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 December 29, 2023

or

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

For the transition period from to

Commission File Number 001-37860

VAREX IMAGING CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

As of January 30, 2024, there were 40.6 million shares of the registrant's common stock outstanding.

VAREX IMAGING CORPORATION

FORM 10-Q

For the Quarter Ended December 29, 2023

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

VAREX IMAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	
(In millions, except per share amounts)	**December 29, 2023**	**December 30, 2022**
Revenues, net	$ 190.0	$ 205.6
Cost of revenues	132.9	142.3
Gross profit	57.1	63.3
Operating expenses:		
Research and development	20.5	20.0
Selling, general, and administrative	32.4	30.3
Total operating expenses	52.9	50.3
Operating income	4.2	13.0
Interest income	1.9	0.5
Interest expense	(7.3)	(7.5)
Other income (expense), net	0.6	(0.6)
Interest and other expense, net	(4.8)	(7.6)
(Loss) income before taxes	(0.6)	5.4
Income tax (benefit) expense	(0.2)	2.2
Net (loss) income	(0.4)	3.2
Less: Net income attributable to noncontrolling interests	0.1	0.1
Net (loss) income attributable to Varex	$ (0.5)	$ 3.1
Net (loss) income per common share attributable to Varex		
Basic	$ (0.01)	$ 0.08
Diluted	$ (0.01)	$ 0.08
Weighted average common shares outstanding		
Basic	40.6	40.1
Diluted	40.6	40.6

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

(In millions)	Three Months Ended	
	December 29, 2023	December 30, 2022
Net (loss) income	$ (0.4)	$ 3.2
Other comprehensive loss		
Foreign currency translation adjustments	(1.0)	—
Total comprehensive (loss) income	(1.4)	3.2
Less: Comprehensive income attributable to noncontrolling interests	0.1	0.1
Comprehensive (loss) income attributable to Varex	$ (1.5)	$ 3.1

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)	December 29, 2023	September 29, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 141.3	$ 152.6
Accounts receivable, net of allowance for credit losses of $0.6 million and $0.6 million at December 29, 2023 and September 29, 2023, respectively	139.6	163.6
Inventories	289.7	277.5
Prepaid expenses and other current assets	75.1	64.6
Total current assets	645.7	658.3
Property, plant, and equipment, net	148.3	143.6
Goodwill	290.4	288.5
Intangible assets, net	22.1	22.4
Investments in privately-held companies	28.3	29.0
Deferred tax assets	42.0	41.3
Operating lease assets	28.4	29.0
Other assets	37.1	37.5
Total assets	$ 1,242.3	$ 1,249.6
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 73.7	$ 64.7
Accrued liabilities and other current liabilities	61.6	82.6
Current operating lease liabilities	3.8	3.8
Current maturities of long-term debt	1.6	1.5
Deferred revenues	9.4	10.2
Total current liabilities	150.1	162.8
Long-term debt, net	441.4	441.1
Operating lease liabilities	22.9	23.1
Other long-term liabilities	44.9	41.6
Total liabilities	659.3	668.6
Stockholders' equity:		
Preferred stock, $.01 par value: 20,000,000 shares authorized, none issued	—	—
Common stock, $.01 par value: 150,000,000 shares authorized		
Shares issued and outstanding: 40,618,590 and 40,529,573 at December 29, 2023 and September 29, 2023, respectively	0.4	0.4
Additional paid-in capital	453.2	450.4
Accumulated other comprehensive loss	(2.2)	(1.2)
Retained earnings	117.5	118.1
Total Varex stockholders' equity	568.9	567.7
Noncontrolling interests	14.1	13.3
Total stockholders' equity	583.0	581.0
Total liabilities and stockholders' equity	$ 1,242.3	$ 1,249.6

See accompanying Notes to the Condensed Consolidated Financial Statements.

VAREX IMAGING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Three Months Ended December 29, 2023							
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Varex Equity	Noncontrolling Interests	Total Stockholders' Equity
(In millions)	**Shares**	**Amount**						
September 29, 2023	40.5	$ 0.4	$ 450.4	$ (1.2)	$ 118.1	$ 567.7	$ 13.3	$ 581.0
Net (loss) income	—	—	—	—	(0.5)	(0.5)	0.1	(0.4)
Common stock issued upon vesting of restricted shares	0.2	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	(0.1)	—	(1.0)	—	—	(1.0)	—	(1.0)
Share-based compensation	—	—	3.7	—	—	3.7	—	3.7
Foreign currency translation adjustments	—	—	—	(1.0)	—	(1.0)	—	(1.0)
Business acquisitions	—	—	—	—	—	—	0.7	0.7
Other	—	—	0.1	—	(0.1)	—	—	—
December 29, 2023	40.6	$ 0.4	$ 453.2	$ (2.2)	$ 117.5	$ 568.9	$ 14.1	$ 583.0

	Three Months Ended December 30, 2022							
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Varex Equity	Noncontrolling Interests	Total Stockholders' Equity
(In millions)	**Shares**	**Amount**						
September 30, 2022	40.1	$ 0.4	$ 469.1	$ 0.1	$ 63.8	$ 533.4	$ 13.3	$ 546.7
Cumulative effect of accounting changes	—	—	(34.6)	—	6.5	(28.1)	—	(28.1)
Net income	—	—	—	—	3.1	3.1	0.1	3.2
Share-based compensation	—	—	3.3	—	—	3.3	—	3.3
Other	—	—	0.1	—	(0.1)	—	(0.1)	(0.1)
December 30, 2022	40.1	$ 0.4	$ 437.9	$ 0.1	$ 73.3	$ 511.7	$ 13.3	$ 525.0

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	Three Months Ended	
(In millions)	**December 29, 2023**	**December 30, 2022**
Cash flows from operating activities:		
Net (loss) income	$ (0.4)	$ 3.2
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Share-based compensation expense	3.7	3.3
Depreciation	5.1	4.6
Amortization of intangible assets	3.6	3.4
Deferred taxes	(0.8)	(0.2)
Income from equity method investments	(0.4)	(1.3)
Amortization of deferred loan costs	0.7	0.6
Gain on purchase of business	(2.1)	—
Inventory write-down	0.9	2.0
Other, net	(0.5)	—
Changes in assets and liabilities:		
Accounts receivable	25.3	15.6
Inventories	(13.2)	(18.8)
Prepaid expenses and other assets	2.2	(0.4)
Accounts payable	9.0	8.0
Accrued liabilities and other current and long-term liabilities	(22.0)	(25.4)
Deferred revenues	(0.8)	1.7
Net cash provided by (used in) operating activities	10.3	(3.7)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(10.4)	(5.5)
Loss on settlement of cash flow hedge	—	(0.3)
Proceeds from maturities of marketable debt securities	14.2	4.0
Purchase of marketable debt securities	(24.5)	(6.3)
Purchase of marketable equity securities	—	(2.7)
Settlement of net investment hedge	—	7.0
Acquisitions of businesses, net of cash acquired	0.9	—
Other, net	(0.1)	0.1
Net cash used in investing activities	(19.9)	(3.7)
Cash flows from financing activities:		
Taxes related to net share settlement of equity awards	(1.0)	—
Repayments of borrowing under credit agreements	(0.4)	(0.5)
Other, net	(0.3)	0.1
Net cash used in financing activities	(1.7)	(0.4)
Net decrease in cash and cash equivalents and restricted cash	(11.3)	(7.8)
Cash and cash equivalents and restricted cash at beginning of period	154.0	90.6
Cash and cash equivalents and restricted cash at end of period	$ 142.7	$ 82.8
Supplemental cash flow information:		
Cash paid for interest	$ 13.7	$ 13.7
Income taxes paid, net of (refunds)	2.7	4.5
Supplemental non-cash activities:		
Purchases of property, plant, and equipment financed through accounts payable	$ 2.5	$ 2.0

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" or "Varex") designs, manufactures, sells, and services a broad range of medical products, which include X-ray imaging components including X-ray tubes, flat panel and photon counting detectors and accessories, ionization chambers, high voltage connectors, image processing software and workstations, 3D reconstruction software, computer-aided diagnostic software, collimators, automatic exposure control devices, generators, and heat exchangers. The Company sells its products to imaging system original equipment manufacturer ("OEM") customers for incorporation into new medical diagnostic, radiation therapy, dental, and veterinary equipment, as well as to independent service companies and distributors, and directly to end-users for replacement purposes.

The Company also designs, manufactures, sells and services industrial products, which include Linatron® X-ray linear accelerators, X-ray tubes, digital detectors, high voltage connectors, coolers, 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 or irradiation systems and processes. The Company conducts an active research and development program to focus on new technology and applications in both the medical and industrial X-ray imaging markets.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments necessary for a fair presentation of the results for the interim periods. The Company has consolidated all of its majority owned subsidiaries and entities over which it has control. All intercompany balances and transactions have been eliminated as part of the consolidation.

These condensed consolidated financial statements and the accompanying notes are unaudited and should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended September 29, 2023 included in the Company's Annual Report on Form 10-K, which was filed with the SEC on November 16, 2023. The Company considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures. Except for the change in certain policies upon adoption of the accounting standards described below, there have been no material changes to the Company's significant accounting policies, compared to the accounting policies described in Note 1, *Summary of Significant Accounting Policies*, in the Company's Annual Report on Form 10-K for fiscal year 2023.

Segment Reporting

The Company has two reportable operating segments; (i) Medical and (ii) Industrial, which aligns with how its Chief Executive Officer, who is the Company's Chief Operating Decision Maker ("CODM"), reviews the Company's performance. See Note 15, *Segment Information*, for further information on the Company's segments.

Fiscal Year

The fiscal years of the Company as reported are the 52 or 53-week periods ending on the Friday nearest September 30. Fiscal year 2024 is the 52-week period ending September 27, 2024. Fiscal year 2023 was the 52-week period that ended on September 29, 2023. The fiscal quarters ended December 29, 2023 and December 30, 2022 were both 13-week periods.

Use of Estimates

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

Cash and Cash Equivalents

The Company considers unrestricted 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 Company's Condensed Consolidated Balance Sheets. Cash and cash equivalents and restricted cash as reported within the Condensed Consolidated Statements of Cash Flows consisted of the following:

	Three Months Ended December 29, 2023		Three Months Ended December 30, 2022	
(In millions)	**Beginning of Period**	**End of Period**	**Beginning of Period**	**End of Period**
Cash and cash equivalents	$ 152.6	$ 141.3	$ 89.4	$ 81.5
Restricted cash	1.4	1.4	1.2	1.3
Total as presented in the Condensed Consolidated Statements of Cash Flows	$ 154.0	$ 142.7	$ 90.6	$ 82.8

Concentration of Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash, cash equivalents, marketable securities, certificates of deposit, and trade accounts receivable. Cash held with financial institutions may exceed the Federal Deposit Insurance Corporation insurance limits or similar limits in foreign jurisdictions. To date, the Company has not realized 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 credit losses 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. When these suppliers are unable to meet the Company's supply needs, the Company's production is negatively impacted.

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

	Three Months Ended	
	December 29, 2023	**December 30, 2022**
Canon Medical Systems Corporation	14.7 %	20.1 %

Canon Medical Systems Corporation accounted for 8.2% and 13.8% of the Company’s accounts receivable as of December 29, 2023 and September 29, 2023, respectively.

Equity Method Investments

The Company accounts for its equity investments in privately-held companies under the equity method of accounting if the Company has the ability to exercise significant influence in, but not control, these investments. The Company records impairment losses on its equity method investments if an impairment exists and is deemed to be other-than-temporary, which is based on various factors, including but not limited to, the length of time the fair value of the investment is below the carrying value, the absence of an ability to recover the carrying amount of the investment, and the inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. There were no impairments recorded during the three months ended December 29, 2023 and December 30, 2022.

Marketable Securities

The Company's marketable securities consist primarily of financial instruments such as United States treasury securities, United States agency obligations, corporate bonds, commercial paper, money market funds, and equity securities.

