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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 March 29, 2019
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)

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 ☒

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

As of May 2, 2019, there were 38.3 million shares of the registrant's common stock outstanding.

VAREX IMAGING CORPORATION

FORM 10-Q for the Quarter Ended March 29, 2019

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

VAREX IMAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	**March 29, 2019**	**March 30, 2018**	**March 29, 2019**	**March 30, 2018**
Revenues	$ 195.8	$ 201.2	$ 381.5	$ 377.4
Cost of revenues	131.4	131.1	257.1	245.8
Gross margin	64.4	70.1	124.4	131.6
Operating expenses:				
Research and development	18.8	22.0	37.6	41.8
Selling, general and administrative	31.1	30.9	61.9	59.1
Total operating expenses	49.9	52.9	99.5	100.9
Operating earnings	14.5	17.2	24.9	30.7
Interest income	0.1	—	0.1	0.1
Interest expense	(5.5)	(5.6)	(10.6)	(11.1)
Other (expense) income, net	(1.3)	4.1	(2.5)	3.1
Interest and other expense, net	(6.7)	(1.5)	(13.0)	(7.9)
Earnings before taxes	7.8	15.7	11.9	22.8
Taxes (benefit) on earnings	1.9	3.4	3.0	(1.1)
Net earnings	5.9	12.3	8.9	23.9
Less: Net earnings attributable to noncontrolling interests	0.1	0.1	0.1	0.3
Net earnings attributable to Varex	$ 5.8	$ 12.2	$ 8.8	$ 23.6
Net earnings per common share attributable to Varex				
Basic	$ 0.15	$ 0.32	$ 0.23	$ 0.62
Diluted	$ 0.15	$ 0.32	$ 0.23	$ 0.62
Weighted average common shares outstanding				
Basic	38.2	37.8	38.1	37.8
Diluted	38.5	38.4	38.4	38.3

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
(In millions)	**March 29, 2019**	**March 30, 2018**	**March 29, 2019**	**March 30, 2018**
Net earnings	$ 5.9	$ 12.3	$ 8.9	$ 23.9
Other comprehensive earnings, net of tax:				
Unrealized (loss)/gain on interest rate swap contracts	(1.4)	2.1	(3.7)	4.0
Other comprehensive earnings, net of tax	(1.4)	2.1	(3.7)	4.0
Comprehensive earnings	4.5	14.4	5.2	27.9
Less: Comprehensive earnings attributable to noncontrolling interests	0.1	0.1	0.1	0.3
Comprehensive earnings attributable to Varex	$ 4.4	$ 14.3	$ 5.1	$ 27.6

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)	March 29, 2019	September 28, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 31.0	$ 51.9
Accounts receivable, net	124.5	154.0
Inventories, net	261.2	235.1
Prepaid expenses and other current assets	20.6	17.1
Total current assets	437.3	458.1
Property, plant and equipment, net	137.1	144.9
Goodwill	243.6	243.6
Intangible assets	65.8	73.8
Investments in privately-held companies	52.0	51.0
Other assets	29.8	16.5
Total assets	$ 965.6	$ 987.9
Liabilities, redeemable noncontrolling interests and equity		
Current liabilities:		
Accounts payable	$ 62.3	$ 66.3
Accrued liabilities	51.7	47.5
Current maturities of long-term debt	29.4	25.0
Deferred revenues	12.9	13.2
Total current liabilities	156.3	152.0
Long-term debt	316.7	364.8
Deferred tax liabilities	19.0	23.2
Other long-term liabilities	27.6	8.5
Total liabilities	519.6	548.5
Redeemable noncontrolling interests	10.8	11.1
Equity:		
Preferred stock, $.01 par value: 20,000,000 shares authorized, none issued	—	—
Common stock, $.01 par value:		
Authorized shares - 150,000,000		
Shares issued and outstanding - 38,249,440 and 38,026,597 at March 29, 2019 and September 28, 2018, respectively.	0.4	0.4
Additional paid-in capital	363.1	357.6
Accumulated other comprehensive income	2.1	5.8
Retained earnings	67.7	62.4
Total Varex equity	433.3	426.2
Noncontrolling interests	1.9	2.1
Total equity	435.2	428.3
Total liabilities, redeemable noncontrolling interests and equity	$ 965.6	$ 987.9

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended	
(In millions)	**March 29, 2019**	**March 30, 2018**
Cash flows from operating activities:		
Net earnings	$ 8.9	$ 23.9
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	5.6	4.7
Depreciation	14.1	10.5
Amortization of intangible assets	7.3	8.4
Deferred taxes	(2.6)	(11.1)
Income from equity method investments	(0.3)	(3.2)
Amortization of deferred loan costs	1.2	1.2
Impairment of intangible assets	0.8	—
Other, net	1.4	—
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	29.4	34.4
Inventories	(26.4)	(11.0)
Prepaid expenses and other assets	2.5	1.3
Accounts payable	(2.7)	(7.2)
Accrued operating liabilities and other long-term operating liabilities	(4.4)	(6.0)
Deferred revenues	(1.9)	(0.4)
Net cash provided by operating activities	32.9	45.5
Cash flows from investing activities:		
Purchases of property, plant and equipment	(7.6)	(6.9)
Net cash used in investing activities	(7.6)	(6.9)
Cash flows from financing activities:		
Taxes related to net share settlement of equity awards	(2.1)	(2.3)
Borrowings under credit agreements	7.0	10.0
Repayments of borrowing under credit agreements	(52.0)	(78.0)
Proceeds from exercise of stock options	0.1	2.2
Proceeds from shares issued under employee stock purchase plan	1.9	1.4
Payment of debt issuance costs	(0.5)	—
Net cash used in financing activities	(45.6)	(66.7)
Effects of exchange rate changes on cash and cash equivalents and restricted cash	(0.6)	0.2
Net decrease in cash and cash equivalents and restricted cash	(20.9)	(27.9)
Cash and cash equivalents and restricted cash at beginning of period	53.4	83.6
Cash and cash equivalents and restricted cash at end of period	$ 32.5	$ 55.7
Supplemental cash flow information:		
Cash paid for interest	$ 9.1	$ 9.9
Cash paid for income tax	0.3	11.9
Supplemental non-cash activities:		
Purchases of property, plant and equipment financed through accounts payable	$ 0.6	$ 5.5

See accompanying notes to the condensed consolidated financial statements.

VAREX IMAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

Three Months Ended March 29, 2019

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Varex Equity	Noncontrolling Interests	Total Equity
December 29, 2018	38.1	$ 0.4	$ 362.1	$ 3.5	$ 61.3	$ 427.3	$ 1.9	$ 429.2
Adjustment to adoption of ASC 606	—	—	—	—	0.6	0.6	—	0.6
Net earnings	—	—	—	—	5.8	5.8	—	5.8
Exercise of stock options	—	—	0.1	—	—	0.1	—	0.1
Common stock issued upon vesting of restricted shares	0.2	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	(0.1)	—	(2.1)	—	—	(2.1)	—	(2.1)
Share-based compensation	—	—	3.0	—	—	3.0	—	3.0
Unrealized loss on interest rate swap contracts, net of tax	—	—	—	(1.4)	—	(1.4)	—	(1.4)
March 29, 2019	38.2	$ 0.4	$ 363.1	$ 2.1	$ 67.7	$ 433.3	$ 1.9	$ 435.2

Three Months Ended March 30, 2018

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Varex Equity	Noncontrolling Interests	Total Equity
December 30, 2017	37.7	$ 0.4	$ 348.1	$ 2.6	$ 46.5	$ 397.6	$ —	$ 397.6
Net earnings	—	—	—	—	12.2	12.2	—	12.2
Exercise of stock options	0.1	—	0.4	—	—	0.4	—	0.4
Common stock issued upon vesting of restricted shares	0.2	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	(0.1)	—	(2.3)	—	—	(2.3)	—	(2.3)
Share-based compensation	—	—	2.6	—	—	2.6	—	2.6
Unrealized gain on interest rate swap contracts, net of tax	—	—	—	2.1	—	2.1	—	2.1
March 30, 2018	37.9	$ 0.4	$ 348.8	$ 4.7	$ 58.7	$ 412.6	$ —	$ 412.6

See accompanying notes to the condensed consolidated financial statements.

VAREX IMAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

Six Months Ended March 29, 2019

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Varex Equity	Noncontrolling Interests	Total Equity
September 28, 2018	38.0	$ 0.4	$ 357.6	$ 5.8	$ 62.4	$ 426.2	$ 2.1	$ 428.3
Effect of adoption of ASC 606	—	—	—	—	(3.5)	(3.5)	—	(3.5)
Net earnings	—	—	—	—	8.8	8.8	(0.2)	8.6
Exercise of stock options	—	—	0.1	—	—	0.1	—	0.1
Common stock issued upon vesting of restricted shares	0.2	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	(0.1)	—	(2.1)	—	—	(2.1)	—	(2.1)
Common stock issued under employee stock purchase plan	0.1	—	1.9	—	—	1.9	—	1.9
Share-based compensation	—	—	5.6	—	—	5.6	—	5.6
Unrealized loss on interest rate swap contracts, net of tax	—	—	—	(3.7)	—	(3.7)	—	(3.7)
March 29, 2019	38.2	$ 0.4	$ 363.1	$ 2.1	$ 67.7	$ 433.3	$ 1.9	$ 435.2

Six Months Ended March 30, 2018

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Varex Equity	Noncontrolling Interests	Total Equity
September 29, 2017	37.6	$ 0.4	$ 342.7	$ 0.8	$ 35.1	$ 379.0	$ —	$ 379.0
Net earnings	—	—	—	—	23.6	23.6	—	23.6
Exercise of stock options	0.1	—	2.2	—	—	2.2	—	2.2
Common stock issued upon vesting of restricted shares	0.2	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	(0.1)	—	(2.3)	—	—	(2.3)	—	(2.3)
Common stock issued under employee stock purchase plan	0.1	—	1.5	—	—	1.5	—	1.5
Share-based compensation	—	—	4.7	—	—	4.7	—	4.7
Unrealized gain on interest rate swap contracts, net of tax	—	—	—	3.9	—	3.9	—	3.9
March 30, 2018	37.9	$ 0.4	$ 348.8	$ 4.7	$ 58.7	$ 412.6	$ —	$ 412.6

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 X-ray imaging components, including X-ray tubes, digital detectors and accessories, high voltage connectors, high-energy inspection accelerators, 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 and 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, veterinary and industrial imaging systems, 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, 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.

Varex Imaging Corporation was incorporated in Delaware on July 18, 2016 and is listed on the NASDAQ Global Select Market under the ticker "VREX."

Basis of Presentation and Principle of Consolidation

The accompanying condensed consolidated financial statements are unaudited. These 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, consisting only of normal recurring 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 2018, 2017 and 2016 included in the Company's Form 10-K, which was filed with the SEC on November 27, 2018. 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.

Out-of-Period Adjustments

During the three months ended March 29, 2019, the Company identified and recorded adjustments of $1.5 million on a pre-tax basis ($1.1 million on an after-tax basis) that reduced income for second quarter of 2019 related to errors originating in the first quarter of 2019 principally related to an overstatement of inventory and an understatement of the write-off of deferred financing costs. During the first quarter of 2019 these errors were partially offset by out-of-period adjustments recorded in the first quarter of 2019 that reduced income in the first quarter of 2019 by $1.1 million on a pre-tax basis ($0.6 million on an after-tax basis) related to errors originating in fiscal year 2018 principally related to an overstatement of inventory at the end of fiscal year 2018. We evaluated the materiality of these errors on our current quarter, prior quarter and prior year consolidated financial statements and have concluded that although the errors are more quantitatively significant to the current quarter these errors were not material when considering both qualitative and quantitative factors. We also evaluated the materiality of these errors on our forecasted full year fiscal 2019 results and have concluded these errors are not material to the expected full year 2019 results.

During the quarter ended March 29, 2019, the Company also identified and recorded an adjustment to our condensed consolidated balance sheet of $0.6 million to correct our retained earnings and deferred revenues recorded as part of our adoption of ASC 606 in the quarter ended December 29, 2019. The adjustment reduced our deferred revenue by $0.6 million with a corresponding increase to retained earnings. We evaluated the materiality of this error on our current and prior quarter consolidated financial statements and have concluded that this error was not material.

Segment Reporting

The Company has two reportable operating segments, Medical and Industrial, which align with how its Chief Executive Officer, who has been identified as the Company's Chief Operating Decision Maker, views and measures the Company's business performance. See Note 13, "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 2019 is the 52-week period ending September 27, 2019. Fiscal year 2018 was the 52-week period that ended on September 28, 2018. The fiscal quarters ended March 29, 2019 and March 30, 2018 were both 13-week periods.

