UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of January 26, 2021, there were 39.2 million shares of the registrant's common stock outstanding.

VAREX IMAGING CORPORATION

FORM 10-Q for the Quarter Ended January 1, 2021

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

VAREX IMAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	
(In millions, except per share amounts)	**January 1, 2021**	**January 3, 2020**
Revenues, net	$ 177.1	$ 200.1
Cost of revenues	119.9	139.0
Gross profit	57.2	61.1
Operating expenses:		
Research and development	16.7	21.7
Selling, general and administrative	34.4	34.8
Total operating expenses	51.1	56.5
Operating earnings	6.1	4.6
Interest expense	(10.3)	(5.4)
Other expense, net	(0.5)	(0.4)
Interest and other expense, net	(10.8)	(5.8)
Loss before taxes	(4.7)	(1.2)
Income tax expense	1.6	—
Net loss	(6.3)	(1.2)
Less: Net earnings attributable to noncontrolling interests	0.1	0.1
Net loss attributable to Varex	$ (6.4)	$ (1.3)
Net loss per common share attributable to Varex		
Basic	$ (0.16)	$ (0.03)
Diluted	$ (0.16)	$ (0.03)
Weighted average common shares outstanding		
Basic	39.1	38.5
Diluted	39.1	38.5

See accompanying notes to the condensed consolidated financial statements.

VAREX IMAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended	
(In millions)	**January 1, 2021**	**January 3, 2020**
Net loss	$ (6.3)	$ (1.2)
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	0.1	(0.9)
Other comprehensive earnings (loss), net of tax	0.1	(0.9)
Comprehensive loss	(6.2)	(2.1)
Less: Comprehensive earnings attributable to noncontrolling interests	0.1	0.1
Comprehensive loss attributable to Varex	$ (6.3)	$ (2.2)

See accompanying notes to the condensed consolidated financial statements.

VAREX IMAGING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share and per share amounts)	January 1, 2021	October 2, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 105.5	$ 100.6
Accounts receivable, net of allowance for doubtful accounts of $0.7 million and $0.3 million at January 1, 2021 and October 2, 2020, respectively	121.0	123.8
Inventories	269.8	271.9
Prepaid expenses and other current assets	26.3	25.7
Total current assets	522.6	522.0
Property, plant and equipment, net	144.8	145.2
Goodwill	295.3	293.1
Intangible assets, net	64.5	67.5
Investments in privately-held companies	49.7	51.3
Deferred tax assets	—	0.5
Operating lease assets	26.3	27.7
Other assets	33.9	32.2
Total assets	$ 1,137.1	$ 1,139.5
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 68.1	$ 72.9
Accrued liabilities and other current liabilities	67.4	70.5
Current operating lease liabilities	6.1	6.1
Current maturities of long-term debt	2.6	2.5
Deferred revenues	8.3	8.6
Total current liabilities	152.5	160.6
Long-term debt, net	457.5	452.8
Deferred tax liabilities	1.7	2.3
Operating lease liabilities	22.2	23.1
Other long-term liabilities	38.8	34.9
Total liabilities	672.7	673.7
Stockholders' equity:		
Preferred stock, $.01 par value: 20,000,000 shares authorized, none issued	—	—
Common stock, $.01 par value: 150,000,000 shares authorized		
Shares issued and outstanding - 39,184,538 and 39,059,094 at January 1, 2021 and October 2, 2020, respectively.	0.4	0.4
Additional paid-in capital	439.2	434.4
Accumulated other comprehensive income	0.9	0.8
Retained earnings	9.7	16.1
Total Varex equity	450.2	451.7
Noncontrolling interests	14.2	14.1
Total stockholders' equity	464.4	465.8
Total liabilities and stockholders' equity	$ 1,137.1	$ 1,139.5

See accompanying notes to the condensed consolidated financial statements.

VAREX IMAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
(In millions)	**January 1, 2021**	**January 3, 2020**
Cash flows from operating activities:		
Net loss	$ (6.3)	$ (1.2)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation expense	3.6	3.2
Depreciation	5.2	5.2
Amortization of intangible assets	4.2	4.5
Deferred taxes	0.1	0.5
Loss (gain) from equity method investments	1.7	(0.7)
Amortization of debt issuance costs and discounts	2.4	0.6
Other, net	0.7	—
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	2.2	18.5
Inventories	2.5	(21.1)
Prepaid expenses and other assets	(2.0)	3.7
Accounts payable	(4.2)	15.4
Accrued liabilities and other current and long-term operating liabilities	(2.7)	(4.8)
Deferred revenues	(0.3)	(0.8)
Net cash provided by operating activities	7.1	23.0
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4.4)	(8.1)
Acquisitions of businesses, net of cash acquired	—	(1.2)
Investments in privately-held companies	—	(1.3)
Net cash used in investing activities	(4.4)	(10.6)
Cash flows from financing activities:		
Borrowings under credit agreements	1.3	3.0
Repayments of borrowing under credit agreements	(0.2)	(17.8)
Proceeds from exercise of stock options	—	1.1
Proceeds from shares issued under employee stock purchase plan	1.2	1.8
Other financing activities	(0.1)	(0.1)
Net cash provided by (used in) financing activities	2.2	(12.0)
Effects of exchange rate changes on cash and cash equivalents and restricted cash	—	(0.3)
Net increase in cash and cash equivalents and restricted cash	4.9	0.1
Cash and cash equivalents and restricted cash at beginning of period	102.1	31.3
Cash and cash equivalents and restricted cash at end of period	$ 107.0	$ 31.4
Supplemental cash flow information:		
Cash paid for interest	$ 3.8	$ 5.0
Cash paid for income tax	4.4	0.5
Supplemental non-cash activities:		
Purchases of property, plant and equipment financed through accounts payable	$ 1.0	$ 0.8

See accompanying notes to the condensed consolidated financial statements.

VAREX IMAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

	Three Months Ended January 1, 2021							
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Varex Equity	Noncontrolling Interests	Total Equity
(In millions)	Shares	Amount						
October 2, 2020	39.1	$ 0.4	$ 434.4	$ 0.8	$ 16.1	$ 451.7	$ 14.1	$ 465.8
Net loss	—	—	—	—	(6.4)	(6.4)	0.1	(6.3)
Common stock issued under employee stock purchase plan	0.1	—	1.2	—	—	1.2	—	1.2
Share-based compensation	—	—	3.6	—	—	3.6	—	3.6
Currency translation adjustments	—	—	—	0.1	—	0.1	—	0.1
January 1, 2021	39.2	$ 0.4	$ 439.2	$ 0.9	$ 9.7	$ 450.2	$ 14.2	$ 464.4

	Three Months Ended January 3, 2020							
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Varex Equity	Noncontrolling Interests	Total Equity
(In millions)	Shares	Amount						
September 27, 2019	38.4	$ 0.4	$ 371.8	$ (1.7)	$ 74.4	$ 444.9	$ 3.3	$ 448.2
Cumulative effect of accounting changes	—	—	—	—	(0.6)	(0.6)	—	(0.6)
Net loss	—	—	—	—	(1.3)	(1.3)	—	(1.3)
Exercise of stock options	—	—	1.1	—	—	1.1	—	1.1
Common stock issued under employee stock purchase plan	0.1	—	1.8	—	—	1.8	—	1.8
Share-based compensation	—	—	3.2	—	—	3.2	—	3.2
Currency translation adjustments	—	—	—	(0.9)	—	(0.9)	—	(0.9)
Other	—	—	(0.3)	—	—	(0.3)	—	(0.3)
January 3, 2020	38.5	$ 0.4	$ 377.6	$ (2.6)	$ 72.5	$ 447.9	$ 3.3	$ 451.2

See accompanying notes to the condensed consolidated financial statements.

