures its sales offerings, including discount practices, customer support, education and training programs, physician consulting, research grants, and other fee-for-service arrangements. These laws are broadly written, and it is often difficult to determine precisely how these laws will be applied to specific circumstances.

Federal and state "false claims" laws generally prohibit knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other government payors that are false or fraudulent, or for items or services that were not provided as claimed. Although Varex does not submit claims directly to payors, manufacturers can be, and have been, held liable under these laws if they are deemed to "cause" the submission of false or fraudulent claims by providing inaccurate billing or coding information to customers or through certain other activities, including promoting products for uses not approved or cleared by the FDA, which is called off-label promotion. Violating "anti-kickback" and "false claims" laws can result in civil and criminal penalties, which can be substantial, as well as potential mandatory or discretionary exclusion from healthcare programs for noncompliance. Even an unsuccessful challenge or investigation into Varex's practices could cause adverse publicity and be costly to defend and thus could harm its business and results of operations. Additionally, several recently-enacted state and federal laws, including laws in Massachusetts and Vermont, and the federal Physician Payment Sunshine Act, now require, among other things, extensive tracking and maintenance of databases regarding the disclosure of equity ownership and payments to physicians, healthcare providers, and hospitals. These laws may require Varex to implement the necessary and costly infrastructure to track and report certain payments to healthcare providers. Failure to comply with these new tracking and reporting laws could subject Varex to significant civil monetary penalties.

Varex is subject to similar laws in foreign countries where it conducts business. For example, within the EU, the control of unlawful marketing activities is a matter of national law in each of the member states. The member states of the EU closely monitor perceived unlawful marketing activity by companies. Varex could face civil, criminal, and administrative sanctions if any member state determines that Varex has breached its obligations under such state's national laws. Industry associations also closely monitor the activities of member companies. If these organizations or authorities name Varex as having breached its obligations under their regulations, rules, or standards, its reputation would suffer, and its business and financial condition could be materially and adversely affected.

Certain of Varex's products are subject to regulations relating to use of radioactive material, compliance with which may be costly, and a failure to comply therewith may materially and adversely affect Varex's business.

As a manufacturer and seller of medical devices and devices emitting radiation or utilizing radioactive by-product material, Varex and some of its suppliers and distributors are subject to extensive regulation by United States governmental authorities, such as the FDA, the Nuclear Regulatory Commission ("NRC"), and state and local regulatory agencies, which is intended to ensure the devices are safe and effective and comply with laws governing products which emit, produce, or control radiation. These regulations govern, among other things, the design, development, testing, manufacturing, packaging, labeling, distribution, import/export, sale, and marketing and disposal of Varex's products. Varex is also subject to international laws and regulations that apply to manufacturers of radiation-emitting devices and products utilizing radioactive materials. These are often comparable to, if not more stringent than, the equivalent regulations in the United States.

Varex's industrial and medical devices utilizing radioactive material are subject to NRC clearance and approval requirements, and the manufacture and sale of these products are subject to extensive federal and state regulation that varies from state to state and among regions. Varex's manufacture, distribution, installation, service, and removal of industrial devices utilizing radioactive material or emitting radiation also requires Varex to obtain a number of licenses and certifications for these devices and materials. Service of these products must also be in accordance with a specific radioactive materials licenses. Obtaining licenses and certifications may be time consuming, expensive, and uncertain.

The handling and disposal of radioactive materials resulting from the manufacture, use, or disposal of Varex's products may impose significant costs and requirements. Disposal sites for the lawful disposal of materials generated by the manufacture, use, or decommissioning of Varex's products may no longer accept these substances in the future or may accept them on unfavorable terms.

If Varex is unable to obtain required FDA clearances or approvals for a product or is unduly delayed in doing so, or the uses of that product were limited, Varex's business could suffer.

Typically, Varex's OEM customers are responsible for obtaining 510(k) pre-market notification clearance on their systems that integrate Varex products. A substantial majority of Varex's products are "Class I" devices that do not require 510(k) clearance, but Varex does produce software that is classified as a Class II device subject to 510(k) clearance. Unless an exception applies, Varex may be required by FDA regulations to obtain a 510(k) pre-market notification clearance in connection with the manufacture of a new medical device or a new indication for use of, or other significant change in, an existing currently marketed medical device before it can market or sell those products in the United States. Modifications or enhancements to a product that could significantly affect its safety or effectiveness, or that would constitute a major change in the intended use of the device, technology, materials, labeling, packaging, or manufacturing process also require a new 510(k) clearance. Although manufacturers make the initial determination whether a change to a cleared device requires a new 510(k) clearance, Varex cannot ensure that the FDA will agree with its decisions not to seek additional approvals or clearances for particular modifications to its products or that Varex will be successful in obtaining new 510(k) clearances for modifications. Obtaining clearances or approvals is time consuming, expensive, and uncertain. Varex may not be able to obtain the necessary clearances or approvals or may be unduly delayed in doing so, which could harm its business. Furthermore, even if Varex is granted regulatory clearances or approvals, they may include significant limitations on the indicated uses of the product, which may limit the market for the product. If Varex is unable to obtain required FDA clearance or approval for a product or is unduly delayed in doing so, or the uses of that product were limited, Varex's business could suffer.

Unfavorable results of legal proceedings could materially and adversely affect Varex's financial results.

From time to time, Varex is a party to or otherwise involved in legal proceedings, claims, government inspections, audits or investigations, and other legal matters, both inside and outside the United States, arising in the ordinary course of its business or otherwise. Legal proceedings are often lengthy, taking place over a period of years with interim motions or judgments subject to multiple levels of review (such as appeals or rehearings) before the outcome is final. Litigation and other legal proceedings, claims, government inspections, audits and investigations are subject to significant uncertainty and may be expensive, time consuming, and disruptive to Varex's operations. For these and other reasons, Varex may choose to settle legal proceedings and claims, regardless of their actual merit.

If a legal proceeding were ultimately resolved against Varex, it could result in significant compensatory damages, and, in certain circumstances, punitive damages, disgorgement of revenue or profits, remedial corporate measures, or injunctive relief imposed on Varex. If Varex's existing insurance does not cover the amount or types of damages awarded, or if other resolution or actions taken as a result of such legal proceeding were to restrain its ability to market one or more of its material products or services, its combined financial position, results of operations, or cash flows could be materially and adversely affected. In addition, legal proceedings, and any adverse resolution thereof, can result in adverse publicity and damage to Varex's reputation, which could materially and adversely impact its business.

Environmental laws impose compliance costs on Varex's business and may also result in liability.

Varex is subject to environmental laws around the world. These laws regulate many aspects of its operations, including its handling, storage, transport, and disposal of hazardous substances, such as the chemicals and materials that Varex uses in the course of its manufacturing operations. They can also impose cleanup liabilities, including with respect to discontinued operations. As a consequence, Varex can incur significant environmental costs and liabilities, some recurring and others not recurring. Although it follows procedures intended to comply with existing environmental laws, Varex, like other businesses, may mishandle or inadequately manage hazardous substances used in its manufacturing operations and can never completely eliminate the risk of contamination or injury from certain materials that it uses in its business and, therefore, it cannot completely eliminate the prospect of resulting claims and damage payments. Varex may also be assessed fines and/or other penalties for failure to comply with environmental laws and regulations. Insurance has provided coverage for portions of cleanup costs resulting from historical occurrences, but Varex does not expect to maintain insurance coverage for costs or claims that might result from any future contamination.

Future changes in environmental laws could also increase its costs of doing business, perhaps significantly. Several countries, including some in the EU, now require medical equipment manufacturers to bear certain disposal costs of products at the end of the product's useful life, increasing its costs. The EU has also adopted directives that may lead to restrictions on the use of certain hazardous substances or other regulated substances in some of its products sold there. These directives, along with another that requires substance information to be provided upon request, could increase Varex's operating costs in order to maintain its access to certain markets. All of these costs, and any future violations or liabilities under environmental laws or regulations, could have a material adverse effect on its business.

Fulfilling obligations incidental to being a public company place significant demands on Varex's management, administrative, and operational resources, including accounting and information technology resources.

As a public company, Varex is subject to the reporting requirements of the Securities Exchange Act of 1934 (the "Exchange Act"), and is required to prepare its financial statements according to the rules and regulations required by the SEC. The Exchange Act requires that Varex file annual, quarterly, and current reports. Varex's failure to prepare and disclose this information in a timely manner or to otherwise comply with applicable law could subject it to penalties under federal securities laws, cause it to be out of compliance with applicable stock exchange listing requirements, and expose it to lawsuits and restrict its ability to access financing. For example, as a result of the delayed filing of our 2019 Annual Report on Form 10-K, we received a notification letter from Nasdaq advising us that we were not in compliance with Nasdaq listing requirements. While we promptly regained compliance with the Nasdaq listing requirements, if we had failed to regain compliance in a timely manner, it would have negatively impacted Varex.

Varex must, among other things, establish and maintain effective internal controls and procedures for financial reporting and disclosure purposes. Internal control over financial reporting is complex and may be revised over time to adapt to changes in Varex's business or changes in applicable accounting rules. Varex cannot assure that its internal control over financial reporting will be effective in the future or that material weaknesses will not be discovered with respect to a prior period for which it had previously believed that internal controls were effective.

Matters impacting Varex's internal controls may cause Varex to be unable to report its financial information on a timely basis or may cause Varex to restate previously-issued financial information, thereby subjecting Varex to adverse regulatory consequences, including sanctions or investigations by the SEC or in respect of violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in Varex and the reliability of its financial statements, which could affect Varex's stock price.

Risks Relating to Our Indebtedness

Varex has significant debt obligations that could adversely affect its business, profitability and ability to meet its obligations.

As of October 1, 2021, Varex's total combined indebtedness was approximately $480.6 million. The borrowings under Varex's unsecured convertible senior notes due 2025 (the "Convertible Notes") bear interest at a fixed rate of 4.00% and borrowings under Varex's Senior Secured Notes due 2027 (the "Senior Secured Notes") bear interest at a fixed rate of 7.875%.

Varex's debt could potentially have important consequences to Varex and its investors, including:

- limiting Varex's flexibility in planning for, or reacting to, changes in its business and the industry; and
- limiting Varex's ability to borrow additional funds as needed or increasing the costs of any such borrowing.
- make it more difficult for us to satisfy our obligations, including our debt obligations;
- increase our vulnerability to adverse economic and general industry conditions, including interest rate fluctuations, because a portion of our borrowings are and will continue to be at variable rates of interest;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, which would reduce the availability of our cash flow from operations to fund working capital, capital expenditures or other general corporate purposes;
- place us at a disadvantage compared to competitors that may have proportionately less debt; and
- limit our ability to obtain additional debt or equity financing due to applicable financial and restrictive covenants in our debt agreements.

If Varex's cash requirements in the future are greater than expected, its cash flow from operations may not be sufficient to repay all of the outstanding debt as it becomes due, and Varex may not be able to borrow money, sell assets, or otherwise raise funds on acceptable terms, or at all, to refinance Varex's debt. For example, holders of the Convertible Notes will have the right to require Varex to repurchase all or a portion of the Convertible Notes on the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. Further, if a make-whole fundamental change as defined in the Indenture governing the Convertible Notes occurs prior to the maturity date of the Convertible Notes, Varex will in some cases be required to increase the conversion rate for a holder that elects to convert its Convertible Notes in connection with such make-whole fundamental change. On the conversion of the Convertible Notes, unless Varex elects to deliver solely shares of common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), Varex will be required to make cash payments for the Convertible Notes being converted. However, Varex may not have enough available cash or be able to obtain financing at the time Varex is required to make such repurchases of the Convertible Notes surrendered or pay cash with respect to the Convertible Notes being converted.

Despite our substantial indebtedness, we may still be able to incur significantly more debt. This could intensify the risks described above.

We and our subsidiaries may be able to incur substantial indebtedness in the future. As of October 1, 2021, we had approximately $100 million of additional available borrowing capacity (subject to borrowing base availability) under the revolving credit agreement that we entered into on September 30, 2020 (the "Asset-Based Loan", or "ABL Facility"). In addition to any amounts that might be available to us for borrowing under the ABL Facility, subject to certain conditions, we will have the right to request an increase of aggregate commitments under the ABL Facility by an aggregate amount of up to $75 million by obtaining additional commitments either from one or more of the lenders under the ABL Facility or other lending institutions.

Although the ABL Facility and the indenture governing our Senior Secured Notes contain restrictions on our and our subsidiaries' ability to incur additional indebtedness, these restrictions are subject to a number of important qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Furthermore, the covenants in the indenture governing our Convertible Notes do not restrict the incurrence of indebtedness by the company or any of its subsidiaries, and the covenants that may be contained in any future debt instruments could allow us to incur a significant amount of additional indebtedness.

The more leveraged we become, the more we, and in turn holders of our notes, will be exposed to certain risks described above under "— Varex has significant debt obligations that could adversely affect its business, profitability and ability to meet its obligations."

The ABL Facility and the indenture governing our Senior Secured Notes impose significant operating and financial restrictions that may limit our current and future operating flexibility, particularly our ability to respond to changes in the economy or our industry or to take certain actions, which could harm our long term interests and may limit our ability to make payments on the notes.

Our ABL Facility and the indenture governing our Senior Secured Notes impose significant operating and financial restrictions on us.

These restrictions limit our ability, among other things, to:

- incur, assume or permit to exist additional indebtedness (including guarantees thereof);
- pay dividends or certain other distributions on our capital stock or repurchase our capital stock or prepay subordinated indebtedness;
- prepay, redeem or repurchase certain debt;
- issue certain preferred stock or similar equity securities;
- incur liens on assets;
- make certain loans, investments or other restricted payments;
- allow to exist certain restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments to us;
- engage in transactions with affiliates;
- alter the business that we conduct; and
- sell certain assets or merge or consolidate with or into other companies.

As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

A breach of the covenants under the indenture governing our Senior Secured Notes or the ABL Facility could result in an event of default under the applicable indebtedness. Such a default, if not cured or waived, may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt that is subject to an applicable cross-acceleration or cross-default provision. In addition, an event of default under the ABL Facility would permit the lenders under the ABL Facility to terminate all commitments to extend further credit under the ABL Facility. Furthermore, if we were unable to repay the amounts due and payable under the ABL Facility, those lenders could proceed against the collateral securing such indebtedness. In the event our lenders or holders of the notes offered hereby accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness.

Our ability to continue to have the necessary liquidity to operate our business may be adversely impacted by a number of factors, including uncertain conditions in the credit and financial markets, which could limit the availability and increase the cost of financing. A deterioration of our results of operations and cash flow resulting from decreases in consumer spending, could, among other things, impact our ability to comply with the fixed charge coverage ratio contained in our ABL Facility.

Our historical sources of liquidity to fund ongoing cash requirements include cash flows from operations, cash and cash equivalents, borrowings through our previous credit facility and convertible debt offerings. The sufficiency and availability of credit may be adversely affected by a variety of factors, including, without limitation, the tightening of the credit markets, including lending by financial institutions who are sources of credit for our borrowing and liquidity; an increase in the cost of capital; the reduced availability of credit; our ability to execute our strategy; the level of our cash flows, which will be impacted by customer demand for our products; compliance with a fixed charge coverage ratio that is included in our ABL Facility, interest rate fluctuations and the adverse impact of the COVID-19 outbreak on the U.S. and world-wide economies and on our business. We cannot predict the future level of interest rates or the effect of any increase in interest rates on the availability or aggregate cost of our borrowings. We cannot be certain that any additional required financing, whether debt or equity, will be available in amounts needed or on terms acceptable to us, if at all.

The ABL Facility contains a minimum Fixed Charge Coverage Ratio of 1.00 to 1.00 that is tested when excess availability under the ABL is less than the greater of (i) 10.0% of the Loan Cap (the lesser of (a) the aggregate commitments under the ABL Facility and (b) the aggregate borrowing base) and (ii) $7.5 million. If we have to borrow in excess of 10.0% of the Loan Cap and $7.5 million, and we do not increase our earnings, we also would be at risk of not being in compliance with the ABL Facility's fixed charge coverage ratio. Compliance with the fixed charge coverage ratio is dependent on the results of our operations, which are subject to a number of factors including current economic conditions. Adverse developments in the economy, including as a result of the COVID-19 outbreak, could lead to reduced spending by our customers and end-users which could adversely impact our net sales and cash flow, which could affect our ability to comply with the fixed charge coverage ratio. In addition, the ABL Facility contains other affirmative and negative covenants that restrict Varex's operating and financing activities. These provisions may limit our ability to, among other things, incur future indebtedness, contingent obligations or liens, guarantee indebtedness, make certain investments and capital expenditures, sell stock or assets, pay dividends and consummate certain mergers or acquisitions. Failure to comply with the fixed charge coverage ratio and other covenants, including the requirement to timely deliver financial statements within applicable grace periods, could result in an event of default. Upon an event of default, if the ABL Facility is not amended or the event of default is not waived, the lender could declare all amounts then outstanding, together with accrued interest, to be immediately due and payable. If this happens, Varex may not be able to make those payments or borrow sufficient funds from alternative sources to make those payments. Even if Varex were to obtain additional financing, that financing may be on unfavorable terms.

We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness, including the notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. If our operating results and available cash are insufficient to meet our debt service obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due. Any future refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants which could further restrict our business operations. Additionally, the Indenture will limit the use of the proceeds from any disposition of our assets. As a result, the Indenture may prevent us from using the proceeds from such dispositions to satisfy our debt service obligations.

Our credit rating and ability to access well-functioning capital markets are important to our ability to secure future debt financing on acceptable terms. Our credit ratings may not reflect all risks associated with an investment in our secured notes.

Our access to the debt markets and the terms of such access depend on multiple factors including the condition of the debt capital markets, our operating performance and our credit ratings. These ratings are based on a number of factors including an assessment of our financial strength and financial policies. Our borrowing costs will be dependent to some extent on the rating assigned to our debt. However, there can be no assurance that any particular rating assigned to us will remain in effect for any given period of time or that a rating will not be changed or withdrawn by a rating agency if, in that rating agency's judgment, future circumstances relating to the basis of the rating so warrant. Incurrence of additional debt by us could adversely affect our credit rating. Any disruptions or turmoil in the capital markets or any downgrade of our credit rating could adversely affect our cost of funds, liquidity, competitive position and access to capital markets, which could materially and adversely affect our business operations, financial condition and results of operations. In addition, downgrading the credit rating of our debt securities or placing us on a watch list for possible future downgrading would likely have an adverse effect on the market price of our securities.

Varex entered into certain hedging positions that may affect the value of the Convertible Notes and the volatility and value of Varex's common stock.

In connection with the issuance of the Convertible Notes, Varex entered into certain convertible note hedge transactions. These hedge transactions are expected generally to reduce potential dilution of our common stock on any conversion of the Convertible Notes or offset any cash payments we are required to make in excess of the principal amount of such converted Convertible Notes, as the case may be, with such reduction or offset subject to a cap. The counterparties to these hedging positions or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to Varex's common stock or purchasing or selling Varex's common stock in secondary market transactions prior to the maturity of the

Convertible Notes (and are likely to do so during any observation period related to a conversion of Convertible Notes or following any repurchase of Convertible Notes by Varex on any fundamental change repurchase date or otherwise). This activity could cause or avoid an increase or a decrease in the market price of Varex common stock or the Convertible Notes. In addition, if any such hedging positions fail to become effective, the counterparties to these hedging positions or their respective affiliates may unwind their hedge positions, which could adversely affect the value of Varex common stock.

Risks Relating to Our Common Stock

The trading price of Varex's common stock may decline or fluctuate significantly and fluctuations in Varex's operating results, including quarterly revenues, and margins, may cause its stock price to be volatile, which could cause losses for its stockholders.

In the past year, Varex's stock price has ranged from a low of $11.96 to a high of $29.95. Varex cannot guarantee that an active trading market will be sustained for its common stock. Nor can Varex predict the prices at which shares of its common stock may trade. Varex has experienced and expects in the future to experience fluctuations in its operating results, including revenues and margins, from period to period. These fluctuations may cause Varex's stock price to be volatile, which could cause losses for its stockholders.

Varex's quarterly and annual operating results, including its revenues and margins, may be affected by a number of other factors, including:

- the introduction and timing of announcement of new products or product enhancements by Varex and its competitors;
- changes in its or its competitors' pricing or discount levels;
- changes in foreign currency exchange rates and other economic uncertainty;
- changes in import/export regulatory regimes including the imposition of tariffs on our products or those of our customers;
- changes in the relative portion of its revenues represented by its various products, including the relative mix between higher margin and lower-margin products;
- changes in the relative portion of its revenues represented by its international region as a whole and by regions within the overall region, as well as by individual countries (notably, those in emerging markets);
- fluctuation in its effective tax rate, which may or may not be known to Varex in advance;
- the availability of economic stimulus packages or other government funding, or reductions thereof;
- disruptions in the supply or changes in the costs of raw materials, labor, product components or transportation services;
- changes to its organizational structure, which may result in restructuring or other charges;
- disruptions in its operations, including its ability to manufacture products, caused by events such as earthquakes, fires, floods, terrorist attacks or the outbreak of epidemic diseases;
- the unfavorable outcome of any litigation or administrative proceeding or inquiry, including governmental audits, as well as ongoing costs associated with legal proceedings and governmental audits; and
- accounting changes and adoption of new accounting pronouncements.

Because many of Varex's operating expenses are based on anticipated capacity levels, and a high percentage of these expenses are fixed for the short term, a small variation in the timing of revenue recognition can cause significant variations in operating results from quarter to quarter. If Varex's gross margins fall below the expectation of securities analysts and investors, the trading price of Varex common stock may decline.

Conversion of the Convertible Notes may dilute the ownership interest of Varex's stockholders or may otherwise depress the market price of Varex's common stock.

The conversion of the Convertible Notes may dilute the ownership interests of Varex's stockholders. On conversion of the Convertible Notes, Varex has the option to pay or deliver, as the case may be, cash, shares of common stock, or a combination of cash and shares of common stock. If Varex elects to settle our conversion obligation in shares of common stock or a combination of cash and shares of common stock, any sales of Varex common stock issuable on such conversion could adversely affect prevailing market prices of Varex's common stock. In addition, the existence of the Convertible Notes may encourage short selling by market participants because the conversion of the Convertible Notes could be used to satisfy short positions, or anticipated conversion of the Convertible Notes into shares of Varex's common stock, any of which could depress the market price of Varex's common stock.

The conditional conversion feature of the Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditions for optional conversion of the Convertible Notes by holders are met before the close of business on the business day immediately preceding June 1, 2025, holders of the Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If Varex elects to satisfy our conversion obligation by settling all or a portion of its conversion obligation in cash, it could adversely affect Varex's liquidity. In addition, even if holders do not elect to convert their Convertible Notes, Varex could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long-term liability, which would result in a material reduction of Varex net working capital and may seriously harm Varex's business.

Certain provisions in Varex's Amended and Restated Certificate of Incorporation, its Amended and Restated Bylaws, its Indenture, and of Delaware law, may prevent or delay an acquisition of Varex, which could decrease the trading price of Varex's common stock.

Varex's Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws contain, and Delaware law contains, provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the bidder and to encourage prospective acquirers to negotiate with Varex's board of directors rather than to attempt a hostile takeover. These provisions include, among others:

- the inability of Varex's stockholders to call a special meeting;
- the inability of Varex's stockholders to act without a meeting of stockholders;
- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings;
- the right of Varex's board of directors to issue preferred stock without stockholder approval; and,
- the ability of Varex's directors, and not stockholders, to fill vacancies on Varex's board of directors.

In addition, because Varex did not elect to be exempt from Section 203 of the Delaware General Corporation Law (the "DGCL"), this provision could also delay or prevent a change of control that stockholders may favor. Section 203 provides that, subject to limited exceptions, persons that acquire, or who are affiliated with a person that acquires, more than 15% of the outstanding voting stock of a Delaware corporation (an "interested stockholder") shall not engage in any business combination with that corporation, including by merger, consolidation, or acquisitions of additional shares, for a three-year period following the date on which the person became an interested stockholder, unless: (1) prior to such time, the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (2) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced; or (3) on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder.

These provisions are not intended to make Varex immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that Varex's board of directors determines is not in the best interests of Varex and Varex's stockholders. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

Furthermore, certain provisions in Varex's Indenture governing the Convertible Notes may make it more difficult or expensive for a third party to acquire Varex. For example, the Indenture requires Varex, at the holders' election, to repurchase the Convertible Notes for cash on the occurrence of a fundamental change and, in certain circumstances, to increase the conversion rate for a holder that converts its Convertible Notes in connection with a make-whole fundamental change. A takeover of Varex may trigger the requirement that we repurchase the Convertible Notes or increase the conversion rate, which could make it costlier for a third party to acquire Varex. Varex's Indenture also prohibits Varex from engaging in a merger or acquisition unless, among other things, the surviving entity assumes the obligations under the Convertible Notes and Varex's Indenture. These and other provisions in Varex's Indenture could deter or prevent a third party from acquiring Varex even when the acquisition may be favorable to holders of the Convertible Notes or Varex's stockholders.

Liabilities related to Varex's operations when it was part of Varian, or liabilities associated with its spin-off from Varian, could materially and adversely affect Varex's business, financial condition, results of operations, and cash flows.

Varex entered into a Separation and Distribution Agreement when it spun off from Varian. The agreement provides for, among other things, indemnification obligations designed to make Varian financially responsible for liabilities allocable to Varian before the spin-off, and to make Varex financially responsible for liabilities allocable to Varex before the spin-off and for information contained in the Varex registration statement that describes the separation, Varex, and the transactions contemplated by the Separation and Distribution Agreement. Varex may be subject to substantial liabilities if it required to indemnify Varian or if Varian is required, but unable, to indemnify Varex. Either of these could negatively affect Varex's business, financial position, results of operations, and/or cash flows.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in Salt Lake City, Utah, where we own approximately 37 acres of land and approximately 494,000 square feet of space used for manufacturing, administrative functions and research and development, for both our Medical and Industrial segments. We also own or lease 34 other facilities throughout North America, Europe and Asia that comprise over 1.6 million square feet of manufacturing facilities, warehouses, sales and service, research and development and office space, which are used for our Medical and/or Industrial segments, depending on the location.

In addition to our location in Salt Lake City, Utah, our other primary owned facilities are located in Las Vegas, Nevada; Franklin Park, Illinois; and Doetinchem, the Netherlands. Our Las Vegas, Nevada facility has approximately 5 acres of land and 94,000 square feet of space used for manufacturing, administrative functions and research and development, for our Industrial segment. Our Franklin Park, Illinois, facility has approximately 3 acres of land and approximately 61,000 square feet of space used for manufacturing, administrative functions and research and development, for both our Medical and Industrial segments. Our Doetinchem, Netherlands, facility is approximately 4 acres and approximately 290,000 square feet of space used for manufacturing, engineering, administrative functions, and research and development, for our Medical and Industrial segments.