Marketable Debt Securities

The Company's marketable debt securities are classified as available-for-sale. Classification of marketable debt securities is determined at the time of purchase, and the Company reevaluates such classification as of each balance sheet date. Marketable debt securities are recorded at estimated fair value and included in cash and cash equivalents, prepaid expenses and other current assets, and other assets within the Condensed Consolidated Balance Sheets. Any unrealized gains or losses are included in accumulated other comprehensive loss within the Condensed Consolidated Balance Sheets. When the fair value of a marketable debt security declines below its amortized cost basis, any portion of that decline attributable to credit losses, to the extent expected to be nonrecoverable before the sale of the security, is recognized in the Condensed Consolidated Statements of Operations. When the fair value of a marketable debt security declines below its amortized cost basis due to changes in interest rates, such amounts are recorded in other comprehensive loss, and are recognized in the Condensed Consolidated Statements of Operations only if the Company sells or intends to sell the security before recovery of its cost basis. There were no impairments related to marketable debt securities recorded during the three months ended December 29, 2023 and December 30, 2022.

Marketable Equity Securities

Marketable equity securities are stated at fair value as determined by the most recently traded price of each security at the balance sheet date and included in other assets within the Condensed Consolidated Balance Sheets. All unrealized gains and losses on marketable equity securities are recorded as part of other income (expense), net in the Company's Condensed Consolidated Statements of Operations. See Note 6, *Fair Value*, for further details.

Loss Contingencies

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

Supplier Finance Programs

The Company participates in voluntary supply chain finance programs with a financial intermediary which provide participating suppliers the option to be paid by the intermediary earlier than the original invoice due date. The Company’s responsibility is limited to making payments on the terms originally negotiated with the suppliers, regardless of whether the intermediary pays the supplier in advance of the original due date. As part of participating in these arrangements, the Company generally receives more favorable payment terms from its suppliers. The Company does not receive fees, payments, extended payment terms, or other direct economic benefits from the intermediary. The total amounts due to the financial intermediary to settle supplier invoices under supply chain finance programs as of December 29, 2023 and September 29, 2023 were $2.3 million and $4.2 million, respectively. These amounts are included within accounts payable in the Condensed Consolidated Balance Sheets.

Environmental Obligations

The Company's operations and facilities, past and present, are subject to environmental laws, including laws that regulate the handling, storage, transport, and disposal of hazardous substances. Certain of those laws impose cleanup liabilities under certain circumstances. In connection with those laws and certain of our past and present operations and facilities, the Company is obligated to indemnify Varian Medical Systems, Inc. ("Varian") for the cleanup liabilities related to prior corporate restructuring activities. The Company anticipates that it will be obligated to reimburse Varian for 20% of the liabilities of Varian related to these sites (after adjusting for any insurance proceeds or tax benefits received by Varian). As of December 29, 2023, our estimated environmental liability for these sites was $2.6 million, net of expected insurance proceeds. As of September 29, 2023, our estimated liability for these sites was $2.8 million, net of expected insurance proceeds.

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

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

	Three Months Ended	
(In millions)	**December 29, 2023**	**December 30, 2022**
Accrued product warranty, at beginning of period	$ 7.7	$ 7.9
New accruals charged to cost of revenues	3.7	2.8
Product warranty expenditures	(3.4)	(3.0)
Accrued product warranty, at end of period	$ 8.0	$ 7.7

Leases

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

Revenue Recognition

The Company’s revenues are derived primarily from the sale of hardware and services. The Company recognizes its revenues net of any value-added or sales tax and net of sales discounts.

The Company sells a high proportion of its X-ray products to a limited number of OEM customers. X-ray imaging components including 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 linear accelerators together with its image processing software and image detection products to OEM customers that incorporate them into their inspection or irradiation systems and processes. 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

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.

Transaction Price and Allocation to Performance Obligations

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

The Company allows customers to return specific parts of purchased X-ray tubes for a partial refund credit, which is identified as variable consideration. For sales with a right of return, revenue is reduced and 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 refund liability and right of return 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 could be sold separately.

Recognition of Revenue

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

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

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

Disaggregation of Revenue

Revenue is disaggregated from contracts between geography and by reportable operating segment, which the Company believes best depicts how the nature, amount, timing, and uncertainty of revenues and cash flows are affected by economic factors. Refer to Note 15, *Segment Information,* included in this report, for the disaggregation of the Company's revenue based on reportable operating segments and Note 2, *Revenue Recognition,* for the disaggregation of revenue by geographic region.

Contract Balances

Contract liabilities are included within the deferred revenues, and other long-term liabilities balances in the Condensed Consolidated Balance Sheets. The Company does not have any material contract assets.

Deferred revenue represents the Company's obligation to transfer goods or services to its customers for which it has already received consideration (or the amount is due) from the customer. The Company's deferred revenue balance primarily relates to contract advances and billings for warranty contracts.

Deferred revenue that is estimated to be recognized during the following twelve-month period is recorded as deferred revenues and the remaining portion is recorded as other long-term liabilities in the Condensed Consolidated Balance Sheets.

Costs to Obtain or Fulfill a Customer Contract

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

Recently Adopted Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The Company adopted this ASU on October 1, 2022, using the modified retrospective method. For further details, refer to Note 1, *Summary of Significant Accounting Policies,* of the Notes to the Condensed Consolidated Financial Statements of our Annual Report on Form 10-K for the fiscal year ended September 29, 2023 filed with the SEC on November 16, 2023.

In September 2022, the FASB issued ASU 2022-04, Liabilities—Supplier Finance Programs, which requires entities to provide qualitative and quantitative disclosures about their supplier finance programs, including a rollforward of related obligations. The adoption of ASU 2022-04 did not affect the Company's financial condition, results of operations, or cash flows as the guidance only requires additional disclosures. We adopted this ASU effective September 30, 2023 on a retrospective basis, except for the amendment on rollforward information, which has been adopted on a prospective basis.

Recent Accounting Standards or Updates Not Yet Effective

There are no new accounting standards not yet adopted or effective that are expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

2. REVENUE RECOGNITION

Disaggregation of Revenue

Revenue is disaggregated from contracts by geographic region and by reportable operating segment, which the Company believes best depicts how the nature, amount, timing, and uncertainty of revenues and cash flows are affected by economic factors.

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

	Three Months Ended	
(In millions)	**December 29, 2023**	**December 30, 2022**
Americas	$ 62.4	$ 66.6
EMEA	66.0	65.3
APAC	61.6	73.7
	$ 190.0	$ 205.6

Revenue in the United States was $60.6 million and $65.4 million for the three months ended December 29, 2023 and December 30, 2022, respectively.

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, the Middle East, India, and Africa. APAC includes Asia (other than India) and Australia. Revenues by region are based on the known final destination of products sold.

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

Right of Return Assets and Refund Liabilities

Right of return assets are included within the prepaid expenses and other current assets, and other assets balances in the Condensed Consolidated Balance Sheets. Refund liabilities are included within the accrued liabilities and other current liabilities and other long-term liabilities balances in the Condensed Consolidated Balance Sheets. The following table summarizes the changes in the right of return assets and refund liabilities for the three months ended December 29, 2023 and December 30, 2022:

	Right of Return Assets	
	Three Months Ended	
(In millions)	**December 29, 2023**	**December 30, 2022**
Balance at beginning of period	$ 26.0	$ 25.4
Costs recovered from product returns during the period	(1.9)	(1.5)
Right of return assets from shipments of products subject to return during the period	1.4	1.5
Balance at end of period	$ 25.5	$ 25.4

	Refund Liabilities	
	Three Months Ended	
(In millions)	**December 29, 2023**	**December 30, 2022**
Balance at beginning of period	$ 28.9	$ 28.2
Release of refund liability included in beginning of year refund liability	(2.1)	(1.6)
Additions to refund liabilities	1.5	1.7
Balance at end of period	$ 28.3	$ 28.3

Contract Balances

During the three months ended December 29, 2023, the Company recognized revenue of $6.8 million related to deferred revenues which existed at September 29, 2023. During the three months ended December 30, 2022, the Company recognized revenue of $4.2 million related to deferred revenues that existed at September 30, 2022.

3. LEASES

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

(In millions)	**Balance Sheet Location**	**December 29, 2023**	**September 29, 2023**
Assets			
Operating lease right-of-use assets	*Operating lease assets*	$ 28.4	$ 29.0
Finance lease right-of-use assets	*Property, plant, and equipment, net*	1.0	0.3
Liabilities			
Operating lease liabilities (current)	*Current operating lease liabilities*	3.8	3.8
Finance lease liabilities (current)	*Accrued liabilities and other current liabilities*	0.2	0.1
Operating lease liabilities (non-current)	*Operating lease liabilities*	22.9	23.1
Finance lease liabilities (non-current)	*Other long-term liabilities*	$ 0.6	$ 0.2

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

(In millions)	Three Months Ended December 29, 2023	Three Months Ended December 30, 2022
Total operating lease costs[1]	$ 1.5	$ 1.5
Total finance lease costs	$ 0.1	$ 0.1
Operating cash flows from operating leases	$ 1.4	$ 1.6
Financing cash flows from finance leases	0.3	0.1
Total cash paid for amounts included in the measurement of lease liabilities	$ 1.7	$ 1.7
Noncash operating right-of-use assets obtained in exchange for new lease liabilities	$ 1.5	$ —
Noncash finance right-of-use assets obtained in exchange for new lease liabilities	0.7	—
Total right-of-use assets obtained in exchange for new lease liabilities	$ 2.2	$ —

[1] Includes variable and short-term lease expense, which were immaterial for the three months ended December 29, 2023 and December 30, 2022.

4. RELATED-PARTY TRANSACTIONS

Investments in Privately-Held Companies

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

The investment in dpiX Holding is accounted for under the equity method of accounting. When the Company recognizes its share of net profits or losses of dpiX Holding, profits or losses in inventory purchased from dpiX are also eliminated. During the three months ended December 29, 2023 and December 30, 2022, the Company recorded income on the equity investment in dpiX Holding of $0.5 million and $2.0 million, respectively. The income and loss on the equity investment in dpiX Holding are included in other income (expense), net in the Condensed Consolidated Statements of Operations. The carrying value of the equity investment in dpiX Holding was $26.3 million and $25.8 million at December 29, 2023 and September 29, 2023, respectively.

During the three months ended December 29, 2023 and December 30, 2022, the Company purchased glass transistor arrays from dpiX totaling $5.0 million and $5.0 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 Operations.

As of December 29, 2023 and September 29, 2023, the Company had accounts payable to dpiX totaling $2.8 million and $2.7 million, respectively.

In October 2013, the Company entered into an amended agreement with dpiX and other parties that, among other things, provides it with the right to 50% of dpiX's total manufacturing capacity. In addition, the Company is required to pay for 50% of dpiX's fixed costs, as determined at the beginning of each calendar year. In January 2024, the Company's fixed cost commitment was determined and approved by the dpiX board of directors to be $12.4 million for calendar year 2024. The amended agreement will continue unless the ownership structure of dpiX changes (as defined in the amended agreement).

The Company has determined that dpiX Holding is a variable interest entity because the at-risk equity holders, as a group, lack the characteristics of a controlling financial interest. Majority votes are required to direct the manufacturing activities, legal operations and other activities that most significantly affect dpiX's economic performance. The Company does not have majority voting rights and no power to unilaterally direct the activities of dpiX Holding, and therefore, is not the primary beneficiary of dpiX Holding. The Company's exposure to loss as a result of its involvement with dpiX Holding is limited to the carrying value of the Company's investment of $26.3 million and fixed cost commitments.

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

During the three months ended December 29, 2023 and December 30, 2022, the Company recorded a loss on the equity investment in VEC of $0.1 million and $0.3 million, respectively. The Company's investment in VEC was $2.0 million and $2.1 million at December 29, 2023 and September 29, 2023, respectively. As of December 29, 2023 and September 29, 2023, the Company had loans and other receivables outstanding from VEC of $0.7 million, and $0.7 million, respectively, which are recorded in prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets.

5. FINANCIAL DERIVATIVES AND HEDGING ACTIVITIES

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

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

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

Derivatives Designated as Hedging Instruments - Net Investment Hedges

The Company uses cross currency swap contracts as net investment hedges to manage its risk of variability in foreign currency-denominated net investments in wholly-owned international operations. All changes in fair value of the derivatives designated as net investment hedges are reported in accumulated other comprehensive loss along with the foreign currency translation adjustments on those investments.