VAREX IMAGING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 equipment, to independent service companies, distributors and directly to end-users for replacement purposes.

The Company also designs, manufacturers, sells and services industrial products, which include Linatron® X-ray accelerators, high voltage connectors, 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 and Principle of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, these condensed consolidated financial statements include all adjustments necessary for a fair statement of the results for the interim periods.

These condensed consolidated financial statements and the accompanying notes are unaudited and should be read in conjunction with the consolidated financial statements for the fiscal years ended 2020, 2019 and 2018 included in the Company's Annual Report on Form 10-K, which was filed with the SEC on November 30, 2020. The Company considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures. Except for the change in certain policies upon adoption of the accounting standards described below, there have been no material changes to the Company's significant accounting policies, compared to the accounting policies described in Note 1, *Summary of Significant Accounting Policies*, in the Company's Annual Report on Form 10-K for fiscal year 2020.

Segment Reporting

The Company has two reportable operating segments; (i) Medical and (ii) Industrial, which aligns with how its Chief Executive Officer, who is the Company's Chief Operating Decision Maker ("CODM"), reviews the Company's performance. See Note 15. *Segment Information*, 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 is the 52-week period ending October 1, 2021. Fiscal year 2020 was the 53-week period that ended on October 2, 2020. The fiscal quarters ended January 1, 2021 and January 3, 2020 were 13-week and 14-week periods, respectively.

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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include the valuation of inventories, goodwill and intangible assets, warranties, contract liabilities, long-lived asset valuations, impairment on investments, financial instruments, and taxes on earnings. Actual results could differ from these estimates.

Impact of COVID-19

The coronavirus ("COVID-19") pandemic 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. As a result of the economic downturn resulting from COVID-19, the Company has experienced reduced demand in its Industrial segment and for certain higher-end medical products that negatively impacted revenues and gross margin. 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 doubtful accounts. While there was no direct impairments or adjustments related to COVID-19 recorded in the Company's consolidated financial statements for the three months ended January 1, 2021, the Company's future assessment of the magnitude and duration of COVID-19, as well as other factors, could result in material negative impacts to the Company's condensed 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 condensed consolidated balance sheet. Cash and cash equivalents and restricted cash as reported within the condensed consolidated statements of cash flows consisted of the following:

	Three Months Ended January 1, 2021		Three Months Ended January 3, 2020	
(In millions)	**Beginning of Period**	**End of Period**	**Beginning of Period**	**End of Period**
Cash and cash equivalents	$ 100.6	$ 105.5	$ 29.9	$ 30.0
Restricted cash	1.5	1.5	1.4	1.4
Cash and cash equivalents and restricted cash as reported per statement of cash flows	$ 102.1	$ 107.0	$ 31.3	$ 31.4

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. The Company has neither experienced nor expects any significant disruptions to its operations due to supplier concentration.

Credit is extended to customers based on an evaluation of the customer's financial condition, and collateral is not required. During the periods presented, one of the Company's Medical segment customers accounted for a significant portion of revenues, which is as follows:

	Three Months Ended	
	January 1, 2021	January 3, 2020
Canon Medical Systems Corporation	16.6 %	18.8 %

Canon Medical Systems Corporation accounted for 17.0% and 12.0% of the Company's accounts receivable as of January 1, 2021 and October 2, 2020, respectively.

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 three-month periods ended January 1, 2021 and January 3, 2020, respectively.

Loss Contingencies

From time to time, the Company is involved in legal proceedings, claims and government inspections or investigations, customs and duties audits, and 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 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.

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 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:

	Three Months Ended	
(In millions)	**January 1, 2021**	**January 3, 2020**
Accrued product warranty, at beginning of period	$ 8.1	$ 8.1
Charged to cost of revenues	2.8	4.1
Product warranty expenditures	(3.1)	(3.2)
Accrued product warranty, at end of period	$ 7.8	$ 9.0

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. 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 condensed 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 condensed 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

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. ASC 606-10-55-23 requires that 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 time as the services are rendered to the customer based on the extent of progress towards completion of the performance obligation. The Company recognizes service revenue 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 15. *Segment Information,* included in this report, for the disaggregation of the Company’s revenue based on reportable operating segments and Note 2. *Revenue* for the disaggregation of revenue by geographic region.

Contract Balances

Contract assets are included within the prepaid expenses and other current assets, and other assets balances in the condensed 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 condensed 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.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued 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 condensed consolidated financial statements and related disclosures.

Recent Accounting Standards or 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 condensed consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04 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 and cash flows.

In December 2019, the FASB issued ASU 2019-12 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. Early adoption is permitted. The Company is evaluating the impact of adopting this guidance to its condensed consolidated financial statements.

2. REVENUE

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.

The following table disaggregates the Company's revenue by geographic region:

	Three Months Ended	
(In millions)	**January 1, 2021**	**January 3, 2020**
Americas	$ 62.3	$ 70.3
EMEA	57.9	65.2
APAC	56.9	64.6
	$ 177.1	$ 200.1

Revenue in the United States of America was $61.1 million and $68.9 million for the three months ended January 1, 2021 and January 3, 2020, respectively.

Refer to Note 15, *Segment Information*, for the disaggregation of the Company's revenue based on reportable operating segments.

Contract Balances

The following table summarizes the changes in the contract assets and refund liabilities:

	Contract Assets	
	Three Months Ended	
(In millions)	**January 1, 2021**	**January 3, 2020**
Balance at beginning of fiscal year	$ 24.6	23.7
Costs recovered from product returns during the period	(1.2)	(0.8)
Contract asset from shipments of products, subject to return during the period	0.8	1.6
Balance at end of period	$ 24.2	24.5

	Contract Liabilities	
	Three Months Ended	
(In millions)	**January 1, 2021**	**January 3, 2020**
Balance at beginning of fiscal year	$ 27.4	26.4
Release of refund liability included in beginning of year refund liability	(1.4)	(0.9)
Additions to refund liabilities	0.9	1.7
Balance at end of period	$ 26.9	27.2

During the three months ended January 1, 2021, the Company recognized revenue of $5.0 million related to deferred revenues which existed at October 2, 2020. During the three months ended January 3, 2020, the Company recognized revenue of $6.1 million related to deferred revenue which existed at September 27, 2019.

3. LEASES

The Company has operating and finance leases for office space, warehouse and manufacturing space, vehicles and certain equipment. The following table presents supplemental balance sheet information related to the Company's operating and finance leases:

(In millions)	**Balance Sheet Location**	**January 1, 2021**	**October 2, 2020**
Assets			
Operating lease right-of-use assets	*Operating lease assets*	$ 26.3	$ 27.7
Finance lease right-of-use assets	*Property, plant and equipment, net*	$ 0.6	$ 0.5
Liabilities			
Operating lease liabilities (current)	*Current operating lease liabilities*	$ 6.1	$ 6.1
Finance lease liabilities (current)	*Accrued liabilities and other current liabilities*	$ 0.2	$ 0.2
Operating lease liabilities (non-current)	*Operating lease liabilities*	$ 22.2	$ 23.1
Finance lease liabilities (non-current)	*Other long-term liabilities*	$ 0.4	$ 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:

	January 1, 2021	**January 3, 2020**
Operating lease weighted average remaining lease term (in years)	6.4	5.2
Operating lease weighted average discount rate	4.5 %	4.2 %
Finance lease weighted average remaining lease term (in years)	3.1	3.0
Finance lease weighted average discount rate	3.7 %	3.8 %

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

(In millions)	Three Months Ended January 1, 2021	Three Months Ended January 3, 2020
Total operating lease costs (a)	$ 1.9	$ 2.1
Total finance lease costs	$ 0.1	$ 0.1
Operating cash flows from operating leases	$ 1.8	$ 2.0
Financing cash flows from finance leases	0.1	0.1
Total cash paid for amounts included in the measurement of lease liabilities	$ 1.9	$ 2.1

(a) Includes variable and short-term lease expense, which were immaterial for the three months ended January 1, 2021 and January 3, 2020.