Variable Interest Entities

For entities in which the Company has variable interests, the Company determines whether the Company is the primary beneficiary of the entity by analyzing which entity has the power to direct the activities that most significantly impact the variable interest entity's economic performance and which entity has the obligation to absorb losses or the right to receive benefits from the variable interest entity. If the Company is the primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity are included in the Company's condensed consolidated financial statements. During the three and six months ended March 29, 2019, the Company had two variable interest entities, one of which is consolidated, because it was determined that the Company is its primary beneficiary. As of March 29, 2019, total assets and liabilities for the consolidated variable interest entity was $18.1 million and $7.1 million, 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. Actual results could differ from these estimates.

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:

	Six Months Ended March 29, 2019		Six Months Ended March 30, 2018	
	Beginning of Period	End of Period	Beginning of Period	End of Period
Cash and cash equivalents	$ 51.9	$ 31.0	$ 83.3	$ 55.4
Restricted cash	1.5	1.5	0.3	0.3
Cash and cash equivalents and restricted cash as reported per statement of cash flows	$ 53.4	$ 32.5	$ 83.6	$ 55.7

Fair Value

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

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or, other inputs that are observable or can be corroborated by observable market data.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Derivative Instruments and Hedging Activities

The Company records all derivatives on the balance sheet at fair value. For a derivative such as an interest rate swap that is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is initially reported in accumulated other comprehensive income (loss) on the consolidated balance sheet and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. To the extent the effective portion of a hedge subsequently becomes ineffective, the corresponding amount of the change in fair value of the derivative initially reported in accumulated other comprehensive income (loss) is reclassified and is recognized directly in earnings. Accordingly, on a quarterly basis, the Company assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of a hypothetical designated perfect hedged item or transaction. If the change in the actual swap is greater than the change in the hypothetical perfect swap, the difference is referred to as "ineffectiveness" and is recognized in earnings in the current period.

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 customer accounted for a significant portion of revenues, which are as follows:

	Three Months Ended		Six Months Ended	
	March 29, 2019	**March 30, 2018**	**March 29, 2019**	**March 30, 2018**
Canon Medical Systems Corporation	17.1%	17.3%	17.7%	19.2%

Canon Medical Systems Corporation accounted for 11.6% and 9.8% of the Company's accounts receivable as of March 29, 2019 and September 28, 2018, respectively.

Inventories

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

Property, Plant and Equipment

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

recoverability of the carrying amounts. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are removed from the accounts.

Investments

The Company accounts for its equity investments in privately-held companies under the equity method of accounting because the Company holds at least a 20% ownership interest or has the ability to exercise significant influence in these investments. The Company monitors these equity investments for impairment and makes appropriate reductions in carrying values if the Company determines that impairment charges are required for an other than temporary decline in fair value based primarily on the financial condition and near-term prospects of these companies.

Goodwill and Intangible Assets

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

There were no impairment charges against goodwill during the three and six months ended March 29, 2019 and March 30, 2018.

Loss Contingencies

From time to time, the Company is a party to or otherwise involved in legal proceedings, claims and government inspections or investigations and other legal matters, both inside and outside the United States, arising in the ordinary course of its business or otherwise. The Company accrues amounts, 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 it believes will result in a probable loss.

Product Warranty

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

The amount of the accrued estimated warranty costs obligation for established products is primarily based on historical experience as to product failures adjusted for current information on repair costs. For new products, we base warranty estimates on historical experience for similar products and add 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:

(In millions)	**Warranty Allowance**
Accrued product warranty, September 28, 2018	$ 7.3
Charged to cost of revenues	5.2
Product warranty expenditures	(5.7)
Accrued product warranty, March 29, 2019	$ 6.8

Revenue Recognition

Effective September 29, 2018, we adopted the requirements of Accounting Standards Update ("ASU") 2014-09 and related amendments, Revenue from Contracts with Customers ("ASC 606"), which superseded all prior revenue recognition methods and industry-specific guidance. See "Recently Adopted Accounting Pronouncements" below.

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

Deferred Revenues

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

Share-Based Compensation Expense

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

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

The Company measures and recognizes expense for all share-based payment awards based on their fair values. Share-based compensation expense recognized in the condensed consolidated statements of earnings includes compensation expense for the share-based payment awards based on the grant date fair value estimated in accordance with the guidance on share-based compensation. The share-based compensation expense that is recognized is based on the value of the portion of share-based payment awards that is ultimately expected to vest. The Company attributes the value of share-based compensation to expense using the straight-line method. The Company considers only the direct tax impacts of share-based compensation awards when calculating the amount of tax windfalls or shortfalls.

Shipping and Handling Costs

Shipping and handling costs are included as a component of cost of revenues.

Research and Development

Research and development costs have been expensed as incurred. These costs primarily include employees’ compensation, consulting fees and material costs.

Taxes on Earnings

Current income tax expense is the amount of income taxes expected to be payable for the current year. Deferred income tax liabilities or assets are established for the expected future tax consequences resulting from the differences in financial reporting and tax bases of assets and liabilities. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. In addition, the Company provides reserves for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by the authoritative guidance for accounting for income taxes. Amounts for uncertain tax positions are adjusted in periods when new information becomes available or when positions are effectively settled. Interest and penalties related to uncertain tax positions are recognized as a component of income tax expense.

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (“U.S. Tax Reform”). U.S. Tax Reform significantly revised the U.S. corporate income tax structure including a

lower corporate statutory rate and changes to the way foreign earnings are taxed. U.S. GAAP requires that the impact of tax legislation be recognized in the period in which the law is enacted. In accordance with these rules, the Company has included the impact of certain provisions of U.S. Tax Reform to the extent they are effective. The SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") that allows for reasonable estimated amounts to be recorded and a measurement period of up to one year from the date of enactment to revise these provisional amounts as new information is obtained and additional guidance is issued. During the three months ended December 28, 2018, the Company completed its analysis of U.S. Tax Reform, and the accounting for the income tax effects has been finalized for the measurement period under SAB 118 with no significant adjustment from the provisional amounts. The determination of the tax effects of U.S. Tax Reform may change following future legislation or further interpretation of U.S. Tax Reform, based on the publication of recently proposed U.S. Treasury regulations and guidance from the Internal Revenue Service and state tax authorities.

Significant judgments and estimates are required in evaluating the Company's tax positions and provision for taxes on earnings. The Company accounts for uncertainty in income taxes following a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining whether the weight of available evidence indicates that it is more likely than not that, based on the technical merits, the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. Recognition and measurement are based on management's best judgment given the facts, circumstances and information available at the end of the accounting period.

The Company is subject to taxes on earnings in both the United States and numerous foreign jurisdictions. Foreign earnings are generally taxed at rates that differ from the United States rates, earnings in certain foreign jurisdictions are currently subject to tax in the United States, and the benefit of losses generated in some other foreign jurisdictions is reduced due to full valuation allowance positions in those jurisdictions. Our effective tax rate is impacted by these factors as well as existing laws in both the United States and in the respective countries in which foreign subsidiaries do business. In addition, a change in the mix of earnings and losses among the various jurisdictions could increase or decrease our effective tax rate.

Foreign Currency Translation

The Company uses the U.S. Dollar as the functional currency of its foreign operations. Gains and losses from remeasurement of foreign currency balances into U.S. Dollars are included in the condensed consolidated statements of earnings.

Recently Adopted Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which requires that the statement of cash flows explain the change in the total amount of restricted cash during the period and other additional disclosures. The Company adopted ASU 2016-18 in the first quarter of 2019 using the retrospective transition method by restating our condensed consolidated statements of cash flows to include restricted cash balances. Net cash flows for the three months ended March 29, 2019 and March 30, 2018 did not change as a result of adopting ASU 2016-18.

The Company adopted ASC 606 as of September 29, 2018, using the modified retrospective transition method applied to those contracts which were not completed as of that date. The Company recorded a net reduction to retained earnings of $4.1 million, net of tax, as of September 29, 2018 due to the impact of adopting ASC 606. During the second quarter of 2019 the Company recorded an increase to retained earnings of $0.6 million, net of tax, to correct an immaterial error related to the adoption of ASC 606. The net cumulative impact of adopting ASC 606 was $3.5 million, net of tax. Refer to Note 9. *Revenue Recognition* to the Unaudited Condensed Consolidated Financial Statement on this Quarterly report for the detailed impact of adopting ASC 606.

Recent Accounting Standards or Updates Not Yet Effective

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from U.S. federal tax legislation commonly referred to as the Tax Cuts and Jobs Act, which was enacted in December 2017 (the "2017 Tax Act"). ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12 which targets improvements to accounting for hedging activities which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. The guidance is effective for fiscal years beginning after December 15, 2018, and

interim periods within those fiscal years. The Company does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 which clarified its guidance to simplify the measurement of goodwill by eliminating the Step 2 impairment test. The new guidance requires companies to perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendment will be effective for the Company beginning in its first quarter of fiscal year 2021. The amendment is required to be adopted prospectively. Early adoption is permitted. The Company is evaluating the impact of adopting this amendment to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 on accounting for leases. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new standard will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of earnings. The new standard is required to be adopted using a modified retrospective method to each prior reporting period presented with various optional practical expedients. The new standard will be effective for the Company beginning in its first quarter of fiscal year 2020 with early adoption permitted. The Company is evaluating the impact of adopting this new standard to its consolidated financial statements.

2. RELATED-PARTY TRANSACTIONS

Investment in Privately-Held Companies

The Company has a 40% ownership interest in dpiX Holding LLC ("dpiX Holding"), a four-member consortium 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 equity 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 March 29, 2019 and March 30, 2018, the Company recorded income on the equity investment in dpiX Holding of zero and $3.8 million, respectively. During the six months ended March 29, 2019 and March 30, 2018, the Company recorded (loss) and income on the equity investment in dpiX Holding of $(0.7) million and $3.1 million, respectively. Income and loss on the equity investment in dpiX Holding is included in other expense, net in the condensed consolidated statements of earnings. The carrying value of the equity investment in dpiX Holding was $48.2 million and $48.9 million at March 29, 2019 and September 28, 2018, respectively.

During the three months ended March 29, 2019 and March 30, 2018, the Company purchased glass transistor arrays from dpiX totaling $1.4 million and $5.4 million, respectively. During the six months ended March 29, 2019 and March 30, 2018, the Company purchased glass transistor arrays from dpiX totaling $4.2 million and $12.0 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 earnings.

As of March 29, 2019, and September 28, 2018, the Company had accounts payable to dpiX totaling $3.4 million and $3.7 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. 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 2019, the fixed cost commitment was determined and approved by the dpiX board of directors to be $14.7 million for calendar year 2019. As of March 29, 2019, the Company had $11.0 million fixed cost commitments related to this agreement remaining for calendar year 2019. The amended agreement will continue unless the ownership structure of dpiX changes as provided in the amended agreement.

The Company has determined that dpiX 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 direct the activities of dpiX and therefore is not the primary beneficiary of dpiX. The Company's exposure to loss as a result of its involvement with dpiX is limited to the carrying value of the Company's investment of $48.2 million and fixed cost commitments.

3. FINANCIAL DERIVATIVES AND HEDGING ACTIVITIES

As part of the Company's overall risk management practices, the Company enters into financial derivatives, which include interest rate swaps designed as cash flow hedges, to hedge the LIBOR-based, floating interest rate on its debt.

The Company records all derivatives on the consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting.

The effective portion of the gain or loss on derivative instruments designated and qualifying for cash flow hedge accounting is deferred in other comprehensive income. Any ineffectiveness in these designated hedging relationships is recognized in current period earnings. The changes in fair value for all trades that are not designated for hedge accounting are recognized in current period earnings. Deferred gains or losses from designated cash flow hedges are reclassified into earnings in the period that the hedged interest expense effect earnings. The effectiveness of cash flow hedges is assessed at inception and quarterly thereafter. If the instrument were to no longer qualify for hedge accounting due to it becoming probable that the originally-forecasted hedged transactions will not occur, then hedge accounting would cease and the related change in fair value of the ineffective portion of the derivative instrument would be reclassified from accumulated other comprehensive income (loss) and recognized in earnings. The Company does not offset fair value amounts recognized for derivative instruments in its balance sheet for presentation purposes.