As of December 29, 2023, the Company had the following outstanding derivatives designated as net investment hedging instruments:

(In millions, except number of instruments)	Number of Instruments	Notional Value
Cross currency swap contracts	2	$ 58.7

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

	Amount of Loss Recognized in OCI on Derivative Three Months Ended		Location of Gain Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing)	Amount of Gain Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing) Three Months Ended	
(In millions)	December 29, 2023	December 30, 2022		December 29, 2023	December 30, 2022
Cross currency swap contracts	$ (2.7)	$ (4.0)	Interest expense	$ 0.3	$ 0.2

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

(In millions)		Derivative Assets and Liabilities	
Derivatives Designated as Net Investment Hedges	**Balance Sheet Location**	**December 29, 2023**	**September 29, 2023**
Cross currency swap contracts	Prepaid expenses and other current assets	$ 0.8	$ 0.7
Cross currency swap contracts	Other long-term liabilities	$ 7.7	$ 4.9

Balance Sheet Hedges

The Company also enters into foreign currency forward contracts to hedge fluctuations associated with foreign currency-denominated monetary assets and liabilities, primarily cash, lease contracts, third-party accounts receivable and payable, and intercompany accounts receivable and payable. These forward contracts are generally entered into at the end of one fiscal period and expire by the end of the next fiscal period. 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), net in the Condensed Consolidated Statements of Operations and offsets the change in fair value of the foreign currency-denominated assets and liabilities, which are also recorded as a component of other income (expense), net. The Company has 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 December 29, 2023:

	Notional Value of Derivatives not Designated as Hedging Instruments:
(In millions of equivalent USD)	**Sell contracts**
Australian Dollar	$ 3.8
Chinese Renminbi	10.2
Euro	13.3
Indian Rupee	5.0
	$ 32.3

6. FAIR VALUE

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair values of certain of the Company's financial instruments, including bank deposits included in cash and cash equivalents, accounts receivable, net and accounts payable, approximate their fair values due to their short maturities. As of December 29, 2023, the fair values of the Company's Convertible Notes and Senior Secured Notes, as defined in Note 9, *Borrowings* and measured using Level 1 inputs, were $234.0 million and $244.4 million, respectively. As of September 29, 2023, the fair values of the Company's Convertible Notes and Senior Secured Notes, measured using Level 1 inputs, were $228.4 million and $243.6 million, respectively. The Company has elected to use the income approach to value its derivative instruments using standard valuation techniques and Level 2 inputs, such as currency spot rates, forward points and credit default swap spreads.

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 at December 29, 2023			
(In millions)	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets:				
Money market funds	$ —	$ 20.5	$ —	$ 20.5
Commercial paper	—	8.3	—	8.3
Corporate notes/bonds	—	10.3	—	10.3
Government agencies	—	20.1	—	20.1
U.S. Treasury bills	—	21.8	—	21.8
Derivative assets	—	0.8	—	0.8
Deferred compensation plan[(1)]	6.9	—	—	6.9
Marketable equity securities	3.6	—	—	3.6
Total assets measured at fair value	$ 10.5	$ 81.8	$ —	$ 92.3
Liabilities:				
Derivative liabilities	$ —	$ 7.7	$ —	$ 7.7
Total liabilities measured at fair value	$ —	$ 7.7	$ —	$ 7.7

[(1)] The assets held under the Company's deferred compensation plan are classified in Level 1, as they relate primarily to publicly traded mutual funds for which there are observable market prices in active markets.

	Fair Value at September 29, 2023			
(In millions)	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets:				
Money market funds	$ —	$ 45.4	$ —	$ 45.4
Commercial paper	—	6.0	—	6.0
Corporate notes/bonds	—	8.3	—	8.3
Government agencies	—	6.6	—	6.6
U.S. Treasury bills	—	28.6	—	28.6
Derivative assets	—	0.7	—	0.7
Deferred compensation plan[(1)]	6.3	—	—	6.3
Marketable equity securities	4.1	—	—	4.1
Total assets measured at fair value	$ 10.4	$ 95.6	$ —	$ 106.0
Liabilities:				
Derivative liabilities	$ —	$ 4.9	$ —	$ 4.9
Total liabilities measured at fair value	$ —	$ 4.9	$ —	$ 4.9

[(1)] The assets held under the Company's deferred compensation plan are classified in Level 1 as they relate primarily to publicly traded mutual funds for which there are observable market prices in active markets.

Marketable Debt Securities

The following is a summary of marketable debt securities, which are included within the cash and cash equivalents, prepaid expenses and other current assets, and other assets balances on the Condensed Consolidated Balance Sheets.

	December 29, 2023	
(In millions)	**Amortized Costs**	**Fair Value**
Commercial paper	$ 8.3	$ 8.3
Corporate notes/bonds	10.3	10.3
U.S. Treasury bills	21.8	21.8
Government agencies	20.1	20.1
Total marketable debt securities	$ 60.5	$ 60.5

	September 29, 2023	
(In millions)	**Amortized Costs**	**Fair Value**
Commercial paper	$ 6.0	$ 6.0
Corporate notes/bonds	8.3	8.3
U.S. Treasury bills	28.6	28.6
Government agencies	6.6	6.6
Total marketable debt securities	$ 49.5	$ 49.5

The contractual maturities of marketable debt securities as of December 29, 2023, are shown in the table below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	December 29, 2023	
(In millions)	**Amortized Costs**	**Fair Value**
Contractual maturities:		
Due within one year	$ 60.5	$ 60.5
Due after one year through five years	—	—
Total marketable debt securities	$ 60.5	$ 60.5

During the three months ended December 29, 2023, there were no gross realized gains or losses from the sale of certain marketable debt securities that were reclassified out of accumulated other comprehensive loss.

The following tables summarize the balance sheet locations for marketable debt securities:

	December 29, 2023				
(In millions)	**Commercial paper**	**Corporate notes/ bonds**	**Government agencies**	**Treasury bills**	**Total**
Cash and cash equivalents	$ 8.3	$ —	$ —	$ —	$ 8.3
Prepaid expenses and other current assets	—	10.3	20.1	21.8	52.2
Total marketable debt securities	$ 8.3	$ 10.3	$ 20.1	$ 21.8	$ 60.5

	September 29, 2023				
(In millions)	**Commercial paper**	**Corporate notes/ bonds**	**Government agencies**	**Treasury bills**	**Total**
Cash and cash equivalents	$ 6.0	$ —	$ —	$ 2.2	$ 8.2
Prepaid expenses and other current assets	—	8.3	6.6	26.4	41.3
Total marketable debt securities	$ 6.0	$ 8.3	$ 6.6	$ 28.6	$ 49.5

7. INVENTORIES

The following table summarizes the Company's inventories:

(In millions)	December 29, 2023	September 29, 2023
Raw materials and parts	$ 223.5	$ 217.5
Work-in-process	19.5	20.0
Finished goods	46.7	40.0
Total inventories	$ 289.7	$ 277.5

8. GOODWILL AND INTANGIBLE ASSETS

The following table reflects goodwill by reportable operating segment:

(In millions)	Medical	Industrial	Total
Balance at September 29, 2023	$ 171.5	$ 117.0	$ 288.5
Foreign currency translation adjustments	1.1	0.8	1.9
Balance at December 29, 2023	$ 172.6	$ 117.8	$ 290.4

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:

	December 29, 2023			September 29, 2023		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired existing technology	$ 73.5	$ (59.9)	$ 13.6	$ 72.3	$ (57.8)	$ 14.5
Patents, licenses and other	12.6	(12.4)	0.2	12.5	(12.2)	0.3
Customer contracts and supplier relationship	52.7	(44.4)	8.3	50.3	(42.7)	7.6
Total intangible assets	$ 138.8	$ (116.7)	$ 22.1	$ 135.1	$ (112.7)	$ 22.4

Amortization expense for intangible assets was $3.6 million and $3.4 million for the three months ended December 29, 2023 and December 30, 2022, respectively. In connection with the business combination discussed in Note 10. Business Combinations, the Company recorded additional intangible assets of $2.6 million, of which $2.1 million related to customer contracts and supplier relationships and $0.5 million related to acquired existing technology.

9. BORROWINGS

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

(In millions, except for percentages)	December 29, 2023 Amount	September 29, 2023 Amount	Contractual Interest Rate	Effective Interest Rate
Current maturities of long-term debt				
Other debt	$ 1.6	$ 1.5		
Total current maturities of long-term debt	**$ 1.6**	**$ 1.5**		
Non-current maturities of long-term debt:				
Convertible Senior Unsecured Notes	$ 200.0	$ 200.0	4.0%	4.8%
Senior Secured Notes	243.0	243.0	7.9%	8.2%
Other debt	3.2	3.5		
Total non-current maturities of long-term debt:	**$ 446.2**	**$ 446.5**		
Unamortized issuance costs				
Unamortized issuance costs - Convertible Notes	$ (2.1)	$ (2.5)		
Unamortized issuance costs - Senior Secured Notes	(2.7)	(2.9)		
Total	**(4.8)**	**(5.4)**		
Total debt outstanding, net	**$ 443.0**	**$ 442.6**		

The following table summarizes the Company's interest expense:

	Three Months Ended	
	December 29, 2023	December 30, 2022
Contractual interest coupon and other	$ 6.6	$ 6.9
Amortization of debt issuance costs	0.7	0.6
Total interest expense	**$ 7.3**	**$ 7.5**

Convertible Senior Unsecured Notes

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

The Convertible Notes are convertible into cash, shares of Varex common stock or a combination thereof, at Varex's election, at an initial conversion rate of 48.048 shares of common stock per $1,000 principal amount of Convertible Notes, which is equivalent to an initial conversion price of approximately $20.81 per share, subject to adjustment pursuant to the terms of the indenture governing the Convertible Notes. The Convertible Notes may be converted at any time after, and including, December 15, 2024, until the close of business on the second scheduled trading day immediately before the maturity date. The maximum number of shares issuable upon conversion of the Convertible Notes is 9.6 million.

Call Spread

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

On June 4, 2020 and June 5, 2020, Varex also entered into privately negotiated warrant transactions (collectively, the “Warrant Transactions” and, together with the Hedge Transactions, the “Call Spread Transactions”), whereby the Company sold warrants at a higher strike price relating to the same number of shares of Varex common stock that initially underlie the Convertible Notes, subject to customary anti-dilution adjustments. The initial strike price of the warrants is $24.975 per share (subject to adjustment under the terms of the Warrant Transactions), which was 50% above the last reported sale price of Varex common stock on June 4, 2020. The Warrant Transactions could have a dilutive effect to the Company's stockholders to the extent that the market price per share of Varex common stock, as measured under the terms of the Warrant Transactions, exceeds the applicable strike price of the warrants. The number of shares underlying the Warrant Transactions is 9.6 million. The number of warrants outstanding as of December 29, 2023 was 9.6 million.

Senior Secured Notes

Varex issued $300.0 million aggregate principal amount of 7.875% Senior Secured Notes due 2027 (the "Senior Secured Notes") pursuant to an indenture dated September 30, 2020. Interest payments are paid semiannually on April 15 and October 15 of each year, beginning on April 15, 2021. The Senior Secured Notes will mature on October 15, 2027, unless earlier redeemed or repurchased by Varex. On July 15, 2021, we redeemed $30.0 million, and on March 18, 2022, we redeemed $27.0 million of the Senior Secured Notes. As of December 29, 2023, the aggregate principal amount of the outstanding Senior Secured Notes was $243.0 million.

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

Asset-Based Loan

On September 30, 2020, the Company entered into a revolving credit agreement consisting of a $100.0 million asset-based loan revolving credit facility (the “Asset-Based Loan” or "ABL Facility"). Borrowings under the Asset-Based Loan bear interest at floating rates based on the Secured Overnight Financing Rate ("SOFR"), or a comparable rate, or a base rate, and an applicable margin based on Average Daily Excess Availability (as defined in the Asset-Based Loan Agreement). In addition, the Company is required to pay a quarterly commitment fee of 0.25% annualized, based on the aggregate unused commitments under the Asset-Based Loan.

The ABL Facility matures on the earlier of September 30, 2025 or 91 days prior to the maturity of the Convertible Notes, at which time all outstanding amounts under the ABL Facility will be due and payable. The maximum availability under the ABL Facility is $100.0 million; however, the borrowing base under the ABL Facility fluctuates from month-to-month depending on the amount of eligible accounts receivable, inventory, and real estate. As of December 29, 2023, the amount available under the ABL Facility was $71.9 million and the ABL Facility remains undrawn.