As of January 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
2021 remaining	$ 5.4	$ 0.2
2022	6.7	0.2
2023	4.3	0.2
2024	3.6	0.1
2025	3.4	—
Thereafter	9.6	—
Total future lease payments	$ 33.0	$ 0.7
Less: imputed interest	(4.7)	(0.1)
Present value of lease liabilities	$ 28.3	$ 0.6

During the first quarter of fiscal year 2021 the Company entered into a new lease of a manufacturing facility in the Philippines that is not expected to commence until the second quarter of fiscal year 2021. This lease has a stated term of five years and will result in an initial lease right-of-use asset and liability balance of approximately $4 million upon lease commencement.

4. 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. During the three months ended January 1, 2021 and January 3, 2020, the Company recorded (loss)/income on the equity investment in dpiX Holding of $(1.5) million and $0.9 million, respectively. Income and loss on the equity investment in dpiX Holding is included in other expense, net in the condensed consolidated statements of operations. The carrying value of the equity investment in dpiX Holding was $45.9 million and $47.3 million at January 1, 2021 and October 2, 2020, respectively.

During the three months ended January 1, 2021 and January 3, 2020, the Company purchased glass transistor arrays from dpiX totaling $4.9 million and $5.9 million, respectively. These purchases of glass transistor arrays are included as a component of inventories on the condensed consolidated balance sheets or cost of revenues in the condensed consolidated statements of operations.

As of January 1, 2021, and October 2, 2020, the Company had accounts payable to dpiX totaling $3.2 million and $4.6 million, respectively.

In October 2013, the Company entered into an amended agreement with dpiX and other parties that, among other things, provides the Company with the right to 50% of dpiX's total manufacturing capacity produced after January 1, 2014. In addition the amended agreement requires the Company to pay for 50% of the fixed costs (as defined in the amended agreement), 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. The amended agreement will continue unless the ownership structure of dpiX changes as provided 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 $45.9 million and fixed cost commitments.

In November 2018, the Company and CETTEEN GmbH ("CETTEEN"), formed a German limited liability company that governs the affairs and conduct of the business of VEC Imaging Verwaltungsgesellschaft GmbH ("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. As of January 1, 2021, the Company has made contributions totaling $4.0 million, and has committed to contribute an additional $1.2 million as milestones are achieved, and to provide certain full-time employees to support prototyping and manufacturing activities in exchange for a 50% interest in VEC. CETTEEN made contributions of certain assets including intellectual property in exchange for a 50% interest in VEC. During the three months ended January 1, 2021 and January 3, 2020 the Company recorded loss on the equity investment in VEC of $0.3 million and $0.2 million, respectively. The Company's investment in VEC was $2.4 million and $2.5 million at January 1, 2021 and October 2, 2020, respectively.

5. 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 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.

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 three months ended January 1, 2021 and January 3, 2020, respectively, which predominantly relate to the Company's Medical segment:

		Three Months Ended	
(In millions)	**Location of Restructuring Charges in Condensed Consolidated Statements of Operations**	**January 1, 2021**	**January 3, 2020**
Accelerated depreciation	Cost of revenues	$ 0.1	$ 0.3
Severance costs	Selling, general and administrative	0.2	0.5
Total restructuring charges		$ 0.3	$ 0.8

6. 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 condensed 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. The changes in fair value for all trades that are not designated for hedge accounting are recognized in current period earnings. The Company does not offset fair value amounts recognized for derivative instruments in its condensed 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 - 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 (loss) income along with the foreign currency translation adjustments on those investments. As of January 1, 2021, the Company had the following outstanding derivatives designated as net investment hedging instruments:

(In millions, except number of instruments)	Number of Instruments	Notional Value
Cross Currency Swap Contracts	3	$ 66.6

The following table summarizes the amount of pre-tax earnings 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 (Loss) Recognized in OCI on Derivative Three months 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)	January 1, 2021	January 3, 2020		January 1, 2021	January 3, 2020
Cross Currency Swap Contracts	$ 3.0	$ (0.8)	Interest expense	$ 0.3	$ 0.4

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 condensed consolidated balance sheets where the instruments are recorded:

(In millions)		Derivative Assets and Liabilities	
Derivatives designated as net investment hedges	Balance sheet location	January 1, 2021	October 2, 2020
Cross Currency Swap Contracts	Other current assets	$ 1.2	$ 1.3
Cross Currency Swap Contracts	Other long-term liabilities	(5.1)	(2.1)
		$ (3.9)	$ (0.8)

Balance Sheet Hedges

The Company also enters into foreign currency forward contracts to hedge fluctuations associated with foreign currency denominated monetary assets and liabilities, primarily cash, lease contracts, third-party accounts receivable and payable, and intercompany accounts receivable and payables. These forward contracts expire within 30 to 90 days. These forward contracts are not designated for hedge accounting treatment, therefore, the change in fair value of these derivatives is recorded as a component of other income (expense) and offsets the change in fair value of the foreign currency denominated assets and liabilities, which are also recorded in other income (expense). The Company does not and does not intend to use derivative financial instruments for speculative or trading purposes.

The following table shows the notional amounts of outstanding foreign currency contracts as of January 1, 2021:

	Notional Value of Derivatives not Designated as Hedging Instruments:	
(In millions)	**Buy contracts**	**Sell contract**
Japanese yen	$ 1.5	$ —
Chinese renminbi	2.8	—
Euro	—	25.1
	$ 4.3	$ 25.1

7. 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 January 1, 2021, the fair values of the Company's Convertible Notes and Senior Secured Notes, as defined in Note 10. *Borrowings,* were $211.7 million and $320.3 million, respectively. As of October 2, 2020, the fair values of the Company's Convertible Notes and Senior Secured Notes 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 the three months ended January 1, 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.

	Fair Value Measurements at January 1, 2021			
(In millions)	**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	$ —	$ 58.1	$ —	$ 58.1
Derivative assets	—	1.2	—	1.2
Total assets measured at fair value	$ —	$ 59.3	$ —	$ 59.3
Liabilities:				
Derivative liabilities	—	5.1	—	5.1
Total liabilities measured at fair value	$ —	$ 5.1	$ —	$ 5.1

(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
Total liabilities measured at fair value	$ —	$ 2.1	$ —	$ 2.1

8. INVENTORIES

The following table summarizes the Company's inventories:

(In millions)	January 1, 2021	October 2, 2020
Raw materials and parts	$ 186.8	$ 184.6
Work-in-process	26.1	23.9
Finished goods	56.9	63.4
Total inventories	$ 269.8	$ 271.9

9. GOODWILL AND INTANGIBLE ASSETS

The following table reflects goodwill by reportable operating segment:

(In millions)	Medical	Industrial	Total
Balance at October 2, 2020	$ 174.4	$ 118.7	$ 293.1
Foreign currency translation adjustments	1.3	0.9	2.2
Balance at January 1, 2021	$ 175.7	$ 119.6	$ 295.3

The following table reflects the gross carrying amount and accumulated amortization of the Company's intangible assets:

(In millions)	January 1, 2021			October 2, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired existing technology	$ 75.8	$ (39.8)	$ 36.0	$ 74.9	$ (37.5)	$ 37.4
Patents, licenses and other	$ 13.0	$ (10.1)	$ 2.9	$ 12.8	$ (9.7)	$ 3.1
Customer contracts and supplier relationship	$ 51.6	$ (26.0)	$ 25.6	$ 51.2	$ (24.2)	$ 27.0
Total intangible assets	$ 140.4	$ (75.9)	$ 64.5	$ 138.9	$ (71.4)	$ 67.5

Amortization expense for intangible assets was $4.2 million and $4.5 million for the three months ended January 1, 2021 and January 3, 2020, respectively.