Primary leased facilities include approximately 288,000 square feet in Laguna, Philippines, approximately 46,000 square feet in Wuxi, China, approximately 34,000 square feet in Bremen, Germany, approximately 34,000 of square feet in Walluf, Germany and approximately 39,000 square feet in San Jose, California, all of which are used for manufacturing and administrative functions for our Medical and Industrial segments.

Item 3. Legal Proceedings

We are subject to various claims, complaints and legal actions in the normal course of business from time to time. We do not believe we have any currently pending litigation for which the outcome could have a material adverse effect on our operations or financial position. See Item 1A. "Risk Factors - Unfavorable results of legal proceedings could materially and adversely affect Varex's financial results."

Item 4. Mine Safety Disclosures

Not applicable.

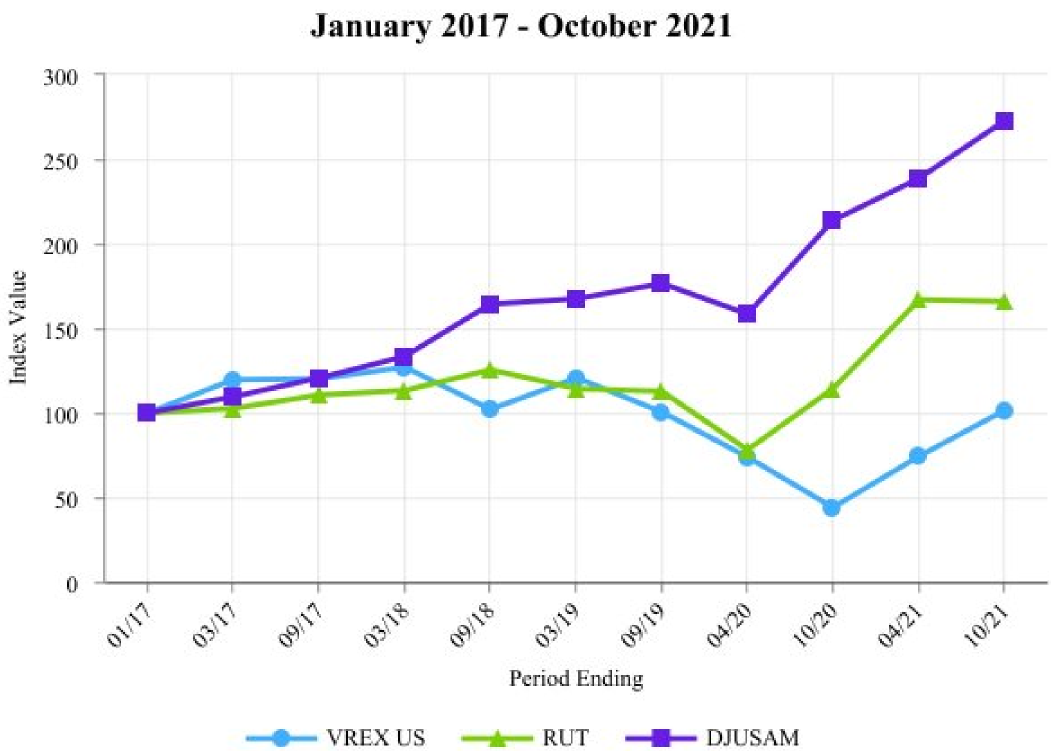
PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Varex's common stock is traded on the NASDAQ Global Select Market (the "NASDAQ") under the symbol "VREX."

Since our inception, we have not paid any cash dividends and have no current plan to pay cash dividends on Varex common stock. As of November 8, 2021, there were 1,436 holders of record of Varex common stock.

This graph shows the total return on VREX common stock since listing on NASDAQ on January 20, 2017, with comparative total returns for the Russell 2000 Index ("RUT") and the Dow Jones Medical Equipment Index ("DJUSAM"). The graph below assumes that $100.00 was invested on January 20, 2017 in our common stock and the companies listed in the RUT and the DJUSAM, as well as a reinvestment of dividends paid on such investments throughout the period.



Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis contains forward-looking statements relating to future events or our future financial or operating performance that involve risks and uncertainties, as set forth above under "Forward-Looking Statements." Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors described in this Annual Report on Form 10-K.

Our Business

Varex Imaging Corporation is a leading innovator, designer and manufacturer of X-ray tubes, digital detectors, linear accelerators and other image software processing solutions, which are critical components of a variety of X-ray based imaging equipment. Our success depends, among other things, on our ability to anticipate and respond to changes in our markets, the direction of technological innovation and the demands of our customers. For additional information on our business, see Part I, Item 1.

Impact of COVID-19 and the General Economic Environment

The unprecedented nature of the COVID-19 pandemic and its effect on the global economy began to significantly disrupt our business in fiscal year 2020 by initially reducing demand for our products followed by strong recovery in demand but increasing variability in supply of raw materials and manufacturing productivity.

During the twelve months ended October 1, 2021, demand for many of our products recovered to pre-pandemic levels and our business has continued to grow. We believe that demand for our products has increased due to increased investments in healthcare and diagnostics coupled with end-users (such as hospitals) making capital purchases that were previously deferred due to the uncertainty surrounding COVID-19. While we are encouraged by the recovery that we have seen, we remain cautious as many factors remain unpredictable.

We continue to experience logistic, supply chain, and manufacturing challenges that we expect will continue into 2022. As economies around the world continue to recover, shortages in raw materials have become more widespread. During the latter half of fiscal year 2021, we have experienced shortages of certain materials and have used more of our inventory on hand than we have used historically. Shortages of materials, particularly micro-controller chips and associated electronic components, have caused and may continue to cause, delays in manufacturing products for our customers. In some cases, raw material shortages and delivery delays from our suppliers are communicated to us with very little advanced warning, which has caused operational and customer order fulfillment challenges. While we are dedicating significant resources to manage, mitigate, and resolve these issues, we currently expect supply chain challenges to continue to impact our ability to deliver products to our customers over the next several quarters. Increased freight charges and shipping delays have also become more common over the last few months and are expected to continue into the foreseeable future. Due to the rising cost environment, in addition to ongoing expense management, we have begun to raise prices on certain products. We anticipate to make pricing adjustments throughout fiscal year 2022.

During the twelve months ended October 1, 2021, our manufacturing facilities continued to operate with minimal disruption. In accordance with government guidelines, we have modified certain COVID-19 related protocols, including social distancing and mask requirements. In the event COVID-19 cases continue an upward trajectory, we may be required to re-implement certain COVID-19 related precautions.

The full extent to which the COVID-19 pandemic and ensuing supply chain challenges have and will directly or indirectly impact us, including our business, financial condition, and results of operations, will depend on future developments that are highly uncertain and cannot be accurately predicted. We will continue to actively monitor the situation and may take further actions that alter our business operations or that we determine are in the best interests of our employees, customers, suppliers, and stockholders. For additional information on risks related to the pandemic and other supply chain risks that could impact our results, see Part I, Item 1A - Risk Factors.

Fiscal Year

Our fiscal year is the 52- or 53-week period ending on the Friday nearest September 30. Fiscal year 2021 was the 52-week period that ended October 1, 2021, fiscal year 2020 was the 53-week period that ended October 2, 2020, and fiscal year 2019 was the 52-week period that ended September 27, 2019. Set forth below is a discussion of our results of operations for fiscal years 2021, 2020 and 2019.

Results of Operations

Our annual report on Form 10-K for the fiscal year ended October 2, 2020, filed November 30, 2020, includes a discussion and analysis of our year-over-year changes, financial condition, and results of operations for the fiscal years ended October 2, 2020 and September 27, 2019 in Item 7 of Part II therein.

Comparison of Results of Operations for Fiscal Year 2021 and 2020

Revenues, net

(In millions)	2021	% Change	2020	% Change	2019
Medical	$ 643.8	10%	$ 584.5	(2)%	$ 596.8
Industrial	174.3	13%	153.8	(16)%	183.8
Total revenues, net	$ 818.1	11%	$ 738.3	(5)%	$ 780.6
Medical as a percentage of total revenues	*79 %*		*79 %*		*76 %*
Industrial as a percentage of total revenues	*21 %*		*21 %*		*24 %*

Medical revenues increased $59.3 million primarily due to increased sales of X-ray tubes and digital detectors for oncology, dental, mammography and radiographic applications.

Industrial revenues increased $20.5 million due to increased sales of X-ray tubes for airport security and digital detectors for inspection applications.

Revenues by Region

(In millions)	2021	% Change	2020	% Change	2019
Americas	$ 268.5	5%	$ 255.0	(10)%	$ 282.6
EMEA	276.3	19%	231.5	(14)%	269.0
APAC	273.3	9%	251.8	10%	229.0
Total revenues, net	$ 818.1	11%	$ 738.3	(5)%	$ 780.6
Americas as a percentage of total revenues	*33 %*		*35 %*		*36 %*
EMEA as a percentage of total revenues	*34 %*		*31 %*		*34 %*
APAC as a percentage of total revenues	*33 %*		*34 %*		*29 %*

The Americas revenues increased $13.5 million primarily due to increased sales of X-ray tubes, digital detectors and computer-aided detection software. EMEA revenues increased $44.8 million primarily due to increased sales of digital detectors, high voltage cables, and X-ray tubes. APAC revenues increased $21.5 million primarily due to increased sales of OEM X-ray tubes in China.

Gross Profit

(In millions)	2021	% Change	2020	% Change	2019
Medical	$ 203.2	49%	$ 136.4	(28)%	$ 188.9
Industrial	68.3	27%	53.8	(21)%	67.8
Total gross profit	$ 271.5	43%	$ 190.2	(26)%	$ 256.7
Medical gross margin	*32 %*		*23 %*		*32 %*
Industrial gross margin	*39 %*		*35 %*		*37 %*
Total gross margin	*33 %*		*26 %*		*33 %*

Gross margin increased for fiscal year 2021 compared to 2020. The gross profit for fiscal year 2020 included $22.2 million of restructuring and product discontinuation charges and purchase price accounting adjustments. The medical segment gross margin in 2021 increased primarily due to increased volumes of X-ray tubes and medical detectors, cost reduction actions undertaken in fiscal year 2020, which have resulted in cost savings in fiscal year 2021, and favorable product mix. The industrial segment gross margin in

2021 increased primarily due to higher volumes of X-ray tubes for security applications and non-destructive testing, favorable product mix, and cost reduction actions undertaken in fiscal year 2020, which have resulted in cost savings in fiscal year 2021.

Operating Expenses

(In millions)	2021	% Change	2020	% Change	2019
Research and development	$ 71.9	(9)%	$ 78.9	1%	$ 78.1
As a percentage of total revenues	*8.8 %*		*10.7 %*		*10.0 %*
Selling, general and administrative	$ 125.5	(12)%	$ 142.2	11%	$ 128.1
As a percentage of total revenues	*15.3 %*		*19.3 %*		*16.4 %*
Impairment of intangible assets	$ —	(100)%	$ 2.8	(42)%	$ 4.8
As a percentage of total revenues	*— %*		*0.4 %*		*0.6 %*
Operating expenses	$ 197.4	(12)%	$ 223.9	6%	$ 211.0
As a percentage of total revenues	*24.1 %*		*30.3 %*		*27.0 %*

Research and Development

Research and development costs for fiscal year 2021 decreased to 8.8% of revenues due to lower engineering related material purchases and cost reduction actions undertaken in fiscal year 2020, which have resulted in cost savings in fiscal year 2021, as well as higher revenues in fiscal year 2021. We are committed to investing in research and development efforts to support long-term growth objectives by bringing new and innovative products to market for our customers.

Selling, General and Administrative

Selling, general and administrative expenses as a percentage of total revenues decreased to 15.3% for fiscal year 2021 from 19.3% for fiscal year 2020 due to lower audit and consulting fees associated with the remediation of internal control deficiencies, cost reduction actions undertaken in fiscal year 2020, which have resulted in cost savings in fiscal year 2021.

Impairment of intangible assets

Impairment of intangible assets decreased for fiscal year 2021 to $0.0 million as compared to $2.8 million for fiscal year 2020. See Note 12. *Goodwill and Intangible Assets*, included in the accompanying notes to our consolidated financial statements for further information.

Interest and Other Expense, Net

The following table summarizes our interest and other expense, net:

(In millions)	2021	% Change	2020	% Change	2019
Interest income	$ 0.1	—%	$ 0.1	—%	$ 0.1
Interest expense	(42.1)	34%	(31.4)	49%	(21.1)
Other expense, net	(3.5)	(54)%	(7.6)	138%	(3.2)
Interest and other expenses, net	$ (45.5)	17%	$ (38.9)	61%	$ (24.2)

Interest and other expense, net increased in fiscal year 2021 compared to fiscal year 2020. Interest expense increased primarily due to the interest related to our Convertible Notes issued during June 2020, and the issuance of our Senior Secured Notes in September 2020 which had higher effective interest rates, as well as the partial extinguishment of the Senior Secured Notes. Other expense, net decreased in fiscal year 2021 compared to fiscal year 2020. Other expense, net during fiscal year 2020 consisted primarily of the impairment of certain investments in privately-held companies and a decrease in the fair value of the deferred consideration related to the Direct Conversion acquisition, which did not recur during fiscal year 2021.

Taxes on Income

	Fiscal Years	
	2021	2020
Effective tax rate	37.4 %	20.9 %

We had an income tax expense of $10.7 million and an income tax benefit of $15.2 million, for effective rates of 37.4% and 20.9%, for fiscal years 2021 and 2020, respectively.

During fiscal year 2021, our effective tax rate varied from the U.S. federal statutory rate of 21% primarily due to the unfavorable impact of U.S. deferred tax attributes and losses in certain foreign jurisdictions for which no benefit is recognized and a reduction in benefit for U.S. net operating losses carried back to prior years. These unfavorable items are partially offset by the favorable impact of R&D tax credits and U.S. tax reform international provisions.

During fiscal year 2020, our effective tax rate varied from the U.S. federal statutory rate of 21% primarily because of the favorable impact of U.S. net operating losses to be carried back to tax years with greater U.S. federal statutory rates. These favorable tax items are mostly offset by the unfavorable impact of additional losses in certain foreign jurisdictions, limitations on interest expense, and R&D credits for which no benefit is recognized.

We estimated the fiscal year 2021 GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax), FDII (foreign-derived intangible income), limitations on interest expense deductions, and other components of U.S. Tax Reform, and have included these amounts in the calculation of the fiscal year 2021 tax provision. We made an accounting policy election, as allowed by the SEC and FASB, to recognize the impact of GILTI as a period cost if and when incurred.

Liquidity and Capital Resources

We assess our liquidity in terms of our ability to generate cash to fund our operations, including working capital and investing activities. We continue to generate cash from operating activities and believe that our operating cash flow, cash on our balance sheet and availability under our ABL Facility will be sufficient to allow us to continue to invest in our existing businesses, to manage our capital structure on a short and long-term basis, and to meet our anticipated operating cash needs. The maximum availability under our ABL Facility was $100.0 million as of October 1, 2021; however, the borrowing base under the ABL Facility fluctuates from month-to-month depending on the amount of eligible accounts receivable and inventory. See Item 1A. “Risk Factors” for a further discussion. At October 1, 2021 we had $431.7 million in long-term debt, net of discounts and deferred issuance costs of $46.1 million.

On July 15, 2021, the Company redeemed $30 million of principal of our $300 million, 7.875% Senior Secured Notes due 2027 (the "Senior Secured Notes"), in accordance with the terms and conditions of the governing indenture by paying cash of $31.5 million, inclusive of the redemption premium and accrued interest, and recognized a $1.4 million loss related to the redemption premium and the write-off of previously recorded debt issuance costs. See Note 10. *Borrowings,* in the accompanying notes to our consolidated financial statements for more information regarding our indebtedness.

Our consolidated cash and cash equivalents increased from $100.6 million as of October 2, 2020, to $144.6 as of October 1, 2021. This increase was primarily due to cash inflows from operating activities of $92.6 million, offset by capital expenditures of $15.1 million and debt repayments of $33.1 million.

Cash and Cash Equivalents

The following table summarizes our cash and cash equivalents:

(In millions)	October 1, 2021	October 2, 2020	$ Change	% Change
Cash and cash equivalents	$ 144.6	$ 100.6	$ 44.0	43.7 %

Borrowings

The following table summarizes the changes in our debt outstanding:

(In millions, except for percentages)	October 1, 2021	October 2, 2020	$ Change	% Change
Current maturities of long-term debt				
Current portion of other debt	$ 2.8	$ 2.5	$ 0.3	$ 0.1
Total current maturities of long-term debt:	$ 2.8	$ 2.5	$ 0.3	12.0 %
Non-current maturities of long-term debt:				
Convertible Senior Unsecured Notes	$ 200.0	$ 200.0	$ —	— %
Senior Secured Notes	270.0	300.0	(30.0)	(10.0)%
Other debt	7.8	8.8	(1.0)	(11.4)%
Total non-current maturities of long-term debt:	$ 477.8	$ 508.8	$ (31.0)	(6.1)%
Unamortized issuance costs and debt discounts				
Unamortized discount - Convertible Notes	$ (37.6)	$ (45.4)	$ 7.8	(17.2)%
Unamortized issuance costs - Convertible Notes	(4.1)	(5.0)	0.9	(18.0)%
Debt issuance costs - Senior Secured Notes	(4.4)	(5.6)	1.2	(21.4)%
Total	$ (46.1)	$ (56.0)	$ 9.9	(17.7)%
Total debt outstanding, net	$ 434.5	$ 455.3	$ (20.8)	(4.6)%

Cash Flows

	Fiscal Years		
(In millions)	**2021**	**2020**	**2019**
Net cash flow provided by (used in):			
Operating activities	$ 92.6	$ 13.2	$ 71.9
Investing activities	(16.2)	(26.9)	(93.2)
Financing activities	(32.3)	83.6	(0.1)
Effects of exchange rate changes on cash and cash equivalents	(0.1)	0.9	(0.7)
Net increase (decrease) in cash and cash equivalents	$ 44.0	$ 70.8	$ (22.1)

Net Cash Provided by Operating Activities. Cash from operating activities consists primarily of net income adjusted for certain non-cash items, including share-based compensation, depreciation, amortization and impairment of intangible assets, inventory write-downs, deferred income taxes, amortization of deferred loan costs, income and loss from equity investments and the effect of changes in operating assets and liabilities.

For fiscal year 2021, compared to fiscal year 2020, net cash provided by operating activities were as follows:

- Net income of $17.9 million compared to net loss of $57.4 million,
- Non-cash adjustments to net income were $66.5 million compared to $84.5 million,
- Operating assets and liabilities activity:
    - Accounts receivable increased by $32.9 million compared to a decrease of $17.7 million,
    - Inventories decreased by $42.8 million compared to an increase of $42.7 million,
    - Prepaid expenses and other assets increased by $0.9 million compared to $9.3 million,
    - Accounts payable increased by $13.6 million compared to a decrease of $14.3 million,
    - Accrued liabilities and other long-term operating liabilities decreased by $12.2 million compared to a decrease of $8.1 million, and
    - Deferred revenues decreased by $0.6 million compared to an increase of $2.0 million.

Net cash used in investing activities. Cash used in investing activities was $16.2 million and $26.9 million for the fiscal years 2021 and 2020, respectively. The decrease in cash used in investing activities was primarily due to higher capital spending during the twelve months ended October 2, 2020, related primarily to the building of our facility in the Netherlands.

Net Cash Provided by (Used in) Financing Activities. We used $32.3 million of cash in financing activities for the twelve months ended October 1, 2021. Net cash used in financing activity for the twelve months ended October 1, 2021, was primarily due to our early redemption of $30 million of our Senior Secured Notes. Net cash provided by financing activity for the twelve months ended October 2, 2020, was primarily due to our issuance of $200.0 million in aggregate principal amount of 4.00% unsecured convertible senior notes due 2025 (“Convertible Notes”). The net proceeds from the issuance of the Convertible Notes, after deducting transaction fees, were approximately $193.1 million. In connection with the offering of the Convertible Notes, we separately entered into privately negotiated convertible note hedge transactions (collectively, the “Hedge Transactions”). The Hedge Transactions cover, subject to customary anti-dilution adjustments, the number of shares of our common stock that initially underlay the Convertible Notes. We also entered into warrant transactions (collectively, the “Warrant Transactions” and, together with the Hedge Transactions, the “Call Spread Transactions”), whereby we sold warrants at a higher strike price relating to the same number of shares of our common stock that initially underlay the Convertible Notes, subject to customary anti-dilution adjustments. We used $11.2 million of the net proceeds from the issuance of the Convertible Notes to pay the cost of the Call Spread Transactions. Additionally, during the twelve months ended October 2, 2020, we had borrowings under our credit agreement of $91.7 million and repayments of borrowings of $218.0 million.

Additionally, during fiscal year 2020 we issued $300.0 million aggregate principal amount of Senior Secured Notes. The net proceeds from the Senior Secured Notes after initial purchasers’ discount, commissions and estimated fees and expenses of $5.6 million, were approximately $294.4 million. We used $267.5 million of the proceeds from the offering to terminate and repay our previously existing credit agreement.

Days Sales Outstanding

Trade accounts receivable days sales outstanding (“DSO”) was 62 days and 66 days at October 1, 2021 and October 2, 2020, respectively. Our accounts receivable and DSO are impacted by a number of factors, primarily including the timing of product shipments, collections performance, payment terms, the mix of revenues from different regions and the effects of economic instability.

Contractual Obligations

The following table summarizes, as of October 1, 2021, the total amount of future payments due in various future periods:

	Payments Due by Period				
(In millions)	**Total**	**Fiscal Year 2022**	**Fiscal Years 2023-2024**	**Fiscal Years 2025-2026**	**Beyond**
Lease obligations	$ 29.9	$ 7.6	$ 9.3	$ 6.3	$ 6.7
Principal payments on borrowings	480.6	2.8	4.3	203.1	270.4
dpiX fixed cost commitment	2.9	2.9	—	—	—
Dividends to MeVis noncontrolling interest	3.8	0.5	1.1	1.1	1.1
Supplier equipment acquisition	9.8	9.8	—	—	—
Total	$ 527.0	$ 23.6	$ 14.7	$ 210.5	$ 278.2

We lease office space under non-cancelable operating leases. For further information on our operating leases, see Note 3. *Leases*, included in the accompanying notes to our consolidated financial statements.

For further discussion regarding our borrowings, see Note 10. *Borrowings,* included in the accompanying notes to our consolidated financial statements.

In October 2013, we entered into an amended agreement with dpiX and other parties that, among other things, provides us with the right to 50% of dpiX’s total manufacturing capacity produced after January 1, 2014. The amended agreement requires us to pay for 50% of the fixed costs (as defined in the amended agreement), as determined at the beginning of each calendar year. For the remainder of calendar year 2021, we estimate that we have fixed cost commitments of $2.9 million related to this amended agreement. The fixed cost commitment for future periods will be determined and approved by the dpiX board of directors at the beginning of each calendar year. The amended agreement will continue unless the ownership structure of dpiX changes (as defined in the amended agreement).

In October 2015, pursuant to a Domination and Profit and Loss Transfer Agreement (the “MeVis Agreement”), we committed to grant the noncontrolling shareholders of MeVis: (1) an annual recurring net compensation of €0.95 per MeVis share; and, (2) a put right for their MeVis shares at €19.77 per MeVis share. The annual net payment will continue for the life of the MeVis

Agreement, which we anticipate will continue for as long as we remain as the controlling shareholder of MeVis. As of October 1, 2021, noncontrolling shareholders together held approximately 0.5 million shares of MeVis, representing 26.3% of the outstanding shares.

Varex entered into a purchase agreement with a supplier to acquire certain equipment and intellectual property from the supplier that is utilized to manufacture X-ray cables utilized in Varex's products. For more information about our supplier equipment acquisition, see Note 13. *Commitments and Contingencies*, included in the accompanying notes to our consolidated financial statements.

Contingencies

From time to time, the Company is a party to or otherwise involved in legal proceedings, claims and government inspections or investigations, customs and duty audits, other contingency matters, both inside and outside the United States, arising in the ordinary course of its business or otherwise. The Company accrues amounts for probable losses, to the extent they can be reasonably estimated, that it believes are adequate to address any liabilities related to legal proceedings and other loss contingencies that the Company believes will result in a probable loss (including, among other things, probable settlement value). A loss or a range of loss is disclosed when it is reasonably possible that a material loss will be incurred and can be estimated or when it is reasonably possible that the amount of a loss, when material, will exceed the recorded provision. The Company did not have any material contingent liabilities as of October 1, 2021 and October 2, 2020. Legal expenses are expensed as incurred.

See Part 1, Item 3 of this Annual Report for additional information regarding legal proceedings and Note 13. *Commitments and Contingencies,* in the notes to our consolidated financial statements for further information regarding certain of our contractual obligations and contingencies, which discussion is incorporated herein by reference.

Off-Balance Sheet Arrangements

In conjunction with the sale of our products in the ordinary course of business, and consistent with industry practice, we provide standard indemnification of business partners and customers for losses suffered or incurred for property damages, death and injury and for patent, copyright or any other intellectual property infringement claims by any third parties with respect to our products. The terms of these indemnification arrangements are generally perpetual. Except for losses related to property damages, the maximum potential amount of future payments we could be required to make under these arrangements is unlimited. As of October 1, 2021, we have not incurred any material costs to defend lawsuits or settle claims related to these indemnification arrangements. As a result, we believe the estimated fair value of these arrangements is minimal.

We also have indemnification obligations to our directors and officers and certain of our employees that serve as officers or directors of our foreign subsidiaries that may require us to indemnify our directors and officers and those certain employees against liabilities that may arise by reason of their status or service as directors or officers, and to advance their expenses incurred as a result of any legal proceeding against them as to which they could be indemnified.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements and related disclosures in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are based on historical experience and on various other factors that we believe are reasonable under the circumstances. Our critical accounting policies that are affected by accounting estimates require us to use judgments, often as a result of the need to make estimates and assumptions regarding matters that are inherently uncertain, and actual results could differ materially from these estimates.

We periodically review our accounting policies, estimates and assumptions and make adjustments when facts and circumstances dictate. Such accounting policies require us to use judgments, often as a result of the need to make estimates and assumptions regarding matters that are inherently uncertain, and actual results could differ materially from these estimates. Our critical accounting policies that are affected by accounting estimates include valuation of inventories, assessment of recoverability of goodwill and intangible assets, and income taxes. Such accounting policies require us to use judgments, often as a result of the need to make estimates and assumptions regarding matters that are inherently uncertain, and actual results could differ materially from these estimates. For a discussion of how these estimates and other factors may affect our business, see Item 1A. “Risk Factors.”

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs include materials, labor and manufacturing overhead and is computed using standard cost (which approximates actual cost) on a first-in-first-out basis. We evaluate the carrying value of our inventories taking into consideration such factors as historical and anticipated future sales compared to quantities on hand and the prices we expect to obtain for products in our various markets. We adjust excess and obsolete inventories to net realizable value and write-downs of excess and obsolete inventories are recorded as a component of cost of revenues.