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

Derivatives Designated as Hedging Instruments - Cash Flow Hedges

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

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is deferred as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets and is subsequently reclassified into earnings in the period that the hedged interest expense effects earnings. The ineffective portion of the changes in fair value of derivatives designated as cash flow hedges are recognized directly to earnings and reflected in the accompanying condensed consolidated statements of earnings. No ineffectiveness was reported in earnings for the period ending March 29, 2019.

As of March 29, 2019, the Company had the following outstanding derivatives designated as hedging instruments:

(In millions, except for number of instruments)	**Number of Instruments**	**Notional Value**
Interest Rate Swap Contracts	6	$ 270.0

These contracts have maturities of four years or less.

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

	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) Three months ended		**Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**	**Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three months ended**		**Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)**	**Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion) Three months ended**	
(In millions)	**March 29, 2019**	**March 30, 2018**		**March 29, 2019**	**March 30, 2018**		**March 29, 2019**	**March 30, 2018**
Interest Rate Swap Contracts	$ (1.2)	$ 2.8	Interest expense	$ 0.6	$ (0.1)	Interest expense	$ —	$ —

(In millions)	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) Six months ended		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Six months ended		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion) Six months ended	
	March 29, 2019	March 30, 2018		March 29, 2019	March 30, 2018		March 29, 2019	March 30, 2018
Interest Rate Swap Contracts	$ (3.7)	$ 4.8	Interest expense	$ 1.0	$ (0.3)	Interest expense	$ —	$ —

The Company expects that approximately $1.7 million recorded as a component of accumulated other comprehensive income (loss) will be realized in the statements of earnings over the next 12 months and the amount will vary depending on interest rates.

These derivative instruments are subject to master netting agreements giving effect to rights of offset with each counterparty. The following table summarizes the fair values of derivative instruments as of the periods indicated and the line items in the accompanying consolidated balance sheets where the instruments are recorded:

		Derivative Assets and Liabilities	
(In millions)		March 29, 2019	September 28, 2018
Derivatives designated as cash flow hedges	**Balance sheet location**		
Interest rate swap contracts	Other current assets	$ 1.7	$ 2.2
Interest rate swap contracts	Other non-current assets	1.3	5.5
		$ 3.0	$ 7.7

Balance Sheet Hedges

The Company's foreign currency management objective is to mitigate the potential impact of currency fluctuations on the value of its U.S. dollar cash flows and to reduce the variability of certain cash flows at the subsidiary level. 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 March 29, 2019:

In millions	Notional Amounts (in U.S. dollars)	Net Unrealized Gain (Loss)
Japanese yen	$ 1.8	$ —
Swiss franc	1.2	—
Chinese renminbi	3.4	—
Euro	70.7	(0.6)
	$ 77.1	$ (0.6)

4. FAIR VALUE

Assets/Liabilities Measured at Fair Value on a Recurring Basis

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 March 29, 2019			
(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	$ —	$ 3.6	$ —	$ 3.6
Interest rate swap contracts	—	3.0	—	3
Total assets measured at fair value	$ —	$ 6.6	$ —	$ 6.6
Liabilities:				
Foreign currency forward contracts	$ —	$ 0.6	$ —	$ 0.6

As of March 29, 2019, the outstanding borrowings under the Company's credit agreement were $346.1 million, net of deferred loan costs, which approximated its fair value. 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. 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 March 29, 2019.

At September 28, 2018, the Company determined the following levels of inputs at fair value for the following assets or liabilities:

	Fair Value Measurements at September 28, 2018			
(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	$ —	$ 18.4	$ —	$ 18.4
Interest rate swap contracts	—	7.7	—	7.7
Total assets measured at fair value	$ —	$ 26.1	$ —	$ 26.1

5. INVENTORIES, NET

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

(In millions)	**March 29, 2019**	**September 28, 2018**
Raw materials and parts, net	$ 163.2	$ 149.9
Work-in-process, net	32.6	25.4
Finished goods, net	65.4	59.8
Total inventories, net	$ 261.2	$ 235.1

6. INTANGIBLE ASSETS

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

(In millions)	March 29, 2019	September 28, 2018
Acquired existing technology	$ 55.6	$ 57.9
Patents, licenses and other	9.9	9.9
Customer contracts and supplier relationship	42.1	42.6
Accumulated amortization	(45.8)	(40.6)
Total intangible assets with finite lives	61.8	69.8
In-process research and development with indefinite lives	4.0	4.0
Total intangible assets	$ 65.8	$ 73.8

Amortization expense for intangible assets was $3.6 million and $4.2 million for the three months ended March 29, 2019 and March 30, 2018, respectively, and $7.3 million and $8.4 million for the six months ended March 29, 2019 and March 30, 2018, respectively.

During the three and six months ended March 29, 2019, the Company recognized an intangible asset impairment charge of $0.8 million as certain assets were determined not to be recoverable due to a change in the expected future economic benefit of the assets. The impairment charge is included in selling, general and administrative expenses on the condensed consolidated statements of earnings.

7. BORROWINGS

Existing Credit Facility

On May 1, 2017 in connection with an acquisition Varex entered into a new secured revolving credit facility (the "Revolving Credit Facility") in an aggregate principal amount of up to $200 million with a five-year term, and a secured term facility (the "Term Facility" and together with the Revolving Credit Facility, the "Credit Agreement") in an aggregate principal amount of $400 million, which is subsequently amended. The Term Facility will be repaid over five years, with 5.0% payable in quarterly installments during each of the first two years of the term thereof, 7.5% payable in quarterly installments during the third and fourth years of the term thereof, and 10% payable in quarterly installments in the fifth year of the term thereof, with the remaining amount due at maturity. Varex used the net proceeds from the Term Facility, and the net proceeds from approximately $97 million drawn on the Revolving Credit Facility, to pay the purchase price for the acquisition of the medical imaging business of PerkinElmer, Inc., plus related credit facility fees, and to repay all Varex's obligations under the previous credit agreement. Both the Term Facility and Revolving Credit Facility expire on May 1, 2022.

The Credit Agreement contains various customary restrictive covenants that limits, among other things, the incurrence of indebtedness by Varex and its subsidiaries, the grant or incurrence of liens by Varex and its subsidiaries, the entry into sale and leaseback transactions by Varex and its subsidiaries, and the entry into certain fundamental change transactions by Varex and its subsidiaries. It also contains customary events of default and certain financial covenants, including the requirement to maintain certain financial ratios. The Credit Agreement is secured by the stock and assets of Varex's material subsidiaries. The Credit Agreement has several borrowing and interest rate options including the following indices: (a) LIBOR rate, or (b) the base rate (equal to the greater of the prime rate, the federal funds rate plus 0.50% or the LIBOR rate for a one-month period plus 1.00%); provided that if the base rate shall be less than zero. Loans under the Credit Agreement bear interest at a rate per annum using the applicable indices plus a varying interest rate margin of between 1.75% and 2.75% (for LIBOR rate loans) and 0.75%-1.75% (for base rate loans). The Credit Agreement also provides for fees applicable to amounts available to be drawn under outstanding letters of credit of 0.125%, and a fee on unused commitments which ranges from 0.25% to 0.40%.

(In millions)	March 29, 2019	September 28, 2018	$ Change
Current portion of Term Facility	$ 29.4	$ 25.0	$ 4.4
Revolving Credit Facility	—	28.0	(28.0)
Long-Term portion of Term Facility	323.6	345.0	(21.4)
Total debt outstanding, gross	353.0	398.0	(45.0)
Debt issuance costs	(6.9)	(8.2)	1.3
Total debt outstanding, net	$ 346.1	$ 389.8	$ (43.7)

On October 3, 2018, the Company, in accordance with the terms of the Credit Agreement, provided notice to the administrative agent that effective as of October 10, 2018, the Company was permanently reducing the revolving credit commitment

under the Credit Agreement by $50.0 million such that the revolving credit commitment under the Credit Agreement is now $150.0 million. The reduction in the revolving credit commitment also reduced the fees paid by the Company in connection with such commitment.

At March 29, 2019, the Company had $150.0 million of the Revolving Credit Facility available for borrowings, subject to covenants contained in the Credit Agreement.

8. REDEEMABLE NONCONTROLLING INTERESTS

In April 2015, the Company completed the acquisition of 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. In October 2015, the DPLTA became effective upon its registration at the local court of Bremen, Germany. Under the DPLTA, MeVis subordinates its management to the Company and undertakes to transfer all its annual profits and losses to the Company. In return, the DPLTA grants the noncontrolling shareholders of MeVis: (1) an annual recurring net compensation of €0.95 per MeVis share starting from January 1, 2015; and (2) a put right for their MeVis shares at €19.77 per MeVis share. Upon effectiveness of the DPLTA, the noncontrolling interests in MeVis became redeemable as a result of the put right and were reclassified to temporary equity.

At March 29, 2019, noncontrolling shareholders together held approximately 0.5 million shares of MeVis, representing 26.3% of the outstanding shares.

Changes in redeemable noncontrolling interests were as follows:

(In millions)	Redeemable Noncontrolling Interests
Balance at beginning of period, September 28, 2018	$ 11.1
Net earnings attributable to noncontrolling interests	0.3
Other, including foreign currency remeasurement	(0.6)
Balance at end of period, March 29, 2019	$ 10.8

9. REVENUE RECOGNITION

The Company adopted ASC 606 on September 29, 2018, using the modified retrospective method for all contracts not completed as of the date of adoption. The reported results for fiscal year 2019 reflect the application of ASC 606 guidance while the reported results for fiscal year 2018 were prepared under the guidance of ASC 605, "Revenue Recognition." The primary impacts of the adoption include: (1) recording a separate contract liability and contract asset related to the sale of X-ray tubes that were sold with an option for the customer to require the Company to repurchase specific parts of the X-ray tube at a specific price; and (2) recording a contract liability related to the deferral of revenue for service type warranties that are provided to certain customers who purchase Linatron® X-ray accelerators.

The Company has made the following accounting policy elections and elected to use certain practical expedients, as permitted by the FASB, in applying ASC 606: (1) the Company accounts for amounts collected from customers for sales and other taxes, net of related amounts remitted to tax authorities; (2) the Company does not adjust the promised amount of consideration for the effects of a significant financing component, if, at contract inception, the Company expects the period between the time when the Company transfers a promised good or service to the customer and the time when the customer pays for that good or service will be one year or less; (3) the Company expenses costs to obtain a contract as they are incurred if the expected period of benefit, and therefore the amortization period, is one year or less; (4) the Company accounts for shipping and handling activities that occur after control transfers to the customer as a fulfillment cost rather than an additional promised service and these fulfillment costs are included as a component of cost of revenues; and (5) the Company does not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.

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.

The beginning net cumulative-effect adjustment to the balance sheet for the adoption of ASC 606 is as follows:

(in millions)	Balance at September 28, 2018	Adjustment Due to ASC 606	Balance at September 29, 2018
Assets:			
Prepaid expenses and other current assets	$ 17.1	$ 6.4	$ 23.5
Other assets	16.5	18.0	34.5
Liabilities and Equity:			
Deferred revenues	13.2	0.3	13.5
Accrued liabilities	47.5	7.1	54.6
Deferred tax liabilities	23.2	(0.8)	22.4
Other long-term liabilities	8.5	21.3	29.8
Retained earnings	62.4	(3.5)	58.9

The following tables compare the reported condensed consolidated balance sheet and statement of operations as of and for the three and six months ended March 29, 2019, to the amounts that would have been reported if ASC 605 had been in effect:

	March 29, 2019	
(in millions)	Balance without Adoption	As Reported
Assets:		
Prepaid expenses and other current assets	$ 14.2	$ 20.6
Other assets	$ 11.9	$ 29.8
Liabilities and equity:		
Deferred revenues	$ 12.8	$ 12.9
Accrued liabilities	$ 44.6	$ 51.7
Deferred tax liabilities	$ 19.8	$ 19.0
Other long-term liabilities	$ 6.4	$ 27.6
Retained earnings	$ 71.0	$ 67.7

(In millions)	Three Months Ended March 29, 2019		Six Months Ended March 29, 2019	
	Balance without Adoption	As Reported	Balance without Adoption	As Reported
Revenues	195.5	195.8	381.1	381.5
Cost of revenues	131.3	131.4	256.9	257.1
Taxes on earnings	1.9	1.9	3.0	3.0
Net earnings attributable to Varex	5.6	5.8	8.6	8.8

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.

Revenue recognition

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.