10. BORROWINGS

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

(In millions, except for percentages)	January 1, 2021 Amount	October 2, 2020 Amount	Contractual Interest Rate	Effective Interest Rate
Current maturities of long-term debt				
Other debt	2.6	2.5		
Total current maturities of long-term debt	**$ 2.6**	**$ 2.5**		
Non-current maturities of long-term debt:				
Asset-Based Loan	—	—		
Convertible Senior Unsecured Notes	200.0	200.0	4.0%	10.9%
Senior Secured Notes	300.0	300.0	7.9%	8.2%
Other debt	11.2	8.8		
Total non-current maturities of long-term debt:	**$ 511.2**	**$ 508.8**		
Unamortized issuance costs and debt discounts				
Unamortized discount - Convertible Notes	(43.6)	(45.5)		
Unamortized issuance costs - Convertible Notes	(4.7)	(4.9)		
Unamortized issuance costs - Senior Secured Notes	(5.4)	(5.6)		
Total	**$ (53.7)**	**$ (56.0)**		
Total debt outstanding, net	**$ 460.1**	**$ 455.3**		

The following table summarizes the Company's interest expense:

	Three Months Ended	
	January 1, 2021	January 3, 2020
Contractual interest coupon	7.9	4.5
Amortization of debt issuance costs	0.5	0.9
Amortization of debt discounts	1.9	—
Total interest expense	**10.3**	**5.4**

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 15 and December 15 of each year, beginning on December 15, 2020, and will mature on June 15, 2025, unless earlier converted or repurchased by us.

Total interest expense related to the Convertible Notes for the three months ended January 1, 2021 was $4.1 million and was comprised of $2.0 million related to the contractual interest coupon and $2.1 million related to the amortization of the discount and issuance costs on the liability component.

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 January 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.

Interest expense related to the Senior Secured Notes for the three months ended January 1, 2021 was $6.1 million.

Asset-Based Loan

On September 30, 2020, the Company entered into a new 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 was $100.0 million as of January 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.

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.

11. NONCONTROLLING INTERESTS

In April 2019, a subsidiary of Varex acquired 98.2% of the outstanding shares of common stock of Direct Conversion. The Company has subsequently acquired additional shares of Direct Conversion such that the Company now owns 98.7% of the outstanding shares of common stock of Direct Conversion. As the Company has majority voting rights it has consolidated Direct Conversion's operations in its condensed consolidated financial statements and records the noncontrolling interest in the equity section of the Company's condensed consolidated balance sheet. Earnings representing the noncontrolling interest's portion of Direct Conversion's income from operations is included in the Company's condensed consolidated statements of operations.

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 our condensed 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 condensed consolidated balance sheet. Earnings representing the noncontrolling partner's share of income from operations is included in the Company's condensed consolidated statements of operations.

In April 2015, the Company acquired 73.5% of the then outstanding shares of MeVis, a publicly traded 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. Under the DPLTA, MeVis subordinates its management to the Company and undertakes to transfer all its annual profits and losses to the Company. In return, the DPLTA grants the noncontrolling shareholders of MeVis an annual recurring net compensation of €0.95 per MeVis share.

At January 1, 2021, noncontrolling shareholders together held approximately 0.5 million shares of MeVis, representing 26.3% of the outstanding shares.

Changes in noncontrolling interests were as follows:

(In millions)	Noncontrolling Interest
Balance at October 2, 2020	$ 14.1
Net earnings attributable to noncontrolling interests	0.1
Other, including foreign currency remeasurement	—
Balance at January 1, 2021	$ 14.2

12. NET LOSS PER SHARE

Basic loss per common share is computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during the reporting period. Diluted earnings per common share reflects the effects of potentially dilutive securities, which is computed by dividing net 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 net loss per common share is as follows:

	Three Months Ended	
(In millions, except per share amounts)	January 1, 2021	January 3, 2020
Net loss attributable to Varex	$ (6.4)	$ (1.3)
Weighted average shares outstanding - basic	39.1	38.5
Dilutive effect of potential common shares	—	—
Weighted average shares outstanding - diluted	39.1	38.5
Net loss per share attributable to Varex - basic	$ (0.16)	$ (0.03)
Net loss per share attributable to Varex - diluted	$ (0.16)	$ (0.03)
Anti-dilutive share based awards, excluded	3.3	1.7

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 loss per share attributable to Varex when their effect is dilutive. Because the Company incurred a net loss for the three months ended January 1, 2021 and January 3, 2020, none of the potentially dilutive common shares were included in the diluted share calculations for those periods as they would have been anti-dilutive.

13. EMPLOYEE STOCK PLANS

Share-Based Compensation Expense

Share-based compensation expense recognized in the condensed 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 the option component of the employee stock purchase plan shares:

	Three Months Ended	
(In millions)	**January 1, 2021**	**January 3, 2020**
Cost of revenues	$ 0.3	$ 0.3
Research and development	0.7	0.6
Selling, general and administrative	2.6	2.3
Total share-based compensation expense	$ 3.6	$ 3.2

Stock Option Activity

The following table summarizes the activity for stock options under Varex's 2020 Omnibus Stock Plan, 2017 Omnibus Stock Plan, and for participation in the 2017 Employee Stock Purchase Plan for the Company's employees:

	Options Outstanding				
(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	—	—	—		
Canceled, expired or forfeited	(39)	$31.08 - $37.10	31.88		
Exercised	—	—	—		
Outstanding at January 1, 2021	2,696	$13.61 - $37.60	$ 29.19	4.3	$ 591.6
Exercisable at January 1, 2021	1,844	$25.17 - $37.60	$ 30.53	2.7	$ —

(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 $16.68 as of December 31, 2020, the last trading date of the Company's first quarter, 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.

Restricted Stock Units

The following table summarizes the activity for restricted stock units under Varex's 2020 Omnibus Stock Plan and 2017 Omnibus Stock Plan for the Company's employees:

(In thousands, except per share amounts)	**Number of Shares**	**Weighted Average Grant-Date Fair Value**
Outstanding at October 2, 2020	955	$ 25.54
Granted	—	—
Vested	(17)	32.53
Canceled or expired	(15)	22.75
Outstanding at January 1, 2021	923	$ 25.48

14. TAXES ON EARNINGS

For the three months ended January 1, 2021, the Company recognized income tax expense of $1.6 million on $4.7 million of pre-tax loss. The Company is unable to recognize a tax benefit for pre-tax book losses in the U.S. and certain foreign jurisdictions but has recognized tax expense for profitable foreign jurisdictions. For the three months ended January 3, 2020, the Company recognized income tax expense of zero on $1.2 million of pre-tax loss.

The Company's tax expense for the three months ended January 1, 2021 increased, compared to the prior year, primarily due to valuation allowance positions in the U.S. on disallowed interest expense deductions and losses in the U.S. and certain foreign jurisdictions for which no benefit can be recorded.

As a result of the changes to the U.S. taxation of foreign earnings included in U.S. Tax Reform, the Company reevaluated its previous indefinite reinvestment assertion with respect to these earnings during fiscal year 2018, which resulted in the Company revoking its assertion for current and future earnings for all countries, while maintaining the assertion that historic earnings are indefinitely reinvested outside the U.S. The Company modified its prior assertion in fiscal year 2019 with respect to the acquisition of Direct Conversion. The modification was to assert that all earnings for Direct Conversion, located primarily in Sweden and Finland, are indefinitely reinvested in those countries. The Company is maintaining this prior assertion for the quarter ended January 1, 2021. 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.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), signed into law on March 27, 2020, has resulted in significant changes to the U.S. federal corporate tax law. Additionally, several state and foreign jurisdictions in which we operate have enacted legislation that complies with or is incremental to the changes included in the CARES Act. The most significant impact of the CARES Act is the ability to carry back a net operating loss for 5 years. The Company has evaluated the other provisions of the CARES Act and does not believe it will have a material effect on the Company’s business, results of operations or financial condition.