Goodwill and Intangible Assets

Goodwill is initially recorded when the purchase price paid for a business acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Our future operating performance will be impacted by the future amortization of these acquired intangible assets and potential impairment charges related to these intangibles or to goodwill if indicators of impairment exist. The allocation of the purchase price from business acquisitions to goodwill and intangible assets could have a material impact on our future operating results. In addition, the allocation of the purchase price of the acquired businesses to goodwill and intangible assets requires us to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate for those cash flows. Should conditions differ from management’s estimates at the time of the acquisition, material write-downs of intangible assets and/or goodwill may be required, which would adversely affect our operating results.

We evaluate goodwill for impairment at least annually or whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The evaluation includes consideration of qualitative factors including industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting unit. If we determine that a quantitative analysis is necessary, we perform a quantitative analysis which consists of a comparison of the fair value of a reporting unit against its carrying amount, including the goodwill allocated to each reporting unit. We determine the fair value of our reporting units based on a combination of income and market approaches. The income approach is based on the present value of estimated future cash flows of the reporting units and the market approach is based on a market multiple calculated for each reporting unit based on market data of other companies engaged in similar business. If the carrying amount of the reporting unit is in excess of its fair value, the difference between the fair value and carrying amount is recorded as an impairment loss. The impairment test for intangible assets with indefinite useful lives, if any, consists of a comparison of fair value to carrying value, with any excess of carrying value over fair value being recorded as an impairment loss.

In fiscal years 2021, 2020 and 2019, we performed the annual goodwill impairment test for our two reporting units and found no impairment. We performed the annual goodwill analysis as of the first day of the fourth quarter of each fiscal year (using balances as of the end of the third quarter of that fiscal year). For both reporting units, based upon the annual goodwill analysis that we performed as of the first day of the fourth quarter of the respective fiscal years, either a quantitative analysis of the impairment test was not completed based on evaluation of qualitative factors or, if quantitative analysis was completed, the fair value was substantially in excess of carrying value. However, significant changes in our projections of our operating results or other factors could cause us to make interim assessments of impairments in any quarter that could result in some or all of the goodwill being impaired.

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions, estimates, and market factors. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans, as well as industry, economic, and regulatory conditions. These assumptions and estimates include estimated future annual net cash flows, income tax rates, discount rates, revenue growth rates, forecasted gross margins, market multiples, terminal value and other market factors. This fair value measurement was based on significant inputs not observable in the market and thus represents a Level 3 fair value measurement. If current expectations of future revenue growth rates and forecasted gross margins, both in size and timing, are not met, if market factors outside of our control, such as discount rates, change, if market multiples decline, or if management’s expectations or plans otherwise change, including as a result of the development of our global five-year operating plan, then one or more of our reporting units might become impaired in the future. The Company will continue to monitor the financial performance of and assumptions for its reporting units. A future impairment charge for goodwill could have a material effect on the Company's consolidated financial position and results of operations.

We will continue to make assessments of impairment on an annual basis or more frequently if indicators of potential impairment arise.

Taxes on Income

Current income tax expense or benefit is the amount of income taxes expected to be payable or receivable for the current year. Deferred income tax liabilities or assets are established for the expected future tax consequences resulting from the differences in financial reporting and tax bases of assets and liabilities. Future changes in tax regulation can have a material impact, including tax rate changes or the realization of deferred tax assets. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. U.S. Tax Reform introduced a limitation of business interest deduction under IRC Section 163(j), which may be difficult to utilize without significant taxable income. Also, net operating loss carryforwards in jurisdictions with current losses provide uncertainty for realization. In addition, we provide reserves for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by the authoritative guidance for accounting for income taxes. A portion of the U.S. general business tax credits for research outside of the financial statement line for research and development (R&D) have a small degree of uncertainty. A reasonable reserve is maintained on the uncertain portion until either the Internal Revenue Service chooses to audit, or the statute of limitation expires. A reserve for R&D is typical for companies who calculate and utilize this general business credit. Amounts for uncertain tax positions are adjusted in periods when new information becomes available or when positions are effectively settled. Interest and penalties related to uncertain tax positions are recognized as a component of income tax expense.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss ("NOL") carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. On July 2, 2020, the US Treasury Department issued a regulation providing an election to waive NOL carryback to a former consolidated group. During fiscal year 2021, we filed NOL carryback claims for U.S. losses incurred in fiscal year 2020 and anticipates cash tax refunds on those claims.

Recent Accounting Standards or Updates Not Yet Effective

See Note 1. *Summary of Significant Accounting Policies,* of the notes to the consolidated financial statements for a description of recent accounting standards, including the expected dates of adoption and the estimated effects on our consolidated financial statements.

Backlog

Backlog is the accumulation of all orders for which revenues have not been recognized and are still considered valid. Backlog also includes a small portion of billed service contracts that are included in deferred revenue. Our estimated total backlog at October 1, 2021 was approximately $327 million.

Orders may be revised or canceled, either according to their terms or as customers' needs change. Consequently, it is difficult to predict with certainty the amount of backlog that will result in revenues. We perform a quarterly review to verify that outstanding orders in the backlog remain valid. Aged orders that are not expected to be converted to revenues are deemed dormant and are reflected as a reduction in the backlog amounts in the period identified.

In addition to orders for which revenues have not been recognized and are still considered valid, we have pricing agreements with many of our established customers that span multi-year periods. These pricing agreements include volume ranges under which orders are placed.

Item 7A. Quantitative and Qualitative Disclosures about Market Risks

We are exposed to four primary types of market risks: foreign currency exchange rate risk, credit and counterparty risk, interest rate risk and commodity price risk.

Foreign Currency Exchange Rate Risk

A significant portion of our customers are outside the United States, while our financial statements are denominated, and our products are generally priced in U.S. Dollars. A strong U.S. Dollar may result in pricing pressure for our customers that are located outside the United States and that conduct their businesses in currencies other than the U.S. Dollar. Such pricing pressure has caused, and could continue to cause, some of our customers to ask for discounted prices, delay purchasing decisions, consider moving to in-sourcing supply of components or migrating to lower cost alternatives. In addition, because our business is global and some payments may be made in local currency, fluctuations in foreign currency exchange rates can impact our revenues and expenses and/or the profitability in U.S. Dollars of products and services that we provide in foreign markets.

We may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, and net investments in foreign subsidiaries. We generally hedge portions of forecasted foreign currency exposure, typically for one to three months. In addition, we hold a cross-currency swap between the Euro and U.S. Dollar as a Net Investment Hedge of our acquisition of Direct Conversion. Depending on the spot rate between the Euro and U.S. Dollar at the time of settlement and whether we have sufficient Euros available, we may have to borrow incrementally in U.S. Dollars to settle this obligation. Additionally, we may choose not to hedge certain foreign exchange exposures for a variety of reasons including, but not limited to, accounting considerations, the prohibitive economic cost of hedging particular exposures, or due to natural offsets among the different exposures.

Credit and Counterparty Risk

We use a centralized approach to manage substantially all of our cash and to finance our operations. Our cash and cash equivalents may be exposed to a concentration of credit risk and we may also be exposed to credit risk and interest rate risk to the extent that we enter into credit facilities.

We perform ongoing credit evaluations of our customers and we maintain what we believe to be strong credit controls in evaluating and granting customer credit, including performing ongoing evaluations of our customers' financial condition and creditworthiness and often using letters of credit and requiring certain Industrial customers to provide a down payment.

Interest Rate Risk

Borrowings under our ABL Facility bear interest at floating interest rates. At October 1, 2021, we had no borrowings subject to floating interest rates. See Note 10. *Borrowings,* of the notes to our consolidated financial statements for further information.

Commodity Price Risk

We are exposed to market risks related to volatility in the prices of raw materials used in our products. The prices of these raw materials fluctuate in response to changes in supply and demand fundamentals and our product margins and level of profitability tend to fluctuate with changes in these raw materials prices. We try to protect against such volatility through various business strategies. During the fiscal year ended October 1, 2021, we did not have any commodity derivative instruments in place to manage our exposure to price changes.

Item 8. Financial Statements and Supplementary Data.

The Consolidated Financial Statements and Schedules listed in the Index to Consolidated Financial Statements, Schedules and Exhibits on page F-1 are filed as part of this Annual Report and incorporated in this Item 8 by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") are designed to provide reasonable assurance that information required to be disclosed in our periodic reports that we file or submit under the Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed, and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that our disclosure controls and procedures were effective as of October 1, 2021.

Management's Annual Report on Internal Control Over Financial Reporting

Management, under the supervision of our CEO and CFO, is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management evaluated the design and operating effectiveness of our internal control over financial reporting based on the criteria established in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the

"COSO framework" (2013)). All internal control systems, no matter how well designed, have inherent limitations. Accordingly, even effective internal controls and procedures can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of October 1, 2021. Based on this evaluation, our management concluded that we maintained effective internal control over financial reporting as of October 1, 2021.

The effectiveness of our internal control over financial reporting as of October 1, 2021 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which appears below in “Item 9a. Controls and Procedures".

Previously Identified Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We previously identified and disclosed in our Annual Report on Form 10-K for the year ended October 2, 2020 material weaknesses in our internal control over financial reporting relating to the following:

- **Control Environment:** We did not maintain an effective control environment as we had an insufficient complement of resources with the requisite knowledge and experience to create the proper environment for effective internal control over financial reporting such that corrective activities to our internal control over financial reporting are appropriately applied, prioritized, and implemented in a timely manner.

- **Risk Assessment:** We did not design and maintain an effective risk assessment process to identify and assess the risks in our business processes. Specifically, we did not adequately identify new and evolving risks of material misstatement and design and implement controls to address those risks as a result of changes to our business operating environment.

- **Inventory and cost of revenues:** We did not design and maintain effective controls related to accounting for inventory and cost of revenues, including maintaining effective business process controls to prevent or detect misstatements in the existence, accuracy, and presentation and disclosure of inventory. Specifically, we did not maintain effective controls related to the verification of inventory at third party vendor locations and the presentation and disclosure of inventory classification.

- **Financial Reporting:** We did not design and maintain effective controls over our financial reporting close process to prevent or detect material misstatements in our financial statements. Specifically, we did not design and maintain effective controls related to the completeness, accuracy and elimination of intercompany balances and ensuring appropriate segregation of duties as it relates to the preparation and review of journal entries.

Remediation Efforts of Previously Disclosed Material Weaknesses

Subsequent to the evaluation made in connection with filing our Annual Report on Form 10-K for the year ended October 2, 2020, management, with the oversight of the Audit Committee of the Board of Directors, continued the process of remediating the material weaknesses.

During the year ended October 1, 2021, we completed our plans to remediate these material weaknesses by performing the following:

- We invested significantly in the quality of our accounting talent including management, technical, process improvement and financial system roles. Additionally, we implemented programs to: improve our talent acquisition and retention platforms; enhance technical, transactional and control knowledge of our accounting teams; and created a culture of accountability and control. These programs have significantly improved the stability of our global accounting organization.

- We completed a gap analysis of our key controls. In completing this analysis, we identified areas where new controls were necessary and enhancements to existing controls, policies and procedures needed to be made.

- Implementing or enhancing controls in the inventory business process over (i) verification of inventory at third party vendor locations and (ii) presentation and disclosure of inventory classification.

- Implementing or enhancing controls in the financial reporting close process over (i) journal entry posting rights and responsibilities, (ii) appropriate level of segregation of duties and (ii) completeness, accuracy and elimination of intercompany balances.

As a result of these remediation activities and based on the result of the operating effectiveness testing we performed for the new and modified controls, we concluded the previously reported material weaknesses have been fully remediated as of October 1, 2021.

Changes in Internal Control Over Financial Reporting

Other than the remediation efforts of previously disclosed material weaknesses described above, there were no changes to our internal control over financial reporting during the quarter ended October 1, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Varex Imaging Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Varex Imaging Corporation and subsidiaries (the "Company") as of October 1, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 1, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended October 1, 2021 of the Company and our report dated November 19, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
November 19, 2021

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors and Executive Officers

The information required by this item with respect to our executive officers is set forth in Part I of this Annual Report on Form 10-K and information relating to the availability of our code of conduct for executive officers and directors is set out below. The other information required by this item is incorporated by reference from our definitive proxy statement for the 2022 Annual Meeting of Stockholders under the captions “Proposal — Election of Directors.” and “Stock Ownership-Section 16(a) Beneficial Ownership Reporting Compliance.” Our definitive proxy statement for the 2022 Annual Meeting of Stockholders will be filed with the SEC no later than 120 days after October 1, 2021.

Code of Conduct

We have adopted a Code of Conduct that applies to all of our executive officers and directors. The Code of Conduct is available on our website at http://www.vareximaging.com.

We intend to satisfy the disclosure requirements under Item 5.05(c) of Form 8-K regarding an amendment to, or waiver from, a provision of the Code of Conduct that applies to our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions by posting such information on our website, specified above.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference from our definitive proxy statement for the 2022 Annual Meeting of Stockholders under the caption “Executive Compensation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information

The following table provides information as of October 1, 2021 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category (amounts in thousands except per share data)	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1) (a)	Weighted average exercise price of outstanding options, warrants, and rights (2) (b)	Number of securities remaining available for future issuance under equity compensation plans (3) (excluding securities reflected in columns (a) and (b))
Equity compensation plans approved by security holders	3,891	$ 28.69	4,349
Equity compensation plans not approved by security holders	—	—	—
Total	3,891	$ 28.69	4,349

(1) Consists of stock options, restricted stock units ("RSUs"), and deferred stock units ("DSUs") granted under the Varex Imaging Corporation 2017 Omnibus Stock Plan and the 2020 Stock Plan. Excludes purchase rights under the ESPP.
(2) The weighted average exercise price does not take into account the shares issuable upon vesting of outstanding RSUs and DSUs, which have no exercise price.
(3) Includes 4,051 thousand shares available for future issuance under the 2020 Stock Plan. Also includes 298 thousand shares available for future issuance under the ESPP. Subject to the number of shares remaining in the share reserve, the maximum number of shares purchasable by any participant on any one purchase date for any purchase period, including the current purchase period may not exceed 2,000 shares.

The information required by this item with respect to the security ownership of certain beneficial owners and the security ownership of directors and executive officers is incorporated by reference from our definitive proxy statement for the 2022 Annual

Meeting of Stockholders under the caption “Stock Ownership—Beneficial Ownership of Certain Stockholders, Directors and Executive Officers.”

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by this item with respect to certain relationships and related transactions is incorporated by reference from our definitive proxy statement for the 2022 Annual Meeting of Stockholders under the caption “Certain Relationships and Related Transactions.” The information required by this item with respect to director and committee member independence is incorporated by reference from our definitive proxy statement for the 2022 Annual Meeting of Stockholders under the caption “Proposal - Election of Directors.”

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference from our definitive proxy statement for the 2022 Annual Meeting of Stockholders under the caption “Proposal - Ratification of the Appointment of Our Independent Registered Public Accounting Firm.”

PART IV

Item 15. Exhibits, Consolidated Financial Statements and Financial Statement Schedules.

Documents filed as part of this annual report include:

1. *Consolidated Financial Statements.* We have filed the consolidated financial statements listed in the index to Consolidated Financial Statements, Schedules and Exhibits on page F-1 as part of this annual report on Form 10-K.

2. *Financial Statement Schedules and Other.* All financial statement schedules have been omitted because they are not applicable, or not material or the required information is shown in the consolidated financial statements or the notes thereto.

3. *Exhibits.* The exhibits listed below are filed as part of this annual report on Form 10-K.

Exhibit Number	Description
2.1*	Separation and Distribution Agreement, dated as of January 27, 2017, by and between Varian and (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed January 30, 2017).
2.2*	Assignment and Assumption Agreement, dated January 27, 2017, by and between Varian Medical Systems, Inc. and Varex Imaging Corporation (incorporated by reference to Exhibit 2.3 to the Company's Quarterly Report on Form 10-Q filed May 12, 2017).
3.1*	Amended and Restated Certificate of Incorporation, dated January 27, 2017 (as corrected December 11, 2017) (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed November 27, 2018).
3.2*	Amended and Restated Bylaws of the Company, as amended February 11, 2021 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed February 16, 2021).
4.1	Information required by Item 202(a) through (d) and (f) of Regulation S-K for each class of Company securities that is registered under Section 12 of the Exchange Act.
4.2*	Indenture, dated June 9, 2020, by and among Varex Imaging Corporation and Wells Fargo Bank, National Association, as Trustee, including form of 4.00% Convertible Senior Notes due 2025 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed June 9, 2020).
4.3*	Indenture, dated as of September 30, 2020, by and among Varex Imaging Corporation, the Guarantors party thereto and Wells Fargo Bank, National Association, as trustee and collateral agent, including the form of 7.875% Senior Secured Notes due 2027 as Exhibit A (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 10-K filed November 30, 2021).
10.1*	Transition Services Agreement, dated as of January 27, 2017, by and between Varian and Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 30, 2017).
10.2*	Tax Matters Agreement, dated as of January 27, 2017 by and between Varian and Company (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 30, 2017).
10.3*	Employee Matters Agreement, dated as of January 27, 2017, by and between Varian and Company (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 30, 2017).
10.4*	Intellectual Property Matters Agreement, dated as of January 27, 2017, by and between Varian and Company (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed January 30, 2017).
10.5*	Trademark License Agreement, dated as of January 27, 2017, by and between Varian and Company (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed January 30, 2017).
10.6*†	Varex Imaging Corporation 2017 Omnibus Stock Plan (incorporated by reference to Exhibit 99.1 to the Company's Form S-8, filed January 27, 2017).

10.7*†	Form of Nonqualified Stock Option Agreement under the 2017 Omnibus Stock Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 16, 2017).
10.8*†	Form of Restricted Stock Unit Award Agreement under the 2017 Omnibus Stock Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 16, 2017).
10.9*†	Varex Imaging Corporation 2017 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 99.2 to the Company's Form S-8, filed January 27, 2017).
10.10*†	Varex Imaging Corporation Management Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed January 30, 2017).
10.11†	Form of Change in Control Agreement
10.12*†	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K filed January 30, 2017).
10.13*†	Varex Imaging Corporation 2016 Deferred Compensation Plan (incorporated by reference to Exhibit 10.6 to Amendment No. 2 to Form 10 filed by the Company on December 8, 2016).
10.14*†	Varex Imaging Corporation Frozen Deferred Compensation Plan (incorporated by reference to Exhibit 10.7 to Amendment No. 2 to Form 10 filed by the Company on December 8, 2016).
10.15*†	Form of Grant Agreement for Deferred Stock Units under the 2017 Omnibus Stock Plan (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed December 13, 2017.
10.16*†	Form of Grant Agreement for Deferred Stock Units under the 2017 Omnibus Stock Plan (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K filed December 20, 2019).
10.17*†	Varex Imaging Corporation 2020 Omnibus Stock Plan, including the Form of Nonqualified Stock Option Agreement, the Form of Restricted Stock Unit Agreement and the Form of Grant Agreement – Deferred Stock Units (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 14, 2020).
10.18*	Credit Agreement dated as of September 30, 2020, by and among Varex Imaging Corporation, Varex Imaging West, LLC, Varex Imaging Deutschland AG, the Guarantors party thereto and Bank of America N.A., as administrative and collateral agent, and the lenders party thereto (incorporated by reference to Exhibit 10.18 to the Company's Current Report on Form 10-K filed November 30, 2021).
10.19*	Form of Base Convertible Bond Hedge Confirmation, dated June 4, 2020, between Varex Imaging Corporation and each of the counterparties thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 9, 2020).
10.20*	Form of Base Warrant Confirmation, dated June 4, 2020, between Varex Imaging Corporation and each of the counterparties thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 9, 2020).
10.21*	Form of Additional Convertible Bond Hedge Confirmation, dated June 5, 2020, between Varex Imaging Corporation and each of the counterparties thereto (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 9, 2020).
10.22*	Form of Additional Warrant Confirmation, dated June 5, 2020, between Varex Imaging Corporation and each of the Counterparties (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed June 9, 2020).
10.23*	Share Purchase Agreement dated March 21, 2019 between Varex Imaging Corporation, Varex Imaging Investments, B.V. and certain shareholders of Direct Conversions AB (publ) (incorporated by reference to Exhibit 10.1 to Company's Quarterly Report on Form 10-Q filed on May 8, 2019).
10.24*†	Transition Agreement dated February 11, 2020 between Clarence Verhoef and Varex Imaging Corporation (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 13, 2020).
10.25*†	Offer Letter dated June 8, 2020 by Varex Imaging Corporation to Shubham Maheshwari (incorporated by reference to Exhibit 10.25 to the Company's Current Report on Form 10-K filed November 30, 2021).
21.1	List of Subsidiaries as of November 8, 2021

23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm
23.2	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibits 101).
*	Incorporated herein by reference
†	Management contract or compensatory agreement.

Item 16. Form 10-K Summary

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VAREX IMAGING CORPORATION

Date:	November 19, 2021	By:	/s/ Shubham Maheshwari
			Shubham Maheshwari
			Chief Financial Officer
			(Duly Authorized Officer and Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ SUNNY S. SANYAL Sunny S. Sanyal	President and Chief Executive Officer and Director *(Principal Executive Officer)*	November 19, 2021
/s/ SHUBHAM MAHESHWARI Shubham Maheshwari	Chief Financial Officer *(Principal Financial and Accounting Officer)*	November 19, 2021
/s/ RUEDIGER NAUMANN-ETIENNE Ruediger Naumann-Etienne	Chairman of the Board	November 19, 2021
/s/ JOCELYN D. CHERTOFF Jocelyn D. Chertoff	Director	November 19, 2021
/s/ TIMOTHY E. GUERTIN Timothy E. Guertin	Director	November 19, 2021
/s/ JAY K. KUNKEL Jay K. Kunkel	Director	November 19, 2021
/s/ WALTER M ROSEBROUGH, JR. Walter M Rosebrough, Jr.	Director	November 19, 2021
/s/ CHRISTINE A. TSINGOS Christine A. Tsingos	Director	November 19, 2021

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Varex Imaging Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Varex Imaging Corporation and subsidiaries (the "Company") as of October 1, 2021, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the year ended October 1, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 1, 2021, and the results of its operations and its cash flows for the year ended October 1, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of October 1, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 19, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Inventories – Valuation of Excess and Obsolete Inventories — Refer to Note 1 to the financial statements

Critical Audit Matter Description

Inventories are valued at the lower of cost or net realizable value. The Company evaluates the carrying value of its inventories taking into consideration such factors as historical sales and anticipated future sales compared to quantities on hand and the prices the Company expects to obtain for products in its various markets. The Company adjusts excess and obsolete inventories to net realizable value, and write-downs of excess and obsolete inventories are recorded as a component of cost of revenues. As of October 1, 2021, the Company's inventories, net, were $224.8 million. For the year ended October 1, 2021, inventory write-downs associated with certain discontinued products were $3.5 million. Estimating the amount of excess and obsolete inventories involves significant judgment and estimates.

We identified the valuation of excess and obsolete inventories as a critical audit matter because of management's significant judgment and estimates in determining the reasonableness of the valuation of excess and obsolete inventories primarily around anticipated future sales. This required a high degree of auditor judgment and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's estimates of the valuation of excess and obsolete inventories included the following, among others:

- We tested the effectiveness of controls over the valuation of excess and obsolete inventories. The controls we tested included those over the calculation and accuracy and completeness of underlying data used in the calculation including historical sales and anticipated future sales by product, product quantities on hand, and applicable prices.
- We evaluated management's ability to accurately estimate the valuation of excess and obsolete inventories by comparing actual inventory write-downs to management's historical estimates.
- We performed procedures to evaluate the reasonableness of management's methods, assumptions, and judgments used in developing their estimate of the valuation of excess and obsolete inventories, which included consideration of historical sales, anticipated future sales, and information obtained from production planning and supply chain employees.
- We assessed the reasonableness of the assumptions used in the calculations of valuation of excess and obsolete inventories by developing an independent expectation and comparing our independent expectation to the results of the Company's calculations.
- We tested the mathematical accuracy of the Company's calculations of excess and obsolete inventories.
- We tested the accuracy and completeness of the underlying data used in the Company's calculations of the valuation of excess and obsolete inventories, including historical sales, anticipated future sales, quantities on hand, and pricing.

/s/ Deloitte & Touche LLP
Salt Lake City, Utah
November 19, 2021

We have served as the Company's auditor since 2021.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Varex Imaging Corporation

Opinion on the Financial Statements

We have audited the consolidated balance sheet of Varex Imaging Corporation and its subsidiaries (the "Company") as of October 2, 2020, and the related consolidated statements of operations, of comprehensive income (loss), of stockholders' equity and of cash flows for each of the two years in the period ended October 2, 2020, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 2, 2020, and the results of its operations and its cash flows for each of the two years in the period ended October 2, 2020 in conformity with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Notes 1 and 3 to the consolidated financial statements, the Company changed the manner in which it accounts for leases as of September 28, 2019 and the manner in which it accounts for revenues as of September 29, 2018.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Salt Lake City, Utah
November 30, 2020

We served as the Company's auditor from 2016 to 2020.

VAREX IMAGING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years		
(In millions, except per share amounts)	**2021**	**2020**	**2019**
Revenues, net	$ 818.1	$ 738.3	$ 780.6
Cost of revenues	546.6	548.1	523.9
Gross profit	271.5	190.2	256.7
Operating expenses:			
Research and development	71.9	78.9	78.1
Selling, general and administrative	125.5	142.2	128.1
Impairment of intangible assets	—	2.8	4.8
Total operating expenses	197.4	223.9	211.0
Operating income (loss)	74.1	(33.7)	45.7
Interest income	0.1	0.1	0.1
Interest expense	(42.1)	(31.4)	(21.1)
Other expense, net	(3.5)	(7.6)	(3.2)
Interest and other expense, net	(45.5)	(38.9)	(24.2)
Income (loss) before taxes	28.6	(72.6)	21.5
Income tax expense (benefit)	10.7	(15.2)	5.7
Net income (loss)	17.9	(57.4)	15.8
Less: Net income attributable to noncontrolling interests	0.5	0.5	0.3
Net income (loss) attributable to Varex	$ 17.4	$ (57.9)	$ 15.5
Net income (loss) per common share attributable to Varex			
Basic	$ 0.44	$ (1.49)	$ 0.41
Diluted	$ 0.43	$ (1.49)	$ 0.40
Weighted average common shares outstanding			
Basic	39.3	38.8	38.2
Diluted	40.3	38.8	38.6

See accompanying notes to the consolidated financial statements.