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

(In millions)	Three Months Ended		Six Months Ended	
	March 29, 2019	March 30, 2018	March 29, 2019	March 30, 2018
Americas	$ 74.2	$ 70.6	$ 142.6	$ 134.3
EMEA	68.2	70.1	130.8	125.1
APAC	53.4	60.5	108.1	118.0
	$ 195.8	$ 201.2	$ 381.5	$ 377.4

Revenue in the United States of America was $72.2 million and $69.2 million for the three months ended March 29, 2019 and March 30, 2018, respectively. Revenue in the United States of America was $139.4 million and $130.7 million for the six months ended March 29, 2019 and March 30, 2018, respectively.

Refer to Note 13, *Segment Information*, for the disaggregation of the Company’s revenue based on reportable operating segments.

Contract Balances

Contract assets are included within the prepaid expenses and other current assets, and other assets balances. Contract liabilities are included within the accrued liabilities, deferred revenues, and other long-term liabilities balances. The following table summarizes the changes in the contract assets and contract liabilities for the three months ended March 29, 2019:

(In millions)	Contact Assets
Balance at September 29, 2018	$ 24.4
Costs recovered from X-ray tube returns during the period	(3.0)
Contract asset from shipments of X-ray tubes, subject to product return during the period	2.8
Balance at March 29, 2019	$ 24.2

(In millions)	Contract Liabilities
Balance at September 29, 2018	$ 41.9
Recognition of revenue included in beginning of year contract liability	(3.3)
Additions to contract liabilities, net of revenue recognized during the period	2.6
Balance at March 29, 2019	$ 41.2

Remaining Performance Obligations

Remaining performance obligations represent the transaction price of firm orders for which revenue has not yet been recognized. As of March 29, 2019, total remaining performance obligations amounted to $286.5 million. The Company expects to recognize a majority of the remaining performance obligations over the next 12 months.

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.

10. NET EARNINGS PER SHARE

Basic net earnings per common share is computed by dividing the net earnings for the period by the weighted average number of shares of common stock outstanding during the reporting period. Diluted net earnings per common share reflects the effects of potentially dilutive securities, which is computed by dividing net earnings by the sum of the weighted average number of common shares outstanding and dilutive common shares, which consists of shares underlying stock options, unvested stock awards and purchase rights granted under the employee stock purchase plan.

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

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	March 29, 2019	March 30, 2018	March 29, 2019	March 30, 2018
Net earnings attributable to Varex	$ 5.8	$ 12.2	$ 8.8	$ 23.6
Weighted average shares outstanding - basic	38.2	37.8	38.1	37.8
Dilutive effect of potential common shares	0.3	0.6	0.3	0.5
Weighted average shares outstanding - diluted	38.5	38.4	38.4	38.3
Net earnings per share attributable to Varex - basic	$ 0.15	$ 0.32	$ 0.23	$ 0.62
Net earnings per share attributable to Varex - diluted	$ 0.15	$ 0.32	$ 0.23	$ 0.62
Anti-dilutive employee shared based awards, excluded	2.0	0.1	2.2	1.0

The Company excludes potentially dilutive common shares (consisting of shares underlying stock options, unvested stock awards and purchase rights granted under the employee stock purchase plan) from the computation of diluted weighted average shares outstanding if the inclusion of the shares underlying these stock awards would be anti-dilutive to earnings per share.

11. EMPLOYEE STOCK PLANS

Share-Based Compensation Expense

Share-based compensation expense recognized in the condensed consolidated statements of earnings 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 the share-based compensation expense (which includes the option component of the employee stock purchase plan shares):

	Three Months Ended		Six Months Ended	
(In millions)	**March 29, 2019**	**March 30, 2018**	**March 29, 2019**	**March 30, 2018**
Cost of revenues	$ 0.4	$ 0.4	$ 0.7	$ 0.6
Research and development	0.9	0.5	1.4	0.8
Selling, general and administrative	1.7	1.7	3.5	3.3
Total share-based compensation expense	$ 3.0	$ 2.6	$ 5.6	$ 4.7

Stock Option Activity

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

	Options Outstanding			
(In thousands, except per share amounts and the remaining term)	**Number of Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Term (in years)**	**Aggregate Intrinsic Value[1]**
Balance at September 28, 2018	2,011	$ 30.35		
Granted	297	31.42		
Canceled, expired or forfeited	(4)	31.08		
Exercised	(5)	24.87		
Balance at March 29, 2019	2,299	$ 30.50	4.56	$ 8,526.0
Exercisable at March 29, 2019	1,352	$ 29.22	3.73	$ 6,508.0

(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 $33.88 as of March 29, 2019, the last trading date of the Company's second 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 2017 Omnibus Stock Plan for the Company's employees:

(In thousands, except per share amounts)	**Number of Shares**	**Weighted Average Grant-Date Fair Value**
Balance at September 28, 2018	641	$ 33.60
Granted	287	31.30
Vested	(193)	31.50
Canceled or expired	(40)	33.88
Balance at March 29, 2019	695	$ 33.21

12. TAXES ON EARNINGS

	Three Months Ended		Six Months Ended	
	March 29, 2019	March 30, 2018	March 29, 2019	March 30, 2018
Estimated effective tax rate	24.4%	21.7%	25.2%	(4.8)%

The Company recognized an income tax expense of $1.9 million and $3.4 million for the three months ended March 29, 2019 and March 30, 2018, respectively, for effective rates of 24.4% and 21.7%, respectively. The Company recognized an income tax expense of $3.0 million and an income tax benefit of $1.1 million for the six months ended March 29, 2019 and March 30, 2018, respectively, for effective rates of 25.2% and (4.8)%, respectively.

The Company's effective tax rate for the three months ended March 29, 2019, increased primarily due to slightly greater losses in certain jurisdictions for which no benefit can be recorded due to full valuation allowance positions. The Company's year-to-date effective tax rate increased as a result of one-time benefits booked in the first quarter of fiscal year 2018, the period of enactment of the Tax Cuts and Jobs Act of 2017 ("U.S. Tax Reform"). U.S. Tax Reform significantly revised the U.S. corporate income tax structure. Among the revisions impacting the Company's effective tax rate are a lower U.S. corporate statutory rate. As a September fiscal year filer, the lower corporate income tax rate is phased in from a U.S. statutory federal rate of 24.5% in fiscal year ending September 28, 2018 to a rate of 21% for the fiscal year ending September 27, 2019. U.S. GAAP requires the impact of tax legislation to be recognized in the period in which the law is enacted. The lower U.S. statutory rate has been included in the estimated annual effective rate used to calculate the year-to-date income tax benefit as of the end of the quarter. The repeal of the deduction for domestic production applies to the Company for the fiscal year beginning September 29, 2018, and so no benefit of such deduction has been included in the calculation of the estimated annual effective rate.

The SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") that allows for reasonable estimated amounts to be recorded and a measurement period of up to one year from the date of enactment to revise these provisional amounts as new information is obtained and additional guidance is issued. During the three months ended December 28, 2018, the Company completed its analysis of U.S. Tax Reform, and the accounting for the income tax effects has been finalized for the measurement period under SAB 118, with no significant adjustments from the provisional amounts. Other U.S. Tax Reform provisions, including GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax), FDII (foreign-derived intangible income), limitations on interest expense deductions (if certain conditions apply), and other components also have finalized and became effective during the current quarter, and have been included in the calculation of our estimated annual effective rate. The determination of the tax effects of U.S. Tax Reform may change following future legislation or further interpretation of U.S. Tax Reform, based on the publication of recently proposed U.S. Treasury regulations and guidance from the Internal Revenue Service and state tax authorities.

The guidance for accounting for U.S. Tax Reform requires taxpayers to make an election regarding the accounting for GILTI. This policy election is to either: (1) treat GILTI as a period cost if and when incurred, or (2) recognize deferred taxes for basis differences that are expected to reverse as GILTI in future years. During the first quarter of fiscal year 2019, the Company has made the accounting policy election to account for GILTI under the period cost method.

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 is maintaining this prior assertion for the quarter ended March 29, 2019. 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 actually repatriated in the form of a dividend. In accordance with the measurement period under SAB 118, the Company's indefinite reinvestment assertion is now finalized and is no longer provisional.

13. SEGMENT INFORMATION

The Company has two reportable operating segments, Medical and Industrial, which align with how its Chief Executive Officer views and measures the Company's business performance. The Company's Chief Executive Officer is the Chief Operating Decision Maker and allocates resources to and evaluates the financial performance of each operating segment primarily based on revenues and gross margin.

Description of Segments

The Medical segment designs, manufactures, sells and services X-ray imaging components for use in a range of applications, including radiographic or fluoroscopic imaging, mammography, special procedures, computed tomography, radiation therapy and computer-aided detection. The Company provides a broad range of X-ray imaging components for Medical customers including X-ray tubes, digital detectors, high voltage connectors, image-processing software and workstations, computer-aided diagnostic software, collimators, automatic exposure control devices, generators, ionization chambers and buckys. The Company's X-ray imaging components are primarily sold to imaging system OEM customers that incorporate them into their medical diagnostic, radiation therapy, dental, veterinary and industrial imaging systems. The Company also sells its X-ray imaging components to independent service companies, distributors and directly to end-users for replacement purposes.

The Industrial segment designs, manufactures, sells and services security and inspection products, which include Linatron X-ray accelerators, X-ray tubes, digital detectors, high voltage connectors, image processing software and image detection products for security and inspection purposes, such as cargo screening at ports and borders, airports, and nondestructive examination in a variety of applications. The Company generally sells its Industrial products to OEM customers that incorporate its products into their inspection systems.

The following segment information 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:

	Three Months Ended		Six Months Ended	
(In millions)	**March 29, 2019**	**March 30, 2018**	**March 29, 2019**	**March 30, 2018**
Revenues				
Medical	$ 148.9	$ 158.5	$ 292.8	$ 297.7
Industrial	46.9	42.7	88.7	79.7
Total revenues	195.8	201.2	$ 381.5	$ 377.4
Gross margin				
Medical	46.1	53.5	$ 91.2	$ 99.9
Industrial	18.3	16.6	33.2	31.7
Total gross margin	$ 64.4	$ 70.1	$ 124.4	$ 131.6
Total operating expenses	49.9	52.9	99.5	100.9
Interest and other income (expenses), net	(6.7)	(1.5)	(13.0)	(7.9)
Earnings before taxes	7.8	15.7	11.9	22.8
Taxes on earnings	1.9	3.4	3.0	(1.1)
Net earnings	5.9	12.3	8.9	23.9
Less: Net earnings attributable to noncontrolling interests	0.1	0.1	0.1	0.3
Net earnings attributable to Varex	$ 5.8	$ 12.2	$ 8.8	$ 23.6

The following table summarizes the Company's total assets by its reportable segments:

(In millions)	**March 29, 2019**	**September 28, 2018**
Identifiable assets		
Medical	$ 743.5	$ 770.6
Industrial	222.1	217.3
Total reportable segments	$ 965.6	$ 987.9

14. SUBSEQUENT EVENTS

The Company is not aware of any subsequent events which would require recognition or disclosure in the condensed consolidated financial statements other than those listed below.

On April 29, 2019, the Company paid €62.1 million for approximately 97.4% of the outstanding shares of common stock of Direct Conversion AB (publ) and assumed €2.6 million of Direct Conversion net debt for a total acquisition price of €64.7 million. In addition to the payment made at closing, the former shareholders of Direct Conversion will receive a deferred payment equal to the value of 0.3 million shares of the Company's common stock, subject to certain adjustments, payable on the first anniversary of the closing of the transaction. The deferred payment is to be made in a mixture of the Company's common stock and cash.

The Company funded the acquisition using $7 million of available cash and $64 million of debt under its existing credit facility, as amended on March 21, 2019.

Due to the timing of the acquisition we have not yet completed the necessary valuation of the various assets acquired or an allocation of the purchase price among the various types of assets and liabilities.

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 our Annual Report on Form 10-K for the fiscal year ended September 28, 2018.

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"). The outcome of the events described in these forward-looking statements are subject to risks and uncertainties (including the risks and uncertainties contained in Part II, Item 1A - Risk Factors of this Quarterly Report), and actual results and the outcome or timing of certain events may differ significantly from those projected in these forward-looking statements or management's current expectations.

Statements concerning: 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. By making forward-looking statements, 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 imaging components, which include tubes, digital flat panel detectors and other image processing solutions, which are key components of X-ray imaging systems. With a 65+ year history of successful innovation, Varex's components are used in medical imaging as well as in industrial and security imaging applications. Global OEM manufacturers of X-ray imaging systems use the company's X-ray sources, digital detectors, connecting devices and imaging software as components in their systems to detect, diagnose and protect. Varex has approximately 2,000 full-time equivalents employees, located at manufacturing and service center sites in North America, Europe, and Asia. For more information about Varex, visit vareximaging.com.