15. SEGMENT INFORMATION

The Company has two reportable operating segments: Medical and Industrial. 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 Chief Executive Officer, 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)	Three Months Ended January 1, 2021	Three Months Ended January 3, 2020
Revenues		
Medical	$ 139.2	$ 155.6
Industrial	37.9	44.5
Total revenues	$ 177.1	$ 200.1
Gross profit		
Medical	$ 44.1	$ 43.8
Industrial	13.1	17.3
Total gross profit	$ 57.2	$ 61.1
Total operating expenses	51.1	56.5
Interest and other expenses, net	(10.8)	(5.8)
(Loss) earnings before taxes	(4.7)	(1.2)
Income taxes (benefit) expense	1.6	—
Net (loss) earnings	(6.3)	(1.2)
Less: Net earnings attributable to noncontrolling interests	0.1	0.1
Net (loss) earnings attributable to Varex	$ (6.4)	$ (1.3)

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results should be read together with the unaudited condensed consolidated financial statements and notes thereto that are contained in this Quarterly Report on Form 10-Q as well as our Annual Report on Form 10-K for the fiscal year ended October 2, 2020 and our other filings, including the Current Reports on Form 8-K, that have been filed with the SEC through the date of this report.

Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "Quarterly Report") 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 future 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 in Part II, Item 1A - Risk Factors of this Quarterly Report.

Statements concerning: the impact of the ongoing 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 Quarterly 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.

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 mission critical components of a variety of X-ray based diagnostic imaging equipment. These products are used in medical imaging as well as in industrial and security imaging applications such as general X-ray, computed tomography ("CT"), C-arms, angiography, fluoroscopy, mammography, and dental. In addition, our components are also used in security and quality inspection systems, as well as for analysis and measurement applications in industrial manufacturing applications. Global original equipment manufacturers ("OEMs") incorporate our X-ray imaging components in their systems to detect, diagnose, protect and inspect. Varex has approximately 2,000 full-time equivalents employees, located at manufacturing and service center sites in North America, Europe, and Asia.

Our products are sold in three geographic regions: the Americas, EMEA, and APAC. The Americas includes North America (primarily the United States) and Latin 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.

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. We continue to invest in research and development and employ approximately 500 individuals in product development. Combining this focus on innovation and product performance with strong 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.

Impact of COVID-19

The unprecedented nature of the COVID-19 pandemic and its impact on the global economy has created a disruption to our business that includes increased uncertainty in demand for certain medical and industrial products, as well as increased variability in

our supply chain and manufacturing productivity. The economic downturn triggered by COVID-19 has led to significantly lower demand from our customers and delays in equipment installations.

The COVID-19 pandemic has had a significant effect on hospitals, clinics and outpatient imaging centers as they have encountered declines in surgeries and other non-emergency procedures and have reallocated resources to combat the ongoing pandemic. As a result of the ongoing uncertainty surrounding COVID-19 and a requirement to focus on immediate needs, many hospitals, clinics and outpatient imaging centers have reduced their capital purchases of imaging equipment from OEMs which has led to lower demand for X-ray imaging components. In addition, reduced usage of certain X-ray equipment has resulted in less demand for replacement components that wear-out with use. Additionally, equipment installations were delayed, due in part to efforts to limit non-essential visits to healthcare facilities. Partially offsetting the general demand for X-ray imaging components has been increased demand for CT and certain radiographic diagnostic imaging equipment used to screen for or assist in the treatment of respiratory diseases (such as COVID-19).

While healthcare systems and economies around the world have begun to reopen, customer demand has not returned to pre-pandemic levels, and the adverse effects of COVID-19 on our financial statements and results of operations have been significant. While we believe that the fundamentals driving long-term demand in both our Medical and Industrial segments remain intact, we believe that in the near-term, reduced demand in our Industrial segment and for certain higher-end medical products will continue to negatively impact our business potential and our results of operations. While our manufacturing sites are currently up and running, COVID-19 and associated economic disruptions have had an adverse impact on our manufacturing capacity, supply chains and distribution systems, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking. Supply chain logistics have also become more challenging and while we have had success in localizing our supply chain through our “local-for-local” initiative, supply chain logistics could remain challenging.

The actions taken to combat COVID-19 have had, and we believe will continue to have, a negative impact on our operating results, cash flows and financial condition. We expect uncertainty related to the COVID-19 pandemic to continue into the middle of calendar year 2021. While we have implemented safeguards and procedures and taken other measures to counter the impact of the COVID-19 pandemic, the full extent to which the COVID-19 pandemic has 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 as may be required by federal, state, or local authorities or that we determine are in the best interests of our employees, customers, suppliers, and stockholders.

Operating Segments and Products

Our Chief Executive Officer, who is our Chief Operating Decision Maker (“CODM”), evaluates our product groupings and measures our business performance in two reportable operating segments: Medical and Industrial. The segments align our products and service offerings with customer use in medical and industrial markets and are consistent with how the 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.

Medical

In our Medical segment, we design, develop, 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 bucky systems. These components are used in a range of medical imaging applications, including CT, mammography, oncology, cardiac, surgery, dental, and for other diagnostic radiography uses.

Our X-ray imaging components are sold primarily 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 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 customer’s equipment, our customers will typically continue to use us to supply any replacement components and for service and support for that equipment. Some of our products are also included in product registrations for our customer’s equipment that require regulatory approval to change. In addition to sales directly to OEM customers, we also sell our products to independent service companies and distributors and directly to end-users for replacement purposes.

In China, the government is broadening the availability of healthcare services. As a result, the number of diagnostic X-ray imaging systems, including CT imaging systems, has grown significantly. We are developing CT X-ray tubes and related subsystems for Chinese OEMs as they introduce new systems in China. We presently have multi-year pricing agreements for CT tubes with 8 medical X-ray imaging OEMs 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 recent years our business in China has been impacted by the trade war with the United States in two principal ways: (1) imports of raw materials from China have become more expensive and (2) importing finished U.S. manufactured products into China has also become more difficult and more expensive. 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 led to a decrease in sales of radiographic detectors manufactured outside of China. To help address these issues, as well as to be closer to our global customer base, we continue to expand manufacturing capabilities at our facilities in China, Germany and the Philippines and also implemented local sourcing strategies to lower our costs and 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 and also baggage screening at airports, and nondestructive testing and inspection applications used in a number of other vertical 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 as well as 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 airport security for carry-on baggage, checked baggage and palletized cargo, as well as cargo security for the screening of trucks, trains and cargo containers at ports and borders. The end customers for border protection systems are typically government agencies, many of which are in oil-based economies and war zones where there has been significant year over year variation in buying patterns.

Non-destructive testing and inspection verticals 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 verticals. We believe that the non-destructive 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 has reduced the demand for X-ray imaging equipment utilized in the non-destructive testing market as manufacturers have focused on cash preservation and have reduced spending for capital equipment. Additionally, the unprecedented decrease in passenger air traffic has led to decrease in demand in the security market.

Critical Accounting Policies and Estimates

The preparation of our condensed 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. Refer to our Annual Report on Form 10-K for the fiscal year ended October 2, 2020 filed with the SEC on November 30, 2020 and Note 1 “Summary of Significant Accounting Policies” of the notes to the condensed consolidated financial statements of this report for further details. Our critical accounting policies that are affected by accounting estimates include valuation

of inventories, assessment of recoverability of goodwill and intangible assets, and taxes on earnings. 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. There have been no changes to our critical accounting policies, estimates and assumptions or the judgments affecting the application of those estimates and assumptions since the filing of our Annual Report on Form 10-K for year ended October 2, 2020.