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

10. BUSINESS COMBINATIONS

As of September 29, 2023, the Company, through two of its consolidated subsidiaries, Varex Imaging Deutschland AG and MeVis Medical Solutions AG ("MeVis Medical"), held a combined ownership interest in MeVis BreastCare GmbH and MeVis BreastCare Gmbh & Co KG (referred to in combination as "MeVis Breastcare") of 37.6%. Because the Company had the ability to exercise significant influence in, but not control, over MeVis Breastcare, it was historically accounted for as an equity method investment.

In October 2023, the Company increased its ownership in MeVis Breastcare to 87.1% for a purchase price of $0.9 million, resulting in the Company now holding a controlling interest in MeVis Breastcare. The purchase of this additional ownership interest was accounted for as a business combination achieved in stages, or step acquisition. As a result, the previously held equity interest was remeasured to its acquisition-date fair value, with a gain of $0.9 million recognized in other income (expense), net in the Condensed Consolidated Statements of Operations. The assets and liabilities of MeVis Breastcare were then recorded on the Company's balance sheet at their fair values in accordance with ASC 805, and a gain on bargain purchase of $1.2 million was recorded in other income (expense), net in the Condensed Consolidated Statements of Operations. Because the purchase price did not give consideration to the other assets of the business, the fair value of the ownership interest acquired exceeded the price paid to the third party partial owner and this resulted in a gain on bargain purchase.

The following table summarizes the consideration paid for MeVis Breastcare and the amounts of the assets acquired and liabilities assumed recognized at their estimated acquisition date fair values, as well as the estimated fair value at the acquisition date of the noncontrolling interest in MeVis Breastcare.

	USD (in millions)
Consideration paid	
Cash	$ 0.9
Fair value of total consideration transferred	0.9
Remeasurement of previous equity interest	
Carrying value of previous equity interest before acquisition	1.1
Fair value of previous equity interest at acquisition date	2.0
Remeasurement gain recorded on previous equity interest	0.9
Total of consideration paid and fair value of previous equity interest	$ 2.9
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 1.8
Accounts receivable, net	1.2
Intangible assets, net	2.6
Accounts payable	(0.1)
Accrued liabilities and other current liabilities	(0.6)
Other long-term liabilities	(0.1)
Total identifiable net assets	4.8
Noncontrolling interest in MeVis Breastcare	(0.7)
Bargain purchase gain	(1.2)
Total	$ 2.9

11. NONCONTROLLING INTERESTS

In September 2018, the Company entered into a partnership in Saudi Arabia. The Company has majority voting rights with an approximate 75% interest. Accordingly, the Company has consolidated the operations of the Saudi Arabia partnership in its Condensed Consolidated Financial Statements and recorded the noncontrolling interests. The noncontrolling interest related to the partner's 25% interest is included in noncontrolling interests in the equity section of the Company's Condensed Consolidated Balance Sheets. Income representing the noncontrolling partner's share of income from operations is included in the Company's Condensed Consolidated Statements of Operations.

In April 2015, the Company acquired 73.5% of the then outstanding shares of MeVis Medical, 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 Medical. In fiscal years 2017 and 2018, the Company purchased an additional 0.2% of outstanding shares such that the Company now owns 73.7% of the outstanding shares of common stock of MeVis Medical. Under the DPLTA, MeVis Medical 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 Medical, an annual recurring net compensation of €0.95 per MeVis Medical share. At December 29, 2023, noncontrolling shareholders together held approximately 0.5 million shares of MeVis Medical, representing 26.3% of the outstanding shares.

During the first quarter of fiscal year 2024, the Company acquired a controlling interest in MeVis Breastcare, in which the Company now holds an 87.1% ownership interest. In association with this acquisition, the Company recorded an associated noncontrolling interest of $0.7 million.

Changes in noncontrolling interests were as follows:

	Three Months Ended	
(In millions)	**December 29, 2023**	**December 30, 2022**
Noncontrolling interests, at beginning of period	$ 13.3	$ 13.3
Net income attributable to noncontrolling interests	0.1	0.1
Business acquisitions	0.7	—
Other	—	(0.1)
Noncontrolling interests, at end of period	$ 14.1	$ 13.3

12. NET (LOSS) INCOME PER SHARE

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

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

	Three Months Ended	
(In millions, except per share amounts)	**December 29, 2023**	**December 30, 2022**
Net (loss) income per share - basic		
Net (loss) income attributable to Varex	$ (0.5)	$ 3.1
Basic weighted average shares outstanding	40.6	40.1
Basic net (loss) income per share attributable to Varex	$ (0.01)	$ 0.08
Net (loss) income per share - diluted		
Net (loss) income attributable to Varex	$ (0.5)	$ 3.1
Basic weighted average shares outstanding	40.6	40.1
Dilutive effect of share-based awards and other	—	0.5
Diluted weighted average shares outstanding	40.6	40.6
Diluted net (loss) income per share attributable to Varex	$ (0.01)	$ 0.08
Anti-dilutive share summary		
Share-based awards and other	3.6	3.0
Convertible notes	9.6	9.6
Warrants	9.6	1.9
Total anti-dilutive shares	22.8	14.5

Potentially dilutive shares, which are based on the weighted-average shares of common stock underlying stock options, unvested stock awards, purchase rights granted under the employee stock purchase plan, warrants, and Convertible Notes using the treasury stock method or the if-converted method, as applicable, are included when calculating diluted net (loss) income per share attributable to Varex when their effect is dilutive. In connection with the offering of the Convertible Notes, the Company entered into convertible note hedges and warrants (see Note 9, *Borrowings*). However, the Company's convertible note hedges are not included when calculating potentially dilutive shares since their effect is always anti-dilutive.

13. EMPLOYEE STOCK PLANS

Share-Based Compensation Expense

Share-based compensation expense recognized in the Condensed Consolidated Statements of Operations is based on awards ultimately expected to vest. Share-based compensation expense includes expenses related to the Company’s direct employees.

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

	Three Months Ended	
(In millions)	**December 29, 2023**	**December 30, 2022**
Cost of revenues	$ 0.5	$ 0.4
Research and development	0.9	0.8
Selling, general, and administrative	2.3	2.1
Total share-based compensation expense	$ 3.7	$ 3.3

Stock Option Activity

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

(In thousands, except per share amounts and the remaining term)	**Options**	**Price Range**	**Weighted Average Exercise Price**	**Weighted Average Remaining Term (in years)**	**Aggregate Intrinsic Value[(1)]**
Outstanding at September 29, 2023	2,862	$13.61 - $37.60	$ 28.08	4.8	$ 871.4
Granted	—	$0.00 - $0.00	—		
Canceled, expired or forfeited	—	$0.00 - $0.00	—		
Outstanding at December 29, 2023	2,862	$13.61 - $37.60	$ 28.08	4.6	$ 1,159.0
Exercisable at December 29, 2023	2,249	$13.61 - $37.60	$ 29.01	3.6	$ 937.8

[(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 $20.50 as of December 29, 2023, the last trading date of the Company's first quarter, and which represents the amount that would have been received by the option holders had all option holders exercised their in-the-money options and sold the shares received upon exercise as of that date.

Restricted Stock Units, Performance Stock Units, Restricted Stock Awards, and Deferred Stock Units

In the first quarter of fiscal year 2024, the Company issued performance stock units ("PSUs"). PSUs are awarded to certain officers and key employees in connection with our long-term incentive program. Each PSU represents the right to receive one share of our common stock, provided that the applicable performance and vesting conditions are satisfied. The fair value of certain PSUs are linked to the achievement of performance goals based on Adjusted EBITDA margin. Share-based compensation expense for these PSUs are recognized over the performance period based on the probability of achieving the performance targets. Certain PSUs include a performance objective based on our relative total shareholder return over the performance period compared to a predetermined peer group. The fair value of these awards is determined using a Monte Carlo simulation as of the date of the grant and share-based compensation expense will not be adjusted should the target awards vary from actual awards.

The following table summarizes the activity for restricted stock units, performance stock units, restricted stock awards, and deferred stock units under the 2020 Omnibus Stock Plan:

(In thousands, except per share amounts)	**Number of Shares**	**Weighted Average Grant-Date Fair Value**
Outstanding at September 29, 2023	1,277	$ 22.30
Granted	785	20.17
Vested	(142)	28.04
Canceled or expired	(16)	21.91
Outstanding at December 29, 2023	1,904	$ 21.00

14. TAXES ON (LOSS) INCOME

For the three months ended December 29, 2023, the Company recognized income tax benefit of $0.2 million on $0.6 million of pre-tax loss. For the three months ended December 30, 2022, the Company recognized income tax expense of $2.2 million on $5.4 million of pre-tax income. The Company is unable to recognize a tax benefit for pre-tax book losses in certain foreign jurisdictions but has recognized tax expense for profitable foreign jurisdictions.

The Company's tax expense for the three months ended December 29, 2023 decreased, primarily due to decreased pre-tax income in certain jurisdictions and losses in certain foreign jurisdictions for which no benefit can be recorded.

The Company is maintaining its reinvestment assertion with respect to foreign earnings for the three months ended December 29, 2023, which is that all earnings prior to fiscal year 2018 are permanently reinvested for all countries, and that all earnings for Varex Imaging Sweden and Oy Varex Imaging Finland are also indefinitely reinvested in those countries, but post fiscal year 2017 earnings in all other countries are not permanently reinvested. Due to the level of earnings available for repatriation, the treaty benefits applicable to jurisdictions in which those earnings are located, and the now favorable United States 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 United States state income taxes and foreign withholding taxes that would apply if the foreign earnings were repatriated in the form of a dividend.

15. SEGMENT INFORMATION

The Company has two reportable operating segments: Medical and Industrial, which aligns with how the CODM reviews the Company’s performance. The segments align the Company’s products and service offerings with customer use in medical and industrial markets and are consistent with how the Company’s CEO evaluates the business for the allocation of resources. The CODM allocates resources to and evaluates the financial performance of each operating segment primarily based on revenues and gross profit. The operating and reportable segment structure provides alignment between business strategies and operating results.

Description of Segments

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

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

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

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

(In millions)	Three Months Ended December 29, 2023	Three Months Ended December 30, 2022
Revenues, net		
Medical	$ 139.9	$ 160.1
Industrial	50.1	45.5
Total revenues	190.0	205.6
Gross profit		
Medical	38.9	46.3
Industrial	18.2	17.0
Total gross profit	57.1	63.3
Total operating expenses	52.9	50.3
Interest and other expense, net	(4.8)	(7.6)
(Loss) income before taxes	(0.6)	5.4
Income tax (benefit) expense	(0.2)	2.2
Net (loss) income	(0.4)	3.2
Less: Net income attributable to noncontrolling interests	0.1	0.1
Net (loss) income attributable to Varex	$ (0.5)	$ 3.1

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

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

The following discussion and analysis of our financial condition and results of operations should be read together with the unaudited condensed consolidated financial statements and notes thereto that are contained in this Quarterly Report on Form 10-Q (this "Quarterly Report") as well as our Annual Report on Form 10-K for the fiscal year ended September 29, 2023 ("Annual Report") and our other filings, including the Current Reports on Form 8-K, that have been filed with the Securities and Exchange Commission (" SEC") through the date of this report.

In this Quarterly Report, unless otherwise specified or the context otherwise requires, the "Company," "Varex," "we," "us," and "our" refer to Varex Imaging Corporation.

Forward-Looking Statements

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. Actual results and the outcome or timing of certain events described in these forward-looking statements are subject to risk and uncertainties and may differ significantly from those described. Important factors that could cause our actual results and financial condition to differ significantly from those projections or expectations include, among other things, the following:

- reduction in or loss of business of one or more of our limited original equipment manufacturing ("OEM") customers;
- loss of business to, and an inability to effectively compete with, competitors;
- pricing pressures and other factors that could result in margin erosion and loss of customers;
- failure to meet customers' needs and demands;
- global, regional, and country-specific economic instability, shifting political environments, changing tax treatment, reactionary import/export regulatory regimes, and other risks associated with international manufacturing, operations, and sales;
- supply chain disruptions resulting in delayed product delivery, and increased costs as a result of reliance on a limited number of suppliers for certain key components;
- inability to maintain or defend our intellectual property rights, and high cost of protecting our intellectual property and defending against infringement claims;
- disruption of critical information systems or material breaches in the security of our systems;
- noncompliance with regulations applicable to marketing, manufacturing, labeling, and distributing our products and delays in obtaining regulatory clearances or approvals;
- limitations imposed by operating and financial restrictions of our debt financing agreements could harm our long-term interests, limit our ability to make payments on our debt obligations, and impact our ability to maintain sufficient liquidity and/or to refinance our debt obligations; and
- other factors cited in Part I, Item 1A, "*Risk Factors*" in our Annual Report and in Part II, Item 1A, "*Risk Factors*" of this Quarterly Report.