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 have over 500 engineers at the Company. Combining this focus on innovation and product performance with strong long-term customer relationships allows us to partner with our customers to bring industry-leading products to the X-ray imaging market. In addition, total product lifecycle cost is important. We continue to improve the life and quality of our imaging components and leverage our scale as the largest X-ray imaging component supplier to provide cost effective solutions. Demand for our products can also be impacted by geo-political factors, including tariffs on key imported materials used in manufacturing our products and also on X-ray imaging products we sell to customers outside the United States.

Operating Segments and Products

Our Chief Executive Officer, who is our Chief Operating Decision Maker ("CODM"), evaluates the product groupings and measures the 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 margin.

Medical

In our Medical business segment, we design, manufacture, sell and service X-ray imaging components for use in a range of radiographic or fluoroscopic imaging applications including, computed tomography ("CT"), mammography, oncology, cardiac, surgery, dental, and computer-aided detection. We provide a broad range of X-ray imaging components for Medical customers, including X-ray tubes, digital detectors, high voltage connectors, image-processing software and workstations, computer-aided diagnostic software, collimators, automatic exposure control devices, generators, heat exchangers, ionization chambers and buckys.

A significant portion of our revenues come from the sales of high-end X-ray tubes used in CT imaging and high-end dynamic digital detectors used in fluoroscopic and 3D dental imaging applications. These upper-tier imaging components are characterized by increased levels of technological complexity, engineering and intellectual property that typically allow these products to have a higher sales price and gross margin.

The digital detector market continues to mature from initial product introductions that were made approximately 15 years ago. For the past few years, we have experienced price erosion for these products, predominantly in the highly-competitive market for radiographic detectors. We anticipate this trend will continue in the foreseeable future.

Our X-ray imaging components are primarily sold to OEM customers that incorporate our products into their X-ray imaging systems for a variety of medical modalities and industrial applications. To a much lesser extent, we also sell our X-ray imaging components to independent service companies, distributors and directly to end-users for replacement purposes.

In China, the government is broadening the availability of healthcare services throughout the country. As a result, the number of diagnostic X-ray imaging systems, including CT, has grown significantly. We are developing CT tubes and related subsystems for Chinese OEMs as they introduce new CT imaging systems in China. The trade conflicts between the United States and China have negatively impacted our detector business in China and are expected to continue. Nonetheless, we anticipate that China-based revenues will continue to increase as a percentage of our revenues.

Industrial

In our Industrial business segment, we design, manufacture, sell and service products for use in security applications, such as cargo screening at ports and borders and at airports and industrial nondestructive inspection examination in a variety of applications. The products include Linatron® X-ray linear accelerators, X-ray tubes, digital detectors, high voltage connectors, image-processing software and image detection products that we generally sell to OEM customers that incorporate these products into their imaging systems.

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.

The non-destructive testing market utilizes X-ray imaging to scan items for inspection of manufacturing defects and product integrity in a wide range of industries including the aerospace, automotive, oil and gas, food packaging, metal castings and 3D printing industries. We provide X-ray sources, digital detectors, high voltage connectors and image processing software to OEM customers, system integrators and manufacturers. In addition, new applications for X-ray sources are being developed, such as sterilization of food and its packaging.

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 September 28, 2018 filed with the SEC on November 27, 2018 and Note 3 "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 revenue recognition, impairment of investments, assessment of recoverability of goodwill and intangible assets, valuation of derivative instruments, valuation of warranty obligations, 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 material 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 September 28, 2018, except for the adoption of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASC 606") effective September 29, 2018. The change to revenues in the first quarter of fiscal year 2019 due to the adoption of ASC 606 was not material and we do not expect that the adoption of ASC 606 will have a material impact on our consolidated financial statements for fiscal year 2019.

Fiscal Year

Our fiscal year is a 52 or 53-week period ending on the Friday nearest September 30. Fiscal year 2019 is the 52-week period ending September 27, 2019. Fiscal year 2018 was a 52-week period that ended on September 28, 2018. The fiscal quarters ended March 29, 2019 and March 30, 2018 were both 13-week periods.

Discussion of Results of Operations for the Three Months Ended March 29, 2019 Compared to the Three Months Ended March 30, 2018

Revenues

	Three Months Ended			
(In millions)	**March 29, 2019**	**March 30, 2018**	**$ Change**	**% Change**
Medical	$ 148.9	$ 158.5	$ (9.6)	(6.1)%
Industrial	46.9	42.7	4.2	9.8 %
Total revenues	$ 195.8	$ 201.2	$ (5.4)	(2.7)%
Medical as a percentage of total revenues	*76%*	*79%*		
Industrial as a percentage of total revenues	*24%*	*21%*		

Medical revenues decreased by $9.6 million primarily due to decreased sales of radiographic and dental detectors and aftermarket X-ray tubes.

Industrial revenues increased $4.2 million primarily due to increased sales of X-ray tubes for airport security, digital detectors and linear accelerators for non-destructive testing applications.

Gross Margin

	Three Months Ended			
(In millions)	**March 29, 2019**	**March 30, 2018**	**$ Change**	**% Change**
Medical	$ 46.1	$ 53.5	$ (7.4)	(13.8)%
Industrial	18.3	16.6	1.7	10.2 %
Total gross margin	$ 64.4	$ 70.1	$ (5.7)	(8.1)%
Medical gross margin %	*31.0%*	*33.8%*		
Industrial gross margin %	*39.0%*	*38.9%*		
Total gross margin %	*32.9%*	*34.8%*		

The decrease in total gross margin percentage was primarily due to the decrease in medical gross margin percentage. The decrease in medical gross margin percentage was due to higher costs of quality, primarily in our detector business, plus increased freight and tariff costs. The industrial gross margin percentage was basically flat as compared to the prior period.

Operating Expenses

(In millions)	Three Months Ended March 29, 2019	Three Months Ended March 30, 2018	$ Change	% Change
Research and development	$ 18.8	$ 22.0	$ (3.2)	(14.5)%
As a percentage of total revenues	*9.6%*	*10.9%*		
Selling, general and administrative	$ 31.1	$ 30.9	$ 0.2	0.6 %
As a percentage of total revenues	*15.9%*	*15.4%*		
Operating expenses	$ 49.9	$ 52.9	$ (3.0)	(5.7)%
As a percentage of total revenues	*25.5%*	*26.3%*		

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 for the second quarter of 2019 decreased to 9.6% of revenues, primarily due to less prototype material costs.

Selling, General and Administrative

Selling, general and administrative expenses for the second quarter of 2019 were 15.9% of revenues as compared to 15.4% of revenues for the second quarter of 2018. Selling, general and administrative expenses for the second quarter of 2019 included approximately $4.9 million of certain expenses for litigation, restructuring and impairment.

Interest and Other Expense, Net

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

(In millions)	Three Months Ended March 29, 2019	Three Months Ended March 30, 2018	$ Change
Interest income	$ 0.1	$ —	$ 0.1
Interest expense	(5.5)	(5.6)	0.1
Other	(1.3)	4.1	(5.4)
Interest and other expense, net	$ (6.7)	$ (1.5)	$ (5.2)

Interest and other expense, net increased, primarily due to a decrease in our income from equity method investments compared to the three months ended March 30, 2018.

Taxes on Earnings

	Three Months Ended March 29, 2019	Three Months Ended March 30, 2018
Estimated effective tax rate	24.4%	21.7%

We recognized an income tax expense of $1.9 million and $3.4 million for the three months ended March 29, 2019 and March 30, 2018, respectively, for effective rates of 24.4% and 21.7%, respectively.

Our effective tax rate for the three months ended March 29, 2019, increased primarily due to slightly greater losses in certain jurisdictions for which no benefit can be recorded due to full valuation allowance positions. U.S. Tax Reform significantly revised the U.S. corporate income tax structure. Among the revisions impacting our effective tax rate are a lower U.S. corporate statutory rate. As a September fiscal year filer, the lower corporate income tax rate is phased in from a U.S. statutory federal rate of 24.5% in fiscal year ending September 28, 2018 to a rate of 21% for the fiscal year ending September 27, 2019. U.S. GAAP requires the impact of tax legislation to be recognized in the period in which the law is enacted. The lower U.S. statutory rate has been included in the estimated annual effective rate used to calculate the year-to-date income tax benefit as of the end of the quarter. The repeal of the deduction for domestic production applies for the fiscal year beginning September 29, 2018, and so no benefit of such deduction has been included in the calculation of the estimated annual effective rate.

The changes included in U.S. Tax Reform are broad, complex, and subject to interpretation. In response to U.S. Tax Reform, the SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") that allows for reasonable estimated amounts to be recorded and a measurement period of up to one year from the date of enactment to revise these provisional amounts as new information is obtained and additional guidance is issued. During the three months ended December 28, 2018, we completed our analysis of U.S. Tax Reform, and the accounting for the income tax effects has been finalized for the measurement period under SAB 118, with no significant adjustments from the provisional amounts. Other U.S. Tax Reform provisions, including GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax), FDII (foreign-derived intangible income), limitations on interest expense deductions (if certain conditions apply), and other components also have finalized and became effective during the current quarter, and have been included in the calculation of our estimated annual effective rate. The determination of the tax effects of U.S. Tax Reform may change following future legislation or further interpretation of U.S. Tax Reform, based on the publication of recently proposed U.S. Treasury regulations and guidance from the Internal Revenue Service and state tax authorities.

The guidance for accounting for U.S. Tax Reform requires taxpayers to make an election regarding the accounting for GILTI. This policy election is to either: (1) treat GILTI as a period cost if and when incurred, or (2) recognize deferred taxes for basis differences that are expected to reverse as GILTI in future years. During the first quarter of fiscal year 2019, we have made the accounting policy election to account for GILTI under the period cost method.

As a result of the changes to the U.S. taxation of foreign earnings included in U.S. Tax Reform, we reevaluated our previous indefinite reinvestment assertion with respect to these earnings during fiscal year 2018, which resulted in us revoking our assertion for current and future earnings for all countries, while maintaining the assertion that historic earnings are indefinitely reinvested outside the U.S. We are maintaining this prior assertion for the quarter ended March 29, 2019. 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 actually repatriated in the form of a dividend. In accordance with the measurement period under SAB 118, our indefinite reinvestment assertion is now finalized and is no longer provisional.

Discussion of Results of Operations for the Six Months Ended March 29, 2019 Compared to the Six Months Ended March 30, 2018

Revenues

	Six Months Ended			
(In millions)	**March 29, 2019**	**March 30, 2018**	**$ Change**	**% Change**
Medical	$ 292.8	$ 297.7	$ (4.9)	(1.6)%
Industrial	88.7	79.7	9.0	11.3 %
Total revenues	$ 381.5	$ 377.4	$ 4.1	1.1 %
Medical as a percentage of total revenues	*77%*	*79%*		
Industrial as a percentage of total revenues	*23%*	*21%*		

Medical revenues decreased by $4.9 million primarily due to decreased sales of radiographic detectors and aftermarket X-ray tubes, partially offset by increased sales of digital detectors for oncology applications.

Industrial revenues increased $9.0 million due to increased sales of X-ray tubes for airport security and linear accelerators, for both security and inspection applications.

Gross Margin

(In millions)	Six Months Ended March 29, 2019	March 30, 2018	$ Change	% Change
Medical	$ 91.2	$ 99.9	$ (8.7)	(8.7)%
Industrial	33.2	31.7	1.5	4.7 %
Total gross margin	$ 124.4	$ 131.6	$ (7.2)	(5.5)%
Medical gross margin %	*31.1%*	*33.6%*		
Industrial gross margin %	*37.4%*	*39.8%*		
Total gross margin %	*32.6%*	*34.9%*		

The decrease in total gross margin percentage was primarily due to restructuring charges related to discontinuation of the amorphous silicon glass fabrication at the Santa Clara facility and higher quality costs. The decrease in medical gross margin percentage was due to the restructuring charges and higher quality costs, which were partially offset by margin improvements from a favorable product mix of high-end digital detectors. The industrial gross margin percentage decreased primarily due to higher manufacturing costs.

Operating Expenses

(In millions)	Six Months Ended March 29, 2019	March 30, 2018	$ Change	% Change
Research and development	$ 37.6	$ 41.8	$ (4.2)	(10.0)%
As a percentage of total revenues	*9.9%*	*11.1%*		
Selling, general and administrative	$ 61.9	$ 59.1	$ 2.8	4.7 %
As a percentage of total revenues	*16.2%*	*15.7%*		
Operating expenses	$ 99.5	$ 100.9	$ (1.4)	(1.4)%
As a percentage of total revenues	*26.1%*	*26.7%*		

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 10% of revenues due to less prototype material costs for the six months ended March 29, 2019.