VAREX IMAGING CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Fiscal Years		
(In millions)	**2021**	**2020**	**2019**
Net income (loss)	$ 17.9	$ (57.4)	$ 15.8
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on interest rate swap contracts	—	0.4	(6.2)
Unrealized (loss) gain on defined benefit obligations	(0.1)	0.6	(1.3)
Foreign currency translation adjustments	(0.7)	1.5	—
	(0.8)	2.5	(7.5)
Comprehensive income (loss)	17.1	(54.9)	8.3
Less: Comprehensive income attributable to noncontrolling interests	0.5	0.5	0.3
Comprehensive income (loss) attributable to Varex	$ 16.6	$ (55.4)	$ 8.0

See accompanying notes to the consolidated financial statements.

VAREX IMAGING CORPORATION
CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)	October 1, 2021	October 2, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 144.6	$ 100.6
Accounts receivable, net of allowance for credit losses of $1.0 million and $0.3 million at October 1, 2021 and October 2, 2020, respectively	155.3	123.8
Inventories	224.8	271.9
Prepaid expenses and other current assets	29.5	25.7
Total current assets	554.2	522.0
Property, plant and equipment, net	140.2	145.2
Goodwill	292.2	293.1
Intangible assets, net	50.7	67.5
Investments in privately-held companies	49.3	51.3
Deferred tax assets	4.0	0.5
Operating lease assets	24.3	27.7
Other assets	32.6	32.2
Total assets	$ 1,147.5	$ 1,139.5
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 58.8	$ 72.9
Accrued liabilities and other current liabilities	89.7	70.5
Current operating lease liabilities	6.2	6.1
Current maturities of long-term debt	2.8	2.5
Deferred revenues	9.1	8.6
Total current liabilities	166.6	160.6
Long-term debt, net	431.7	452.8
Deferred tax liabilities	2.2	2.3
Operating lease liabilities	18.7	23.1
Other long-term liabilities	31.8	34.9
Total liabilities	651.0	673.7
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.01 par value: 20,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value: 150,000,000 shares authorized		
Shares issued and outstanding: 39,435,830 and 39,059,094 at October 1, 2021 and October 2, 2020, respectively	0.4	0.4
Additional paid-in capital	449.4	434.4
Accumulated other comprehensive income	—	0.8
Retained earnings	33.5	16.1
Total Varex stockholders' equity	483.3	451.7
Noncontrolling interests	13.2	14.1
Total stockholders' equity	496.5	465.8
Total liabilities and stockholders' equity	$ 1,147.5	$ 1,139.5

See accompanying notes to the consolidated financial statements.

VAREX IMAGING CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Varex Equity	Noncontrolling Interests	Total Stockholders' Equity
September 28, 2018	38.0	$ 0.4	$ 357.6	$ 5.8	$ 62.4	$ 426.2	$ 2.1	$ 428.3
Cumulative effect of accounting change	—	—	—	—	(3.5)	(3.5)	—	(3.5)
Net income (loss)	—	—	—	—	15.5	15.5	(0.2)	15.3
Exercise of stock options	—	—	0.8	—	—	0.8	—	0.8
Common stock issued upon vesting of restricted shares	0.2	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	—	—	(2.1)	—	—	(2.1)	—	(2.1)
Common stock issued under employee stock purchase plan	0.2	—	3.8	—	—	3.8	—	3.8
Share-based compensation	—	—	11.7	—	—	11.7	—	11.7
Unrealized loss on interest rate swap contracts, net of tax	—	—	—	(6.2)	—	(6.2)	—	(6.2)
Unrealized loss on defined benefit obligations, net of tax	—	—	—	(1.3)	—	(1.3)	—	(1.3)
Noncontrolling interest acquired/consolidated	—	—	—	—	—	—	1.4	1.4
September 27, 2019	38.4	$ 0.4	$ 371.8	$ (1.7)	$ 74.4	$ 444.9	$ 3.3	$ 448.2
Cumulative effect of accounting change	—	—	—	—	(0.3)	(0.3)	—	(0.3)
Net loss	—	—	—	—	(57.9)	(57.9)	—	(57.9)
Exercise of stock options	0.1	—	1.5	—	—	1.5	—	1.5
Common stock issued upon vesting of restricted shares	0.2	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	(0.1)	—	(1.8)	—	—	(1.8)	—	(1.8)
Common stock issued under employee stock purchase plan	0.2	—	3.6	—	—	3.6	—	3.6
Share-based compensation	—	—	13.4	—	—	13.4	—	13.4
Unrealized gain on interest rate swap contracts, net of tax	—	—	—	0.4	—	0.4	—	0.4
Unrealized gain on defined benefit obligations, net of tax	—	—	—	0.6	—	0.6	—	0.6
Conversion feature of Convertible Notes, net of issuance costs	—	—	49.7	—	—	49.7	—	49.7
Purchase of hedges	—	—	(61.0)	—	—	(61.0)	—	(61.0)
Issuance of warrants	—	—	49.8	—	—	49.8	—	49.8
Foreign currency translation adjustments	—	—	—	1.5	—	1.5	—	1.5
Shares issued to settle deferred consideration	0.3	—	7.4	—	—	7.4	—	7.4
Reclassification from mezzanine equity to equity for noncontrolling interest in MeVis Medical Solutions, AG	—	—	—	—	—	—	11.3	11.3
Other	—	—	—	—	(0.1)	(0.1)	(0.5)	(0.6)
October 2, 2020	39.1	$ 0.4	$ 434.4	$ 0.8	$ 16.1	$ 451.7	$ 14.1	$ 465.8
Net income	—	—	—	—	17.4	17.4	0.5	17.9
Common stock issued upon vesting of restricted shares	0.2	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	(0.1)	—	(1.5)	—	—	(1.5)	—	(1.5)
Common stock issued under employee stock purchase plan	0.2	—	2.8	—	—	2.8	—	2.8
Share-based compensation	—	—	13.9	—	—	13.9	—	13.9
Unrealized loss on defined benefit obligations, net of tax	—	—	—	(0.1)	—	(0.1)	—	(0.1)
Foreign currency translation adjustments	—	—	—	(0.7)	—	(0.7)	—	(0.7)
Other	—	—	(0.2)	—	—	(0.2)	(1.4)	(1.6)
October 1, 2021	$ 39.4	$ 0.4	$ 449.4	$ —	$ 33.5	$ 483.3	$ 13.2	$ 496.5

See accompanying notes to the consolidated financial statements.

VAREX IMAGING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Fiscal Years 2021	Fiscal Years 2020	Fiscal Years 2019
Cash flows from operating activities:			
Net income (loss)	$ 17.9	$ (57.4)	$ 15.8
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Share-based compensation expense	13.9	13.4	11.7
Depreciation	20.5	22.3	23.5
Amortization of intangible assets	16.8	17.2	15.7
Impairment of intangible assets	—	2.8	4.8
Other assets impairment charges	0.5	2.7	—
Inventory write-down	3.5	18.1	3.1
Deferred taxes	(3.0)	(3.1)	(12.9)
Amortization of deferred loan costs	10.0	5.1	2.4
Loss from equity method investments, net of dividends received	3.0	1.3	2.3
Other, net	1.3	4.7	0.8
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(32.9)	17.7	14.8
Inventories	42.8	(42.7)	(11.1)
Prepaid expenses and other assets	(0.9)	(9.3)	4.3
Accounts payable	(13.6)	14.3	(9.0)
Accrued operating liabilities and other long-term operating liabilities	12.2	8.1	10.9
Deferred revenues	0.6	(2.0)	(5.2)
Net cash provided by operating activities	92.6	13.2	71.9
Cash flows from investing activities:			
Purchases of property, plant and equipment	(15.1)	(23.5)	(19.8)
Acquisitions of businesses, net of cash acquired	—	(1.6)	(69.5)
Investments in privately-held companies	(1.4)	(1.8)	(3.9)
Other	0.3	—	—
Net cash used in investing activities	(16.2)	(26.9)	(93.2)
Cash flows from financing activities:			
Proceeds from issuance of debt	1.5	593.8	85.4
Repayments of borrowings	(33.1)	(483.9)	(87.0)
Payment of debt issuance costs	—	(16.7)	(0.5)
Proceeds from issuance of warrant	—	49.8	—
Purchases of hedges	—	(61.0)	—
Proceeds from shares issued under employee stock purchase plan	2.8	3.6	3.8
Proceeds from exercise of stock options	—	1.5	0.8
Taxes related to net share settlement of equity awards	(1.5)	(1.8)	(2.1)
Other financing activities	(2.0)	(1.7)	(0.5)
Net cash (used in) provided by financing activities	(32.3)	83.6	(0.1)
Effects of exchange rate changes on cash and cash equivalents and restricted cash	(0.1)	0.9	(0.7)
Net increase (decrease) in cash and cash equivalents and restricted cash	44.0	70.8	(22.1)
Cash and cash equivalents and restricted cash at beginning of period	102.1	31.3	53.4
Cash and cash equivalents and restricted cash at end of period	$ 146.1	$ 102.1	$ 31.3
Supplemental cash flow information:			
Cash paid for interest	$ 21.6	$ 16.7	$ 19.9
Cash paid for income tax, net of refunds	14.1	4.2	8.2
Supplemental non-cash activities:			
Purchases of property, plant and equipment financed through accounts payable	$ 1.5	$ 1.6	$ 1.8

See accompanying notes to the consolidated financial statements.

VAREX IMAGING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Varex Imaging Corporation (the "Company," "Varex" or "Varex Imaging") designs, manufactures, sells and services a broad range of Medical products, which include X-ray tubes, digital detectors and accessories, high voltage connectors, image processing software and workstations, computer-aided diagnostic software, collimators, automatic exposure control devices, generators, ionization chambers and buckys, for use in a range of applications, including radiographic or fluoroscopic imaging, mammography, computed tomography, oncology and computer-aided detection. The Company sells its products to imaging system original equipment manufacturer ("OEM") customers for incorporation into new medical diagnostic, radiation therapy, dental, and veterinary, to independent service companies, distributors and directly to end-users for replacement purposes.

The Company also designs, manufactures, sells and services industrial products, which include Linatron® X-ray accelerators, imaging processing software and image detection products for security and inspection purposes, such as cargo screening at ports and borders and nondestructive examination in a variety of applications. The Company generally sells security and inspection products to OEM customers who incorporate Varex's products into their inspection systems. The Company conducts an active research and development program to focus on new technology and applications in both the medical and industrial X-ray imaging markets.

Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the SEC and prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The Company has consolidated all the majority owned subsidiaries and entities over which we have control. All intercompany balances and transactions have been eliminated in consolidation.

Segment Reporting

The Company has two reportable operating segments; (i) Medical and (ii) Industrial. See Note 17. *Segment Information,* included in this report, for further information on the Company's segments.

Fiscal Year

The fiscal years of the Company as reported are the 52 or 53-week period ending on the Friday nearest September 30. Fiscal year 2021 was the 52-week period that ended October 1, 2021, fiscal year 2020 was the 53-week period that ended October 2, 2020, and fiscal year 2019 was the 52-week period that ended September 27, 2019.

Variable Interest Entities

For entities in which the Company has variable interests, the Company focuses on identifying which entity has the power to direct the activities that most significantly impact the variable interest entity's economic performance and which entity has the obligation to absorb losses or the right to receive residual returns from the variable interest entity. If the Company is the primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity will be included in the Company's consolidated financial statements. As of October 1, 2021, the Company had variable interests in two entities, neither of which were consolidated by the Company.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include the valuation of inventories, valuation of goodwill and intangible assets, warranties, contract liabilities, long-lived asset valuations, impairment on investments, valuation of financial instruments, and taxes on income. Actual results could differ from these estimates.

Impact of COVID-19

The coronavirus ("COVID-19") pandemic, the emerging variants and uneven vaccination rates across the globe, and the mitigation efforts by governments to control its spread have created uncertainties and disruptions in the economic and financial markets. The extent to which COVID-19 will continue to impact the Company's business and financial results depends on numerous evolving factors including: the magnitude and duration of COVID-19, the extent to which it will impact worldwide macroeconomic conditions including interest rates and unemployment rates, the speed of the economic recovery, and governmental and business reactions to the pandemic. The Company assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to the Company, including the estimated future impacts of COVID-19 through the date of filing this report. The accounting matters assessed included, but were not limited to, the Company's carrying value of goodwill, intangibles, long-lived assets, equity method investments, inventory and related reserves, and allowance for credit losses. The Company's assessment of the magnitude and duration of COVID-19, as well as other factors, could result in material negative impacts to the Company's consolidated financial statements in future reporting periods. These future developments are highly uncertain and the outcomes cannot be estimated with certainty. Actual results may differ from those estimates, and such differences may be material to the financial statements.

Cash and Cash Equivalents

The Company considers currency on hand, demand deposits, time deposits and all highly-liquid investments with an original maturity of three months or less at the date of purchase to be cash and cash equivalents.

Restricted Cash

Restricted cash primarily consists of cash collateral related to certain leases and inventory arrangements. Restricted cash is included in other assets on the consolidated balance sheets. Cash and cash equivalents and restricted cash as reported within the consolidated statements of cash flows consisted of the following:

	Twelve Months Ended October 1, 2021		Twelve Months Ended October 2, 2020	
(In millions)	**Beginning of Period**	**End of Period**	**Beginning of Period**	**End of Period**
Cash and cash equivalents	$ 100.6	$ 144.6	$ 29.9	$ 100.6
Restricted cash	1.5	1.5	1.4	1.5
Cash and cash equivalents and restricted cash as reported per statement of cash flows	$ 102.1	$ 146.1	$ 31.3	$ 102.1

Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. There is a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.
Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or, other inputs that are observable or can be corroborated by observable market data.
Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Derivative instruments and hedging activities

The Company records all derivatives on the consolidated balance sheets at fair value as of the reporting date. For derivative instruments that are designated and qualify as cash flow hedges, the gain or loss on the derivative is reported as a component of other comprehensive income or loss and reclassified from accumulated other comprehensive income into earnings when the hedged transaction affects earnings. For derivatives that are designated and qualify as net investment hedges, the gain or loss on the derivative is reported as a component of other comprehensive income or loss until the hedged item is sold. The portion of the change in fair value of the Company's net investment hedges (or cross currency swaps) related to the cross-currency basis spread is an excluded component in the assessment of the effectiveness of these net investment hedges (or cross currency swaps). A qualitative assessment of hedge effectiveness is performed on a quarterly basis, unless facts and circumstances indicate the hedge may no longer be highly effective, in which case, a quantitative assessment of hedge effectiveness is performed.

Concentration of Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash, cash equivalents and trade accounts receivable. Cash held with financial institutions may exceed the Federal Deposit Insurance Corporation insurance limits or similar limits in foreign jurisdictions. The Company has not experienced any losses on its deposits of cash and cash equivalents. The Company performs ongoing credit evaluations of its customers and, except for government tenders, group purchases and orders with a letter of credit, its industrial customers often provide a down payment. The Company maintains an allowance for doubtful accounts based upon the expected collectability of all accounts receivable. The Company obtains some of the components in its products from a limited group of suppliers or from a single-source supplier.

Credit is extended to customers based on an evaluation of the customer's financial condition, and collateral is not required. In certain circumstances, a customer may be required to prepay all or a portion of the contract price prior to transfer of control. During the periods presented, one of the Company's customers accounted for a significant portion of revenues, which is as follows:

	Fiscal Year		
	2021	**2020**	**2019**
Canon Medical Systems Corporation	17.9 %	20.5 %	17.3 %

Canon Medical Systems Corporation accounted for 16.2% and 12.0% of the Company's accounts receivable as of October 1, 2021 and October 2, 2020, respectively.

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs include materials, labor, external service, and manufacturing overhead and is computed on a first-in-first-out basis. The Company evaluates the carrying value of its inventories taking into consideration such factors as historical and anticipated future sales compared to quantities on hand and the prices the Company expects to obtain for products in its various markets. The Company adjusts excess and obsolete inventories to net realizable value and write-downs of excess and obsolete inventories are recorded as a component of cost of revenues.

The following table summarizes the Company's inventories, net:

(In millions)	**October 1, 2021**	**October 2, 2020**
Raw materials and parts	$ 168.0	$ 184.6
Work-in-process	20.4	23.9
Finished goods	36.4	63.4
Total inventories	$ 224.8	$ 271.9

As a result of the economic downturn resulting from COVID-19, the Company discontinued certain products and wrote-down inventory associated with these discontinued products by $3.5 million and $15.8 million for the twelve months ended October 1, 2021 and October 2, 2020, respectively.

Property, Plant and Equipment, net

Property, plant and equipment are stated at cost, net of accumulated depreciation. Major improvements are capitalized, while repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or remaining lease term. Land is not subject to depreciation, but land improvements are depreciated over fifteen years. Land leasehold rights and leasehold improvements are depreciated over the lesser of their estimated useful lives or remaining lease terms. Buildings are depreciated up to thirty years. Machinery and equipment are depreciated over a range from three to seven years. Assets subject to lease are depreciated over the lesser of their estimated useful lives or remaining lease terms. Estimated useful lives are periodically reviewed and, when appropriate, changes are made prospectively. When certain events or changes in operating conditions occur, asset lives may be adjusted, and an impairment assessment may be performed on the recoverability of the carrying amounts. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are removed from the accounts.

The following table summarizes the Company's property, plant and equipment, net:

(In millions)	October 1, 2021	October 2, 2020
Land	$ 8.3	$ 8.3
Buildings and leasehold improvements	148.7	137.2
Machinery and equipment	179.7	175.5
Construction in progress	18.1	35.4
	354.8	356.4
Accumulated depreciation and amortization	(214.6)	(211.2)
Property, plant, and equipment, net	$ 140.2	$ 145.2

The Company recorded depreciation expense of $20.5 million, $22.3 million and $23.5 million, in fiscal years 2021, 2020 and 2019, respectively. During fiscal years 2021, 2020 and 2019 the Company recorded accelerated depreciation of $0.2 million, $2.9 million and $4.5 million, respectively, which primarily related to the machinery and equipment used at the Santa Clara, California facility. See Note 6. *Restructuring*, included in this report, for further information.

Investments

The Company accounts for its equity investments in privately-held companies under the equity method of accounting if the Company has the ability to exercise significant influence in these investments. Distributions received from an equity method investment are classified using the cumulative earnings approach, which means that distributions up to the amount of cumulative equity in earnings recognized will be treated as returns on investment and classified as operating cash flows and those in excess of that amount will be treated as returns of investment and classified as investing cash flows. The Company reviews its equity investments in privately-held companies for impairment whenever events or changes in business circumstances are other than temporary and indicate that the carrying amount of the investments may not be fully recoverable. There were no impairments recorded during the fiscal year 2021. During the fiscal year 2020, the Company wrote off a $2.7 million cost investment in a privately-held company, the related expense is included as part of other expenses, net in the Company's consolidated financial statements.

Goodwill and Intangible Assets

Goodwill is recorded when the purchase price of an acquisition exceeds the fair value of the net identified tangible and intangible assets acquired. Purchased intangible assets are carried at cost, net of accumulated amortization, and are included in intangible assets in the Company's consolidated balance sheets. Intangible assets with finite lives are amortized over their estimated useful lives of primarily two to seven years using the straight-line method.

Impairment of Long-lived Assets, Intangible Assets and Goodwill

The Company reviews long-lived assets and identifiable intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The Company assesses these assets for impairment based on their estimated undiscounted future cash flows. If the carrying value of the assets exceeds the estimated future undiscounted cash flows, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets.

The Company evaluates goodwill and indefinite lived intangible assets for impairment at least annually at the beginning of the fourth quarter of each fiscal year or whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The evaluation includes consideration of qualitative factors including industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting unit. If the Company determine that a quantitative analysis is necessary, the Company performs a step one analysis, which consists of a comparison of the fair value of a reporting unit against its carrying amount, including the goodwill allocated to each reporting unit. The Company determines the fair value of its reporting units based on a combination of income and market approaches. The income approach is based on the present value of estimated future cash flows of the reporting units, and the market approach is based on a market multiple calculated for each reporting unit based on market data of other companies engaged in similar business. If the carrying amount of the reporting unit is in excess of its fair value, the difference between the fair value and carrying amount is recorded as an impairment loss. The impairment test for intangible assets with indefinite useful lives, if any, consists of a comparison of fair value to carrying value, with any excess of carrying value over fair value being recorded as an impairment loss. In fiscal years 2021, 2020 and 2019, the Company performed the annual goodwill impairment test for our two reporting units and found no impairment.

During the fiscal years ended October 1, 2021, October 2, 2020 and September 27, 2019, the Company recognized $0.0 million, $2.8 million, and $4.8 million of impairments of intangible assets, respectively.

Loss Contingencies

From time to time, the Company is involved in legal proceedings, claims and government inspections or investigations, customs and duties audits, other contingency matters, both inside and outside the United States, arising in the ordinary course of its business or otherwise. The Company accrues amounts for probable losses, to the extent they can be reasonably estimated, that it believes are adequate to address any liabilities related to legal proceedings and other loss contingencies that the Company believes will result in a probable loss (including, among other things, probable settlement value). A loss or a range of loss is disclosed when it is reasonably possible that a material loss will be incurred and can be estimated or when it is reasonably possible that the amount of a loss, when material, will exceed the recorded provision. When a loss contingency is probable but not reasonably estimable the nature of the contingency and the fact that an estimate cannot be made is disclosed. See Note 13. *Commitments and Contingencies,* for further information regarding certain of our contractual obligations and contingencies.

Product Warranty

The Company warrants most of its products for a specific period of time, usually 12 to 24 months from delivery or acceptance, against material defects. The Company provides for the estimated future costs of warranty obligations in cost of revenues when the related revenues are recognized. The accrued warranty costs represent the best estimate at the time of sale of the total costs that the Company will incur to repair or replace product parts that fail while still under warranty.

The amount of the accrued estimated warranty costs obligation for established products is primarily based on historical experience as to product failures adjusted for current information on repair costs. For new products, estimates include the historical experience of similar products, as well as a reasonable allowance for warranty expenses associated with new products. On a quarterly basis, the Company reviews the accrued warranty costs and updates the historical warranty cost trends, if required.

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

	Fiscal Years	
(In millions)	**2021**	**2020**
Accrued product warranty, at beginning of period	$ 8.1	$ 8.1
Charged to cost of revenues	13.0	15.1
Actual product warranty expenditures	(12.6)	(15.1)
Accrued product warranty, at end of period	$ 8.5	$ 8.1

Leases

The Company determines if an arrangement is or contains a lease at the inception of an arrangement. The Company's operating lease right-of-use ("ROU") assets represent the right to use an underlying asset over the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. ROU assets may also include initial direct costs incurred and prepaid lease payments, less lease incentives. Lease liabilities and their corresponding ROU assets are recognized based on the present value of lease payments over the lease term, discounted using the Company's incremental borrowing rate ("IBR"). The Company recognizes operating leases with lease terms of more than twelve months in operating lease assets, current operating lease liabilities, and operating lease liabilities on its consolidated balance sheets. The Company recognizes finance leases with lease terms of more than twelve months in property, plant, and equipment, net, accrued liabilities and other current liabilities, and other long-term liabilities on its consolidated balance sheets. For purposes of calculating lease liabilities and the corresponding ROU assets, the Company's lease term may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option.

Revenue Recognition

Effective September 29, 2018, the Company adopted the requirements of Accounting Standards Update (“ASU”) 2014-09 and related amendments, Revenue from Contracts with Customers (“ASC 606”), which superseded all prior revenue recognition methods and industry-specific guidance. The Company’s revenues are derived primarily from the sale of hardware and services. The Company recognizes its revenues net of any value-added or sales tax and net of sales discounts.

The Company sells a high proportion of its X-ray products to a limited number of OEM customers. X-ray tubes, digital detectors and image-processing tools and security and inspection products are generally sold on a stand-alone basis. However, the Company occasionally sells its digital detectors, X-ray tubes and imaging processing tools as a package that is optimized for digital X-ray imaging and sells its Linatron ® X-ray accelerators together with its imaging processing software and image detection products to OEM customers that incorporate them into their inspection systems. Service contracts are often sold with certain security and inspection products and computer-aided detection products.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, a performance obligation is satisfied

Transaction price and allocation to performance obligations

Transaction prices of products or services are typically based on contracted rates. To the extent that the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing the expected value method when there is a large number of transactions with similar characteristics or the most likely amount method when there are two possible outcomes, depending on the circumstances of the transaction, to which the Company expects to be entitled. Variable consideration is included in the transaction price if, in the Company’s judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company’s anticipated performance and all information (historical, current and forecasted) that is reasonably available.

The Company allows customers to return specific parts of purchased X-ray tubes for a partial refund credit, which is identified as variable consideration. For sales with a right of return, revenue is reduced for expected returns, a liability is recorded for expected returns, and an asset is recorded for the right to recover products from customers on settling the liability. The Company recognizes a reduction to revenue and cost of sales at the time of sale and a corresponding contract liability and contract asset. The Company records this estimate based on the historical volume of product returns and adjusts the estimate on a quarterly basis based on the current quarter sales and current quarter returns.

If a contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price based on the estimated relative standalone selling prices of the promised products or services underlying each performance obligation. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately.

Contracts and performance obligations

The Company accounts for a contract with a customer when there is an approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of the consideration is probable. The Company's performance obligations consist mainly of transferring control of products and services identified in the contracts or purchase orders. For each contract, the Company considers the obligation to transfer products and services to the customer, which are distinct, to be performance obligations.

Recognition of revenue

Revenue is recognized when, or as, obligations under the terms of a contract are satisfied, which occurs when control of the promised products or services is transferred to customers. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products or services to a customer.

Product revenue is generally recognized when the customer obtains control of the Company’s product, which occurs at a point in time, and may be upon shipment or upon delivery based on the contractual shipping terms of a contract.

Service revenue is generally recognized over the term of the service contract. Services are expected to be transferred to the customer throughout the term of the contract and the Company believes recognizing revenue ratably over the term of the contract best depicts the transfer of value to the customer.

Disaggregation of Revenue

Revenue is disaggregated from contracts between geography and by reportable operating segment, which the Company believes best depicts how the nature, amount, timing, and uncertainty of revenues and cash flows are affected by economic factors. Refer to Note 17. *Segment Information,* included in this report, for the disaggregation of the Company's revenue based on reportable operating segments and disaggregated by geographic region.

Contract Balances

Contract assets are included within the Prepaid expenses and other current assets, and Other assets balances in the consolidated balance sheets. Contract liabilities, which also includes refund obligations, are included within the Accrued liabilities and other current liabilities, Deferred revenues, and Other long-term liabilities balances in the consolidated balance sheets.

Costs to Obtain or Fulfill a Customer Contract

The Company has certain costs to obtain and fulfill a customer contract, such as commissions and shipping costs. The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. Incremental costs of obtaining contracts that would be recognized over greater than one year are not material. The Company accounts for shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated products. These costs are included as a component of cost of revenues.

Deferred Revenues

Deferred revenue primarily represents (i) the amount received applicable to non-software products for which parts and services under the warranty contracts have not been delivered, and (ii) the amount received for service contracts for which the services have not been rendered.