Statements concerning supply chain and logistics challenges; cost increases and expense management; changes in U.S. and worldwide economic conditions, such as the impact of inflation, and fluctuations in foreign currency exchange rates; geopolitical tensions; industry or market segment outlook; market acceptance of or transition to new products or technologies 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," "intend," "potential," and "possible" or similar statements are forward-looking statements that involve risks and uncertainties that could cause our actual results and the outcome and timing of certain events to differ materially from those projected or management's current expectations.

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

Overview

Varex Imaging Corporation is a leading innovator, designer and manufacturer of X-ray imaging components including X-ray tubes, flat panel and photon counting detectors and accessories, linear accelerators, image software processing solutions, and stand-alone X-ray based systems in select application areas. Our components are used in medical diagnostic imaging, security inspection systems, and industrial quality inspection systems, as well as for analysis and measurement applications in industrial manufacturing applications. Global OEMs incorporate our X-ray imaging components into their systems to detect, diagnose, protect, irradiate, and inspect. Varex has approximately 2,300 full-time equivalent employees, located at engineering, manufacturing, and service center sites in North America, Europe, and Asia.

Our products are sold in three geographic regions: the Americas, EMEA, and APAC. The Americas includes North America (primarily the United States) and Latin America. EMEA includes Europe, the Middle East, India, and Africa. APAC includes Asia (other than India) 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 demand from our customers. We continually invest in research and development and employ approximately 350 individuals in product development related activities. Our focus on innovation and product performance along with strong and long-term customer relationships allows us to collaborate with our customers to bring industry-leading products to the X-ray imaging market. We continue to work to improve the life and quality of our imaging components and leverage our scale as one of the largest independent X-ray imaging component suppliers to provide cost-effective solutions for our customers.

Impact of General Economic Environment

While there continues to be some improvement in the general economic environment, we remain cautious as many factors remain dynamic and unpredictable. The uncertain economic environment, supply chain and logistic challenges, and geopolitical tensions have contributed to, and may continue to contribute to, inflation, higher interest rates and capital costs, increased shipping costs, supply shortages, increased costs of labor and materials, exchange rate volatility, and other similar effects.

During 2023, we experienced some supply chain, manufacturing, and logistics challenges. Currently, we anticipate such challenges to have less of an impact in fiscal year 2024. Shortages of certain materials have caused, and may continue to cause, delays in manufacturing products for our customers. In some cases, raw material shortages and delivery delays from our suppliers have caused operational and customer order fulfillment challenges. In addition, since late 2023 our Medical business has been negatively impacted by the China government initiated anti-corruption measures related to the healthcare industry. We expect these actions to continue into fiscal year 2024, which could impact revenues in our China business.

For additional information on risks related to supply chain and logistics challenges, cost increases, changes in U.S. and worldwide economic conditions, geopolitical tensions, and other risks that could impact our results, see Item 1A "*Risk Factors*".

Operating Segments and Products

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

Medical

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

Our X-ray imaging components are primarily sold to OEM customers. These OEM customers then design-in our products to their X-ray imaging systems for a variety of medical modalities. A substantial majority of medical X-ray imaging OEMs globally are our customers, and many of these have been our customers for over 35 years. We believe one of the reasons for customer loyalty is that our hardware and software products are tightly integrated with our customers' systems. We work very closely with our customers to create custom built components for their systems based on technology platforms that we have developed. Because our products are often customized for our customers' specific equipment, it can be costly and complex for our customers to switch to another provider. Once our components are designed into our customers' equipment, our customers will typically continue to buy from us for any replacement components and for service and support for that equipment. Some of our products are also included in product registrations for our customers' equipment that require regulatory approval to change. In addition to sales to OEM customers, we sell our products to independent service companies and distributors as well as directly to end-users for replacement purposes.

We are one of the largest independent global manufacturers of X-ray imaging components, and each year, we produce over 27,000 X-ray tubes and 20,000 X-ray detectors. We estimate that our world-wide installed base of products includes more than 160,000 X-ray tubes, 170,000 X-ray detectors, 600,000 connect and control components, and 16,500 software instances. Replacement and service of our existing installed base makes up a significant portion of our revenue. Many of our components need to be replaced regularly, depending upon usage and other factors. For example, CT X-ray tubes generally need to be replaced every 2 to 6 years, in comparison to a general radiography tube which can last up to 10 years, depending on utilization. In China, the replacement cycle for CT X-ray tubes currently can be as frequent as every 10 to 20 months due to high utilization of imaging equipment. Other products such as X-ray detectors have a useful life of as much as 7 years or more but can require more frequent service and repairs during their useful life. In addition, our detector customers often elect to upgrade products to newer technology before the end of a current product's useful life. X-ray imaging software is a relatively small part of our business and includes maintenance revenue for software licenses.

In China, the government is broadening the availability of healthcare services. As a result, the number of diagnostic X-ray imaging systems, including CT, has grown significantly. We are developing CT X-ray tubes and related subsystems for Chinese OEMs as they introduce new systems in China. Over the long-term, our objective is to become the partner of choice both for OEMs and in the replacement market as CT systems become more widely adopted throughout the Chinese market.

In recent years our business in China has been impacted by the trade war with the United States in three principal ways: (1) importing raw materials from China to the United States has become more expensive, (2) importing raw materials and sub-assemblies from the United States to China has become more expensive, and (3) importing finished United States manufactured products into China has become more difficult and expensive. While the governments of both the United States and China have granted tariff exclusions that temporarily eliminate the additional duties payable for specific commodities, providing partial relief, these exclusions are temporary and/or must be solicited and approved on a shipment-by-shipment basis. There is no guarantee that such exclusions will be granted or extended by either government, and the U.S. tariff exclusions are set to expire on May 31, 2024 unless extended. In order to mitigate the impact of tariffs on materials imported from China, we have implemented changes to secure more non-China sources of materials used to manufacture our X-ray imaging products. To help mitigate the impact of tariffs on materials imported to China, and to be closer to our global customer base, we continue to expand manufacturing capabilities at our facilities in China, Germany, the Netherlands, and the Philippines. We have also implemented local sourcing strategies to offer local content. This local-for-local strategy has been well received by both our local customers as well as global OEMs, and acts as a natural hedge against trade wars and other potential supply chain disruptions. Our mitigation efforts could prove less effective than anticipated if tensions between China and Taiwan lead to worsening trade relations between China and the United States.

Industrial

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

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

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

Critical Accounting Policies and Estimates

The preparation of our unaudited 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 29, 2023 filed with the SEC on November 16, 2023 and Note 1, *Summary of Significant Accounting Policies,* of the Notes to the Consolidated Financial Statements of this report for further details. Our critical accounting policies that are affected by accounting estimates include valuation of inventories, assessment of recoverability of goodwill and intangible assets, and income taxes. Except for the changes in certain policies upon adoption of the accounting standard described in Note 1, *Summary of Significant Accounting Policies* of the Notes to the Condensed Consolidated Financial Statements of this report, there have been no material changes to the Company's significant accounting policies, compared to the accounting policies described in Note 1, *Summary of Significant Accounting Policies*, in the Company's Annual Report on Form 10-K for fiscal year 2023.

Fiscal Year

The fiscal years of the Company as reported are the 52 or 53-week periods ending on the Friday nearest September 30. Fiscal year 2024 is the 52-week period ending September 27, 2024. Fiscal year 2023 was the 52-week period that ended on September 29, 2023. The fiscal quarters ended December 29, 2023 and December 30, 2022 were both 13-week periods.

Discussion of Results of Operations for the Three Months Ended December 29, 2023 Compared to the Three Months Ended December 30, 2022

Revenues, net

	Three Months Ended			
(In millions)	**December 29, 2023**	**December 30, 2022**	**$ Change**	**% Change**
Medical	$ 139.9	$ 160.1	$ (20.2)	(12.6)%
Industrial	50.1	45.5	4.6	10.1 %
Total revenues	$ 190.0	$ 205.6	$ (15.6)	(7.6)%
Medical as a percentage of total revenues	*73.6 %*	*77.9 %*		
Industrial as a percentage of total revenues	*26.4 %*	*22.1 %*		

Medical revenues decreased $20.2 million, primarily due to decreased sales of fluoroscopic, dental, and CT, partially offset by increased sales in mammography.

Industrial revenues increased $4.6 million, primarily due to increased sales of security inspection products, partially offset by decreased sales of digital detectors.

Gross Profit

	Three Months Ended			
(In millions)	**December 29, 2023**	**December 30, 2022**	**$ Change**	**% Change**
Medical	$ 38.9	$ 46.3	$ (7.4)	(16.0)%
Industrial	18.2	17.0	1.2	7.1 %
Total gross profit	$ 57.1	$ 63.3	$ (6.2)	(9.8)%
Medical gross margin	*27.8 %*	*28.9 %*		
Industrial gross margin	*36.3 %*	*37.4 %*		
Total gross margin	*30.1 %*	*30.8 %*		

The decrease in Medical segment gross profit was primarily due an unfavorable shift in product sales mix, partially offset by decreased material costs.

The Industrial segment gross profit increased primarily due to increased sales in security inspection products, partially offset by an unfavorable shift in product sales mix.

Operating Expenses

(In millions)	Three Months Ended December 29, 2023	Three Months Ended December 30, 2022	$ Change	% Change
Research and development	$ 20.5	$ 20.0	$ 0.5	2.5 %
As a percentage of total revenues	*10.8 %*	*9.7 %*		
Selling, general, and administrative	$ 32.4	$ 30.3	$ 2.1	6.9 %
As a percentage of total revenues	*17.1 %*	*14.7 %*		
Operating expenses	$ 52.9	$ 50.3	$ 2.6	5.2 %
As a percentage of total revenues	*27.8 %*	*24.5 %*		

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 increased to 10.8% of revenues for the first quarter of fiscal year 2024, primarily due to decreased sales and increased research and development costs.

Selling, General, and Administrative

Selling, general, and administrative expenses for the first quarter of fiscal year 2024 increased $2.1 million, primarily due to increased fixed cost commitments to a supplier and increased compensation costs.

Interest and Other Expense, Net

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

(In millions)	Three Months Ended December 29, 2023	Three Months Ended December 30, 2022	$ Change
Interest income	$ 1.9	$ 0.5	$ 1.4
Interest expense	(7.3)	(7.5)	0.2
Other income (expense), net	0.6	(0.6)	1.2
Interest and other expense, net	$ (4.8)	$ (7.6)	$ 2.8

Interest and other expense, net decreased in the first quarter of fiscal year 2024 compared to the first quarter of 2023. Interest expense decreased due to reduced fees on the ABL Facility and reduced outstanding other debt.

Other income (expense), net increased due to a gain on business acquisition, partly offset with losses in certain investments in privately-held companies and equity investments and increased foreign exchange expense.

Interest income increased primarily due to an increase in investments made into marketable debt securities.

Taxes on (Loss) income

For the three months ended December 29, 2023 we recognized income tax benefit of $0.2 million on $0.6 million of pre-tax loss. For the three months ended December 30, 2022 we recognized income tax expense of $2.2 million on $5.4 million of pre-tax income. Our tax expense for the three months ended December 29, 2023 decreased, primarily due to decreased pre-tax income in certain jurisdictions and losses in certain foreign jurisdictions for which no benefit can be recorded.

Liquidity and Capital Resources

We assess our liquidity in terms of our ability to generate cash to fund our operations, including working capital and investing activities. We believe that our operating cash flow, cash on our balance sheet, availability under our ABL Facility, and our ability to access the credit and capital markets are sufficient to meet our anticipated operating activities and cash commitments for at least the next 12 months and 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-term and long-term basis. We are currently not aware of any trends or demands, commitments, events, or uncertainties that will result in or that are reasonably likely to result in a material change to our liquidity needs during or beyond the next 12 months, except our Convertible Notes that become due in June 2025 that we currently anticipate refinancing using some combination of future borrowings and cash. The maximum availability under our ABL Facility is $100.0 million; however, the borrowing base under the ABL Facility fluctuates from month to month depending on the amount of eligible accounts receivable, inventory, and real estate. As of December 29, 2023, the amount available under our ABL Facility was $71.9 million, and the ABL Facility remains undrawn. At December 29, 2023 we had total debt of $443.0 million, net of deferred issuance costs of $4.8 million.