Selling, General and Administrative

Selling, general and administrative expenses for the six months ended March 29, 2019, were 16.2% as compared to 15.7% for the six months ended March 30, 2018. Selling, general and administrative expenses increased as a percentage of total revenues primarily due to certain expenses relating to restructuring, impairment and professional service fees for accounting and legal.

Interest and Other Income (Expense), Net

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

(In millions)	Six Months Ended March 29, 2019	March 30, 2018	$ Change
Interest income	$ 0.1	$ 0.1	$ —
Interest expense	(10.6)	(11.1)	0.5
Other	(2.5)	3.1	(5.6)
Interest and other income (expense), net	$ (13.0)	$ (7.9)	$ (5.1)

Interest and other expense, net increased, primarily due to a decrease in our income from equity method investments compared to the six months ended March 30, 2018.

Taxes on Earnings

	Six Months Ended	
	March 29, 2019	**March 30, 2018**
Estimated effective tax rate	25.2%	(4.8)%

We recognized an income tax expense of $3.0 million and a benefit of $1.1 million for the six months ended March 29, 2019 and March 30, 2018, respectively, for effective rates of 25.2% and (4.8)%, respectively.

Our year-to-date effective tax rate increased as a result of one-time benefits booked in the first quarter of fiscal year 2018, the period of enactment of the Tax Cuts and Jobs Act of 2017 ("U.S. Tax Reform"). U.S. Tax Reform significantly revised the U.S. corporate income tax structure. Among the revisions impacting our effective tax rate are a lower U.S. corporate statutory rate. As a September fiscal year filer, the lower corporate income tax rate is phased in from a U.S. statutory federal rate of 24.5% in fiscal year ending September 28, 2018 to a rate of 21% for the fiscal year ending September 27, 2019. U.S. GAAP requires the impact of tax legislation to be recognized in the period in which the law is enacted. The lower U.S. statutory rate has been included in the estimated annual effective rate used to calculate the year-to-date income tax benefit as of the end of the quarter. The repeal of the deduction for domestic production applies for the fiscal year beginning September 29, 2018, and so no benefit of such deduction has been included in the calculation of the estimated annual effective rate.

The changes included in U.S. Tax Reform are broad, complex, and subject to interpretation. In response to U.S. Tax Reform, the SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") that allows for reasonable estimated amounts to be recorded and a measurement period of up to one year from the date of enactment to revise these provisional amounts as new information is obtained and additional guidance is issued. During the three months ended December 28, 2018, we completed our analysis of U.S. Tax Reform, and the accounting for the income tax effects has been finalized for the measurement period under SAB 118, with no significant adjustments from the provisional amounts. Other U.S. Tax Reform provisions, including GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax), FDII (foreign-derived intangible income), limitations on interest expense deductions (if certain conditions apply), and other components also have finalized and became effective during the current quarter, and have been included in the calculation of our estimated annual effective rate. The determination of the tax effects of U.S. Tax Reform may change following future legislation or further interpretation of U.S. Tax Reform, based on the publication of recently proposed U.S. Treasury regulations and guidance from the Internal Revenue Service and state tax authorities.

The guidance for accounting for U.S. Tax Reform requires taxpayers to make an election regarding the accounting for GILTI. This policy election is to either: (1) treat GILTI as a period cost if and when incurred, or (2) recognize deferred taxes for basis differences that are expected to reverse as GILTI in future years. During the first quarter of fiscal year 2019, we have made the accounting policy election to account for GILTI under the period cost method.

As a result of the changes to the U.S. taxation of foreign earnings included in U.S. Tax Reform, we reevaluated our previous indefinite reinvestment assertion with respect to these earnings during fiscal year 2018, which resulted in us revoking our assertion for current and future earnings for all countries, while maintaining the assertion that historic earnings are indefinitely reinvested outside the U.S. We are maintaining this prior assertion for the quarter ended March 29, 2019. 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 actually repatriated in the form of a dividend. In accordance with the measurement period under SAB 118, our indefinite reinvestment assertion is now finalized and is no longer provisional.

Liquidity and Capital Resources

We assess our liquidity in terms of our ability to generate cash to fund our operating and investing activities. We continue to generate substantial cash from operating activities and believe that our operating cash flow, credit facility, and other sources of liquidity 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. Availability under our credit facility was $150.0 million as of March 29, 2019.

Cash and Cash Equivalents

The following table summarizes our cash and cash equivalents:

(In millions)	March 29, 2019	September 28, 2018	$ Change
Cash and cash equivalents	$ 31.0	$ 51.9	$ (20.9)

Borrowings

The following table summarizes the changes in our debt outstanding:

(In millions)	March 29, 2019	September 28, 2018	$ Change
Current portion of Term Facility	$ 29.4	$ 25.0	$ 4.4
Revolving Credit Facility	—	28.0	(28.0)
Long-Term portion of Term Facility	323.6	345.0	(21.4)
Total debt outstanding, gross	353.0	398.0	(45.0)
Debt issuance costs	(6.9)	(8.2)	1.3
Total debt outstanding, net	$ 346.1	$ 389.8	$ (43.7)

Cash Flows

	Six Months Ended	
(In millions)	March 29, 2019	March 30, 2018
Net cash flow provided by (used in):		
Operating activities	$ 32.9	$ 45.5
Investing activities	(7.6)	(6.9)
Financing activities	(45.6)	(66.7)
Effects of exchange rate changes on cash and cash equivalents	(0.6)	0.2
Net increase in cash and cash equivalents	$ (20.9)	$ (27.9)

Net Cash Provided by Operating Activities. Cash from operating activities consists primarily of net earnings 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 six months ended March 29, 2019, compared to the six months ended March 30, 2018, cash provided by operating activities were as follows:

- Net earnings were $8.9 million compared to $23.9 million
- Non-cash adjustments to net earnings of $27.5 million compared to $10.5 million
- Operating assets and liabilities activity:
  - Accounts receivable decreased to $29.4 million from $34.4 million.
  - Inventories increased to $26.4 million from $11.0 million.
  - Prepaid expenses and other assets increased to $2.5 million from 1.3 million
  - Accrued liabilities and other long-term liabilities decreased by $4.4 million compared to an increase of $6.0 million

Net Cash Used in Investing Activities. Net cash used in investing activities was $7.6 million and $6.9 million for the six months ended March 29, 2019 and March 30, 2018, respectively, and related to capital expenditures for property plant and equipment for both periods.

Net Cash Used in Financing Activities. Financing activities for the six months ended March 29, 2019 consisted of borrowings under our credit agreement of $7.0 million, and repayments of borrowings of $52.0 million. Financing activities for the six months ended March 30, 2018 consisted of borrowings under our credit agreement of $10.0 million, and repayments of borrowings of $78.0 million.

Days Sales Outstanding

Trade accounts receivable days sales outstanding ("DSO") was 57 days at March 29, 2019 and 58 days September 28, 2018. 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 2019, the fixed cost commitment was determined and approved by the dpiX board of directors to be $14.7 million for calendar year 2019. As of March 29, 2019, the Company had $11.0 million remaining fixed cost commitments related to this agreement remaining for calendar year 2019. The amended agreement will continue unless the ownership structure of dpiX changes (as defined in the amended agreement).

In October 2015, we committed to grant the noncontrolling shareholders of MeVis: (1) an annual recurring net compensation of €0.95 per MeVis share; and (2) a put right for their MeVis shares at €19.77 per MeVis share. As of March 29, 2019, noncontrolling shareholders together held approximately 0.5 million shares of MeVis, representing 26.3% of the outstanding shares. See Note 8, "Redeemable Noncontrolling Interests" of the notes to the condensed consolidated financial statements for more information.

Contingencies

From time to time, we are a party to or otherwise involved in legal proceedings, claims and government inspections or investigations and other legal matters both inside and outside the United States, arising in the ordinary course of our business or otherwise. Such matters are subject to many uncertainties and outcomes are not predictable with assurance.

Off-Balance Sheet Arrangements

In conjunction with the sale of our products in the ordinary course of business, 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 March 29, 2019, 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 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. There is no maximum limit on the indemnification that may be required under these obligations. As of March 29, 2019, we have not incurred any material costs related to these indemnification obligations. As a result, we believe the estimated fair value of these obligations is minimal.

Recent Accounting Standards or Updates Not Yet Effective

See Note 1, "Summary of Significant Accounting Policies" of the notes to the 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.

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 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. 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.

Credit and Counterparty Risk

We use a centralized approach to manage substantially all 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 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 industrial customers to provide a down payment.

Interest Rate Risk

At March 29, 2019, we had borrowings of $346.1 million. Borrowings under our credit facilities bear interest at floating interest rates. As a result, we are exposed to fluctuations in interest rates to the extent of our borrowings under the credit facilities. As part of our overall risk management program, we entered into several interest rate swaps designed as cash flow hedges, to hedge the floating LIBOR components of our interest rate which represented a notional value of $270.0 million of our debt as of March 29, 2019. See Note 3, "Financial Derivatives and Hedging Activities" for further information on hedging activities.

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 March 29, 2019, 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 March 29, 2019 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 are described below.

Description of Material Weaknesses

We have identified the following control deficiencies that constituted material weaknesses in our internal control over financial reporting as of March 29, 2019:

- As a result of our risk assessment processes being inadequate to identify and assess the risks in our information technology environment and business processes, we did not appropriately design controls in response to the risks of material misstatement. Specifically, we did not adequately identify new and evolving risks of material misstatement, and design and implement controls to address those risks as a result of changes to our business operating environment including becoming an independent publicly traded company. Although this deficiency did not result in a material misstatement to our consolidated financial statements, until remediated, it could result in material misstatements potentially impacting all financial statement accounts and disclosures in our annual or interim consolidated financial statements that would not be prevented or detected. This material weakness contributed to the following control deficiencies, which are also considered to be material weaknesses:

- We did not design and maintain effective controls over certain information technology general controls (ITGCs) for information systems that are relevant to the preparation of our financial statements. Specifically, we did not design and maintain:
  - User access controls that adequately restrict user and privileged access to certain financial applications, programs, and data to appropriate Company personnel, and
  - Program change management controls for certain financial systems to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately.

These IT deficiencies did not result in a material misstatement to the consolidated financial statements, however, until remediated, the deficiencies, when aggregated, could impact the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in material misstatements potentially impacting all financial statement accounts and disclosures in our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined these deficiencies in the aggregate constitute a material weakness.

We have also determined that as a result of our inadequate risk assessment processes, other business process controls were not operating effectively. Specifically, we identified the following areas of control deficiencies which independently resulted in material weaknesses in our internal control over financial reporting:

- We did not design and maintain effective controls related to accounting for revenue, deferred revenue and related accounts receivable, including maintaining effective business process controls to prevent or detect misstatements in the processing of customer transactions. Specifically, we did not design and maintain effective controls related to the review of the completeness and accuracy of customer order entry, quantity and pricing. Additionally we did not design and maintain effective controls for the effect of the adoption of Revenue from Contracts with Customers ("ASC 606") to prevent and detect misstatements. Specifically, we did not design and maintain effective controls related to the accuracy of recording the effect of the adoption of ASC 606.

- We did not design and maintain effective controls related to accounting for inventory and cost of revenues, including maintaining effective business process controls to prevent or detect misstatements in the accuracy and valuation of inventory. Specifically, we did not maintain effective controls related to certain cycle count programs, the valuation of inventory at lower of cost or market, and presentation and disclosure of inventory classifications.

- We did not design and maintain effective controls related to accounting for our operations in Germany, including maintaining effective business process controls and appropriate segregation of duties to prevent or detect misstatements in the financial information of our German operations. Specifically, we did not maintain effective controls related to the authorization of transactions and journal entries, and the cutoff, completeness and accuracy of transactions in the German operations.

- We did not design and maintain effective controls in our financial reporting close process to prevent or detect misstatements in the translation of foreign currency denominated account balances to US dollars and the reporting of certain footnote information. Specifically, we did not maintain effective controls related to the accuracy of the translation of foreign currency denominated transactions to US dollars, and the reporting of segment footnote disclosures.