Allowance for Credit Losses

The Company evaluates the creditworthiness of customers prior to authorizing shipment for all major sale transactions. On a quarterly basis, the Company considers historical trends, current information and any reasonable and supportable forecasts to determine if an amount should be included in the allowance for credit losses. The Company had an allowance for credit losses of $1.0 million and $0.3 million as of October 1, 2021 and October 2, 2020, respectively.

Share-Based Compensation Expense

The Company has an equity-based incentive plan that provides for the grant of nonqualified stock options and restricted stock units to directors, officers and other employees. The Company also permits employees to purchase shares under the Varex employee stock purchase plan.

The Company values stock options granted and the option component of the shares of common stock purchased under the equity-based incentive plans and stock purchased under the employee stock purchase plan using the Black-Scholes option-pricing model. Share-based compensation expense for restricted stock units is measured using the fair value of the Company's stock on the date of grant and is amortized over the award's respective service period. The Black-Scholes option-pricing model requires the input of certain assumptions, and changes in the assumptions can materially affect the fair value estimates of share-based payment awards.

The Company measures and recognizes expense for all share-based payment awards based on their fair values. Share-based compensation expense recognized in the consolidated statements of operations includes compensation expense for the share-based payment awards based on the grant date fair value estimated in accordance with the guidance on share-based compensation. The Company records forfeitures as they occur. The Company attributes the value of share-based compensation to expense using the straight-line method. The Company considers only the direct tax impacts of share-based compensation awards when calculating the amount of tax windfalls or shortfalls. For additional information, see Note 15. *Employee Stock Plans*, included in this report.

Software Development Costs

Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. No costs associated with the development of software have been capitalized, as the Company believes its current software development process is essentially completed concurrent with the establishment of technological feasibility.

Research and Development

Research and development costs are expensed as incurred. These costs primarily include employees' compensation, consulting fees and material costs.

Taxes on Income

Current income tax expense or benefit is the amount of income taxes expected to be payable or receivable for the current year. Deferred income tax liabilities or assets are established for the expected future tax consequences resulting from the differences in financial reporting and tax bases of assets and liabilities. Future changes in tax regulation can have a material impact, including tax rate changes or the realization of deferred tax assets. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. U.S. Tax Reform introduced a limitation of business interest deduction under IRC Section 163(j), which may be difficult to utilize without significant taxable income. Also, net operating loss carryforwards in jurisdictions with current losses provide uncertainty for realization. In addition, we provide reserves for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by the authoritative guidance for accounting for income taxes. A portion of the U.S. general business tax credits for research outside of the financial statement line for research and development ("R&D") have a small degree of uncertainty. A reasonable reserve is maintained on the uncertain portion until either the Internal Revenue Service chooses to audit, or the statute of limitation expires. A reserve for R&D is typical for companies who calculate and utilize this general business credit. Amounts for uncertain tax positions are adjusted in periods when new information becomes available or when positions are effectively settled. Interest and penalties related to uncertain tax positions are recognized as a component of income tax expense.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss ("NOL") carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. On July 2, 2020, the US Treasury Department issued a regulation providing an election to waive NOL carryback to a former consolidated group. During fiscal year 2021, the Company filed NOL carryback claims for U.S. losses incurred in fiscal year 2020 and anticipates cash tax refunds on those claims.

Foreign Currency Translation

The Company uses the U.S. Dollar predominately as the functional currency of its foreign operations. Gains and losses from remeasurement of foreign currency balances into U.S. Dollars are included in the consolidated statements of operations. For the foreign subsidiaries where the local currency is the functional currency, translation adjustments of foreign currency financial statements into U.S. dollars are recorded to a separate component of accumulated other comprehensive income.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Measurement of Credit Losses on Financial Instruments. This pronouncement changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans and replaces the incurred loss methodology with a new, forward-looking "expected loss" model that considers the risk of loss over the asset's contractual life, even if remote, historical experience, current conditions, and reasonable and supportable forecasts of future relevant events. The Company adopted this ASU on October 3, 2020, using a modified retrospective approach. The adoption of ASU 2016-13 did not have a material impact on the Company's consolidated financial statements and related disclosures.

Recent Accounting Standards Updates Not Yet Effective

In August 2020, the FASB issued ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The standard removes certain separation models in ASC 470-20 for convertible instruments, and, as a result, embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under ASC 815. The convertible debt instruments will be accounted for as a single liability measured at amortized cost. This will also result in the interest expense recognized for convertible debt instruments to be typically closer to the coupon interest rate. Further, the ASU made amendments to the earnings per share ("EPS") guidance in Topic 260 for convertible instruments, the most significant impact of which is requiring the use of the if-converted method for diluted EPS calculation, and no longer allowing the net share settlement method. The ASU is effective for interim and annual periods beginning after December 15, 2021, with early adoption permitted for fiscal years beginning after December 15, 2020. Adoption of the ASU can either be on a modified retrospective or full retrospective basis. We are currently evaluating the impacts of this ASU on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting, to provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate (e.g., LIBOR) reform on financial reporting. Adoption of the guidance is elective and is permitted from March 12, 2020 through December 31, 2022. The Company will evaluate transactions or contract modifications occurring as a result of reference rate reform and determine whether to apply the optional guidance on an ongoing basis. The Company does not expect that the new guidance will have a material impact on its financial position, results of operations or cash flows.

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes by removing certain exceptions to the current guidance, and improving the consistent application of and simplification of other areas of the guidance. The standard is effective for the Company beginning in the first quarter of fiscal year 2022. The Company does not expect that the new guidance will have a material impact on its financial position, results of operations, or cash flows.

2. REVENUE RECOGNITION

The following tables summarize the changes in the contract assets and refund liabilities for the twelve months ended October 1, 2021 and October 2, 2020:

(In millions)		**Contract Assets**
Balance at September 27, 2019	$	23.7
Costs recovered from product returns during the period		(5.6)
Contract asset from shipments of products, subject to return during the period		6.5
Balance at October 2, 2020	$	24.6
Costs recovered from product returns during the period		(4.8)
Contract asset from shipments of products, subject to return during the period		6.4
Adjustment for actual vs reserved product returns		(1.9)
Balance at October 1, 2021	$	24.3

(In millions)		**Refund Liabilities**
Balance at September 27, 2019	$	26.4
Release of refund liability included in beginning of year refund liability		(6.2)
Additions to refund liabilities		7.2
Balance at October 2, 2020	$	27.4
Release of refund liability included in beginning of year refund liability		(5.3)
Additions to refund liabilities		7.1
Adjustment for actual vs reserved product returns		(2.2)
Balance at October 1, 2021	$	27.0

During fiscal year 2021, the Company recognized revenue of $6.9 million related to deferred revenue which existed at October 2, 2020. During fiscal year 2020, the Company recognized revenue of $8.4 million related to deferred revenue which existed at September 27, 2019.

Remaining Performance Obligations

Remaining performance obligations represent the transaction price of firm orders for which revenue has not yet been recognized, which are primarily related to contracts where control will be transferred to customers over the next 12 months. See Note 1. *Summary of Significant Accounting Policies,* for details on the nature of the remaining performance obligations within these contracts and how they will be resolved.

3. LEASES

On September 28, 2019, the Company adopted ASC 842, which amends the guidance for the accounting and reporting of leases. The determination of whether an arrangement is, or contains, a lease is performed at the inception of the arrangement. The Company has operating and finance leases for office space, warehouse and manufacturing space, vehicles, and certain equipment. The Company's lease agreements do not contain any material residual value guarantees, variable lease costs, bargain purchase options or restrictive covenants. The Company does not have any lease transactions with related parties. Leases with an initial term of 12 months or less are generally not recorded on the balance sheet and expense for these leases is recognized on a straight-line basis over the lease term. The Company's leases have remaining lease terms of one year to approximately six years, some of which may include options to extend the leases for up to six years and some include options to terminate early. These options have been included in the determination of the lease liability when it is reasonably certain that the option will be exercised.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease contract. Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of fixed lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable. As such, the Company's incremental borrowing rate is based on a credit-adjusted risk-free rate, which best approximates a secured rate over a similar term of lease.

The following table presents supplemental balance sheet information related to the Company's operating and finance leases:

(In millions)	Balance Sheet Location	October 1, 2021	October 2, 2020
Assets			
Operating lease right-of-use assets	*Operating lease assets*	$ 24.3	$ 27.7
Finance lease right-of-use assets	*Property, plant and equipment, net*	0.5	0.5
Liabilities			
Operating lease liabilities (current)	*Current operating lease liabilities*	6.2	6.1
Finance lease liabilities (current)	*Accrued liabilities and other current liabilities*	0.2	0.2
Operating lease liabilities (non-current)	*Operating lease liabilities*	18.7	23.1
Finance lease liabilities (non-current)	*Other long-term liabilities*	$ 0.3	$ 0.4

The following table presents the weighted average remaining lease term and discount rate information related to the Company's operating and finance leases:

	October 1, 2021	October 2, 2020
Operating lease weighted average remaining lease term (in years)	5.9	6.6
Operating lease weighted average discount rate	5.5 %	4.5 %
Finance lease weighted average remaining lease term (in years)	2.5	3.3
Finance lease weighted average discount rate	3.6 %	4.1 %

The following table provides information related to the Company's operating and finance leases:

(In millions)	October 1, 2021	October 2, 2020
Total operating lease costs (a)	$ 8.1	$ 8.4
Total finance lease costs	$ 0.3	$ 0.3
Operating cash flows from operating leases	$ 7.9	$ 8.0
Financing cash flows from finance leases	0.2	0.3
Total cash paid for amounts included in the measurement of lease liabilities	$ 8.1	$ 8.3
Noncash operating right-of-use assets obtained in exchange for new lease liabilities (b)	$ 5.6	$ 10.6
Noncash finance right-of-use assets obtained in exchange for new lease liabilities (b)	0.2	0.2
Total right-of-use assets obtained in exchange for new lease liabilities (b)	$ 5.8	$ 10.8

(a) Includes variable and short-term lease expense, which were immaterial for fiscal year 2021 and 2020.
(b) Excludes the impact of adopting the new leases standard in the first quarter of 2020.

For fiscal year 2019, the Company's lease expense was $5.1 million.

As of October 1, 2021, maturities of operating lease and finance lease liabilities for each of the following five years and a total thereafter were as follows:

(In millions) Fiscal years:	Operating Leases	Finance Leases
2022	$ 7.4	$ 0.2
2023	4.9	0.2
2024	4.1	0.1
2025	3.9	—
2026	2.4	—
Thereafter	6.7	—
Total future lease payments	$ 29.4	$ 0.5
Less: imputed interest	(4.5)	—
Present value of lease liabilities	$ 24.9	$ 0.5

As of October 1, 2021, the Company had not entered into any material leases that have not yet commenced.

4. BUSINESS COMBINATIONS

Acquisition of Direct Conversion AB

In April 2019, Varex completed the acquisition of 98.2% of the outstanding shares of common stock of Direct Conversion AB (publ) ("Direct Conversion"). In April 2021, the Company acquired all of the remaining shares representing the noncontrolling interests in Direct Conversion such that the Company now owns 100% of the outstanding shares of common stock of Direct Conversion. The acquisition of Direct Conversion expanded our detector product portfolio to include photon counting technology.

This technology allows Varex to expand its range of imaging applications and offer new solutions to both Medical and Industrial customers.

The following amounts represent revenues by reporting segment from Direct Conversion from the acquisition date of April 29, 2019, through September 27, 2019:

(In millions)		Direct Conversion Revenue
Medical	$	4.5
Industrial		1.8
Total Direct Conversion revenues	$	6.3

The acquisition of Direct Conversion did not have a significant impact on the Company's consolidated results of operations on a pro forma basis for fiscal year 2019.

5. RELATED-PARTY TRANSACTIONS

Investment in Privately-Held Companies

The Company has a 40% ownership interest in dpiX Holding LLC (“dpiX Holding”), a holding company that has a 100% ownership interest in dpiX LLC (“dpiX”), a supplier of amorphous silicon-based thin film transistor arrays for digital flat panel image detectors. In accordance with the dpiX Holding operating agreement, net profits or losses are allocated to the members in accordance with their ownership interests.

The investment in dpiX Holding is accounted for under the equity method of accounting. When the Company recognizes its share of net profits or losses of dpiX Holding, profits or losses in inventory purchased from dpiX are eliminated. In fiscal years 2021, 2020 and 2019, the Company recorded a loss on the equity investment in dpiX Holding of $(2.3) million, $(0.8) million and $(1.1) million, respectively. Loss on the equity investment in dpiX Holding is included in other expense, net in the consolidated statements of operations. The carrying value of the equity investment in dpiX Holding was $45.0 million and $47.3 million at October 1, 2021 and October 2, 2020, respectively.

In fiscal years 2021, 2020 and 2019, the Company purchased glass transistor arrays from dpiX totaling $18.5 million, $20.4 million and $23.5 million, respectively. These purchases of glass transistor arrays are included as a component of inventories on the consolidated balance sheets or cost of revenues in the consolidated statements of operations.

As of October 1, 2021 and October 2, 2020, the Company had accounts payable to dpiX totaling $2.8 million and $4.6 million, respectively.

The Company has the right to 50% of dpiX’s total manufacturing capacity. In addition, the Company is required to pay for 50% of dpiX's fixed costs, as determined at the beginning of each calendar year. In January 2021, the fixed cost commitment was determined and approved by the dpiX board of directors to be $11.6 million for calendar year 2021. As of October 1, 2021, the Company estimated it has fixed cost commitments of $2.9 million related to this amended agreement through the remainder of calendar year 2021. The amended agreement will continue unless the ownership structure of dpiX changes (as defined in the amended agreement).

The Company has determined that dpiX Holding is a variable interest entity because at-risk equity holders, as a group, lack the characteristics of a controlling financial interest. Majority votes are required to direct the manufacturing activities, legal operations and other activities that most significantly affect dpiX’s economic performance. The Company does not have majority voting rights and no power to unilaterally direct the activities of dpiX Holding and therefore is not the primary beneficiary of dpiX Holding. The Company’s exposure to loss as a result of its involvement with dpiX Holding is limited to the carrying value of the Company’s investment of $45.0 million and fixed cost commitments.

In November 2018, the Company (through one of its wholly-owned subsidiaries) and CETTEEN GmbH (“CETTEEN”), formed a German limited liability company that governs the affairs and conduct of the business of VEC Imaging GmbH & Co. KG (“VEC”), a joint venture formed to develop technology for use in X-ray imaging components. In accordance with the VEC agreement, net profits or losses are allocated to the members in accordance with their ownership interest. The Company's investment in VEC is accounted for under the equity method of accounting. As of October 1, 2021, the Company has made equity contributions totaling

$5.1 million. CETTEEN made contributions of certain assets including intellectual property in exchange for a 50% interest in VEC. In fiscal years 2021, 2020 and 2019, the Company recorded a loss on the equity investment in VEC of $(1.1) million, $(1.2) million, and $(0.9) million respectively. The Company's investment in VEC was $3.0 million and $2.5 million as of October 1, 2021 and October 2, 2020, respectively. In the fourth quarter of fiscal year 2021, the Company made its final required equity contribution of $1.2 million to VEC. As of October 1, 2021, the Company had loans outstanding to VEC totaling $0.3 million which is recorded in prepaid expenses and other current assets in the consolidated balance sheet.

6. RESTRUCTURING

In July 2018, the Company committed to relocate the production of amorphous silicon glass for digital detectors, from its Santa Clara facility, to the jointly owned dpiX fabrication facility in Colorado. In July 2019, the Company committed to close its Santa Clara facility and to relocate the remaining production to its other existing facilities. The Company ceased all operations at the Santa Clara facility as of October 2, 2020 and all activities related to the closure of the facility were completed by the end of December 2020. In connection with the relocation of the glass production and site closure, the Company recorded $0.0 million, $9.1 million and $18.9 million of restructuring charges during fiscal year 2021, 2020 and 2019, respectively.

On July 29, 2020, the Company commenced the implementation of a reduction in workforce to reduce the Company’s operating costs and address the impact of the COVID-19 pandemic. This action resulted in the reduction of the Company’s workforce by approximately 94 employees, of which nearly all were located within the United States. This reduction was in addition to the reduction in workforce associated with the closure of the Company’s Santa Clara facility.

Cash outflows associated with these restructuring charges are limited to employee termination expenses, facility closure and equipment sales and disposals. Below is a detail of restructuring charges incurred during the 2021, 2020 and 2019 fiscal years, which predominately relate to the Company's Medical segment:

(In millions)	Location of Restructuring Charges in Consolidated Statements of Operations	2021	2020	2019
Inventory write downs	Cost of revenues	$ —	$ 1.3	$ 3.1
Intangible assets impairment	Impairment of intangible assets	—	—	4.8
Accelerated depreciation	Cost of revenues	0.2	2.9	4.5
Severance costs	Selling, general and administrative	0.6	5.7	6.2
Facility closure costs	Selling, general and administrative	0.2	3.6	0.3
Total restructuring charges		$ 1.0	$ 13.5	$ 18.9

7. OTHER FINANCIAL INFORMATION

The following table summarizes the Company’s accrued liabilities and other current liabilities:

(In millions)	October 1, 2021	October 2, 2020
Accrued compensation and benefits	$ 44.2	$ 33.0
Product warranty	8.5	8.1
Income taxes payable	8.0	5.6
Right of return liability	6.7	7.4
Accrued interest	12.5	2.6
Other	9.8	13.8
Total accrued liabilities and other current liabilities	$ 89.7	$ 70.5

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

(In millions)	October 1, 2021	October 2, 2020
Long-term income tax payable	$ 1.8	$ 3.9
Environmental liabilities	0.6	0.8
Defined benefit obligation liability	5.9	6.5
Long-term right of return liability	20.3	19.9
Long-term other	3.2	3.8
Total other long-term liabilities	$ 31.8	$ 34.9

The following table summarizes the Company's other (expense) income, net:

	Fiscal Years		
(In millions)	2021	2020	2019
Loss from equity method investments	$ (3.4)	$ (2.1)	$ (2.3)
Change in fair value of deferred consideration	—	0.9	1.0
Impairment of investment	—	(2.7)	—
Realized loss on foreign currencies	(0.2)	(3.7)	(1.9)
Other	0.1	—	—
Total other expense, net	$ (3.5)	$ (7.6)	$ (3.2)

8. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per common share is computed by dividing the net income (loss) for the period by the weighted average number of shares of common stock outstanding during the reporting period. Diluted net income (loss) per common share reflects the effects of potentially dilutive securities, which is computed by dividing net income (loss) by the sum of the weighted average number of common shares outstanding and dilutive common shares.

A reconciliation of the numerator and denominator used in the calculation of basic and diluted income per common share is as follows:

	Fiscal Year		
(In millions, except per share amounts)	2021	2020	2019
Net income (loss) attributable to Varex	$ 17.4	$ (57.9)	$ 15.5
Weighted average shares outstanding - basic	39.3	38.8	38.2
Dilutive effect of Convertible Senior Notes	0.6	—	—
Dilutive effect of share-based awards and other	0.4	—	0.4
Weighted average shares outstanding - diluted	40.3	38.8	38.6
Net income (loss) per share attributable to Varex - basic	$ 0.44	$ (1.49)	$ 0.41
Net income (loss) per share attributable to Varex - diluted	$ 0.43	$ (1.49)	$ 0.40
Anti-dilutive share-based awards, excluded	2.8	3.5	1.9

Potentially dilutive shares, which are based on the weighted-average shares of common stock underlying stock options, unvested stock awards, purchase rights granted under the employee stock purchase plan, warrants and convertible notes using the treasury stock method or the if-converted method, as applicable, are included when calculating diluted net income (loss) per share attributable to Varex when their effect is dilutive. Since we intend to settle in cash the principal outstanding under our 4.00% Convertible Senior Notes due in 2025, we apply the treasury stock method applied using our average share price during the period when calculating their potential dilutive effect, if any. Furthermore, in connection with the offerings of our notes, we entered into convertible note hedges and warrants (see Note 10. *Borrowings*). However, our convertible note hedges are not included when calculating potentially dilutive shares since their effect is always anti-dilutive. Warrants, which have a strike price above our average share price during the period, were out of the money and were not included in the tables above. Because the Company incurred a net loss for fiscal year 2020, none of the potentially dilutive common shares were included in the diluted share calculation for that period as they would have been anti-dilutive.

9. FINANCIAL DERIVATIVES AND HEDGING ACTIVITIES

As part of the Company's overall risk management practices, the Company enters into financial derivatives to manage its financial exposures to foreign currency exchange rates and interest rates.

The Company records all derivatives on the consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. A qualitative assessment of hedge effectiveness is performed on a quarterly basis, unless facts and circumstances indicate the hedge may no longer be highly effective, in which case the Company would test for effectiveness on a more frequent basis. The changes in fair value for all trades that are not designated for hedge accounting are recognized in current period income. The Company does not offset fair value amounts recognized for derivative instruments in its consolidated balance sheets for presentation purposes.

Credit risk related to derivative transactions reflects the risk that a party to the transaction could fail to meet its obligation under the derivative contracts. Therefore, the Company's exposure to the counterparty's credit risk is generally limited to the amounts, if any, by which the counterparty's obligations to the Company exceed the Company's obligations to the counterparty. The Company's policy is to enter into contracts only with financial institutions which meet certain minimum credit ratings to help mitigate counterparty credit risk.

Derivatives Designated as Hedging Instruments - Cash Flow Hedges

The Company previously used interest rate swap contracts as cash flow hedges to manage its exposure to fluctuations in LIBOR interest rates. Interest rate swap contracts effectively fix the LIBOR component of variable interest rate debt for a specific period of time.

As of October 1, 2021, the Company had no outstanding derivatives designated as cash flow hedging instruments.

The following table summarizes the amount of pre-tax income (loss) recognized from derivative instruments for the periods indicated:

	Amount of Gain or (Loss) Recognized in OCI on Derivatives Fiscal Year Ended			Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Fiscal Year Ended		
(In millions)	2021	2020	2019		2021	2020	2019
Interest rate swap contracts	$ —	$ (3.4)	$ (6.3)	Interest expense	$ —	$ (1.5)	$ 1.9

Derivatives Designated as Hedging Instruments - Net Investment Hedges

The Company uses cross currency swap contracts as net investment hedges to manage its risk of variability in foreign currency-denominated net investments in majority-owned international operations. All changes in fair value of the derivatives designated as net investment hedges are reported in accumulated other comprehensive income along with the foreign currency translation adjustments on those investments. In September 2020, the Company terminated one of the net investment swaps and the loss on the swap was recorded in accumulated other comprehensive income where it will remain until substantial liquidation of the international operations.

As of October 1, 2021, the Company had the following outstanding derivatives designated as net investment hedging instruments:

(In millions, except for number of instruments)	Number of Instruments	Notional Value
Cross currency swap contracts	3	$ 66.6

The following table summarizes the amount of pre-tax income recognized from derivative instruments for the periods indicated and the line items in the accompanying statements of operations where the results are recorded for net investment hedges:

	Amount of Gain or (Loss) Recognized in OCI on Derivatives Fiscal Year Ended			Location of Gain or (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing)		
(In millions)	2021	2020	2019		2021	2020	2019
Cross currency swap contracts	$ (0.3)	$ (1.3)	$ (0.2)	Interest expense	$ 1.3	$ 1.5	$ 0.2

These derivative instruments are subject to master netting agreements giving effect to rights of offset with each counterparty. None of the balances were eligible for netting. The following table summarizes the gross fair values of derivative instruments as of the periods indicated and the line items in the accompanying consolidated balance sheets where the instruments are recorded:

	Derivative Assets			Derivative Liabilities		
(In millions)		October 1, 2021	October 2, 2020		October 1, 2021	October 2, 2020
Derivatives designated as net investment hedges	**Balance sheet location**			**Balance sheet location**		
Cross currency swap contracts	Other current assets	$ 1.2	$ 1.3	Other current liabilities	$ —	$ —
Cross currency swap contracts	Other non-current assets	—	—	Other non-current liabilities	(2.4)	(2.1)
		$ 1.2	$ 1.3		$ (2.4)	$ (2.1)

10. BORROWINGS

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

(In millions, except for percentages)	October 1, 2021 Amount	October 1, 2021 Weighted-Avg Effective Interest Rate	October 2, 2020 Amount	October 2, 2020 Weighted-Avg Effective Interest Rate	$ Change
Current maturities of long-term debt					
Other debt	$ 2.8		$ 2.5		$ 0.3
Total current maturities of long-term debt	**$ 2.8**		**$ 2.5**		**$ 0.3**
Non-current maturities of long-term debt:					
Asset-Based Loan	$ —		$ —		$ —
Convertible Senior Unsecured Notes	200.0	10.9%	200.0	10.9%	—
Senior Secured Notes	270.0	8.2%	300.0	8.2%	(30.0)
Other debt	7.8		8.8		(1.0)
Total non-current maturities of long-term debt:	**$ 477.8**		**$ 508.8**		**$ (31.0)**
Unamortized issuance costs and debt discounts					
Unamortized discount - Convertible Notes	$ (37.6)		$ (45.4)		$ 7.8
Unamortized issuance costs - Convertible Notes	(4.1)		(5.0)		0.9
Debt issuance costs - Senior Secured Notes	(4.4)		(5.6)		1.2
Total	**$ (46.1)**		**$ (56.0)**		**$ 9.9**
Total debt outstanding, net	**$ 434.5**		**$ 455.3**		**$ (20.8)**

Future principal payments of long-term debt outstanding as of October 1, 2021 are as follows:

(In millions)	
Fiscal years:	
2022	$ 2.8
2023	2.6
2024	1.7
2025	201.7
2026	1.4
Thereafter	270.4
Total debt outstanding	$ 480.6
Less: current maturities of long-term debt	(2.8)
Non-current portion of long -term debt	$ 477.8

The following table summarizes the Company's interest expense:

	Twelve Months Ended		
	October 1, 2021	**October 2, 2020**	**September 27, 2019**
Contractual interest coupon and other	$ 30.7	$ 19.1	$ 17.9
Amortization/extinguishment of debt issuance costs	3.5	7.0	3.2
Amortization of debt discounts	7.9	5.3	—
Total interest expense	**$ 42.1**	**$ 31.4**	**$ 21.1**

Convertible Senior Unsecured Notes

On June 9, 2020, Varex issued $200.0 million in aggregate principal amount of 4.00% convertible senior unsecured notes due 2025 (“Convertible Notes”). The net proceeds from the issuance of the Convertible Notes, after deducting transaction fees and offering expense payable by the Company, were approximately $193.1 million. The Convertible Notes bear interest at the annual rate of 4.00%, payable semiannually on June 1 and December 1 of each year, beginning on December 1, 2020, and will mature on June 1, 2025, unless earlier converted or repurchased by us.