Fiscal Year

Our fiscal year is a 52 or 53-week period ending on the Friday nearest September 30. Fiscal year 2021 is the 52-week period ending October 1, 2021. Fiscal year 2020 was the 53-week period that ended on October 2, 2020. The fiscal quarters ended January 1, 2021 and January 3, 2020 were 13-week and 14-week periods, respectively.

Discussion of Results of Operations for the Three Months Ended January 1, 2021 Compared to the Three Months Ended January 3, 2020

Revenues, net

	Three Months Ended			
(In millions)	**January 1, 2021**	**January 3, 2020**	**$ Change**	**% Change**
Medical	$ 139.2	$ 155.6	$ (16.4)	(10.5)%
Industrial	37.9	44.5	(6.6)	(14.8)%
Total revenues	$ 177.1	$ 200.1	$ (23.0)	(11.5)%
Medical as a percentage of total revenues	*78.6 %*	*77.8 %*		
Industrial as a percentage of total revenues	*21.4 %*	*22.2 %*		

Medical revenues decreased by $16.4 million primarily due to decreased sales of digital detectors for dynamic imaging applications and the comparative prior year period including an additional week. This was partially offset by increased sales of CT X-ray tubes and digital detectors for radiographic X-ray imaging applications.

Industrial revenues decreased $6.6 million primarily due to decreased sales of X-ray tubes, digital detectors and linear accelerators for security and non-destructive inspection applications and the comparative prior year period including an additional week.

Gross Profit

	Three Months Ended			
(In millions)	**January 1, 2021**	**January 3, 2020**	**$ Change**	**% Change**
Medical	$ 44.1	$ 43.8	$ 0.3	0.7 %
Industrial	13.1	17.3	(4.2)	(24.3)%
Total gross profit	$ 57.2	$ 61.1	$ (3.9)	(6.4)%
Medical gross margin	*31.7 %*	*28.1 %*		
Industrial gross margin	*34.6 %*	*38.9 %*		
Total gross margin	*32.3 %*	*30.5 %*		

The decrease in total gross profit was due primarily to the decreases in the gross profit of our Industrial Segment. The Industrial Segment gross profit was down as a result of decreased sales of X-ray tubes, digital detectors, and linear accelerators for security and non-destructive inspection applications. The increase in medical gross margin was primarily due to the impacts of cost reduction measures taken by management in previous quarters and a favorable product mix in medical detectors.

Operating Expenses

(In millions)	Three Months Ended January 1, 2021	Three Months Ended January 3, 2020	$ Change	% Change
Research and development	$ 16.7	$ 21.7	$ (5.0)	(23.0)%
As a percentage of total revenues	*9.4 %*	*10.8 %*		
Selling, general and administrative	$ 34.4	$ 34.8	$ (0.4)	(1.1)%
As a percentage of total revenues	*19.4 %*	*17.4 %*		
Operating expenses	$ 51.1	$ 56.5	$ (5.4)	(9.6)%
As a percentage of total revenues	*28.9 %*	*28.2 %*		

Research and Development

We are committed to investing in the business to support long-term growth and believe long-term research and development expenses of approximately 8% to 10% of annual revenues is the appropriate range that will allow us to innovate and bring new products to market for our global OEM customers. Research and development costs decreased to 9.4% of revenues for the first quarter of 2021 primarily due to cost actions and improved material cost management.

Selling, General and Administrative

Selling, general and administrative expenses for the first quarter of 2021 decreased slightly in terms of dollars, but increased to 19.4% of total revenues primarily due to a lower sales base and higher audit fees during the three months ended January 1, 2021.

Interest and Other Expense, Net

The following table summarizes the Company's interest and other expense, net:

(In millions)	Three Months Ended January 1, 2021	Three Months Ended January 3, 2020	$ Change
Interest expense	$ (10.3)	$ (5.4)	$ (4.9)
Other expense, net	(0.5)	(0.4)	(0.1)
Interest and other expense, net	$ (10.8)	$ (5.8)	$ (5.0)

Interest and other expense, net increased during the three months ended January 1, 2021 as compared to the prior year period, primarily due to higher interest expense. Interest expense increased primarily due to increased interest expense related the issuance of our Convertible Notes in June 2020 and the issuance of our Senior Secured Note in September 2020. Other expense, net was basically flat for the three months ended January 1, 2021 as compared to the three months ended January 3, 2020.

Taxes on (Loss) Earnings

For the three months ended January 1, 2021, we recognized income tax expense of $1.6 million on a $4.7 million pre-tax loss. We are unable to recognize a tax benefit for pre-tax book losses in the U.S. and certain foreign jurisdictions but have recognized tax expense for profitable foreign jurisdictions. For the three months ended January 3, 2020, we recognized income tax expense of zero on $1.2 million of pre-tax loss.

Our tax expense for the three months ended January 1, 2021 increased, compared to the prior year, primarily due to valuation allowance positions in the U.S. on disallowed interest expense deductions and losses in the U.S. and certain foreign jurisdictions for which no benefit can be recorded.

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, consummate strategic acquisitions and manage our capital structure on a short and long-term basis, and are sufficient to meet our

anticipated operating cash need for at least the next 12 months. The maximum availability under our ABL Facility was $100.0 million as of January 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 Part II, Item 1A. “Risk Factors” for a further discussion. At January 1, 2021 we had $457.5 million in long-term debt and $2.6 million of current maturities of long-term debt, net of deferred issuance costs of $53.7 million. See Note 10. *Borrowings,* in the accompanying notes to our condensed consolidated financial statements for more information regarding our indebtedness.

Cash and Cash Equivalents

The following table summarizes our cash and cash equivalents:

(In millions)	**January 1, 2021**	**October 2, 2020**	**$ Change**
Cash and cash equivalents	$ 105.5	$ 100.6	$ 4.9

Borrowings

The following table summarizes the changes in our debt outstanding:

	January 1, 2021	**October 2, 2020**	
(In millions, except for percentages)	**Amount**	**Amount**	**$ Change**
Current maturities of long-term debt			
Other debt	2.6	2.5	0.1
Total current maturities of long-term debt	**$ 2.6**	**$ 2.5**	**$ 0.1**
Non-current maturities of long-term debt:			
Asset-Based Loan	—	—	—
Convertible Senior Unsecured Notes	200.0	200.0	—
Senior Secured Notes	300.0	300.0	—
Other debt	11.2	8.8	2.4
Total non-current maturities of long-term debt:	**$ 511.2**	**$ 508.8**	**$ 2.4**
Unamortized issuance costs and debt discounts			
Unamortized discount - Convertible Notes	(43.6)	(45.5)	1.9
Unamortized issuance costs - Convertible Notes	(4.7)	(4.9)	0.2
Unamortized issuance costs - Senior Secured Notes	(5.4)	(5.6)	0.2
Total	**$ (53.7)**	**$ (56.0)**	**$ 2.3**
Total debt outstanding, net	**$ 460.1**	**$ 455.3**	**$ 4.8**

Cash Flows

	Three Months Ended	
(In millions)	**January 1, 2021**	**January 3, 2020**
Net cash flow provided by (used in):		
Operating activities	$ 7.1	$ 23.0
Investing activities	(4.4)	(10.6)
Financing activities	2.2	(12.0)
Effects of exchange rate changes on cash and cash equivalents and restricted cash	—	(0.3)
Net increase in cash and cash equivalents and restricted cash	$ 4.9	$ 0.1

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

For the three months ended January 1, 2021, compared to the three months ended January 3, 2020, cash provided by operating activities were as follows:

- Net losses were $6.3 million compared to $1.2 million
- Non-cash adjustments to net earnings of $17.9 million compared to $13.3 million
- Operating assets and liabilities activity:
  - Accounts receivable decreased by $2.2 million compared to $18.5 million,
  - Inventories decreased by $2.5 million compared to an increase of $21.1 million,
  - Prepaid expenses and other assets increased by $2.0 million compared to a decrease of $3.7 million,
  - Accounts payable decreased by $4.2 million compared to a increase of $15.4 million, and
  - Accrued liabilities and other current and long-term operating liabilities decreased by $2.7 million compared to $4.8 million.