These deficiencies in the areas of revenue, inventory, German operations and the financial reporting close process resulted in immaterial audit adjustments to the consolidated financial statements as of and for the year ended September 28, 2018 and to the recording of out of period adjustments as of and for the three and six months ended March 29, 2019, as disclosed in note 1 to the Company's condensed consolidated interim financial statements, however, until remediated, these deficiencies could result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined these deficiencies constitute material weaknesses.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended September 28, 2018, we began implementing a remediation plan to address the material weaknesses mentioned above. The material weaknesses 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. For example, in this fiscal year we initiated litigation asserting claims of patent infringement against a third party. 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

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.

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 six months ended March 29, 2019, that accounted for 18% of its revenue. Varex's ten largest customers as a group accounted for approximately 54% and 53% of its revenue for the three months ended March 29, 2019 and March 30, 2018, respectively. Varex's ten largest customers as a group accounted for approximately 53% and 51% of its revenue for the six months ended March 29, 2019 and March 30, 2018, 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, 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. 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. In addition, 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.

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, including Varex's customers. 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, 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. 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. 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, in order for Varex to effectively retain the business of its customers and compete with its competitors, it 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. In addition, some of Varex's competitors outside the United States may have resources and support from their governments that Varex cannot replicate, 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.

Existing competitors' actions and new entrants may materially and adversely affect Varex's ability to compete. These 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, a marketing advantage over Varex's products. Also, some of Varex'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. In addition, some of its smaller competitors could be acquired by larger companies that have greater financial strength, which could enable them to compete more aggressively. Varex's competitors could also acquire some of its customers, suppliers or distributors, which could disrupt supply or distribution arrangements, result in a loss of customers, and lead to less predictable and reduced revenues. 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.

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

The United States has recently implemented new tariffs on imported steel, aluminum and many other items. Tariffs on items imported by us from China and other countries have increased our costs and could result in increased prices or lower gross margins on some of our products sold. These tariffs have already had a direct adverse impact on our business and results of operations, and future tariffs could have a more significant impact on our business in the future. Retaliatory tariffs implemented by China 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, or in some cases, has caused customers to look elsewhere for products. 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. 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.

In addition, 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.

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. In order 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.

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 needs to 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. For example, in April 2019, we acquired Direct Conversion AB (publ), in May 2017, we acquired the medical imaging business of PerkinElmer, Inc., and during fiscal year 2015, Varex acquired Claymount Investments B.V. and MeVis Medical Solutions AG.

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 its major supplier of its amorphous silicon-based thin film transistor arrays (flat panels) used in its digital detectors, dpiX LLC) 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.

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 $21.57 to a high of $39.39. 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;
- 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, as well as ongoing costs associated with legal proceedings; 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.

Our secured revolving credit facility and secured term loan credit facility restrict certain activities, and failure to comply with the terms of these facilities may have an adverse effect on our business, liquidity and financial position.

Varex is party to a secured revolving credit facility and a secured term loan credit facility, each of which contains restrictive financial covenants, including financial covenants that require Varex to comply with specified financial ratios. Varex may have to curtail some of its operations to comply with these covenants. In addition, its credit facilities contain other affirmative and negative covenants that could restrict its operating and financing activities. These provisions limit its 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. If Varex fails to comply with the credit facility requirements, it may be in default. Upon an event of default, if the credit facility documents are 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.

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

As of March 29, 2019, Varex's total combined indebtedness was approximately $346.1 million (net of deferred loan costs). The borrowings under Varex's credit facilities bear interest at floating interest rates. As part of its overall risk management practices, Varex entered into financial derivatives, particularly interest rate swaps designed as cash flow hedges, to hedge the floating LIBOR interest rate on $270.0 million of its debt. As a result, Varex will be exposed to fluctuations in interest rates to the extent of the balance of its borrowings under the LIBOR-based portion of its credit facilities.

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

- requiring that a portion of Varex's cash flow from operations be used to make principal and interest payments on this debt, which would reduce cash flow available for other corporate purposes;
- increasing Varex's vulnerability to shifts in interest rates and to general adverse economic and industry conditions;

- 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.

In addition, Varex's actual cash requirements in the future may be greater than expected. Varex's 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.

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, and natural or other disasters. Loss or damage to this 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 Walluf, Germany; Heerlen and Dinxperlo, 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 manufactures its security products in Las Vegas, Nevada, and certain flat panels in Santa Clara, California, 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.

Significantly 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 63%and 66% of Varex's total revenues during the three months ended March 29, 2019 and March 30, 2018, respectively Varex conducts business globally. Revenues generated from customers located outside the United States accounted for approximately 63%and 65% of Varex's total revenues during the six months ended March 29, 2019 and March 30, 2018, 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;
- 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
- that it may be more difficult to protect 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. For example, recent trade disputes as well as tariffs enacted by China and the United States have had a negative effect on Varex's business and will likely continue to negatively impact our business.

A change in the percentage of Varex's total earnings from international sales or continued 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 the countries in which its international subsidiaries do business. 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 or decrease. The Tax Cuts and Jobs Act of 2017 ("U.S. Tax Reform") was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a Federal corporate rate reduction from 35% to 21%, limitations on the deductibility of interest expense and executive compensation, and extensive changes to the way foreign earnings are taxed in the U.S.

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'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 and the pending withdrawal of the United Kingdom from the European Union ("EU") 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 such time as 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. While Varex entered into a Supply Agreement for this component, there can be no assurance that this component will continue to be available 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, Varex may be required to obtain and qualify one or more replacement suppliers. Such an event (i) 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 (ii) 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 limited- or sole-source suppliers or other inability of these suppliers to meet increasing demand 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.

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 upon 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.

Fulfilling obligations incidental to being a public company, including with respect to the requirements of and related rules under the Sarbanes-Oxley Act of 2002, will 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. In addition, 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, expose it to lawsuits and restrict its ability to access financing.

Varex recently transitioned from an "emerging growth company" to a "large accelerated filer." As a large accelerated filer, the Sarbanes-Oxley Act requires that Varex, 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, in preparation for its first full year of Sarbanes-Oxley Act compliance, Varex 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.

Varex identified material weaknesses in its internal control related to ineffective information technology general and business processes controls which, if not remediated appropriately or timely, could result in loss of investor confidence and adversely impact our stock price.

During Varex's 2018 fiscal year end financial reporting process, management determined that Varex did not appropriately design controls in response to the risk of material misstatements. As a result, management identified material weaknesses related to ineffective information technology general controls ("ITGCs") in the areas of user access and program change-management over certain information technology ("IT") systems that support the Company's financial reporting processes. Management also identified business process control deficiencies which independently, as well as when combined with the material weaknesses in ITGCs, resulted in material weakness in the areas of customer order entry and pricing, implementation of ASC 606, cycle count programs, capitalization of manufacturing variances, our German operations and the financial close process. As a result, management concluded that Varex's internal control over financial reporting was not effective as of September 28, 2018. These material weaknesses and deficiencies did not result in a material misstatement to the consolidated financial statements; however, until remediated, these material weaknesses and deficiencies 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. 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, negatively affect investor confidence in our financial statements and adversely impact our stock price.

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.

Most of Varex's products are non-classified or Class I devices, with a small number of software products designated as Class II devices. 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 U.S. Food and Drug Administration ("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 that 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. In addition, 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 process of gaining approval 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 have to be approved by the Chinese FDA or province-specific authorities. Registration requirements are subject to change, and Varex may not be able to receive registration approval or renewal of existing registrations if Varex 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.

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, such as what may occur in connection with Brexit, may add additional complexity, cost and delays in marketing or selling Varex's products. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations and, given the lack of comparable precedent, it is unclear what financial, regulatory and legal implications the withdrawal of the United Kingdom from the EU would have and how such withdrawal would affect Varex.

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. EU Medical Device Regulations, which will enter into force in 2020, replaced Medical Device Directive 93/42/EEC and Active Implantable Medical Device 90/385/EEC, and will enter into force in 2022. These new regulations impose stricter requirements for placing medical devices in the EU market, as well as for Notified Bodies. 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.

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. Transparency International's 2017 Corruption Perceptions Index measured the degree to which public sector corruption is perceived to exist in 180 countries/territories around the world and found that two-thirds of the countries in the index, including many that Varex considers to be high-growth areas for Varex's products, such as China and India, scored below 50 on a scale from 100 (very clean) to 0 (highly corrupt). Varex operates in many countries 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. Becoming familiar with and implementing the infrastructure necessary to comply with laws, rules, and regulations applicable to new business activities and mitigating and protecting against corruption risks could be quite costly. In addition, 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 inevitably 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 in which it operates. Regulatory authorities under whose laws Varex operates may have enforcement powers that can subject Varex to sanctions and can impose changes or conditions in the way Varex conducts its business. In addition, an increasing number of jurisdictions also provide private rights of action for competitors or consumers to seek damages asserting claims of anti-competitive conduct. Increased government scrutiny of Varex's actions or enforcement or private rights of action could materially and adversely affect its business or damage its reputation. In addition, Varex may conduct, or it 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. Generally, Varex does not sell its products directly to healthcare providers, although occasionally it may 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.

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 could significantly impair Varex's liquidity and profitability, as well as 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.

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 needs to 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.

Additionally, Varex's manufacturing is primarily conducted at its Salt Lake City, Utah; Las Vegas, Nevada; and Calamba City, Philippines facilities. If any of these facilities experiences a disruption, Varex would have no other means of manufacturing the components manufactured at each respective facility until Varex is able to restore the capability at its current facilities or develop the same capability at an alternative facility.

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.

In addition, 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. Furthermore, 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, and therefore the price of Varex's common stock.

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 in order 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.

In addition, 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.

Protecting Varex's intellectual property can be costly, and Varex may not be able to maintain its rights, and, in either case, its competitive position would be harmed if Varex is not able to do so.

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 the current fiscal year, 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, and its trade secrets may otherwise 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 third parties may still use them. Varex also has agreements with third parties that license to Varex certain patented or proprietary technologies. 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.

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 upon a third party's intellectual property rights involves complex legal and factual issues, and the outcome of this type of litigation is often uncertain. Third 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 third parties asserting infringement, and Varex has been subject to lawsuits alleging infringement of third-party 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. If actual liabilities significantly exceed its estimates regarding potential liabilities, 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. As such, 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.

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 injury and/or death exists to the intended or unintended recipient of such delivery. In addition, 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. Examples of these factors include 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 significant 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. If a product liability action were ultimately determined against Varex, it 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) or found to be so by a competent regulatory authority, Varex may be required to correct or recall the product and notify other regulatory authorities. The adverse publicity resulting from a correction or recall, however imposed, 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 under GAAP.

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, or for which insurance coverage is denied or limited, Varex could have to pay substantial damages, which could have a material and adverse effect on its financial position and/or results of operations.

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 Varex's 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 license. Obtaining licenses and certifications may be time consuming, expensive, and uncertain.

In addition, Varex is subject to a variety of environmental laws regulating its manufacturing operations and the handling, storage, transport, and disposal of hazardous substances, which impose liability for the cleanup of any contamination from these substances. In particular, 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, the substantial majority of which are Class I devices. A small portion of Varex's products, however, is 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.

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 our business, we collect, process and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, third parties accessing our website, patient data and personally identifiable information of our customers and employees, in our data centers, and on our networks, as well as third party off-site infrastructure. Despite our 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.

Moreover, 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.

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 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 is 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 or treble 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.

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.

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

Varex prepares its financial statements to conform to 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. A change in interpretations of, or its application of, these 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 and make it more difficult to compare its financial results to prior periods.

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 its 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.

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.

Certain provisions in Varex's Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws, 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: (i) prior to such time, the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced; or (iii) on or subsequent to such time the business combination is approved by the board of directors of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder.

Varex believes these provisions will protect its stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with Varex's board of directors and by providing Varex's board of directors with more time to assess any acquisition proposal. 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.

In addition, an acquisition or further issuance of Varex's stock could trigger the application of Section 355(e) of the Internal Revenue Code of 1986, causing the distribution to be taxable to Varian. Under the Tax Matters Agreement, entered into by Varex and Varian in connection with the separation, Varex would be required to indemnify Varian for the resulting tax, and this indemnity obligation might discourage, delay, or prevent a change of control that Varex stockholders may consider favorable.

Prior to its separation from Varian, Varex had no history of operating as an independent company, and its historical results as a part of Varian are not necessarily representative of the results that it would have achieved as a separate, publicly-traded company and may not be a reliable indicator of its future results.