Cash and Cash Equivalents, Certificates of Deposit, and Marketable Securities

The following table summarizes our cash and cash equivalents, certificates of deposit, and marketable securities:

(In millions)	**December 29, 2023**	**September 29, 2023**	**$ Change**
Cash and cash equivalents	$ 141.3	$ 152.6	$ (11.3)
Certificates of deposit not included in cash and cash equivalents	1.0	1.0	—
Marketable securities not included in cash and cash equivalents	52.2	41.3	10.9
Total	$ 194.5	$ 194.9	$ (0.4)

Borrowings

The following table summarizes the changes in our debt outstanding:

(In millions, except for percentages)	December 29, 2023 Amount	September 29, 2023 Amount	$ Change
Current maturities of long-term debt			
Other debt	$ 1.6	$ 1.5	$ 0.1
Non-current maturities of long-term debt:			
Convertible Senior Unsecured Notes	$ 200.0	$ 200.0	$ —
Senior Secured Notes	243.0	243.0	—
Other debt	3.2	3.5	(0.3)
Total non-current maturities of long-term debt:	**$ 446.2**	**$ 446.5**	**$ (0.3)**
Unamortized issuance costs			
Unamortized issuance costs - Convertible Notes	$ (2.1)	$ (2.5)	$ 0.4
Unamortized issuance costs - Senior Secured Notes	(2.7)	(2.9)	0.2
Total	**(4.8)**	**(5.4)**	**0.6**
Total debt outstanding, net	**$ 443.0**	**$ 442.6**	**$ 0.4**

Cash Flows

(In millions)	Three Months Ended December 29, 2023	December 30, 2022
Net cash flow (used in) provided by:		
Operating activities	$ 10.3	$ (3.7)
Investing activities	(19.9)	(3.7)
Financing activities	(1.7)	(0.4)
Net decrease in cash and cash equivalents and restricted cash	$ (11.3)	$ (7.8)

Net cash provided by (used in) operating activities. Net cash provided by (used in) operating activities was $10.3 million and $(3.7) million for the three months ended December 29, 2023 and December 30, 2022, respectively. The increase in cash provided by operating activities was primarily due to increased collections from accounts receivable and a reduction in cash outflows for inventory and prepaid expenses, partially offset by a decrease in non-cash adjustments to income when compared to the three months ended December 30, 2022.

Net cash used in investing activities. Net cash used in investing activities was $19.9 million and $3.7 million for the three months ended December 29, 2023 and December 30, 2022, respectively. The increase in cash used in investing activities was primarily due to increased purchases of marketable debt securities, along with increased purchases of property, plant, and equipment during the three months ended December 29, 2023, partially offset by the settlement of net investment hedges.

Net cash used in financing activities. Net cash used in financing activities was $1.7 million and $0.4 million for the three months ended December 29, 2023 and December 30, 2022, respectively. The increase in cash used in financing activities was primarily due to cash payments related to the taxes for net share settlement of equity awards for the three months ended December 30, 2022.

Material 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 2024, the Company's fixed cost commitment was determined to be $12.4 million for calendar year 2024. The amended agreement will continue unless the ownership structure of dpiX changes (as defined in the amended agreement).

In August 2015, pursuant to a Domination and Profit and Loss Transfer Agreement (the "DPLTA"), we committed to pay the noncontrolling shareholders of MeVis Medical an annual recurring net compensation of €0.95 per MeVis Medical share. The annual net payment will continue for the life of the DPLTA, which we anticipate will continue for as long as we remain as the controlling shareholder of MeVis Medical. As of December 29, 2023, noncontrolling shareholders together held approximately 0.5 million shares of MeVis Medical, representing 26.3% of the outstanding shares.

In fiscal year 2022, the Company entered into several agreements with a third-party company, whose stock is publicly traded on a foreign exchange. Under these agreements, the Company will make certain milestone payments of up to $5.0 million upon achievement of specified milestones. During fiscal year 2022, the first of these milestones was achieved and the Company paid $1.0 million to the third-party company. During fiscal year 2023, two more milestones were achieved and the Company paid an additional $2.0 million to the third-party company. No additional milestones were achieved nor were any payments made during the first quarter of fiscal year 2024. Payments made under this agreement are recorded in research and development in the Condensed Consolidated Statements of Operations. As of December 29, 2023, there were two milestones remaining of $1.0 million each under these agreements.

The Company enters into purchase agreements with its suppliers in the ordinary course of its business for the purchase of goods and services. Some of these purchase agreements are non-cancellable and thus contractually obligate the Company to future cash payments. As of December 29, 2023, our non-cancellable supplier purchase obligations totaled $8.2 million.

Contingencies

From time to time, we are a party to or otherwise involved in legal proceedings, government inspections, investigations, customs and duty audits, and other claims and contingency matters, both inside and outside the United States, arising in the ordinary course of our business or otherwise. We accrue amounts for probable losses, to the extent they can be reasonably estimated, that we believe are adequate to address any liabilities related to legal proceedings as well as other loss contingencies that we believe will result in a probable loss (including, among other things, probable settlement value). A loss or a range of loss is disclosed when it is reasonably possible that a material loss will be incurred and can be estimated or when it is reasonably possible that the amount of a loss, when material, will exceed the recorded provision. We did not have any material contingent liabilities as of December 29, 2023 and September 29, 2023. Legal expenses are expensed as incurred.

Days Sales Outstanding

Trade accounts receivable days sales outstanding ("DSO") was 67 days at December 29, 2023 and 65 days at September 29, 2023. Our accounts receivable and DSO are impacted by a number of factors, including the timing of product shipments, collections performance, payment terms, the mix of revenues from different regions and the effects of economic instability.

Recent Accounting Standards or Updates Not Yet Effective

See Note 1, *Summary of Significant Accounting Policies*, of the accompanying 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.

Backlog

Backlog is the accumulation of all orders for which revenues have not been recognized and are still considered valid. Backlog also includes a small portion of billed service contracts that are included in deferred revenue. Our estimated total backlog at December 29, 2023 was approximately $299 million.

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Currency Exchange Rate Risk

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

We may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, net investments in foreign subsidiaries, and forecast purchases denominated in foreign currencies. We may hedge portions of forecasted foreign currency exposure, typically for one to three months. In addition, we hold cross-currency swaps between the Euro and U.S. Dollar as a net investment hedge of our acquisition of Direct Conversion. Depending on the spot rate between the Euro and U.S. Dollar at the time of settlement and whether we have sufficient Euros available, we may have to borrow incrementally in U.S. Dollars to settle this obligation. Additionally, we may choose not to hedge certain foreign exchange exposures for a variety of reasons including, but not limited to, accounting considerations, the prohibitive economic cost of hedging particular exposures, or due to natural offsets among the different exposures. See Note 5, *Financial Derivatives and Hedging Activities,* of the Notes to the Condensed Consolidated Financial Statements for further information.

Credit and Counterparty Risk

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

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

Interest Rate Risk

Borrowings under our ABL Facility bear interest at floating interest rates. At December 29, 2023, we had no borrowings subject to floating interest rates. See Note 9, *Borrowings,* of the Notes to the Condensed Consolidated Financial Statements for further information.

Our exposure to interest rate risk also relates to our interest-bearing assets, primarily our cash and cash equivalents and marketable securities. Fixed rate securities may have their market value adversely affected due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fluctuate due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates.

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 December 29, 2023, we did not have any commodity derivative instruments in place to manage our exposure to price changes.

Sensitivity Analysis

The following table sets forth the potential loss in future earnings, fair value, or cash flows resulting from hypothetical changes in relevant market rates or prices as of December 29, 2023.

Market Risk Category	Hypothetical Change	Estimated Annual Impact (In millions)	Impact Category
Foreign Currency - Revenue	10% decrease in foreign exchange rates	$ 17.1	Earnings
Interest Rate - Marketable Securities	100 basis point decrease in interest rate of underlying investments	1.3	Earnings
Commodity Price	10% increase in commodity prices	$ 3.7	Earnings

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, as amended (the "Exchange Act") are designed to provide reasonable assurance 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 SEC and that such information is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this report. Based on this evaluation, our CEO and our CFO have concluded that our disclosure controls and procedures were effective as of December 29, 2023.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 29, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

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. The resolution of such claims, complaints, and legal actions is subject to significant uncertainty and may be expensive, time consuming and disruptive to our operations. At the present time, we do not believe we have any current or pending litigation for which the outcome could have a material adverse effect on our operations or financial position.

Item 1A. Risk Factors

Investing in Varex Imaging Corporation common stock involves risks and the following risk factors and other information included in this Quarterly Report on Form 10-Q (this "Quarterly Report") under Part I, Item 2 "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and Part I, Item 3 "*Quantitative and Qualitative Disclosures about Market Risk*" 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 are presently known to us that we presently deem not material may also adversely affect our business operations.

Risks Relating to Our Business

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

We had one customer during the three months ended December 29, 2023 that accounted for 15% of our revenue. Our ten largest customers as a group accounted for approximately 52% and 55% of our revenue for the three months ended December 29, 2023 and December 30, 2022, respectively. Because we often take significant time to replace lost business, in the past our operating results have been, and in the future it is likely that our operating results would be, materially and adversely affected if one or more of our major OEM customers were to cancel, delay, or reduce orders in the future.

Furthermore, we generate significant accounts receivables from the sale of our products and the provision of services directly to our major customers. One customer accounted for 8.2% of our accounts receivables as of December 29, 2023. If one or more of these customers were to cancel a product order or service contract, become insolvent, or otherwise be unable or fail to pay for our products and/or services in a timely manner, our operating results and financial condition could be materially and adversely affected.

We may not be able to accurately predict the demand or delivery schedules for our products.

End-user product demand, economic uncertainties, the impact of pandemic diseases, natural disasters, armed conflict, geopolitical tensions, government actions (for example, the Chinese government initiated anti-corruption investigation related to its healthcare industry), and other matters beyond our control, make it difficult for our customers to accurately forecast and plan future business activities, which makes it difficult for us to accurately predict demand for our products. Because the manufacture of our products requires some lead-time, changes in customer purchasing forecasts have previously resulted in excess inventory and slowdowns in sales, which are likely to occur again in the future. Changes to customer forecasts can occur on short notice, as our customers face inherent competitive issues, new product introduction delays, and market and regulatory risks. Our agreements for imaging components contain purchasing estimates that are typically based on our customers' forward-looking forecasts 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 we may not be able to accurately forecast. Reductions in purchasing patterns have in the past, and may in the future, materially and adversely affect our operating results.

We compete in highly competitive markets, and we are subject to pricing pressures and other factors that could result in margin erosion and loss of customers.

We compete in markets characterized by rapidly-evolving technology, intense competition and pricing pressure. We often compete with companies that have greater financial, marketing and other resources than us. Some of the major diagnostic imaging systems companies, which are the primary OEM customers for our X-ray imaging components, also manufacture X-ray imaging components, including X-ray tubes and flat panel detectors, for use in their own imaging systems products. We have experienced, and may in the future experience, decreased sales of our products to these customers if they manufacture a greater percentage of their components in-house or purchase components from external sources other than us, which has had and may in the future have an

adverse effect on our business and results of operations. We have in the past made price and other concessions to maintain existing customers and attract new customers, and may have to make additional price concessions in the future.

In addition, we compete 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 we face intense competition from over a dozen smaller competitors. In our Industrial segment, we also compete with other OEM suppliers primarily outside of the United States. Some of our competitors outside of the United States may have resources and support from their governments that we do not, such as preferences for local manufacturers, and may not be subject to the same trade compliance regulations as us.

Our competitors are not all subject to the same standards, regulatory and/or other legal requirements to which we are 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 our competitors could limit market acceptance of our products and negatively and materially affect our pricing, sales, revenues, market share, and gross margins and our ability to maintain or increase our operating margins.

Our success depends on meeting our customers' needs and demands.

To be successful, we must anticipate our customers' needs and demands, as well as potential shifts in market preferences. If we are unable to anticipate these needs and demands, or the mix of products requested by our customers changes from what we expect, our revenue, margins, and financial results could be adversely affected. When the U.S. Dollar is strong compared to the operating currencies of our international customers, our ability to meet such customers' pricing expectations is particularly challenging and may result in erosion of revenues, product margin, and/or market share or other concessions on business terms.