Net Cash Used in Investing Activities. Net cash used in investing activities was $4.4 million and $10.6 million for the three months ended January 1, 2021 and January 3, 2020, respectively. The decrease in cash used in investing activities was primarily due to higher capital spending during the three months ended January 3, 2020.

Net Cash Provided by (Used in) Financing Activities. Financing activities for the three months ended January 1, 2021 provided $2.2 million while during the three months ended January 3, 2020, we used $12.0 million primarily for repayments of borrowings of our legacy credit agreement.

Days Sales Outstanding

Trade accounts receivable days sales outstanding ("DSO") was 62 days at January 1, 2021 and 66 days at October 2, 2020. 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

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. 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. 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 an annual recurring net compensation of €0.95 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 January 1, 2021, noncontrolling shareholders together held approximately 0.5 million shares of MeVis, representing 26.3% of the outstanding shares.

During the third quarter of fiscal year 2020, we 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 our products. As of January 1, 2021, there has been no transfer of control of the underlying equipment. This acquisition is expected to be completed during the 2021 fiscal year and the total consideration to be paid by us for the acquired assets is expected to be ¥1,084.7 million or approximately $10.5 million.

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 January 1, 2021 and October 2, 2020. Legal expenses are expensed as incurred.

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 January 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.

Recent Accounting Standards or Updates Not Yet Effective

See Note 1, "Summary of Significant Accounting Policies" of the notes to the accompanying condensed consolidated financial statements for a description of recent accounting standards, including the expected dates of adoption and the estimated effects on our condensed 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 total backlog at January 1, 2021 was $260.1 million. The Company expects to recognize this backlog as revenue over the next 12 months, however, 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.

Item 3. 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. A weak U.S. Dollar may result in our products becoming more attractively priced on a U.S. Dollar basis compared to our competitors. 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. However, we may choose not to hedge certain foreign exchange exposures for a variety of reasons including, but not limited to, accounting considerations or the prohibitive economic cost of hedging particular 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 January 1, 2021, we had no borrowings subject to floating interest rates. See Note 10. *Borrowings,* of the notes to our condensed 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 three months ended January 1, 2021, we did not have any commodity derivative instruments in place to manage our exposure to price changes.

Item 4. Controls and Procedures

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) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that such information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), with assistance from other members of management, have evaluated the effectiveness of our disclosure controls and procedures as of January 1, 2021, and based on their evaluation, the CEO and CFO have concluded that the disclosure controls and procedures were not effective as of such date due to the material weaknesses in internal control over financial reporting that were disclosed in our Annual Report on Form 10-K for the fiscal year ended October 2, 2020 and continue to exist as of January 1, 2021.

Changes in Internal Control Over Financial Reporting

During the quarter ended January 1, 2021, we continue to devote substantial effort to remediating the identified material weaknesses and have made the following changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting:

- Re-designed and enhanced control activities related to inventory and cost of revenue, including verification of inventory at third party vendor locations and the presentation and disclosure of inventory classification.
- Enhanced the design of existing controls and implemented new control activities 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.
- Developed a comprehensive internal finance training program to ensure the team has the requisite knowledge to create and maintain the proper environment for effective internal control over financial reporting.

Remediation of Previously Identified Material Weaknesses

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended October 2, 2020, we took further actions as part of our remediation plan to address the material weaknesses disclosed therein. We are continuing to enhance our overall control environment through the following:

- ***Control Environment:*** We continue to invest significantly in the quality of our accounting talent including management, technical, process improvement and financial system roles. Specifically, during the first quarter of fiscal year 2021, we continued addressing deficiencies identified in our Control Environment by hiring a Director of Internal Audit and developing a comprehensive internal finance training program to ensure that the team has the requisite knowledge to create and maintain the proper environment for effective internal control over financial reporting. While significant progress has been made in response to the material weakness, additional time is needed to demonstrate sustainability as it relates to our internal control over financial reporting and improvements made to our complement of resources.
- ***Risk Assessment:*** We continue to enhance our comprehensive risk assessment process to identify, design, implement, and re-evaluate our control activities, including monitoring controls related to the design and operating effectiveness of certain control activities pertaining to our business process environment. Specifically, we have undertaken and continue to evaluate our global risk environment to ensure that all risks have been mapped to key controls.
- ***Inventory and cost of revenues:*** We have implemented or enhanced existing controls to validate existence of inventory at third party vendor locations as well as our controls over presentation and disclosure of inventory classification.
- ***Financial Reporting:*** We continue to enhance controls related to the monitoring of journal entry posting rights and responsibilities and have implemented system workflow functionality to restrict roles and responsibilities related to the preparation and review of journal entries. We have also continued to enhance the design of controls over the completeness, accuracy and elimination of intercompany balances.

Because the reliability of the internal control process requires repeatable execution, the successful remediation of these material weaknesses will require review and evidence of operating effectiveness prior to concluding that the controls are effective and there is no assurance that additional remediation steps will not be necessary. As such, as we continue to evaluate and work to improve our internal control over financial reporting, our management may decide to take additional measures to address the material weaknesses or modify the remediation steps already underway. Although significant progress has been made, the previously identified material weaknesses continue to exist as of January 1, 2021, and will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively

PART II

OTHER INFORMATION

Item 1. 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.

Item 1A. Risk Factors

Summary of Principal Risk Factors

Investing in our common stock involves risks. See below for a discussion of the following principal risks and other risks that make an investment in Varex speculative or risky:

- 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 coronavirus (COVID-19) pandemic and associated economic disruptions.
- We sell products and services to a limited number of OEM 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 its business.
- The loss of a supplier or any inability to obtain supplies of important components could restrict our ability to manufacture products, cause product delivery delays, or significantly increase costs.
- 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.
- We identified material weaknesses in our internal control over financial reporting which, if not remediated appropriately or timely, could result in loss of investor confidence and adversely impact our stock price.
- 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 ABL 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 could materially and adversely affect our business, financial condition, results of operations, and cash flows.

The following risk factors and other information included in this quarterly report on Form 10-Q should be carefully considered. Although the risk factors described below are the ones management deems significant, additional risks and uncertainties not presently known to us or that we presently deem less significant 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

Our operations, cash flow, and financial position have been adversely affected, and in the future could continue to be adversely impacted, by the COVID-19 pandemic and associated economic disruptions.

The pandemic caused by the spread of COVID-19 has created significant volatility, uncertainty and economic disruption.

Decreased demand for certain products. As an initial response to the pandemic, governments around the world imposed measures designed to reduce the transmission of COVID-19 and individuals responded to the fears of contracting COVID-19 by modifying their behavior. In particular, restrictions on the movement of people and goods were put into place, overall economic activity decreased, elective procedures and exams were delayed or cancelled, there was a significant reduction in physician office visits, and hospitals were postponing or cancelling capital purchases as well as limiting or eliminating services. Those factors, among others, caused customers to delay or cancel orders for certain Varex products. While healthcare systems and economies around the world have begun to reopen, customer demand has not returned to pre-pandemic levels, and the adverse effects of COVID-19 on our financial statements and results of operations are expected to be more persistent, and have been more severe, than previously assumed. Specifically, we now believe that reduced demand in our Industrial segment and for certain higher end medical products will continue to depress our results of operations. In addition, new or continuing outbreaks of COVID-19 could lead to further decreases in demand for certain of our products. The actions taken to combat COVID-19 have had, and we believe will continue to have, a negative impact on our 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.