Some of the information about Varex in its Annual Report on Form 10-K for the fiscal year ended 2018 refers to Varex's business as operated by and integrated with Varian. Varex's historical financial information prior to January 28, 2017 included in its Annual Report on Form 10-K for the fiscal year ended 2018 is derived from the consolidated financial statements and accounting records of Varian. Accordingly, this historical financial information does not necessarily reflect the financial condition, results of

operations, or cash flows that Varex would have achieved as a separate, publicly-traded company during the periods presented or that which Varex will achieve in the future, primarily as a result of the factors described below:

- Prior to the separation, Varex's business was operated by Varian as part of its broader corporate organization, rather than as an independent company. Varian or one of its affiliates performed various corporate functions for Varex such as accounting, legal, human resources, information technology, treasury, tax, facilities, research and development, insurance, and other corporate and infrastructure services. Varex's historical financial results reflect allocations of corporate expenses from Varian for such functions and are likely to be less than the expenses Varex would have incurred had it operated as a separate publicly-traded company. Following the separation, Varex's costs related to such functions previously performed by Varian may therefore increase.
- Prior to the separation, Varex's business was integrated with the other businesses of Varian. Historically, Varex has shared economies of scope and scale in costs, employees, vendor relationships, and customer relationships. Although Varex entered into a Transition Services Agreement with Varian, the arrangements provided by such agreement may not fully capture the benefits that Varex enjoyed when integrated with Varian and may result in Varex paying higher charges than in the past for these services. This could have a material and adverse effect on Varex's results of operations and financial condition.
- Generally, Varex's working capital requirements and capital for its general corporate purposes, including acquisitions and capital expenditures, have historically been satisfied as part of the corporate-wide cash management policies of Varian. Following the separation, Varex may need to obtain additional financing from banks, through public offerings or private placements of debt or equity securities, strategic relationships or other arrangements, which may or may not be available and may be more costly.
- The cost of capital for Varex's business is expected to be higher than Varian's cost of capital prior to the separation.

Other significant changes have occurred and are likely to continue to occur in Varex's cost structure, management, financing, and business operations as a result of operating as a company separate from Varian, including as a result of additional costs incurred by Varex as a result of the separation.

Potential indemnification liabilities to 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 separated from Varian. The agreement provides for, among other things, indemnification obligations designed to make Varex financially responsible for: any Varex liabilities; the failure of Varex to pay, perform, or otherwise promptly discharge any Varex liabilities or contracts in accordance with their respective terms; any guarantee, indemnification obligation, surety bond or other credit support agreement, arrangement, commitment, or understanding by Varian for the benefit of Varex, unless related to Varian liabilities; any breach by Varex of the Separation and Distribution Agreement or any of the ancillary agreements; any action by Varex in contravention of its Amended and Restated Certificate of Incorporation or Amended and Restated Bylaws; and, any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the Registration Statement on Form 10 (as amended or supplemented) or any other disclosure document that describes the separation, the distribution, Varex and its subsidiaries, or the transactions contemplated by the Separation and Distribution Agreement, subject to certain exceptions. If Varex is required to indemnify Varian under the circumstances set forth in the Separation and Distribution Agreement, Varex may be subject to substantial liabilities.

In connection with Varex's separation from Varian, Varian has agreed to indemnify Varex for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to insure Varex against the full amount of such liabilities or that Varian's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the Separation and Distribution Agreement and certain other agreements with Varian, Varian agreed to indemnify Varex for certain liabilities. However, third parties could also seek to hold Varex responsible for any of the liabilities that Varian retained, and there can be no assurance that the indemnity from Varian will be sufficient to protect Varex against the full amount of such liabilities or that Varian will be able to fully satisfy its indemnification obligations. In addition, Varian's insurers may attempt to deny coverage to Varex for liabilities associated with certain occurrences of indemnified liabilities prior to the separation. Moreover, even if Varex ultimately succeeds in recovering from Varian or such insurance providers any amounts for which Varex is held liable, Varex may be temporarily required to bear these losses. Each of these risks could negatively affect Varex's business, financial position, results of operations, and/or cash flows.

If the distribution, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, Varian, Varex, and Varian stockholders could be subject to significant tax liabilities, and, in certain circumstances, Varex could be required to indemnify Varian for material taxes and other related amounts pursuant to indemnification obligations under the Tax Matters Agreement.

It was a condition to the distribution that Varian receive an opinion of counsel, satisfactory to the Varian board of directors, regarding the qualification of the distribution, together with certain related transactions, as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) of the Code. The opinion of counsel was based upon and relied on, among other things, certain facts and assumptions, as well as certain representations, statements, and undertakings of Varian and Varex, including those relating to the past and future conduct of Varian and Varex. If any of these representations, statements, or undertakings are, or become, inaccurate or incomplete, or if Varian or Varex breaches any of its covenants in the separation documents, the opinion of counsel may be held to be invalid, and the conclusions reached therein could be jeopardized. Notwithstanding the opinion of counsel, the Internal Revenue Service (the "IRS") could determine that the distribution, together with certain related transactions, should be treated as a taxable transaction if it determines that any of the facts, assumptions, representations, statements, or undertakings upon which the opinion of counsel was based are false or have been violated or if it disagrees with the conclusions in the opinion of counsel. The opinion of counsel is not binding on the IRS, and there can be no assurance that the IRS will not assert a contrary position.

If the distribution, together with certain related transactions, fails to qualify as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) of the Code, Varian would recognize taxable gain as if it had sold the Varex common stock in a taxable sale for its fair market value, and Varian stockholders who received Varex shares in the distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares.

Under the Tax Matters Agreement entered into by Varian and Varex in connection with the separation, Varex is generally required to indemnify Varian for any taxes resulting from the separation (and any related costs and other damages) to the extent such amounts resulted from (i) an acquisition of all or a portion of the equity securities or assets of Varex, whether by merger or otherwise (and regardless of whether Varex participated in or otherwise facilitated the acquisition), (ii) other actions or failures to act by Varex, or (iii) should any of the representations or undertaking of Varex contained in any of the separation-related agreements or in the documents relating to the opinion of counsel be incorrect or violated. Any such indemnity obligations could be material.

Varex may not be able to engage in certain desirable strategic or capital-raising transactions following the separation.

Under current law, a spin-off can be rendered taxable to the parent corporation and its stockholders as a result of certain post-spin-off acquisitions of shares or assets of the spun-off corporation. For example, a spin-off may result in taxable gain to the parent corporation under Section 355(e) of the Code if the spin-off were later deemed to be part of a plan (or series of related transactions) pursuant to which one or more persons acquire, directly or indirectly, shares representing a 50% or greater interest (by vote or value) in the spun-off corporation. The Tax Matters Agreement prohibits Varex from taking or failing to take any other action that would prevent the distribution and certain related transactions from qualifying as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) of the Code. These restrictions may limit Varex's ability to pursue certain strategic transactions, equity issuances or repurchases, or other transactions that it may believe to be in the best interests of its stockholders or that might increase the value of its business.

As a result of the distribution, certain members of management and directors hold stock in both Varian and Varex, and as a result may face actual or potential conflicts of interest.

After the distribution, certain of the management and directors of each of Varian and Varex own both Varian common stock and Varex common stock. This ownership overlap could create, or appear to create, potential conflicts of interest when Varex management and directors and Varian's management and directors face decisions that could have different implications for Varex and Varian. For example, potential conflicts of interest could arise in connection with the resolution of any dispute between Varex and Varian regarding the terms of the agreements governing the distribution and Varex's relationship with Varian thereafter. These agreements include the Separation and Distribution Agreement, the Tax Matters Agreement, the Employee Matters Agreement, the Transition Services Agreement, the Intellectual Property Matters Agreement, the Trademark License Agreement, and one or more Supply/Distribution Agreements. Potential conflicts of interest may also arise out of any commercial arrangements that Varex or Varian may enter into in the future.

Varex may not achieve some or all of the expected benefits of the separation, and the separation may materially and adversely affect Varex's business.

Varex may not be able to achieve the full strategic and financial benefits expected to result from the separation, or such benefits may be delayed or not occur at all. The separation and distribution is expected to provide the following benefits, among others:

- more effective pursuit of each company's distinct operating priorities and strategies;
- more efficient allocation of capital for both Varian and Varex;
- direct access by Varex to the capital markets;
- facilitation of incentive compensation arrangements for employees more directly tied to the performance of the relevant company's business, and potential enhancement of employee hiring and retention by, among other things, improving the alignment of management and employee incentives with performance and growth objectives, while at the same time creating an independent equity structure that will facilitate Varex's ability to effect future acquisitions utilizing Varex common stock; and
- a distinct investment identity of Varex, allowing investors to evaluate the merits, performance, and future prospects of Varex separately from Varian.

Varex may not achieve these and other anticipated benefits for a variety of reasons, including, among others: (i) following the separation, Varex may be more susceptible to market fluctuations and other adverse events than if it were still a part of Varian; and, (ii) following the separation, Varex's business is less diversified and has less scale than Varian's business prior to the separation. If Varex fails to achieve some or all of the benefits expected to result from the separation, or if such benefits are delayed, the business, operating results, and financial condition of Varex could be materially and adversely affected.

Varex or Varian may fail to perform under various transaction agreements that have been executed as part of the separation, or Varex may fail to have necessary systems and services in place when certain of the transaction agreements expire.

In connection with the separation, Varex and Varian entered into a Separation and Distribution Agreement, as well as various other agreements, including a Transition Services Agreement, an Intellectual Property Matters Agreement, a Tax Matters Agreement, one or more Supply/Distribution Agreements, a Trademark License Agreement, and an Employee Matters Agreement. The Separation and Distribution Agreement, the Tax Matters Agreement, the Employee Matters Agreement, and the Intellectual Property Matters Agreement determine the allocation of assets and liabilities between the companies following the separation for those respective areas and include any necessary indemnifications related to liabilities and obligations. The Transition Services Agreement provides for the performance of certain services by each company for the benefit of the other for a limited period of time after the separation, and the Supply/Distribution Agreements provide for the provision of products and services by each company and for the benefit of the other. Varex will rely on Varian to satisfy its performance and payment obligations under these agreements. If Varian is unable to satisfy its obligations under these agreements, including its indemnification obligations, Varex could incur operational difficulties or losses. If Varex does not have in place its own systems and services, or if Varex does not have agreements with other providers of these services once certain transaction agreements expire, Varex may not be able to operate its business effectively, and its profitability may decline.

Potential liabilities may arise due to fraudulent transfer considerations, which could materially and adversely affect Varex's financial condition and its results of operations.

In connection with the separation and distribution, Varian has undertaken several corporate restructuring transactions, which, along with the separation and distribution, may be subject to federal and state fraudulent conveyance and transfer laws. If, under these laws, a court were to determine that, at the time of the separation and distribution, any entity involved in these restructuring transactions or the separation and distribution:

- was insolvent;
- was rendered insolvent by reason of the separation and distribution;
- had remaining assets constituting unreasonably small capital; or,
- intended to incur, or believed it would incur, debts beyond its ability to pay these debts as they matured,

then the court could void the separation and distribution, in whole or in part, as a fraudulent conveyance or transfer. The court could then require Varex's stockholders to return to Varian some or all of the shares of Varex common stock issued in the distribution or require Varian or Varex, as the case may be, to fund liabilities of the other company for the benefit of creditors. The measure of insolvency will vary depending upon the jurisdiction whose law is being applied. Generally, however, an entity would be considered

insolvent if the fair value of its assets was less than the amount of its liabilities or if it incurred debt beyond its ability to repay the debt as it matures.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Pursuant to the Share Purchase Agreement dated March 21, 2019, between the Company, Varex Imaging Investments, B.V. ("**VII**"), a wholly owned subsidiary of the Company, and certain shareholders of Direct Conversion AB (publ) ("**Direct Conversion**"), pursuant to which VII acquired 97.4% of the outstanding shares of Direct Conversion, the Company agreed to pay to the former shareholders of Direct Conversion, on the first anniversary of the closing, a payment equal to the value of 345,598 shares of the Company's common stock (subject to reduction to settle purchase price adjustments and indemnity claims). The payment is to be made in a mixture of cash and shares of Company common stock. To the extent shares of the Company's common stock are issued, the Company will rely on the exemptions from registration under Section 4(a)(2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated thereunder.

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).
10.1*	Share Purchase Agreement dated March 21, 2019 between Varex Imaging Corporation, Varex Imaging Investments, B.V. and certain shareholders of Direct Conversions AB (publ).
10.2*	Amendment No. 3 dated March 21, 2019 to Credit Agreement, dated as of May 1, 2017, with Bank of America, N.A., as administrative agent, and the other lender parties thereto.
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
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

* 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: May 8, 2019

By: /s/ CLARENCE R. VERHOEF

Clarence R. Verhoef

Senior Vice President and Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)