In addition, certain costs, including installation and warranty costs, associated with new products may be proportionately greater than the costs associated with existing products and may therefore disproportionately, materially, and adversely affect our gross and operating margins. We may also experience lower margins due to increased commodities prices, and inadequate transfer pricing favoring sales to third parties over internal sales. If we are unable to lower these costs over time, our operating results could be materially and adversely affected. Some of the electronic components and integrated circuits used in our flat panel detectors are susceptible to discontinuance and obsolescence risks, which may force us to incorporate newer generations of these components, resulting in unplanned additional R&D expenses, delays in the launch of new products, supply disruptions, or inventory write-downs. Further, using aging production equipment might hamper our capacity to innovate to meet customers' needs and demands and stay competitive. Failure to develop and adopt artificial intelligence ("AI") technology could also hinder competitiveness and growth potential in a rapidly evolving market. We may also experience challenges in developing and implementing effective market strategies, leading to missed opportunities and customer dissatisfaction.

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

We operate in a market characterized by rapid change and technological innovation. Our customers use our products in their medical diagnostic, security, and industrial imaging systems, and we must continually introduce new products at competitive prices while also improving existing products with higher quality, lower costs, and increased features. We and our joint ventures have in the past spent, and in the future may need to spend, more time and money than we expect to develop, market, and introduce new products, product enhancements, and technologies. Even if we succeed in introducing new products, enhancements, or technologies as soon as expected, if at all, potential customers may not accept or purchase these new products, enhancements, or technologies, and we may not be able to recover all or a meaningful part of our investment. Once introduced, new products may materially and adversely impact sales of our existing products or make them less desirable or even obsolete, which could materially and adversely impact our revenues and operating results.

Furthermore, we may not be able to successfully develop, manufacture, or introduce new products or enhancements to existing products, the roll-out of which involves compliance with complex quality assurance processes, including the Quality System Regulation ("QSR") of the U.S. Food and Drug Administration ("FDA"). Failure to complete these processes timely and efficiently could result in delays that could affect our ability to attract and retain customers or cause customers to delay or cancel orders, which would materially and adversely affect our revenues and operating results.

More than half of our revenue is generated from customers located outside the United States, and is subject to global, regional, and country-specific economic instability, shifting political environments, changing tax treatment, and other risks associated with international manufacturing, operations, and sales.

Revenues generated from customers located outside the United States accounted for approximately 68% and 68% of our total revenues for the three months ended December 29, 2023 and December 30, 2022, respectively. We intend to continue to expand our presence in international markets and expect to expend significant resources in doing so. Our future results could be impacted 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);
- political and economic instability, including the possibility of civil unrest, terrorism, mass violence or armed conflict, which may among other things, impact our operations and business access;
- difficulties in staffing and managing employee relations in foreign operations, including in foreign joint ventures, particularly in attracting and retaining personnel qualified to design, test, sell and support our products;
- difficulties in coordinating our operations globally and in maintaining uniform standards, controls, procedures, and policies across our operations;
- 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;
- imposition of burdensome governmental regulations, including changing laws and regulations with respect to collection and maintenance of personally identifiable data;
- the imposition by governments of additional taxes, tariffs, global economic sanctions programs, or other restrictions on foreign trade; and
- compliance with export laws and requirements.

Our international locations expose us to higher security risks compared to our United States locations, which could result in both harm to our employees and contractors or substantial costs. Some of our 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 we have employees or operations, we may incur substantial costs to maintain the safety of our personnel, and we may suffer the loss of employees and contractors, which could harm our business reputation and operating results.

We may be unable to complete future acquisitions or joint ventures or realize expected benefits from acquisitions of or investments in new businesses and joint ventures, products, or technologies, which could harm our business.

Our ability to identify and take advantage of attractive acquisitions or other business development opportunities (including through joint ventures) is an important component in implementing our overall business strategy. Such transactions involve a number of risks, including the following:

- we may not be able to identify suitable candidates or successfully complete or finance identified acquisitions,
- we may incur substantial costs, including advisory fees and diversion of management attention, in evaluating a potential transaction;
- we may be unable to achieve the anticipated benefits from the transaction, including a return on our investment;
- we may have difficulty integrating organizations, products, technologies, or employees of an acquired business into our operations and may have difficulty retaining the key personnel of the acquired business;
- acquisitions, investments, and joint ventures could result in increased risks, including from potential litigation,
- we may find that we need to restructure or divest acquired businesses or assets of the acquired business; and
- if we fail to achieve the anticipated growth from an acquisition or joint venture, or if we decide to sell assets or a business, we may be required to dispose of a business at a lower price or on less advantageous terms, or to recognize an impairment loss on the write-down of our assets and goodwill.

We participate in joint ventures and other investments in privately held and publicly traded companies. For example, we hold a 40% ownership interest in dpiX LLC, our major supplier of our amorphous silicon-based thin film transistor arrays for flat panels used in our digital image detectors, and a 50% interest in VEC Imaging GmbH & Co. KG, ("VEC") a joint venture formed to develop technology for use in X-ray imaging components, and a minority interest in another X-ray imaging components technology company. These and other investments are subject to risk of loss of investment capital as well as losses associated with contributed or jointly developed intellectual property, or intellectual property developed at or about the same time as these investments. These types of investments are inherently risky, in some instances because the markets for the technologies or products these companies have under development may never materialize, may develop slower than expected, or may underperform relative to our expectations. If these companies do not succeed, we could lose some or all of our investment in these companies. In addition, we may incur significant costs and management resources to enforce our rights, protect our intellectual property and other assets, address disputes or legal claims that have arisen, are ongoing, or may arise in the future, and/or unwind, dispose of or terminate our arrangements with respect to these

investments. There is no guarantee that the time and money invested by us in these projects, developed intellectual property, or product or product enhancements, will yield the expected returns on the anticipated timeline or at all.

Legal proceedings may materially and adversely affect our business, results of operations, or cash flows.

From time to time, we are a party to or otherwise involved in legal proceedings, claims, government inspections, audits or investigations, and other legal matters, both inside and outside the United States, arising in the ordinary course of our business or otherwise. Such proceedings are often lengthy, subject to significant uncertainty and may be expensive, time consuming, and disruptive to our operations. For these and other reasons, we may choose to settle legal proceedings and claims, regardless of their actual merit. If a legal proceeding were ultimately resolved against us, we may be required to pay damages or fines, some of which may be in excess of our insurance coverage, or may require us to change our business practices, which could materially and adversely impact our business, results of operations, or cash flows.

Our subsidiary Varex Imaging Deutschland AG holds a 50% interest in VEC. In August 2023, the partners to the VEC joint venture filed judicial proceedings in Germany against one another disputing the validity of shareholder resolutions passed in January 2023. Each party is seeking to have the other party's managing director(s) removed and to exclude the other party from the joint venture. If either party is successful, the prevailing party would be required to purchase the non-prevailing party's interest in the joint venture for an amount equal to 75% of the fair market value thereof, which amount is in dispute.

Product defects or misuse may result in material product or other liability or professional errors and omissions claims, litigation, investigation by regulatory authorities, or product recalls.

Our business exposes us to potential product and other 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 our products, through incorporation into 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, the possibility for significant personal injury or loss of life exists. Furthermore, if our x-ray inspection systems fail to detect the presence of bombs, explosives, weapons, contraband, or other threats to personal safety, this may lead to personal injury, loss of life, and extensive property damage. We may also be subject to warranty and damage claims for property damage, personal injury, or economic loss related to or resulting from any errors or defects in our products or the installation, servicing, or support of our products. Any accident or mistreatment could subject us to legal costs, litigation, adverse publicity, and damage to our reputation, whether or not our products or services were a factor. We are currently a party to certain products liability litigation which, if adversely determined, could have an adverse material impact on our financial results. If a product we design or manufacture were defective, we may be required to correct or recall the product and notify regulatory authorities.

We may choose to settle product liability claims against us regardless of their actual merit. A product liability action determined against us could result in adverse publicity or significant damages, including the possibility of punitive damages, and our combined financial position, results of operations, or cash flows could be materially and adversely affected.

We maintain limited product liability insurance coverage. Our product liability insurance policies are expensive and have high deductible amounts and self-insured retentions. Our 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 our insurance coverage, we could have to pay substantial damages, which could have a material and adverse effect on our financial position and/or results of operations.

Risks Relating to the Manufacture of our Products

Supply chain disruptions, including the loss of a supplier, and any inability to obtain raw materials or supplies of important components due to inflation have impacted our ability to manufacture products, have caused delays in our ability to deliver products, and have increased our costs and may continue to do so.

Inflation and supply chain disruptions have had, are currently having, and could continue to have, an impact on our ability to manufacture certain products. Inflation has the potential to increase our overall cost structure, and sustained inflation has resulted in, and may continue to result in, higher interest rates and capital costs, increased shipping costs, supply shortages, increased costs of labor, weakening exchange rates, and other similar effects.

Material shortages and delays due to inflation and other market constraints have caused, and could in the future cause, us to temporarily stop production of certain products or miss opportunities to pursue additional sales of some products. We require certain raw materials, such as copper, nickel, silver, gold, lead, tungsten, iridium, rhenium, molybdenum, rhodium, niobium, zirconium, beryllium, and various high grades of steel alloy for X-ray tubes and industrial products. Worldwide demand, availability, and pricing of these raw materials have been volatile. If we are unable to obtain the materials necessary to make certain products without unreasonable delay, our customers may seek alternative suppliers or decide to in-source certain products or if we must pay more for certain materials, it could reduce our profit margin or otherwise have a material adverse effect on our business and financial results. Further, our competitors with greater financial resources may be better able to restructure their manufacturing and supply chains in response to geopolitical and economic trends and thereby have a competitive advantage over us.

We obtain some of the components included in our products from a limited group of suppliers or from sole-source suppliers, such as 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. If current suppliers cease producing these or other components, fail to provide products on our delivery timelines, or become insufficiently solvent to continue operations, there can be no assurance that the components will be available from other suppliers on reasonable terms or at all, and this could materially and adversely affect our business and financial results.

Furthermore, we may be required to obtain and qualify one or more replacement suppliers or to manufacture the components internally. Such an event (1) may then also require us to redesign or modify our products to incorporate new parts and/or further require us to obtain clearance, qualification, or certification of these products, including by the FDA, or obtain other applicable regulatory approvals in other countries, (2) could significantly increase costs for the affected products, (3) cause material delays in delivery of affected and other related products, or (4) could prevent us from meeting our delivery obligations to our customers.

If we are not able to match our manufacturing capacity with demand for our products, our financial results may suffer.

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

Delivery schedules for our security, industrial, and inspection products tend to be unpredictable.

The demand for our security and inspection products is heavily influenced by United States 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. 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, this could cause volatility in our revenues and earnings.

Our operations are vulnerable to interruption or loss due to natural or other disasters, the effects of climate change, power loss, strikes, and other events beyond our control.

We conduct some of our 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. A major disaster (such as a major fire, hurricane, earthquake, flood, tsunami, volcanic eruption, or terrorist attack) or a climate change-related event affecting our facilities, or those of our suppliers, could significantly disrupt our operations and delay or prevent product manufacture and shipment during the time required to repair, rebuild, or replace our or our suppliers' damaged manufacturing facilities. These delays could be lengthy and costly. If any of our customers' facilities are adversely affected by such a disaster or event, shipments of our products could be delayed. Additionally, customers may delay purchases of our products until our or their operations return to normal. Even if our suppliers or customers are able to quickly respond to such a disaster or event, the ongoing effects could create some uncertainty in the operations of our business. In addition, concerns about terrorism, the effects of a terrorist attack, political turmoil, or an outbreak of epidemic diseases have in the past had, and could in the future have, a negative effect on our business operations, those of our suppliers and customers, and the ability to travel, resulting in adverse consequences on our revenues and financial performance.

Risks Relating to our Intellectual Property and Information Systems

Our competitive position would be harmed if we are not able to maintain or defend our intellectual property rights, and protecting our intellectual property and defending against infringement claims can be costly.

We file applications as appropriate for patents covering new products and manufacturing processes. We cannot be sure, however, that patents will be issued from any of our pending or future patent applications or that our current patents, the claims allowed under our current patents, or patents for technologies licensed to us will be sufficiently broad to protect our technology position against competitors. We also jointly develop intellectual property with third parties and seek to protect our rights to such intellectual property through licenses and other contractual arrangements.