Call Spread

On June 4, 2020 and June 5, 2020, in connection with the offering of the Convertible Notes, Varex entered into privately negotiated convertible note hedge transactions (collectively, the “Hedge Transactions”). The Hedge Transactions cover, subject to customary anti-dilution adjustments, the number of shares of Varex common stock that initially underlie the Convertible Notes. The Hedge Transactions are expected generally to reduce the potential dilution and/or offset any cash payments Varex is required to make in excess of the principal amount due upon conversion of the Convertible Notes in the event that the market price of Varex common stock is greater than the strike price of the Hedge Transactions, which was initially $20.81 per share (subject to adjustment under the terms of the Hedge Transactions). The strike price of $20.81 corresponds to the initial conversion price of the Convertible Notes. The number of shares underlying the Hedge Transactions is 9.6 million.

On June 4, 2020 and June 5, 2020, Varex also entered into privately negotiated warrant transactions (collectively, the “Warrant Transactions” and, together with the Hedge Transactions, the “Call Spread Transactions”), whereby the Company sold warrants at a higher strike price relating to the same number of shares of Varex common stock that initially underlie the Convertible Notes, subject to customary anti-dilution adjustments. The initial strike price of the warrants is $24.975 per share (subject to adjustment under the terms of the Warrant Transactions), which is 50% above the last reported sale price of Varex common stock on June 4, 2020. The Warrant Transactions could have a dilutive effect to the Company's stockholders to the extent that the market price per share of Varex common stock, as measured under the terms of the Warrant Transactions, exceeds the applicable strike price of the warrants. The number of shares underlying the Warrant Transactions is 9.6 million. The number of warrants outstanding as of October 1, 2021, was 9.6 million.

Senior Secured Notes

Varex issued $300.0 million aggregate principal amount of 7.875% Senior Secured Notes due 2027 (the "Senior Secured Notes") pursuant to an indenture dated September 30, 2020, among Varex, certain of its direct or indirect wholly-owned subsidiaries as guarantors, and Wells Fargo Bank, National Association as trustee and collateral agent. Interest payments are paid semiannually on April 15 and October 15 of each year, beginning on April 15, 2021.

The Senior Secured Notes are secured by a first priority lien on substantially all of the assets of Varex and the assets and capital stock of its subsidiary guarantors (subject to exceptions), except for assets for which a first priority security interest is pledged for the ABL Facility (defined below), in which the Senior Secured Notes will have a second lien security interest. The Senior Secured Notes include negative covenants, subject to certain exceptions, restricting or limiting Varex's ability and the ability of its restricted subsidiaries to, among other things, incur liens on collateral; sell certain assets; incur additional indebtedness; pay dividends; issue preferred shares; consolidate, merge, or sell all or substantially all of its assets; and enter into certain transactions with their affiliates.

On July 15, 2021, the Company redeemed $30 million of Senior Secured Notes, in accordance with the terms and conditions of the governing indenture, by paying cash of $31.5 million, inclusive of the redemption premium and accrued interest, and recognized a $1.4 million loss related to the redemption premium and the write-off of previously recorded debt issuance costs. The redemption price of the redeemed notes was 103% of the principal amount, plus accrued and unpaid interest from, and including, April 15, 2021 to, but excluding, the redemption date of July 15, 2021.

Asset-Based Loan

Concurrent with the termination of the Credit Agreement (defined below) and closing of the Senior Secured Notes on September 30, 2020, the Company entered into a revolving credit agreement consisting of a $100.0 million asset-based loan revolving credit facility (the “Asset-Based Loan”, or "ABL Facility"). Borrowings under the Asset-Based Loan will be expected to bear interest at floating rates based on LIBOR, or comparable rate, or a base rate, and an applicable margin based on Average Daily Excess Availability (as defined in the Asset-Based Loan Agreement). In addition, the Company is required to pay a quarterly commitment fee of 0.375% to 0.5%, based on the aggregate unused commitments under the Asset-Based Loan. The ABL Facility matures on the earlier of September 30, 2025 or 91 days prior to the maturity of the Convertible Notes, at which time all outstanding amounts under the ABL Facility will be due and payable. The maximum availability under our ABL Facility is $100.0 million; however, the borrowing base under the ABL fluctuates from month-to-month depending on the amount of eligible accounts receivable, inventory, and real estate. As of October 1, 2021, the amount available under our ABL Facility was $69.4 million and the ABL Facility remains undrawn.

The ABL Facility includes various restrictive covenants that limit our ability to engage in certain transactions, including the incurrence of debt, payment of dividends and other restrictive payments, existence of restrictions affecting subsidiaries, sales of stock and assets, certain affiliate transactions, modifications of debt documents and organizational documents, changes to line of business and fiscal year, incurrence of liens, making fundamental changes, prepayments of junior indebtedness, and certain other transactions.

The ABL Facility contains a minimum Fixed Charge Coverage Ratio of 1.00 to 1.00 that is tested when excess availability under the ABL is less than the greater of (i) 10.0% of the Loan Cap (the lesser of (a) the aggregate commitments under the ABL Facility and (b) the aggregate borrowing base) and (ii) $7.5 million. As of October 1, 2021, the Company is compliant with the ABL Facility covenants.

The ABL Facility will have a first lien security interest on accounts receivable, cash, and inventory as well as certain real estate and holds second lien security interest on all other assets.

Credit Agreement

On May 1, 2017 Varex entered into a secured revolving credit facility (the “Revolving Credit Facility”) in an aggregate principal amount of up to $200.0 million with a term of five years, and a secured term facility (the “Term Facility” and together with the Revolving Credit Facility, the “Credit Agreement”) in an aggregate principal amount of $400.0 million, which was subsequently amended.

On September 30, 2020, the Company terminated its previously existing Credit Agreement, consisting of both the Term Facility and Revolving Credit Facility. The Company repaid the outstanding Term Facility balance of $265.5 million and accrued interest of $2.0 million with proceeds received from the issuance of the Senior Secured Notes (defined above) and wrote off approximately $3.8 million of previously recorded debt issuance costs, which resulted in a $3.8 million loss on extinguishment of debt, recorded as interest expense within the consolidated statements of operations and comprehensive income (loss).

11. FAIR VALUE

Assets/Liabilities Measured at Fair Value on a Recurring Basis

The fair values of certain of the Company’s financial instruments, including bank deposits included in cash and cash equivalents, accounts receivable and accounts payable, also approximate their fair values due to their short maturities. As of October 1, 2021, the fair value of the Company's Convertible Notes and Senior Secured Notes, as defined in Note 10. *Borrowings* and measured using Level 1 inputs, were $296.3 million and $304.8 million, respectively. As of October 2, 2020, the fair values of the Company's Convertible Notes and Senior Secured Notes, measured using Level 1 inputs, were $178.5 million and $312.8 million, respectively. The Company has elected to use the income approach to value its derivative instruments using standard valuation techniques and Level 2 inputs, such as currency spot rates, forward points and credit default swap spreads. There were no financial assets or liabilities measured on a recurring basis using significant unobservable inputs (Level 3) and there were no transfers in or out of Level 1, 2 or 3 during fiscal year 2021.

In the tables below, the Company has segregated all assets and liabilities that are measured at fair value on a recurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

(In millions)	Fair Value Measurements at October 1, 2021			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash equivalents - money market funds	$ —	$ 88.2	$ —	$ 88.2
Derivative assets	—	1.2	—	1.2
Total assets measured at fair value	$ —	$ 89.4	$ —	$ 89.4
Liabilities:				
Derivative liabilities	$ —	$ 2.4	$ —	$ 2.4
Total liabilities measured at fair value	$ —	$ 2.4	$ —	$ 2.4

At October 2, 2020, the Company determined the following levels of inputs for the following assets or liabilities:

(In millions)	Fair Value Measurements at October 2, 2020			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash equivalents - Money market funds	$ —	$ 72.9	$ —	$ 72.9
Derivative assets	—	1.1	—	1.1
Total assets measured at fair value	$ —	$ 74.0	$ —	$ 74.0
Liabilities:				
Derivative liabilities	$ —	$ 2.1	$ —	$ 2.1
Deferred consideration	—	—	—	—
Total liabilities measured at fair value	$ —	$ 2.1	$ —	$ 2.1

12. GOODWILL AND INTANGIBLE ASSETS

The following table reflects goodwill by reportable segment:

(In millions)	Medical	Industrial	Total
Balance at October 2, 2020	$ 174.4	$ 118.7	$ 293.1
Other	(0.2)	(0.2)	(0.4)
Foreign currency translation adjustments	(0.3)	(0.2)	(0.5)
Balance at October 1, 2021	$ 173.9	$ 118.3	$ 292.2

The following table reflects the gross carrying amount and accumulated amortization of the Company’s finite-lived intangible assets included in other assets in the consolidated balance sheets:

	October 1, 2021			October 2, 2020		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired existing technology	$ 74.2	$ (45.5)	$ 28.7	$ 74.9	$ (37.5)	$ 37.4
Patents, licenses and other	12.8	(10.9)	1.9	12.8	(9.7)	3.1
Customer contracts and supplier relationship	51.1	(31.0)	20.1	51.2	(24.2)	27.0
Total intangible assets	$ 138.1	$ (87.4)	$ 50.7	$ 138.9	$ (71.4)	$ 67.5

Amortization expense for intangible assets was $16.8 million, $17.2 million and $15.7 million in fiscal years 2021, 2020 and 2019, respectively. The Company recognized intangible asset impairment charges of $0.0 million, $2.8 million, and $4.8 million in fiscal years 2021, 2020, and 2019, respectively, which are included in the consolidated statements of operations under impairment of intangible assets. These impairment charges related primarily to the Company's Medical reporting segment.

As of October 1, 2021, the estimated future amortization expense of intangible assets with finite lives is as follows:

(In millions)		
Fiscal years:		
2022	$	14.7
2023		13.6
2024		9.2
2025		3.0
2026		3.0
Thereafter		7.2
Total	$	50.7

13. COMMITMENTS AND CONTINGENCIES

Lease Commitments

See Note 3. *Leases,* included in this report, for additional information about the Company's lease commitments.

Purchase Agreement With Supplier

During the third quarter of fiscal year 2020, Varex entered into a purchase agreement with a supplier to acquire certain equipment and intellectual property from the supplier that is utilized to manufacture X-ray cables utilized in Varex's products. As of October 1, 2021, there has been no transfer of control of the underlying equipment. This acquisition is expected to be completed during the 2023 fiscal year and the total consideration to be paid by Varex for the acquired assets is expected to be ¥1,084.7 million or approximately $9.8 million.

Other Commitments

See Note 5. *Related Party Transactions,* included in this report, for additional information about the Company’s commitments to dpiX.

See Note 14. *Redeemable Noncontrolling Interests & Noncontrolling Interests,* included in this report, for additional information about the Company’s commitment to the noncontrolling shareholders of MeVis.

The Company has an environmental liability of approximately $0.8 million as of October 1, 2021.

Contingencies

From time to time, the Company is a party to or otherwise involved in legal proceedings, claims and government inspections or investigations, customs and duty audits, other contingency matters, both inside and outside the United States, arising in the ordinary course of its business or otherwise. The Company accrues amounts for probable losses, to the extent they can be reasonably estimated, that it believes are adequate to address any liabilities related to legal proceedings and other loss contingencies that the Company believes will result in a probable loss (including, among other things, probable settlement value). A loss or a range of loss is disclosed when it is reasonably possible that a material loss will be incurred and can be estimated or when it is reasonably possible that the amount of a loss, when material, will exceed the recorded provision. The Company did not have any material contingent liabilities as of October 1, 2021 and October 2, 2020. Legal expenses are expensed as incurred.

14. NONCONTROLLING INTERESTS

In April 2019, a subsidiary of Varex acquired 98.2% of the outstanding shares of common stock of Direct Conversion. In April 2021, the Company acquired all of the remaining shares representing the noncontrolling interests in Direct Conversion such that the Company now owns 100% of the outstanding shares of common stock of Direct Conversion. As a result, the Company consolidates Direct Conversion's operations in its consolidated financial statements and no longer records any noncontrolling interest in the equity section of the Company's consolidated balance sheet related to Direct Conversion

In September 2018, the Company entered into a partnership in Saudi Arabia. The Company has majority voting rights with an approximate 75% interest. Accordingly, the Company has consolidated the operations of the Saudi Arabia partnership in the Company's consolidated financial statements and recorded the noncontrolling interests. The noncontrolling interest related to the partner's 25% interest in the joint venture is included in noncontrolling interest in the equity section of the Company's consolidated balance sheets. Income representing the noncontrolling partner's share of income from operations is included in the Company's consolidated statements of operations.

In April 2015, the Company completed the acquisition of 73.5% of the then outstanding shares of MeVis Medical Solutions AG ("MeVis"), a public company based in Bremen, Germany that provides image processing software and services for cancer screening. In August 2015, the Company, through one of its German subsidiaries, entered into a domination and profit and loss transfer agreement (the "DPLTA") with MeVis. In October 2015, the DPLTA became effective upon its registration at the local court of Bremen, Germany. Under the DPLTA, MeVis subordinates its management to the Company and undertakes to transfer all of its annual profits and losses to the Company. In return, the DPLTA grants the noncontrolling shareholders of MeVis: (1) an annual recurring net compensation of €0.95 per MeVis share starting from January 1, 2015 and (2) a put right for their MeVis shares at €19.77 per MeVis share. During fiscal year 2018, an immaterial number of MeVis' shares were purchased under the put right. During the fourth quarter of fiscal year 2020, the put right granted to the noncontrolling shareholders of MeVis under the DPLTA expired unexercised, which resulted in the redeemable noncontrolling interests being reclassified to permanent equity as noncontrolling interest in the consolidated balance sheet. As of October 1, 2021, noncontrolling shareholders together held approximately 0.5 million shares of MeVis, representing 26.3% of the outstanding shares.

Changes in noncontrolling interests and redeemable noncontrolling interests were as follows:

	Fiscal Years		
	2021	2020	
(In millions)	Noncontrolling Interests	Redeemable Noncontrolling Interests	Noncontrolling Interest
Balance at beginning of period	$ 14.1	$ 10.5	$ 3.3
Net income attributable to noncontrolling interests	0.5	0.5	—
Reclassification of redeemable NCI in MeVis to noncontrolling interests in permanent equity	—	(11.3)	11.3
Other, including foreign currency remeasurement	(1.4)	0.3	(0.5)
Balance at end of period	$ 13.2	$ —	$ 14.1

15. EMPLOYEE STOCK PLANS

Employee Stock Plans

The Company's employees participate in Varex Imaging Corporation 2020 Omnibus Stock Plan (the "2020 Stock Plan"), 2017 Omnibus Stock Plan (the "2017 Stock Plan"), and Varex Imaging Corporation 2017 Employee Stock Purchase Plan (the "2017 ESPP") which allows the grants of stock options, restricted stock units and performance shares among other types of awards.

In January 2017, Varex stockholders approved the 2017 ESPP, which provides eligible employees with an opportunity to purchase shares of Varex common stock at 85% of the lower of its fair market value at the start and end of a six-month purchase period. The 2017 ESPP provides for the purchase of up to one million shares of Varex common stock.

Share-Based Compensation Expense

Share-based compensation expense recognized in the consolidated statements of operations is based on awards ultimately expected to vest. Share-based compensation expense includes expenses related to the Company's direct employees.

The table below summarizes the effect of recording share-based compensation expense and for the option component of the employee stock purchase plan shares:

	Fiscal Year		
(In millions)	**2021**	**2020**	**2019**
Cost of revenues	$ 1.4	$ 1.1	$ 1.2
Research and development	3.0	2.5	2.2
Selling, general and administrative	9.5	9.8	8.3
Total share-based compensation expense	$ 13.9	$ 13.4	$ 11.7

The unrecognized share-based compensation cost as of October 1, 2021 was $22.9 million, and is expected to be recognized over a weighted average period of 2.7 fiscal years. As of October 1, 2021, there were approximately 4.1 million and 0.3 million shares of common stock available for future issuances under the 2020 Stock Plan and the 2017 ESPP, respectively.

The Company utilized the Black-Scholes valuation model for estimating the fair value of stock options granted and the option component of ESPP grants. The Company calculated the fair value of option grants and option component of ESPP grants on the respective dates of grant using the following weighted average assumptions:

	Employee Stock Option Plan			Employee Stock Purchase Plans		
	Fiscal Year			Fiscal Year		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Expected term (in years)	7.0	6.1	4.6	0.5	0.5	0.5
Risk-free interest rate	1.0 %	1.1 %	2.5 %	0.1 %	0.9 %	2.5 %
Expected volatility	41.5 %	36.9 %	33.9 %	68.4 %	50.0 %	43.9 %
Expected dividend	— %	— %	— %	— %	— %	— %
Weighted average fair value at grant date	$9.37	$7.53	$10.19	$5.90	$7.94	$7.81

Option valuation methods, including Black-Scholes, require the input of subjective assumptions, which are discussed below.

Risk-Free Interest Rate

The interest rates used are based on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award.

Expected Term

Options granted generally vest over a period of 36 to 48 months and expire 7 to 10 years from date of grant. Employee stock purchase plan offering periods are 6 months and provides eligible employees with an opportunity to purchase shares of Varex common stock at 85% of the lower of its fair market value at the start or end of a six-month purchase period. The Company has elected to use the simplified method in calculating the expected term of its options due to a lack of sufficient historical information.

Expected Dividend Yield

The dividend rate used is zero as the Company has never paid any cash dividends on its common stock and does not anticipate doing so in the foreseeable future. The Company is also restricted from paying dividends on common stock under its debt facilities.

Expected Volatility

Authoritative accounting guidance on stock-based compensation indicates that companies should consider volatility over a period generally commensurate with the expected or contractual term of the stock option. Adequate Company-specific data does not exist for this time period as the Company began trading in January 2017. The volatility variable used is a blended approach by using the Company's historic data for the years it has been publicly traded and a benchmark of other comparable companies' volatility rates for the prior years.

Stock Option Activity

The following table summarizes the activity for stock options under Varex's employee incentive plans for the Company's employees:

(In thousands, except per share amounts and the remaining term)	Options	Price range	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value (1)
Outstanding at October 2, 2020	2,735	\$13.61 - \$37.60	\$ 29.23	4.5	\$ —
Granted	399	\$25.06 - \$27.95	25.19		
Canceled, expired or forfeited	(323)	\$25.17 - \$37.10	28.90		
Outstanding at October 1, 2021	2,811	\$13.61 - \$37.60	\$ 28.69	4.7	\$ 5,161.0
Exercisable at October 1, 2021	1,911	\$13.61 - \$37.60	\$ 30.36	3.1	\$ 1,597.6

(1) The aggregate intrinsic value represents the total pre-tax intrinsic value, which is computed based on the difference between the exercise price and the closing price of Varex common stock of \$28.58 as of October 1, 2021, the last trading date of the Company's respective fiscal years, and which represents the amount that would have been received by the option holders had all option holders exercised their options and sold the shares received upon exercise as of that date.

The grant-date fair value of options granted during fiscal years 2021, 2020 and 2019 was \$3.7 million, \$4.4 million and \$3.0 million, respectively. The total intrinsic value of the options exercised during the years ended October 1, 2021, October 2, 2020 and September 27, 2019 was \$0.0 million, \$0.4 million and \$0.2 million, respectively

Restricted Stock Units, Restricted Stock Awards and Deferred Stock Units

The following table summarizes the activity for restricted stock units, restricted stock awards and deferred stock units under Varex's employee incentive plans for the Company's employees:

(In thousands, except per share amounts)	Number of Shares	Weighted Average Grant-Date Fair Value
Balance at October 2, 2020	955	\$ 25.54
Granted	388	22.81
Vested	(199)	33.63
Canceled, expired or forfeited	(64)	23.39
Balance at October 1, 2021	1,080	\$ 23.25

The total grant-date fair value of shares granted was \$8.9 million, \$11.9 million and \$9.0 million for fiscal years 2021, 2020 and 2019, respectively. Shares outstanding at October 1, 2021, October 2, 2020 and September 27, 2019 had an estimated market value of \$30.9 million, \$11.8 million and \$19.2 million, respectively.

16. TAXES ON INCOME

Income tax expense or benefit is based on reported income or loss before income taxes. Deferred income taxes reflect the effect of temporary differences between asset and liability amounts that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. These deferred taxes are measured by applying currently enacted tax laws. Valuation allowances are recognized to reduce deferred tax assets to the amount that is more likely than not to be realized.

Income tax expense (benefit) was as follows:

	Fiscal Years		
(In millions)	**2021**	**2020**	**2019**
Current income tax expense (benefit)			
Federal	$ 5.4	$ (16.3)	$ 9.2
State and local	1.4	(1.4)	1.3
Foreign	6.8	5.7	6.8
Total current	$ 13.6	$ (12.0)	$ 17.3
Deferred income tax expense (benefit):			
Federal	$ 1.8	$ (1.7)	$ (10.0)
State and local	(1.3)	0.6	(1.6)
Foreign	(3.4)	(2.1)	—
Total deferred	$ (2.9)	$ (3.2)	$ (11.6)
Income tax expense (benefit)	$ 10.7	$ (15.2)	$ 5.7

Income (loss) before taxes are generated from the following geographic areas:

	Fiscal Years		
(In millions)	**2021**	**2020**	**2019**
United States	$ (4.1)	$ (74.1)	$ 5.9
Foreign	32.7	1.5	15.6
Income (loss) before taxes	$ 28.6	$ (72.6)	$ 21.5

The effective tax rate differs from the U.S. federal statutory tax rate as a result of the following:

	Fiscal Years		
	2021	**2020 (1)**	**2019 (1)**
Federal statutory income tax rate	21.0 %	21.0 %	21.0 %
State and local taxes, net of federal tax benefit	0.3	1.0	(0.9)
Mandatory repatriation tax on foreign earnings	—	—	1.9
Return to provision	4.2	2.8	(4.7)
Research and development credit	(4.2)	3.7	(10.2)
Prior year research and development credit	(0.3)	—	—
Prior year deferred tax adjustments	—	0.4	4.7
Foreign rate difference	1.7	(0.4)	6.0
Foreign research innovation box	(3.8)	—	—
Change in valuation allowance	8.4	(11.0)	11.2
U.S. tax reform - international provisions	(0.7)	—	(4.7)
U.S. net operating loss carryback	5.2	5.6	—
Other	5.6	(2.2)	2.2
Effective tax rate	37.4 %	20.9 %	26.5 %

(1) Certain prior year amounts have been reclassified to conform to current year presentation.

During fiscal year 2021, the Company's effective tax rate varied from the U.S. federal statutory rate of 21% primarily because of the unfavorable impact of U.S. deferred tax attributes and losses in certain foreign jurisdictions for which a valuation allowance is provided and a reduction in benefit for U.S. net operating losses carried back to prior years. These unfavorable items are partially offset by the favorable impact of R&D tax credits and U.S. tax reform international provisions.

During fiscal year 2020, the Company's effective tax rate varied from the U.S. federal statutory rate of 21% primarily because of the favorable impact of U.S. net operating losses to be carried back to tax years with greater U.S. federal statutory rates. These favorable tax items were mostly offset by the unfavorable impact of additional losses in certain foreign jurisdictions, limitations on interest expense, and R&D credits for which no benefit is recognized.

During fiscal year 2019, the Company's effective tax rate varied from the U.S. federal statutory rate of 21% primarily because of the favorable impact of changes to the U.S. corporate tax structure resulting from U.S. Tax Reform, and U.S. research and development tax credits. These favorable U.S. tax items were offset by losses in certain foreign jurisdictions for which no benefit is recognized and earnings in other foreign jurisdictions that are taxed at higher rates.

The Company has estimated its fiscal year 2021 GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax), FDII (foreign-derived intangible income), limitations on interest expense deductions, and other components of U.S. Tax Reform, and have included these amounts in the calculation of the fiscal year 2021 tax provision. The Company has made an accounting policy election, as allowed by the SEC and FASB, to recognize the impact of GILTI as a period cost if and when incurred.

Significant components of deferred tax assets and liabilities are as follows:

(In millions)	**October 1, 2021**	**October 2, 2020** [(1)]
Deferred tax assets:		
Inventory adjustments	$ 4.9	$ 4.4
Share-based compensation	5.5	4.2
Product warranty	1.8	1.7
Deferred compensation	1.6	1.3
Net operating loss carryforwards	25.7	27.0
Accrued vacation	1.0	1.0
Accrued incentives	4.2	1.7
Credit carryforwards	3.3	5.9
Deferred financing fees	3.0	3.3
Interest expense limitation	4.3	4.7
Lease liabilities	6.8	7.2
Other	6.4	4.3
	$ 68.5	$ 66.7
Valuation allowance	(30.2)	(28.7)
Total deferred tax assets	$ 38.3	$ 38.0
Deferred tax liabilities:		
Acquired intangibles	$ (13.9)	$ (16.6)
Property, plant and equipment	(13.0)	(12.4)
Investments in privately held companies	(1.8)	(2.8)
Operating lease assets	(6.5)	(6.7)
Other	(1.3)	(1.3)
Total deferred tax liabilities	(36.5)	(39.8)
Net deferred tax assets	$ 1.8	$ (1.8)
Reported As:		
Deferred tax assets	$ 38.3	$ 38.0
Deferred tax liabilities	**(36.5)**	**(39.8)**
Net deferred tax assets (liabilities)	$ 1.8	$ (1.8)

(1) Certain prior year amounts have been reclassified to conform to current year presentation.

The Company is maintaining its reinvestment assertion with respect to foreign earnings for the year ended October 1, 2021, which is that all earnings prior to fiscal year 2018 are permanently reinvested for all countries, and that all earnings for Direct Conversion, located primarily in Sweden and Finland, are also indefinitely reinvested in those countries, but post fiscal year 2017 earnings in all other countries are not permanently reinvested. Due to the level of earnings available for repatriation, the treaty benefits applicable to jurisdictions in which those earnings are located, and the now favorable U.S. tax treatment of repatriated foreign earnings, the amount of deferred tax liability recorded related to the potential repatriation is approximately $0.1 million. This estimated liability is for U.S. state income taxes and foreign withholding taxes that would apply if the foreign earnings were repatriated in the form of a dividend.

As of October 1, 2021, the Company had foreign net operating loss carryforwards ("NOL") of approximately $25.7 million with $2.6 million expiring between 2021 and 2030 and $23.1 million carried forward indefinitely. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. On July 2, 2020, the US Treasury Department issued a regulation providing an election to waive NOL carryback to a former consolidated group. During fiscal year 2021, the Company filed NOL carryback claims for U.S. losses incurred during fiscal year 2020 and anticipates cash tax refunds on those claims.

The valuation allowance relates primarily to net operating losses in certain foreign jurisdictions, limitations on interest expense deductions, and other deferred tax attributes where, based on the weight of available evidence, it is more likely than not that the tax benefit will not be realized. The valuation allowance increased by $1.5 million during fiscal year 2021 and increased by $9.9 million during fiscal year 2020. The increase during the current year was primarily related to other U.S. deferred tax attributes.