Disruption in manufacturing, distribution, supply chain and other operations. In addition to adversely affecting demand for our products, COVID-19 and associated economic disruptions have had and could continue to have an adverse impact on our manufacturing capacity, supply chains and distribution systems, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking. For example, at our manufacturing facility in the Philippines, many employees have had significant difficulty getting to work, which caused the facility to operate at a decreased capacity and caused us to shift some manufacturing to another location. A reduction or interruption in any of our manufacturing processes could have a material adverse effect on our business. Supply chain logistics have also become more challenging and could remain challenging and result in higher costs. Our ability to move unfinished goods and finished products around the world have been impacted by the decreased availability of global transportation networks. In addition, regulatory approvals for certain of our products may continue to be delayed due to COVID-19 related closures.

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 the three months ended January 1, 2021 that accounted for 17% of its revenue. Varex's ten largest customers as a group accounted for approximately 51% and 53% of its revenue for the three months ended January 1, 2021 and January 3, 2020, 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 is likely to continue.

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 65% and 66% of Varex's total revenues for the three months ended January 1, 2021 and January 3, 2020, 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.

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. The Tax Cuts and Jobs Act of 2017 ("U.S. Tax Reform") was signed into law on December 22, 2017. Prior to the enactment of U.S. Tax Reform, Varex was not taxed in the United States on certain undistributed earnings of certain foreign subsidiaries. While U.S. Tax Reform 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.

The changes included in U.S. Tax Reform are broad, complex, and subject to change and interpretation. Additional statutory changes or interpretive guidance issued by Federal or local authorities could have a material impact on income tax expense, the effective rate, or the value of deferred tax assets and liabilities. In addition, significant judgments and estimates are required to evaluate our tax position and the impact of the new tax law. If these judgments and estimates are incorrect, or if the underlying assumptions are modified by subsequent guidance or are different from what we expect, our tax liability could differ significantly from our current estimates. 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) that are subject to risk of loss of investment capital. 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.

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.

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. 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.

Risks Relating to the Manufacture of our Products

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; Heerlen and 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 as a result of 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 will increase Varex's costs and those of Varex's medical OEM customers, which could in turn result in reduced demand for Varex's products. 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.

The loss of a supplier or any inability to obtain supplies of important components could restrict Varex's ability to manufacture products, cause delays in its ability to deliver products, or significantly increase its costs.

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, it may not be able to manufacture such component as efficiently as an external supplier and may experience delays or problems in successfully transferring such manufacturing which could materially and adversely affect Varex's ability to manufacture and supply products to customers.

A shortage or change in source of, or increase in price of, raw materials could restrict Varex's ability to manufacture products, cause delays, or significantly increase 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, and Varex expects that availability and pricing will continue to fluctuate in the future. If supplies are restricted or become unavailable or if prices increase, 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.

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 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, and it may be determined that the separation of Varex from Varian, including Varex's new name, will require these products to be re-registered as Varex products, even if they are physically unchanged.

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, including the Affordable Care Act and changes to reimbursement rates, 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.

New accounting pronouncements or changes in interpretation or application of generally accepted accounting principles may materially and adversely affect Varex's operating results.

Varex prepares its financial statements in accordance with GAAP. These principles are subject to interpretation by the FASB, American Institute of Certified Public Accountants, the SEC, and various other regulatory and/or accounting bodies. New accounting pronouncements, or a change in interpretations of, or its application of, existing principles can have a significant effect on Varex's reported results and may even affect its reporting of transactions completed before a change is announced. In addition, when Varex is required to adopt new accounting standards, Varex's methods of accounting for certain items may change, which could cause its results of operations to fluctuate from period to period, make it more difficult to compare its financial results to prior periods, and could cause Varex to delay required filings under the Exchange Act.

As its operations evolve over time, Varex may introduce new products and/or new technologies that require Varex to apply different accounting principles, including ones regarding revenue recognition, than Varex has applied in past periods. The application of different types of accounting principles and related potential changes may make it more difficult to compare its financial results from quarter to quarter, and the trading price of Varex common stock could suffer or become more volatile as a result.

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. As described in the following risk factor, Varex has identified material weaknesses in its internal control over financial reporting. Varex cannot assure that its internal control over financial reporting will be effective in the future or that additional 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.

Varex identified material weaknesses in its internal control over financial reporting which, if not remediated appropriately or timely, could result in loss of investor confidence and adversely impact our stock price.

As further described in Item 4 of this Quarterly Report on Form 10-Q and Item 9A in our Annual Report on Form 10-K for the fiscal year ended October 2, 2020, management determined that Varex's internal control over financial reporting and its disclosure controls and procedures were not effective and 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. Management has identified material weaknesses within our risk assessment process and control environment, which in turn, contributed to additional material weaknesses related to (1) inventory and cost of sales, and (2) financial reporting. Until remediated, these material weaknesses could result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected on a timely basis. There can be no assurance that the remedial measures being implemented by Varex's management will be successful. In addition, because of the COVID-19 pandemic, a larger number of Varex's employees are working remotely, which may make it harder to remediate existing material weaknesses and might make it harder to maintain proper internal controls over financial reporting. If Varex is unable to remediate the material weaknesses, or is otherwise unable to maintain effective internal control over financial reporting or disclosure controls and procedures, Varex's ability to record, process and report financial information accurately, and to prepare financial statements within required time periods, could be adversely affected, which could subject Varex to litigation or investigations requiring management resources and payment of legal and other expenses, including civil penalties, negatively affect investor confidence in our financial statements and adversely impact our 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 January 1, 2021, Varex's total combined indebtedness was approximately $513.8 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;

- 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 January 1, 2021, we had approximately $100 million of additional available borrowing capacity (subject to borrowing base availability) under the new 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. Interest rates in the U.S. generally increased in fiscal 2018 and 2019, but decreased in fiscal 2020. 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 Line 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 Line 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 $10.37 to a high of $31.90. 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;
- change 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;
- the ability to identify and remediate significant deficiencies and material weaknesses in internal controls;
- 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;

- the division of Varex's board of directors into three classes of directors, with each class serving a staggered three-year term, and this classified board provision could have the effect of making the replacement of incumbent directors more time-consuming and difficult, until the 2022 annual meeting of stockholders, after which directors will be elected annually;
- a provision that stockholders may only remove directors with cause while the board is classified;
- the ability of Varex's directors, and not stockholders, to fill vacancies on Varex's board of directors; and,
- the requirement that the affirmative vote of stockholders holding at least 66 2/3% of Varex's voting stock is required to amend certain provisions in Varex's Amended and Restated Certificate of Incorporation (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), although this requirement will expire on the completion of the 2021 annual meeting of stockholders, after which Varex's Amended and Restated Certificate of Incorporation may be amended by the affirmative vote of the holders of at least a majority of the outstanding voting stock.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits required to be filed by Item 601 of Regulation S-K:

Exhibit No.	Description
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, SEC File No. 001-37860).
3.2	Amended and Restated Bylaws of the Company, as amended January 27, 2017 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed January 30, 2017, SEC File No. 001-37860).
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 Exhibit 101)

* Filed herewith.

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: February 4, 2021

By: /s/ SHUBHAM MAHESHWARI

Shubham Maheshwari
Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/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 Quarterly Report on Form 10-Q 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: February 4, 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 RULE 13a-14(a)/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 Quarterly Report on Form 10-Q 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: February 4, 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 Quarterly Report of Varex Imaging Corporation (the "Company"), on Form 10-Q for the quarter ended January 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: February 4, 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 Quarterly Report of Varex Imaging Corporation (the "Company"), on Form 10-Q for the quarter ended January 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: February 4, 2021

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