Changes in the Company's valuation allowance for deferred tax assets were as follows:

	Fiscal Years		
(In millions)	**2021**	**2020**	**2019**
Valuation allowance balance–beginning of fiscal year	$ 28.7	$ 18.8	$ 4.0
Increases resulting from business combinations	—	—	12.0
Other increases	5.4	10.2	2.8
Other decreases	(3.9)	(0.3)	—
Valuation allowance balance—end of fiscal year	$ 30.2	$ 28.7	$ 18.8

The Company accounts for uncertainty in income taxes following a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining whether the weight of available evidence indicates that it is more likely than not that, based on the technical merits, the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Changes in the Company’s unrecognized tax benefits were as follows:

	Fiscal Years	
(In millions)	**2021**	**2020**
Unrecognized tax benefits balance–beginning of fiscal year	$ 0.8	$ 0.6
Additions based on tax positions related to a prior year	0.4	0.2
Additions based on tax positions related to the current year	0.1	—
Reductions resulting from the expiration of the applicable statute of limitations	(0.2)	—
Unrecognized tax benefits balance—end of fiscal year	$ 1.1	$ 0.8

As of October 1, 2021 and October 2, 2020, the total amount of gross unrecognized tax benefits was $1.1 million and $0.8 million, respectively, all of which would affect the effective tax rate if recognized.

The Company includes interest and penalties related to income taxes within income tax expense (benefit) on the consolidated statements of operations. For the year ended October 1, 2021, $0.2 million interest and penalties have been included for this period. For the year ended October 2, 2020, $0.1 million interest and penalties have been included for this period. For the year ended September 27, 2019, $0.1 million interest and penalties have been included for this period.

The Company files U.S. federal and state income tax returns and non-U.S. income tax returns in various jurisdictions. All of these returns are subject to examination by their respective taxing jurisdictions from the date of filing through each applicable statute of limitation period. Other periods for entities acquired are still open and subject to examination. Generally, periods prior to 2011 are no longer subject to examination.

During fiscal year 2021, the New York Department of Finance and Taxation and the Utah State Tax Commission commenced examinations of Varex's tax returns for the years 2017, 2018, and 2019. The Swedish Tax Agency will commence an examination of Direct Conversion's tax returns for the fiscal year 2019 in fiscal year 2022. Although the outcome of tax audits are uncertain, based on currently available information, the Company believes the outcomes will not have a material adverse effect on the Company's financial position.

17. SEGMENT INFORMATION

The Company has two reportable operating segments: Medical and Industrial, which aligns with how its Chief Executive Officer ("CEO"), who is the Company's Chief Operating Decision Maker ("CODM"), reviews the Company's performance. The segments align the Company's products and service offerings with customer use in medical and industrial markets and are consistent with how the Company's CEO, who is also its CODM, evaluates the business for the allocation of resources. The CODM allocates resources to and evaluates the financial performance of each operating segment primarily based on revenues and gross profit. The operating and reportable segment structure provides alignment between business strategies and operating results.

Description of Segments

The Medical segment designs, manufactures, sells and services X-ray imaging components, including X-ray tubes, digital detectors, high voltage connectors, image-processing software and workstations, 3D reconstruction software, computer-aided diagnostic software, collimators, automatic exposure control devices, generators, heat exchangers, ionization chambers and buckys (a component of X-ray units that holds X-ray film cassettes). These components are used in a range of medical imaging applications including CT, mammography, oncology, cardiac, surgery, dental, and other diagnostic radiography uses.

The Industrial segment designs, develops, manufactures, sells and services X-ray imaging products for use in a number of markets, including security applications for cargo screening at ports and borders and baggage screening at airports, and nondestructive testing and inspection applications used in a number of other markets. The Company's Industrial products include Linatron® X-ray linear accelerators, X-ray tubes, digital detectors and high voltage connectors. In addition, the Company licenses proprietary image-processing and detection software designed to work with other Varex products to provide packaged sub-assembly solutions to Industrial customers.

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

Information related to the Company's segments is as follows:

(In millions)	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
Revenues			
Medical	$ 643.8	$ 584.5	$ 596.8
Industrial	174.3	153.8	183.8
Total revenues	818.1	738.3	780.6
Gross profit			
Medical	203.2	136.4	188.9
Industrial	68.3	53.8	67.8
Total gross profit	271.5	190.2	256.7
Total operating expenses	197.4	223.9	211.0
Interest and other expense, net	(45.5)	(38.9)	(24.2)
Income (loss) before taxes	28.6	(72.6)	21.5
Income tax expense (benefit)	10.7	(15.2)	5.7
Net income (loss)	17.9	(57.4)	15.8
Less: Net income attributable to noncontrolling interests	0.5	0.5	0.3
Net income (loss) attributable to Varex	$ 17.4	$ (57.9)	$ 15.5

The Company does not disclose total assets by segment as this information is not provided to the CODM.

Geographic Information

	Revenues			Long-Lived Assets	
	Fiscal Years			Fiscal Years	
(In millions)	2021	2020	2019	2021	2020
Americas	$ 268.5	$ 255.0	$ 282.6	$ 105.4	$ 115.9
EMEA	276.3	231.5	269.0	23.9	21.5
APAC	273.3	251.8	229.0	10.9	7.8
Total company	$ 818.1	$ 738.3	$ 780.6	$ 140.2	$ 145.2

Revenue in the United States of America was $262.3 million, $249.8 million and $275.3 million in fiscal years 2021, 2020 and 2019, respectively.

The Company operates various manufacturing and marketing operations outside the United States. Americas includes North and South America. EMEA includes Europe, Russia, the Middle East, India and Africa. APAC includes Asia and Australia. Revenues by region are based on the known final destination of products sold.

18. EMPLOYEE BENEFIT PLANS

Varex's 401(k) plan is intended to be qualified under Section 401(a) of the Code with the 401(k) plan's related trust intended to be tax exempt under Section 501(a) of the Code and intended for all full-time employees in the United States. This plan allows employees to contribute a portion of their pretax salary up to the maximum dollar limitation prescribed by the Internal Revenue Service. The Company made matching contributions to the plan totaling $2.8 million, $4.4 million and $6.7 million in fiscal years 2021, 2020 and 2019, respectively.

The Company also maintains defined benefit plans for employees located outside the US. The net pension liability is included in other long-term liabilities on the Company's consolidated balance sheets and totaled $5.9 million and $6.5 million as of October 1, 2021 and October 2, 2020, respectively. The Company’s net periodic benefit costs for the Company’s defined benefit plans were not material for fiscal years 2021, 2020 and 2019.

19. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following tables present the changes in the accumulated balances for each component of other comprehensive income (loss):

(In millions)	Unrealized Gain (Loss) on Derivative Financial Instruments	Unrealized Gain (Loss) on Defined Benefit Obligations	Currency Translation Adjustment	Accumulated Other Comprehensive (Loss) Income
Balance at September 27, 2019	$ (0.4)	$ (1.3)	$ —	$ (1.7)
Other comprehensive (loss) income before reclassifications	(3.4)	0.9	(1.3)	(3.8)
Amount reclassified out of other comprehensive income	1.5	—	—	1.5
Amount reclassified out of other comprehensive income - transaction remote	2.4	—	—	2.4
Income tax impact	(0.1)	(0.3)	0.3	(0.1)
Foreign currency translation adjustment	—	—	2.5	2.5
Balance at October 2, 2020	$ —	$ (0.7)	$ 1.5	$ 0.8
Other comprehensive loss before reclassifications	—	(0.1)	(0.3)	(0.4)
Income tax impact	—	—	0.1	0.1
Foreign currency translation adjustment	—	—	(0.5)	(0.5)
Balance at October 1, 2021	$ —	$ (0.8)	$ 0.8	$ —

Exhibit 4.1

DESCRIPTION OF VAREX'S CAPITAL STOCK

The following is a summary of the material terms of Varex's capital stock contained in Varex's amended and restated certificate of incorporation and bylaws and the in the Delaware General Corporation Law ("DGCL"). The summaries and descriptions below do not purport to be complete statements of the relevant provisions of the certificate of incorporation, bylaws or the DGCL.

General

Varex's authorized capital stock consists of 150 million shares of common stock, par value $0.01 per share, and 20 million shares of preferred stock, par value $0.01 per share, all of which shares of preferred stock are undesignated. Varex's board of directors may establish the rights and preferences of the preferred stock from time to time.

Common Stock

Each holder of Varex common stock is entitled to one vote for each share on all matters to be voted upon by the common stockholders, and there are no cumulative voting rights. Subject to any preferential rights of any outstanding preferred stock, holders of Varex common stock are entitled to receive ratably the dividends, if any, declared from time to time by Varex's board of directors out of funds legally available for that purpose. If there is a liquidation, dissolution or winding up of Varex, holders of its common stock would be entitled to ratable distribution of its assets remaining after the payment in full of liabilities and any preferential rights of any then-outstanding preferred stock.

Holders of Varex common stock have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of Varex common stock are fully paid and non-assessable. The rights, preferences and privileges of the holders of Varex common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that Varex may designate and issue in the future.

Preferred Stock

Varex's board of directors is authorized, subject to limitations prescribed by the DGCL and by Varex's amended and restated certificate of incorporation, to issue up to 20 million shares of preferred stock in one or more series without further action by the holders of its common stock. Varex's board of directors have the discretion, subject to limitations prescribed by the DGCL and by Varex's amended and restated certificate of incorporation, to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

Anti-Takeover Effects of Various Provisions of Delaware Law and Varex's Certificate of Incorporation and Bylaws

Provisions of the DGCL and Varex's amended and restated certificate of incorporation and bylaws could make it more difficult to acquire Varex by means of a tender offer, a proxy contest or otherwise, or to remove incumbent officers and directors. These provisions, summarized below, are expected to discourage certain types of coercive takeover practices and takeover bids that Varex's board of directors may consider inadequate and to encourage persons seeking to acquire control of Varex to first negotiate with Varex's board of directors. Varex believes that the benefits of increased protection of its ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure it outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

Delaware Anti-Takeover Statute. Varex is subject to Section 203 of the DGCL, an anti-takeover statute. In general, Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the time the person became an interested stockholder, unless (i) prior to such time, the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) the voting stock owned by directors who are also officers or held in employee benefit plans in which the employees do not have a confidential right to tender or vote stock held by the plan); or (iii) on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years prior to the determination of interested stockholder status did own) 15% or more of a corporation's voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by Varex's board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by Varex's stockholders.

Classified Board. Varex's amended and restated certificate of incorporation and bylaws provide that its board of directors was initially divided into three classes, two of which are comprised of two directors and one of which is comprised of three directors. In connection with the spin-off of Varex from Varian, directors of each class were initially elected for staggered three-year terms. In accordance with Varex's certificate of incorporation, (i) commencing with the class of directors standing for election at the Company's 2020 annual meeting, directors will stand for election for a two-year term; (ii) commencing with the class of directors standing for election at the Company's 2021 annual meeting, directors will stand for election for a one-year term; and (iii) commencing with the Company's 2022 annual meeting, and at each annual meeting thereafter, all directors will stand for election for a one-year term. Until the board is declassified, it would take at least two elections of directors for any individual or group to gain control of Varex's board of directors. Accordingly, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of Varex.

At any meeting of stockholders for the election of directors at which a quorum is present, the election will be determined by a majority of the votes cast by the stockholders entitled to vote in the election, with directors not receiving a majority of the votes cast required to tender their resignations for consideration by the board, except that in the case of a contested election, the election will be determined by a plurality of the votes cast by the stockholders entitled to vote in the election.

Removal of Directors. For so long as the Varex board of directors is classified, Varex's amended and restated certificate of incorporation provides that its stockholders may remove its directors only for cause, by an affirmative vote of holders of at least a majority of Varex's voting stock then-outstanding. Following the 2022 annual meeting, Varex's stockholders may remove its directors with or without cause by an affirmative vote of at least a majority of Varex's voting stock then-outstanding.

Amendments to Certificate of Incorporation. Varex's amended and restated certificate of incorporation provide that the affirmative vote of the holders of at least 66 2/3% of its voting stock then-outstanding is required to amend certain provisions relating to the term and removal of its directors, the filling of its board vacancies, the calling of special meetings of stockholders, stockholder action by written consent, the elimination of liability of directors to the extent permitted by Delaware law and indemnification of directors and officers. The provisions of the amended and restated certificate of incorporation relating to the 66 2/3% voting threshold will be of no force and effect effective as of the completion of the 2021 annual meeting of stockholders and the amended and restated certificate of incorporation may thereafter be amended by the affirmative vote of the holders of at least a majority of the outstanding voting stock then-outstanding.

Amendments to Bylaws. Varex's amended and restated bylaws provide that they may be amended by Varex's board of directors or by the affirmative vote of holders of a majority of Varex's voting stock then-outstanding.

Size of Board and Vacancies. Varex's amended and restated bylaws provide that the number of directors on its board of directors will be fixed exclusively by its board of directors, except that the minimum number of directors will be three. Any vacancies created in its board of directors resulting from any increase in the authorized number of directors or the death, resignation, retirement, disqualification, removal from office or other cause will be filled by a majority of the board of directors then in office, even if less than a quorum is present, or by a sole remaining director. Any director appointed to fill a vacancy on Varex's board of directors will be appointed for a term expiring at the next election of the class for which such director has been appointed, and until his or her successor has been elected and qualified.

Special Stockholder Meetings. Varex's amended and restated certificate of incorporation provides that only the board of directors, pursuant to a resolution adopted by the majority of the whole board, or the chairman of the board of directors may call special meetings of Varex stockholders. The majority of the board of directors must concur with the calling of the meeting by the chairman. Stockholders may not call special stockholder meetings.

Stockholder Action by Written Consent. Varex's amended and restated certificate of incorporation expressly eliminates the right of its stockholders to act by written consent effective as of the distribution. Stockholder action must take place at the annual or a special meeting of Varex stockholders.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Varex's certificate of incorporation mandates that stockholder nominations for the election of directors will be given in accordance with the bylaws. The amended and restated bylaws will establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors as well as minimum qualification requirements for stockholders making the proposals or nominations. Additionally, the bylaws require that candidates for election as director disclose their qualifications and make certain representations.

No Cumulative Voting. The DGCL provides that stockholders are denied the right to cumulate votes in the election of directors unless the company's certificate of incorporation provides otherwise. Varex's amended and restated certificate of incorporation do not provide for cumulative voting.

Undesignated Preferred Stock. The authority of Varex's board of directors to issue preferred stock could potentially be used to discourage attempts by third parties to obtain control of Varex's company through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly. Varex's board of directors may be able to issue preferred stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of common stock.

Limitations on Liability, Indemnification of Officers and Directors and Insurance

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors, and Varex's amended and restated certificate of incorporation includes such an exculpation provision. Varex's amended and restated certificate of incorporation and bylaws include provisions that indemnify, to the fullest extent allowable under the DGCL, the personal liability of directors or officers for monetary damages for actions taken as a director or officer of Varex, or for serving at Varex's request as a director or officer or another position at another corporation or enterprise, as the case may be. Varex's amended and restated certificate of incorporation and bylaws also provide that Varex must indemnify and advance reasonable expenses to its directors and officers, subject to its receipt of an undertaking from the indemnified party as may be required under the DGCL. Varex's amended and restated certificate of incorporation will expressly authorize Varex to carry directors' and officers' insurance to protect Varex, its directors, officers and certain employees for some liabilities.

The limitation of liability and indemnification provisions in Varex's amended and restated certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against Varex's directors and officers, even though such an action, if successful, might otherwise benefit Varex and its stockholders. However, these provisions do not limit or eliminate Varex's rights, or those of any stockholder, to seek non-monetary relief such as injunction or rescission in the event of a breach of a director's duty of care. The provisions do not alter the liability of directors under the federal securities laws.

Exclusive Forum

Varex's amended and restated certificate of incorporation provide that unless the board of directors otherwise determines, the state courts located within the State of Delaware or, if no state court located in the State of Delaware has jurisdiction, the federal court for the District of Delaware, will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of Varex, any action asserting a claim of breach of a fiduciary duty owed by any director or officer of Varex to Varex or Varex's stockholders, any action asserting a claim against Varex or any director or officer of Varex arising pursuant to any provision of the DGCL or Varex's amended and restated certificate of incorporation or bylaws, or any action asserting a claim against Varex or any director or officer of Varex governed by the internal affairs doctrine.

Authorized but Unissued Shares

Varex's authorized but unissued shares of common stock and preferred stock may be issued without stockholder approval. Varex may use additional shares for a variety of purposes, including future public offerings to raise additional capital, to fund acquisitions and as employee compensation. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of Varex by means of a proxy contest, tender offer, merger or otherwise.

Exhibit 10.11

CHANGE IN CONTROL AGREEMENT

FOR [INSERT TITLE]

CHANGE IN CONTROL AGREEMENT

THIS CHANGE IN CONTROL AGREEMENT ("Agreement") is entered into as of [Date] (the "Effective Date"), by and between Varex Imaging Corporation, a Delaware corporation (the "Company")[1], and [Employee], an employee of the Company or one of its subsidiaries ("Employee"). [This Agreement replaces and supersedes any prior change in control agreement entered into by and between the Company and Employee.]

The Company's Board of Directors (the "Board") has determined that it is in the best interest of the Company and its stockholders for the Company to agree to pay Employee termination compensation in the event Employee should leave the employ of the Company under the circumstances described below. The Board recognizes that the possibility of a proposal from a third person, whether or not solicited by the Company, concerning a possible "Change in Control" of the Company (as such language is defined in Section 3(d)) will be unsettling to Employee. Therefore, the arrangements set forth in this Agreement are being made to help assure a continuing dedication by Employee to Employee's duties to the Company notwithstanding the proposal or occurrence of a Change in Control. The Board believes it imperative, should the Company receive any proposal from a third party, that Employee, without being influenced by the uncertainties of Employee's own situation, be able to assess and advise the Board whether such proposals are in the best interest of the Company and its stockholders, and to enable Employee to take action regarding such proposals as the Board might determine to be appropriate. The Board also wishes to demonstrate to key personnel that the Company desires to enhance management relations and its ability to retain and, if needed, to attract new management, and intends to ensure that loyal and dedicated management personnel are treated fairly.

In view of the foregoing, the Company and Employee agree as follows:

1. <u>EFFECTIVE DATE AND TERM OF AGREEMENT</u>.

This Agreement is effective and binding on the Company and Employee as of the date described above; *provided, however,* that, subject to Section 2(d), the provisions of Sections 3 and 4 shall become operative only upon the Change in Control Date.

2. <u>EMPLOYMENT OF EMPLOYEE</u>.

(a) Except as provided in Sections 2(b), 2(c) and 2(d), nothing in this Agreement shall affect any right which Employee may otherwise have to terminate Employee's employment, nor shall anything in this Agreement affect any right which the Company may have to terminate Employee's employment at any time in any lawful manner.

(b) In the event of a Potential Change in Control, to be eligible to receive the benefits provided by this Agreement, Employee will not voluntarily leave the employ of the Company, and will

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[1] "Company" shall include the Company, any successor to the Company's business and/or assets, and any party which executes and delivers the agreement required by Section 6(e) or which otherwise becomes bound by the terms and conditions of this Agreement by operation of law or otherwise.

continue to perform Employee's regular duties and the services specified in the recitals of this Agreement until the Change in Control Date. Should Employee voluntarily terminate employment prior to the Change in Control Date, this Agreement shall lapse upon such termination and be of no further force or effect.

(c) If Employee's employment terminates on or after the Change in Control Date as provided under Sections 3 and 4, the Company will provide to Employee the payments and benefits as provided in Sections 3 and 4.

(d) If Employee's employment is terminated by the Company without Cause within sixty (60) days prior to and including the Change in Control Date but on or after a Potential Change in Control Date, subject to Section 4(d), then the Company will provide to Employee the payments and benefits described in Sections 3 and 4 unless the Board determines prior to the Change in Control Date that Employee's termination of employment neither (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change in Control nor (ii) arose in connection with or in anticipation of a Change in Control. Such payments and benefits will be paid within five (5) business days following the 60th day after the Employee's Separation from Service except that the stock option and restricted stock acceleration benefits described in Section 4(a)(iii) shall be provided on the Change in Control Date and accelerated restricted stock units that are subject to Section 409A of the Code shall be settled on their originally scheduled payment dates but only to the extent required to avoid adverse tax consequences under Section 409A of the Code. In the event that a Change in Control is not consummated, Employee shall not be entitled to any payments or benefits on account of Employee's termination described in this Section 2(d).

3. TERMINATION FOLLOWING CHANGE IN CONTROL.

(a) If a Change in Control shall have occurred, Employee shall be entitled to the benefits provided in Section 4 upon the subsequent termination of Employee's employment within the applicable period set forth in Section 4 unless such termination is due to Employee's death, or Disability or is for Cause or is effected by Employee other than for Good Reason (as such terms are defined in Section 3(d)).

(b) If within eighteen (18) months after a Change in Control, Employee incurs a Separation from Service by reason of Employee's death or Disability, Employee (or, if applicable, his or her estate) shall be entitled to death or long-term disability benefits from the Company no less favorable than the most favorable benefits to which Employee would have been entitled had the death or Disability occurred at any time during the period commencing one (1) year prior to the Change in Control under the plans of the Company. To the extent such benefits are taxable to Employee, the benefits provided during the calendar year shall not affect the benefits to be provided in any other calendar year and the benefits shall not be subject to liquidation or exchange for another benefit.

(c) If Employee's employment shall be terminated by the Company for Cause or by Employee other than for Good Reason during the term of this Agreement, the Company shall pay Employee's base salary through the date of termination at the rate in effect at the time notice of termination is given, subject to applicable tax withholdings and deductions, and the Company shall have no further obligations to Employee under this Agreement.

(d) For purposes of this Agreement:

"Base Salary" shall mean the annual base salary paid to Employee immediately prior to his or her termination of employment (or, if applicable, immediately prior to any reduction that constitutes "Good Reason"), provided that such amount shall in no event be less than the annual base salary paid to Employee during the one (1) year period immediately prior to the Change in Control by the Company.

A "Change in Control" shall be deemed to have occurred if:

(i) Any individual or group constituting a "person", as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act (other than (A) the Company or any of its subsidiaries or (B) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or of any of its subsidiaries), is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's outstanding securities then entitled ordinarily (and apart from rights accruing under special circumstances) to vote for the election of directors; or

(ii) Continuing Directors cease to constitute at least a majority of the Board; or

(iii) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (a "Transaction"), in each case with respect to which the stockholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than 50% of the combined voting power of the Company or other corporation resulting from such Transaction;

(iv) all or substantially all of the assets of the Company are sold, liquidated or distributed; or

(v) only in the case of an Employee primarily assigned to a single business unit, the sale of the business unit for which the Employee primarily provides services (whether through the sale of stock of subsidiaries, assets of the Company or its subsidiaries, or any combination thereof);

provided, however, that a "Change in Control" shall not be deemed to have occurred under this Agreement if, prior to the occurrence of a specified event that would otherwise constitute a Change in Control hereunder, the disinterested Continuing Directors then in office, by a majority vote thereof, determine that the occurrence of such specified event shall not be deemed to be a Change in Control with respect to Employee hereunder if the Change in Control results from actions or events in which Employee is a participant in a capacity other than solely as an officer, employee or director of the Company.

"Change in Control Date" shall mean the date on which a Change in Control occurs.

"Cause" shall mean:

(i) The continued willful failure of Employee to perform Employee's duties to the Company or its subsidiaries (other than any such failure resulting from Employee's incapacity due to physical or mental illness) after written notice thereof (specifying the particulars thereof in reasonable detail) and a reasonable opportunity to be heard and cure such failure are given to Employee by the Board or a committee thereof; or

(ii) The commission by Employee of a wrongful act that caused or was reasonably likely to cause substantial damage to the Company or its subsidiaries, or an act of fraud in the performance of Employee's duties on behalf of the Company or its subsidiaries; or

(iii) The conviction of, or plea of nolo contendere by, Employee for commission of a felony in connection with the performance of Employee's duties on behalf of the Company or its subsidiaries; or

(iv) The order of a federal or state regulatory authority having jurisdiction over the Company or its subsidiaries or their respective operations or by a court of competent jurisdiction requiring the termination of Employee's employment by the Company or any of its subsidiaries.

“Continuing Directors” shall mean the directors of the Company in office on the Effective Date and any successor to any such director who was nominated or selected by a majority of the Continuing Directors in office at the time of the director’s nomination or selection and who is not an “affiliate” or “associate” (as defined in Regulation 12B under the Exchange Act) of any person who is the beneficial owner, directly or indirectly, of securities representing ten percent (10%) or more of the combined voting power of the Company’s outstanding securities then entitled ordinarily to vote for the election of directors.

“Disability” shall mean Employee’s incapacity due to physical or mental illness such that Employee shall have become qualified to receive benefits under the Company’s long-term disability plan as in effect on the date of the Change in Control.

“Dispute” shall mean, in the case of termination of Employee’s employment for Disability or Cause, that Employee challenges the existence of Disability or Cause, and in the case of termination of Employee’s employment for Good Reason, that the Company challenges the existence of Good Reason for termination of Employee’s employment.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

[FOR CFO/General Counsel: “Equivalent Position” shall mean an employment position that:

(i) requires that Employee serve in a role and perform duties that are functionally equivalent in all material respects to (or broader than) the role and duties performed by Employee for the Company prior to the Change in Control;

(ii) is the [principal [financial] OR [legal] officer] of the combined or acquiring entity;

(iii) does not constitute a material, adverse change in Employee’s responsibilities or duties or authority, when compared to Employee’s responsibilities or duties or authority with the Company prior to the Change in Control; and

(iv) has Employee reporting directly to the Chief Executive Officer of the combined or acquiring company to the extent that the Employee was reporting directly to the Chief Executive Officer of the Company prior to the Change in Control.]

“Good Reason” shall mean:

(i) FOR CEO: The failure to appoint Employee as Chief Executive Officer (or principal executive officer) of the combined or acquiring entity, reporting to its Board of Directors] [FOR CFO/General Counsel: The assignment to Employee of a position, responsibilities or duties such that he or she no longer holds an Equivalent Position] [FOR OTHER KEY EMPLOYEES: The assignment of Employee to duties which are materially different from Employee’s duties immediately prior to the Change in Control and which result in a material reduction in Employee’s authority and responsibility]; or

(ii) A material reduction of Employee’s total cash and equity compensation, evaluated in the aggregate, as the same may have been increased from time to time after the Change in Control Date other than a reduction implemented with the consent of Employee; or

(iii) The relocation of the office of the Company where Employee is providing Employee’s services to the Company immediately prior to the Change in Control Date (the “CIC Location”) to a location which is more than 50 miles away from the CIC Location or the Company’s requiring Employee to be based more than 50 miles away from the CIC Location (except for required travel on the Company's business to an extent substantially consistent with Employee's customary business travel obligations in the ordinary course of business prior to the Change in Control Date); or

(iv) A material breach of this Agreement.

Notwithstanding anything in this Agreement to the contrary, a termination for "Good Reason" shall not occur unless the Employee has provided written notice to the Company of the Employee's intention to terminate employment and the specific reason(s) for such "Good Reason" within thirty (30) days of the circumstances giving rise to such "Good Reason" first occurring. Following receipt of such notice, the Company shall have the right, within thirty (30) days of receiving such written notice, to cure the circumstances giving rise to such "Good Reason".

"Potential Change in Control" shall mean the earliest to occur of (a) the execution of an agreement or letter of intent, the consummation of the transactions described in which would result in a Change in Control, (b) the approval by the Board of a transaction or series of transactions, the consummation of which would result in a Change in Control, or (c) the public announcement of a tender offer for the Company's voting stock, the completion of which would result in a Change in Control; *provided,* that no such event shall be a "Potential Change in Control" unless (i) in the case of any agreement or letter of intent described in clause (a), the transaction described therein is subsequently consummated by the Company and the other party or parties to such agreement or letter of intent and thereupon constitutes a "Change in Control", (ii) in the case of any Board-approved transaction described in clause (b), the transaction so approved is subsequently consummated and thereupon constitutes a "Change in Control" or (iii) in the case of any tender offer described in clause (c), such tender offer is subsequently completed and such completion thereupon constitutes a "Change in Control".

"Potential Change in Control Date" shall mean the date on which a Potential Change in Control occurs.

"Separation from Service" shall have the meaning set forth in Section 409A of the Code.

(e) Any termination of employment by the Company or by Employee shall be communicated by written notice, specify the date of termination, state the specific basis for termination and set forth in reasonable detail the facts and circumstances of the termination in order to provide a basis for determining the entitlement to any payments under this Agreement.

(f) If within thirty (30) days after notice of termination is given, the party to whom the notice was given notifies the other party that a Dispute exists, the parties will promptly pursue resolution of such Dispute with reasonable diligence; *provided, however,* that pending resolution of any such Dispute, the Company shall pay 75% of any amounts which would otherwise be due Employee pursuant to Section 4 if such Dispute did not exist into escrow pending resolution of such Dispute and pay 25% of such amounts to Employee. Employee agrees to return to the Company any such amounts to which it is ultimately determined that he is not entitled. If, following a final, nonappealable determination that Employee is not entitled to retain all or any portion of this amount, Employee fails to return such excess amount, then Employee shall be required to pay the full costs of recovering such amount. Any escrowed amounts that are released shall otherwise be paid as required under this Agreement and, in no case, later than the end of the calendar year in which the Company and Employee enter into a legally binding settlement of such dispute, the Company concedes the amount is payable, or the Company is required to make such payment pursuant to a final and nonappealable judgment or other binding decision.

4. <u>PAYMENTS AND BENEFITS UPON TERMINATION</u>.

(a) If within eighteen (18) months after a Change in Control, the Company terminates Employee's employment other than by reason of Employee's death, Disability, or for Cause, or if

Employee terminates Employee's employment for Good Reason, then the Employee shall be entitled to the following payments and benefits following Employee's Separation from Service:

(i) The Company shall pay to Employee as compensation for services rendered, no later than five (5) business days following the Release Deadline, a lump sum severance payment equal to [INSERT MULTIPLE] multiplied by the sum of: (A) Employee's Base Salary; and (B) the greater of (x) the Employee's most recently established target annual bonus under the Company's annual incentive plan (the "AIP") and (y) the average annual bonus that was paid to Employee in the three (3) fiscal years ending prior to the date of termination under the AIP or the Varex Management Incentive Plan. Notwithstanding the foregoing, if Employee has not completed at least three (3) full fiscal years of service with the Company prior to Employee's termination date, then the amount determined in (y) above, shall be based on the average annual bonus for the number of full fiscal years Employee has completed.

(ii) The Company shall pay to Employee as compensation for services rendered, no later than five (5) business days following the Release Deadline, a lump sum payment equal to a pro rata portion (based on the number of days elapsed during the fiscal year and/or other bonus performance period in which the termination occurs) of Employee's target bonus under the AIP for the fiscal year and for any other partially completed bonus performance period in which the termination occurs.

(iii) All waiting periods for the exercise of any stock options granted to Employee and all conditions or restrictions of any restricted stock granted to Employee shall terminate, and all such options shall be exercisable in full according to their terms, and the restricted stock shall be transferred to Employee as soon as reasonably practicable thereafter. In addition, all conditions or restrictions of any restricted stock units granted to Employee shall terminate, and the stock underlying such units shall be transferred to Employee within five (5) business days following the Release Deadline; provided, however, that with respect to restricted stock units subject to Section 409A of the Code, the stock underlying such units shall be transferred to Employee on the originally scheduled payment dates for such units but only to the extent required to avoid adverse tax consequences under Section 409A of the Code.

(iv) If Employee is eligible and has made the necessary elections for continuation coverage pursuant to COBRA under a health, dental, or vision plan sponsored by the Company, the Company will pay, as and when due directly to the COBRA carrier, the COBRA premiums necessary to continue the COBRA coverage for Employee and his or her eligible dependents from the date of Employee's termination until the earliest of (i) the end of 18 months or (ii) the expiration of Employee's eligibility for the continuation coverage under COBRA.

Notwithstanding the foregoing, if at any time the Company determines, in its sole discretion, that the payment of the COBRA premiums is likely to result in a violation of the nondiscrimination rules of Section 105(h) of the Code or any other statute or regulation (including, without limitation, the 2010 Patient Protection and Affordable Care Act, as amended by the 2010 Health Care and Education Reconciliation Act), then in lieu of providing the COBRA premiums, the Company will instead pay Employee, no later than five (5) business days following the Release Deadline, a fully taxable cash payment equal to eighteen (18) months of COBRA premiums for Employee and his or her eligible dependents, subject to applicable tax withholdings and deductions. Any insurance premiums that are paid by the Company will not include any amounts payable by Employee under a health care reimbursement plan that qualifies under Section 125 of the Code, which amounts, if any, are the sole responsibility of Employee.

(v) All payments and benefits provided under this Agreement shall be subject to applicable tax withholding.

(b) Following Employee’s termination of employment for any reason, the Company shall have the unconditional right to reduce any payments owed to Employee hereunder by the amount of any due and unpaid principal and interest on any loans by the Company to Employee and Employee hereby agrees and consents to such right on the part of the Company. Any loan offset made under this Section 4(b) shall be made at the same time the payments reduced hereunder would have otherwise been made and otherwise in a manner that would not result in the imposition of taxes to Employee under Section 409A of the Code. If it is not possible to make such offset without the imposition of taxes to Employee under Section 409A of the Code, such offset shall not be made.

(c) This Agreement and the compensation and benefit paid to Employee hereunder are intended to be exempt from, or to comply with, Section 409A of the Code to the maximum extent possible, and this Agreement shall be interpreted and construed consistent with such intent. In addition, to the extent (i) any compensation or benefits to which Employee becomes entitled under this agreement, or any agreement or plan referenced herein, in connection with Employee's termination of employment with the Company constitute deferred compensation subject to Section 409A of the Code and (ii) Employee is deemed at the time of such termination of employment to be a “specified” employee under Section 409A of the Code, then such compensation or benefits shall not be made or commence until the earliest of (i) the expiration of the six (6)-month period measured from the date of Employee's “separation from service” (as such term is at the time defined in Treasury Regulations under Section 409A of the Code with the Company; or (ii) the date of Employee's death following such separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to Employee, including (without limitation) the additional twenty percent (20%) tax for which Employee would otherwise be liable under Section 409A(a)(1)(B) of the Code in the absence of such deferral. During any period compensation or benefits to Employee are deferred pursuant to the foregoing, Employee shall be entitled to interest on such deferral at a per annum rate equal to the highest rate of interest applicable to six (6)-month money market accounts offered by the following institutions: Citibank N.A., Wells Fargo Bank, N.A. or Bank of America, on the date of such “separation from service.” Upon the expiration of the applicable deferral period, any compensation or benefits which would have otherwise been paid during that period (whether in a single sum or in installments) in the absence of this paragraph shall be paid to Employee or Employee's beneficiary in one lump sum and any amounts not subject to such deferral shall be paid at their regularly scheduled time.

(d) Any payment pursuant to this Section 4 shall be conditioned upon the Employee signing and not revoking a release in the form attached hereto as Exhibit A (which form may be adjusted to reflect developments in law or jurisdiction-specific considerations) (the “Release”) not later than 60 days after the Employee’s Separation from Service (such 60th day, the “Release Deadline”). The Employee shall not be entitled to such payment, and no payment shall be made to the Employee, until after the Release Deadline and subject to the Release having become effective on or prior to the Release Deadline. The Company shall furnish such Release to the Employee in connection with the Employee’s Separation from Service. If the Employee has signed the Release prior to the time the Company so furnishes such Release to the Employee, the Employee will be required to again sign and not revoke the Release in connection with the Employee’s Separation from Service in order to receive payments hereunder (as described above), and the prior signed Release shall be null and void.

5. <u>LIMITATION ON PAYMENTS</u>.

In the event that the payments and other benefits provided for in this Agreement or otherwise payable to Employee (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Employee’s payments and benefits under this Agreement or otherwise payable to Employee shall be either delivered in full (without the Company paying any portion of the Excise Tax), or delivered as to such lesser extent which would result in no portion of such payments and benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Employee on an after-tax basis of the greatest amount of payments and benefits, notwithstanding that all or some portion of such payments and benefits may subject to the Excise Tax. Unless the Company and Employee otherwise agree in writing, any determination required under this Section 5 shall be made in writing by a nationally-recognized independent public accounting firm designated by agreement between Employee and Company (the "Accountants"), whose determination shall be conclusive and binding upon Employee and the Company for all purposes. For purposes of making the calculations required by this Section 5, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5.

Any reduction in payments and/or benefits required by this Section 5 shall occur in the following order as reasonably determined by the Accountants: (1) reduction of vesting acceleration of "out-of-the-money" stock options or stock appreciation rights, (2) reduction of cash payments; (3) reduction of non-cash/non-equity-based payments or benefits and (4) reduction of vesting acceleration of equity-based awards (other than "out-of-the-money" stock options or stock appreciation rights); provided, however, that any non-taxable payments or benefits shall be reduced last in accordance with the same categorical ordering rule. In the event items described in (2) or (3) are to be reduced, reduction shall occur in reverse chronological order such that the payment or benefit owed on the latest date following the occurrence of the event triggering the Excise Tax will be the first payment to be reduced (with reductions made pro-rata in the event payments are owed at the same time). In the event that acceleration of vesting of equity-based awards is to be reduced, such acceleration of vesting shall be cancelled in a manner such as to obtain the best economic benefit for Employee (with reductions made pro-rata if economically equivalent), as determined by the Accountants. In no event will Employee exercise any discretion with respect to the ordering of any reduction of payments or benefits pursuant to this Section 5.

6. GENERAL.

(a) Employee shall retain in confidence under the conditions of the Company’s confidentiality agreement with Employee any proprietary or other confidential information known to Employee concerning the Company and its business so long as such information is not publicly disclosed and disclosure is not required by an order of any governmental body or court. If required, Employee shall return to the Company any memoranda, documents or other materials proprietary to the Company.

(b) While employed by the Company and following the termination of such employment after a Change in Control for a period of twelve (12) months, Employee shall not:

(i) whether for Employee’s own account or for the account of any other individual, partnership, firm, corporation or other business organization, intentionally solicit, endeavor to entice away from the Company or a subsidiary of the Company (each, a “Protected Party”), or otherwise interfere with the relationship of a Protected Party with, any person who is employed by a Protected Party or any person or entity who is, or was within the then most recent twelve (12) month period, a customer or client of a Protected Party; or

(ii) without the prior written consent of the Protected Party, in any geographic area in which the Protected Party is then conducting business, directly or indirectly own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant or otherwise, any individual, partnership, firm, corporation or other business organization or entity that is engaged in any business in which the Protected Party is actively engaged at the time; *provided, however,* that the restrictions in this Section 6(b)(ii) shall not apply to (A) any non-employee directorships held by Employee as of the date hereof or (B) ownership by Employee for personal investment purposes only of not in excess of 1% of the voting stock of any publicly held corporation.

Employee acknowledges that a breach of any of the covenants contained in this Section 6(b) may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it may not be possible to measure damages for such injuries precisely and that, in the event of such a breach, any payments remaining under the terms of this Agreement shall cease and the Company may be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Employee from engaging in activities prohibited by this Section 6(b) or such other relief as may be required to specifically enforce any of the covenants in this Section 6(b). Employee agrees to and hereby does submit to *in personam* jurisdiction before each and every such court in the State of Delaware for that purpose. This Section 6(b) shall survive any termination of this Agreement.

(c) If litigation is brought by Employee to enforce or interpret any provision contained in this Agreement, the Company shall indemnify Employee for Employee's reasonable attorney's fees and disbursements incurred in such litigation and pay prejudgment interest on any money judgment obtained by Employee calculated at the prime rate of interest in effect from time to time at the Bank of America, San Francisco, from the date that payment should have been made under the Agreement, provided that Employee shall not have been found by the court in which such litigation is pending to have had no cause in bringing the action, or to have acted in bad faith, which finding must be final with the time to appeal therefrom having expired and no appeal having been taken. Any payment made pursuant to this Section 6(c) shall be made promptly and no later than the end of the calendar year in which such fees or disbursements were incurred or in which such judgment was obtained, as applicable.

(d) Except as provided in Section 4, the Company's obligation to pay to Employee the compensation and to make the arrangements provided in this Agreement shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, any setoff, counterclaim, recoupment, defense or other right which the Company may have against Employee or anyone else. All amounts payable by the Company hereunder shall be paid without notice or demand. Subject to Section 4(a)(iv), Employee shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment.

(e) The Company shall require any successor, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all of the business and/or assets of the Company, by written agreement to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(f) This Agreement shall inure to the benefit of and be enforceable by Employee's heirs, successors and assigns. If Employee should die while any amounts would still be payable to Employee hereunder if Employee had continued to live, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's heirs, successors and assigns.

(g) For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed as follows:

If to Employee: At the most recent address on file with the Company.	If to the Company: Varex Imaging Corporation 1678 S. Pioneer Road Salt Lake City, UT 84104 Attn: Chief Human Resource Officer

or to such other address as either party furnishes to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(h) This Agreement shall constitute the entire agreement between Employee and the Company concerning the subject matter of this Agreement.

(i) The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware without giving effect to the provisions, principles or policies thereof relating to choice or conflict of laws. The invalidity or unenforceability of any provision of this Agreement in any circumstance shall not affect the validity or enforceability of such provision in any other circumstance or the validity or enforceability of any other provision of this Agreement, and, except to the extent such provision is invalid or unenforceable, this Agreement shall remain in full force and effect. Any provision in this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating or affecting the remaining provisions hereof in such jurisdiction, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. This Section 6(i) shall survive any termination of this Agreement.

(j) This Agreement may be amended or terminated by the Company pursuant to a resolution adopted by the Board at any time prior to a Potential Change in Control Date. After a Change in Control Date or a Potential Change in Control Date, this Agreement may only be amended or terminated in writing with the consent of Employee.

(k) No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement and this Agreement shall supersede all prior agreements, negotiations, correspondence, undertakings and communications of the parties, oral or written, with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the terms of this Agreement and have executed this Agreement on [Date].

VAREX IMAGING CORPORATION	EMPLOYEE
______________________________ By: [Name] Title: [Title]	______________________________ [Employee]

EXHIBIT A

GENERAL RELEASE

Varex Imaging Corporation (together with its affiliates, the "Company") and [EMPLOYEE] (the "Employee") hereby enter into this General Release ("Release") in accordance with the Change in Control Agreement between the Company and the Employee dated as of [DATE] (the "Agreement"). Capitalized terms not expressly defined in this Release shall have the meanings set forth in the Agreement:

1. The Employee understands and agrees that the Employee's execution of this Release within 60 days after (but not before) the date of the Employee's Separation from Service, without revocation thereof as provided herein, is among the conditions precedent to the Company's obligation to pay or provide the payments and benefits under Section 4 of the Agreement (the "Termination Benefits"), and any such failure to execute the Release, or any revocation of the Release, shall result in the Employee no longer being entitled to receive the Termination Benefits. The Company will provide such payments or benefits in accordance with the terms of the Agreement once the conditions set forth therein and in this Release have been met.

2. The term "Released Parties" as used in this Release includes: (a) the Company and each of its past, present and future parents, divisions, subsidiaries, partnerships, affiliates and other related entities (whether or not they are wholly owned); and (b) the past, present and future owners, trustees, fiduciaries, administrators, shareholders, directors, officers, partners, agents, representatives, members, associates, employees and attorneys of each entity listed in subpart (a) above; and (c) the predecessors, successors and assigns of each entity listed in subparts (a) and (b) above.

3. The Employee, and anyone claiming through the Employee or on the Employee's behalf, hereby waive and release the Company and the other Released Parties with respect to any and all claims, whether currently known or unknown, that the Employee now has or has ever had against the Company or any of the other Released Parties arising from or related to any act, omission, or thing occurring or existing at any time prior to or on the date on which the Employee signs this Release. Without limiting the generality of the foregoing, the claims waived and released by the Employee hereunder include, but are not limited to: (a) the Age Discrimination in Employment Act, as amended; and (b) any other federal, state, local, employment, services or other law, regulation, ordinance, constitutional provision, executive order or other source of law, including without limitation under any of the following laws, as amended from time to time: Title VII of the Civil Rights Act of 1964, 42 U.S.C. §§ 1981 & 1981a, the Americans with Disabilities Act, the Equal Pay Act, the Employee Retirement Income Security Act, the Lilly Ledbetter Fair Pay Act of 2009, the Family and Medical Leave Act, Genetic Information Nondiscrimination Act, the Fair Credit Reporting Act, [the Utah Antidiscrimination Act, the Utah Employment Relations and Collective Bargaining Act, the Utah Right to Work Law, the Utah Drug and Alcohol Testing Act, the Utah Minimum Wage Act, the Utah Protection of Activities in Private Vehicles Act, the Utah Employment Selection Procedures Act and the Utah Occupational Safety and Health Act][2][the California Fair Employment and Housing Act, the California Family Rights Act, the California Labor Code and Wage Orders and the California Constitution][3][insert laws of other relevant jurisdictions]. Notwithstanding the foregoing, the releases and waivers in this Section 3 shall not apply to (i) any claim for unemployment or workers' compensation, (ii) any claim that by law is non-waivable, including under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), or any claim that arises solely from an act or an omission that occurs after the Employee signs this Release, (iii) any claim to any vested benefits or compensation, (iv) any claim to directors' and officers' insurance, or indemnification pursuant to an individual agreement or the Company's governing documents or (v) any right to communicate directly with, cooperate with, or provide information to, any federal, state or local government regulator.

4. [The Employee acknowledges that the Employee is familiar with and understands the provision of Section 1542 of the California Civil Code, which provides as follows:

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[2] Note to Draft: Include for Utah employees only.

[3] Note to Draft: Include for California employees only.

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

Being aware of that California Civil Code section, the Employee expressly waives and relinquishes any rights or benefits that the Employee may have thereunder, as well as under any other state or federal statutes or common law principles of similar effect. Nothing herein limits or restricts the generality of Section 3 above.][4]

5. The Employee confirms that the Employee has not filed any legal or other proceeding(s) against any of the Released Parties and the Employee is the sole owner of and has not transferred the claims released herein, and has the full right to grant the releases and agreements in this Release. In the event of any further proceedings based upon any released matter, none of the Released Parties shall have any further monetary or other obligation of any kind to the Employee, and the Employee hereby waives any such monetary or other recovery.

6. THE EMPLOYEE ACKNOWLEDGES, UNDERSTANDS, AND AGREES THAT: (a) THE EMPLOYEE HAS READ AND UNDERSTANDS THE TERMS AND EFFECT OF THIS RELEASE; (b) THE EMPLOYEE RELEASES AND WAIVES CLAIMS UNDER THIS RELEASE KNOWINGLY AND VOLUNTARILY, IN EXCHANGE FOR CONSIDERATION IN ADDITION TO ANYTHING OF VALUE TO WHICH THE EMPLOYEE ALREADY IS ENTITLED; (c) THE EMPLOYEE HEREBY IS AND HAS BEEN ADVISED TO HAVE THE EMPLOYEE'S ATTORNEY REVIEW THIS RELEASE BEFORE SIGNING IT; (d) EMPLOYEE ACKNOWLEDGES THAT HE OR SHE HAS BEEN GIVEN AT LEAST FORTY-FIVE (45) DAYS FROM THE TIME THAT HE OR SHE RECEIVES THIS AGREEMENT TO CONSIDER WHETHER TO SIGN IT, THAT NO MODIFICATION TO THIS AGREEMENT WILL TOLL OR RESTART SUCH FORTY-FIVE (45) DAY PERIOD, AND THAT IF HE OR SHE HAS SIGNED THIS AGREEMENT BEFORE THE END OF THIS FORTY-FIVE (45) DAY PERIOD, IT IS BECAUSE HE OR SHE FREELY CHOSE TO DO SO AFTER CAREFULLY CONSIDERING ITS TERMS,[5] (E) IF THE EMPLOYEE SIGNS THIS RELEASE, THE EMPLOYEE MAY, AT THE EMPLOYEE'S SOLE OPTION, REVOKE SUCH RELEASE WITHIN SEVEN (7) DAYS AFTER THE DATE ON WHICH THE EMPLOYEE SIGNS THIS RELEASE, BY WRITTEN NOTICE TO THE COMPANY; AND (F) THE RELEASE WILL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE SEVEN (7)-DAY REVOCATION PERIOD HAS EXPIRED WITHOUT ANY REVOCATION BY THE EMPLOYEE; PROVIDED, HOWEVER, THAT THE TERMINATION BENEFITS SHALL NOT BE PROVIDED UNLESS SUCH REVOCATION PERIOD HAS EXPIRED WITHOUT REVOCATION BY NO LATER THAN SIXTY (60) DAYS FOLLOWING THE DATE OF THE EMPLOYEE'S SEPARATION FROM SERVICE. IF THE EMPLOYEE REVOKES THIS RELEASE, IT SHALL BE NULL AND VOID, AND THE EMPLOYEE WILL NOT RECEIVE THE TERMINATION BENEFITS UNDER THE AGREEMENT IN ACCORDANCE WITH THE AGREEMENT AND THIS RELEASE.

7. Except as required by law, the Employee will not disclose the existence or terms of this Release to anyone except the Employee's accountants, attorneys and spouse (and will ensure that all such persons comply with this confidentiality provision). Nothing in this Release is intended to or shall be construed as an admission by any of the Released Parties that any of them violated any law, breached any obligation or otherwise engaged in any improper or illegal conduct with respect to the Employee or otherwise. The Released Parties expressly deny any such illegal or wrongful conduct. This Release and the Agreement are the entire agreement of the parties regarding the matters described in such agreements and supersede any and all prior and/or contemporaneous agreements, oral or written, between the parties regarding such matters. This Release is governed by [Utah][California][Other State][6] law, may be signed in counterparts, and may be modified only by a writing signed by all parties.

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[4] Note to Draft: Include for California employees only.

[5] Note to Draft: remove (d) if employee is not over 40.

[6] Note to Draft: Select applicable state based on employee location.

THE PARTIES STATE THAT THEY HAVE READ AND UNDERSTAND THE FOREGOING AND KNOWINGLY AND VOLUNTARILY INTEND TO BE BOUND THERETO:

VAREX IMAGING CORPORATION EMPLOYEE

______________________________ ______________________________

By: [Name] [Employee]
Title: [Title] Date: [Date]
Date: [Date]

Exhibit 21.1

VAREX IMAGING CORPORATION
LIST OF SUBSIDIARIES

Name	Jurisdiction of Incorporation
3901 Carnation Street, LLC	Illinois, USA
Dexela Limited	United Kingdom
Direct Conversion AB	Sweden
Direct Conversion GmbH	Germany
Direct Conversion Ltd	United Kingdom
MeVis Medical Solutions AG (73.7%)	Germany
Oy Direct Conversion Ltd.	Finland
Varex Imaging Americas Corporation	Illinois, USA
Varex Imaging Arabia, LLC (75%)	Saudi Arabia
Varex Imagens Brasil, Ltda.	Brazil
Varex Imaging Deutschland AG	Germany
Varex Imaging Equipment (China) Co., Ltd.	China
Varex Imaging France SARL	France
Varex Imaging Group Nederland B.V.	Netherlands
Varex Imaging Holdings, Inc.	Delaware, USA
Varex Imaging India Private Limited	India
Varex Imaging International AG	Switzerland
Varex Imaging International Holdings B.V.	Netherlands
Varex Imaging Investments B.V.	Netherlands
Varex Imaging Italia Srl	Italy
Varex Imaging Japan, K.K.	Japan
Varex Imaging Mexico, S. de R.L. de C.V.	Mexico
Varex Imaging Nederland B.V.	Netherlands
Varex Imaging Philippines, Inc.	Philippines
Varex Imaging Technologies (Beijing) Co. Ltd.	China
Varex Imaging UK Limited	United Kingdom
Varex Imaging West Holdings, Inc.	Delaware, USA
Varex Imaging West, LLC	Delaware, USA
Virtual Media Integration, LLC	Delaware, USA

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement Nos. 333-215770 and 333-236487 on Form S-8 of our reports dated November 19, 2021, relating to the financial statements of Varex Imaging Corporation and the effectiveness of Varex Imaging Corporation’s internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended October 1, 2021.

/s/ Deloitte & Touche LLP
Salt Lake City, Utah
November 19, 2021

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-215770 and 333-236487) of Varex Imaging Corporation of our report dated November 30, 2020 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Salt Lake City, Utah
November 19, 2021

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Sunny S. Sanyal, certify that:

1. I have reviewed this Annual Report on Form 10-K of Varex Imaging Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 19, 2021

By: /s/ Sunny S. Sanyal
Sunny S. Sanyal
President, Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Shubham Maheshwari certify that:

1. I have reviewed this Annual Report on Form 10-K of Varex Imaging Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 19, 2021

By: /s/ Shubham Maheshwari
Shubham Maheshwari
Chief Financial Officer

Exhibit 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report of Varex Imaging Corporation (the "Company"), on Form 10-K for the fiscal year ended October 1, 2021 (the "Report"), I, Sunny S. Sanyal, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 that:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 19, 2021

By: /s/ Sunny S. Sanyal
Sunny S. Sanyal
President, Chief Executive Officer

Exhibit 32.2

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report of Varex Imaging Corporation (the "Company"), on Form 10-K for the fiscal year ended October 1, 2021 (the "Report"), I, Shubham Maheshwari, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 that:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated:	November 19, 2021	By:	/s/ Shubham Maheshwari
			Shubham Maheshwari
			Chief Financial Officer