We also rely 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 our proprietary, and other confidential rights. Our trade secrets may become known to or be independently developed by others, including as a result of misappropriation by unauthorized access to our technology systems, and our business and financial results could be materially and adversely impacted. We have trademarks, both registered and unregistered, that are maintained and enforced to provide customer recognition for our products in the marketplace, but unauthorized parties may still use them. We also license certain patented or proprietary technologies from others. In some cases, products with substantial revenues may depend on these license rights. If we were to lose the rights to license these technologies, or our costs to license these technologies were to materially increase, our business would suffer.

There is a substantial amount of litigation over patent and other intellectual property rights in the industries in which we compete. Our 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 our activities for conflicts with their patent rights. From time to time, we have received notices from parties asserting infringement, and we have been subject to lawsuits alleging infringement of patent or other intellectual property rights. In addition, from time to time we have entered, and in the future we may enter, into agreements that require us to indemnify our customers for intellectual property infringement, which agreements could subject us to liability. One of our subsidiary's customers has been named as a defendant in a lawsuit alleging that the customer's system (which incorporates our subsidiary's products) infringes upon the plaintiff's patent. Under the contract with the customer, our subsidiary has an obligation to indemnify the customer for damages resulting from that lawsuit, which if determined adversely could have a negative impact of our results of operations. Legal disputes relating to intellectual property have occurred, are occurring, and may occur in the future. Any dispute regarding patents or other intellectual property, including with respect to breaches of licensing agreements or other contractual arrangements, could be costly and time consuming and could divert our management and key personnel from our business operations. We may not prevail in a dispute. We do not maintain insurance for intellectual property infringement, so costs of defense, whether or not we are successful in defending an infringement claim, will be borne by us and could be significant. If we are unsuccessful in defending or appealing an infringement claim or claims alleging other contractual breaches, we may be subject to significant damages, and our combined financial position, results of operations, or cash flows could be materially and adversely affected. We may also be subject to injunctions against development and sale of our products, the effect of which could be to materially reduce our revenues. Additionally, as we expand our manufacturing capabilities outside of the United States, more of our intellectual property may be held in jurisdictions that lack robust intellectual property protections, which may make it harder for us to adequately protect our intellectual property.

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

Information technology (including technology from third-party providers) helps us operate efficiently, interface with and support our customers, maintain financial accuracy and efficiency, and produce our financial statements. In the ordinary course of our business, we collect, process, and store sensitive data, including intellectual property, proprietary business information, and information of customers, suppliers, business partners, and third parties accessing our website, patient data, and personally identifiable information of customers and employees, in our data centers and on our networks, as well as in third-party off-site data centers. Despite security measures, there is an increasing threat of information security attacks, including from computer viruses or other malicious codes, unauthorized access attempts, and cyber-attacks that pose risks to companies, including us. 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, we 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 materially disrupt our operations. Such security breaches could expose us to a risk of loss of information and intellectual property, litigation, and possible liability to employees, customers, shareholders, and/or regulatory authorities. If our data management systems do not effectively collect, secure, store, process, and report relevant data for the operation of our business, whether due to equipment malfunction or constraints, software deficiencies, or human error, our ability to effectively plan, forecast, and execute our business

plan and comply with applicable laws and regulations will be impaired, perhaps materially. Any such impairment could materially and adversely affect our financial condition, results of operations, cash flows, and the timeliness with which we report our operating results internally and externally.

We use certain cloud-based software. A security breach, whether of our products, of our customers' network security and systems, or of third-party hosting services could disrupt access to our customers' stored information and could lead to the loss of, damage to, or public disclosure of our 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 our solutions, an unwillingness of our customers to use our solutions, harm to our reputation and brand, and time-consuming and expensive litigation, any of which could have a material and adverse effect on our financial results.

Risks Relating to Our Legal and Regulatory Environment

Changes in import/export regulatory regimes, tariffs, and national policies could continue to negatively impact 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, import restrictions, duties or other additional taxes or restrictions on our customer's products, the demand for such products, and our components included in such products, could decrease, which could have a material adverse effect on our business. Uncertainty over tariffs and trade wars could also cause our customers to delay or cancel orders for our products.

In the past, the United States has imposed tariffs on items imported from China and other countries that are incorporated into our products. Tariffs on these items have increased our costs and prices and lowered gross margins on some of our products, thereby having a direct adverse impact on our business and results of operations. China has also imposed retaliatory tariffs that impact a number of our products, including United States origin X-ray tubes, heat exchange units, and certain flat panel detectors. These tariffs have increased our customers' costs for products imported into China, which has caused us to make price concessions on some products and has caused some customers to stop purchasing our products.

Tariffs could limit our ability to compete for increased market share in China, which could cause our long-term prospects in China to suffer. The imposition of additional tariffs by the United States could result in the adoption of additional tariffs by China and other countries, as well as further retaliatory actions by any affected country, which could negatively impact the global market for imaging equipment and could have a significant adverse effect on our business.

Both the governments of the United States and China have granted tariff exclusions that temporarily eliminate duties payable for specific commodities, providing partial relief from such tariffs, but they must be solicited and approved on a shipment-by-shipment basis. There is no guarantee that such exclusions will be granted or extended by either government, and the United States tariff exclusions are set to expire on May 31, 2024, unless extended.

In addition to tariffs, China's stated policy of reducing its dependence on foreign manufacturers and technology companies may result in reduced demand for our products in China, which could have a material adverse impact on our business, results of operations and financial position. There are risks that the Chinese government may, among other things, require the use of local suppliers, compel companies that do business in China to partner with local companies to conduct business, or provide incentives to government-backed local customers to buy from local suppliers rather than companies like ours, all of which could adversely impact our business, results of operations and financial position.

The Chinese government recently initiated investigations into corruption in its healthcare industry. This has had a broad-based impact on the healthcare industry in China and slowed sales of healthcare products there. As a result, our sales in China have also slowed. We expect the investigations to continue into fiscal year 2024, and this could continue to adversely impact revenues in our China business.

Increasing tensions between China and Taiwan may cause the United States and/or China to impose higher tariffs, commence trade wars, move more quickly to reduce their dependence on each other's goods, or enact boycotts against each other's goods, which could cause significant disruptions in the markets and industries we serve, and in our supply chain, decrease demand from customers for the ultimate products using our solutions, and materially harm our business, financial condition and results of operations.

In response to Russia's ongoing aggression against Ukraine, as substantially enabled by Belarus, the United States Department of Commerce strengthened its existing sanctions under the Export Administration Regulations against Russia and Belarus. The enhanced sanctions would require Bureau of Industry and Security export licenses in order to export our products, including for medical, health and safety, or humanitarian purposes, to Russia and Belarus. Applications for the export of products to Russia or Belarus will be reviewed under a policy of denial and reviewed on a case-by-case basis. If licenses for the export of our product are denied, it could adversely affect our business and results of operations.

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

Earnings from our international subsidiaries are generally taxed at rates that differ from United States rates. A change in the percentage of our total earnings from our international subsidiaries, a change in the mix of particular tax jurisdictions between our international subsidiaries, or a change in currency exchange rates could cause our effective tax rate to increase. Furthermore, while United States tax reform imposed a current tax on cumulative undistributed earnings, these earnings could also become subject to incremental foreign withholding or United States state taxes should they actually be remitted to the United States, in which case our financial results could be materially and adversely affected.

Statutory changes included in proposed United States legislation, if passed, including interpretive guidance, could materially impact our income tax expense, effective tax rate, or the value of deferred tax assets and liabilities. Changes in the valuation of our deferred tax assets or liabilities, changes in tax laws or rates, changes in the interpretation of tax laws in other jurisdictions, or other changes beyond our control could materially and adversely affect our financial position and results of operations.

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

Compliance with foreign laws and regulations applicable to the marketing, manufacturing, and distribution of our products may be costly, and failure to comply may result in unfavorable legal proceedings, in significant penalties and other harm to our business.

Outside the United States, some of our products are regulated as medical devices by foreign governmental agencies similar to the FDA. For us to market our products internationally, we must obtain clearances or approvals for products and product modifications, which can be time consuming, expensive, uncertain, and which can delay our ability to market products. 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 us from doing business in a country or subject us to a variety of enforcement actions and civil or criminal penalties, which would materially and adversely affect our business. In addition, compliance with changing regulatory schemes may add additional complexity, cost, and delays in marketing, or selling our products.

Within the European Union ("EU") and the European Economic Area ("EEA"), we must obtain, and in turn affix, a CE mark certification, that indicates that a product meets the essential requirements of the EU's Medical Device Directive ("MDD") and the EU Medical Device Regulations. By affixing the CE mark to our product, we are certifying that our products comply with the laws and regulations required by the EU/EEA countries, thereby allowing the free movement of our products within these countries and others that accept CE mark standards. If we cannot support our performance claims and demonstrate compliance with the applicable European laws and the MDD, we would lose our right to affix the CE mark to our products, which would prevent us from selling our products within the EU/EEA/Switzerland territory and in other countries that recognize the CE mark.

We are 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, or more stringent than, 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, we are required to timely file various reports with international regulatory authorities similar to the reports we are required to timely file with United States 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 our market authorizations or CE mark, and sales of our products may suffer.

As we enter new businesses or pursue new business opportunities internationally, or as regulatory schemes change, we may become subject to additional laws, rules, and regulations, and compliance can be costly. The failure by us or our 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 our products in or to import our products into certain countries, which could materially and adversely affect our business.

Compliance with United States laws and regulations applicable to the marketing, manufacturing, and distribution of our products may be costly, and failure or delays in obtaining regulatory clearances or approvals, or failure to comply with applicable laws and regulations could harm our business.

If we or any of our suppliers, distributors, agents, or customers fail to comply with FDA, Federal Trade Commission, or other applicable United States regulatory requirements or are perceived to have failed to comply with regulations, we may face:

- adverse publicity affecting both us and our 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 our products or those of our customers;
- delays in purchasing decisions by customers or cancellation of existing orders;
- the inability to sell our products; and
- difficulty in obtaining product liability or operating insurance at a reasonable cost, or at all.

Generally, our manufacturing operations for medical devices, and those of our third-party manufacturers, are required to comply with the QSR of the FDA, as well as other federal and state regulations for medical devices and radiation-emitting products. Failure to respond in a timely manner to a warning letter or any other notice of noncompliance with applicable regulations and/or procedures and to promptly come into compliance could result in the FDA bringing an enforcement action, which could include the total shutdown of our 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 we may take, which may include product recalls, correction and removal of products from customer sites, or changes to our product manufacturing and quality systems, could materially and adversely impact our 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 we could face increased pressure from our competitors, who could use the warning letter against us in competitive sales situations, either of which could materially and adversely affect our reputation, business, and stock price.

Our OEM customers are responsible for obtaining 510(k) pre-market notification clearance on their systems that integrate our products. A substantial majority of our products are “Class I” devices that do not require 510(k) clearance, but we do produce software that is classified as a Class II device subject to 510(k) clearance. Unless an exception applies, we 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 we can market or sell those products in the United States or in connection with 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. We cannot ensure that the FDA will agree with our decisions not to seek additional approvals or clearances for particular modifications to our products or that we will be successful in obtaining new 510(k) clearances for modifications. Obtaining clearances or approvals is time consuming, expensive, and uncertain. Furthermore, even if we are 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 we are unable to obtain required FDA clearance or approval for a product or are unduly delayed in doing so, or the uses of that product were limited, our business could suffer.

We are required to timely file various reports with the FDA, including reports required by the medical device reporting regulations (“MDRs”), that require we report to regulatory authorities if our devices may have caused or contributed to a death or serious injury, or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur. If we initiate a correction or removal of a device to reduce a risk to health posed by the device, we 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 our customers regarding the quality and safety of our devices. If these MDRs or correction and removal reports are not filed on a timely basis, regulators may impose sanctions, sales of our products may suffer, and we may be subject to product liability or regulatory enforcement actions, all of which could harm our business.

Government regulation may also cause significant delays or prevent the marketing and full commercialization of future products or services that we may develop and/or may impose costly requirements on our business. As we enter new businesses or pursue new business opportunities, we will become subject to additional laws, rules, and regulations, including FDA and foreign rules and regulations and compliance can be costly. Failure to comply with these laws, rules and regulations could delay the introduction of new products and could materially and adversely affect our business.

We are 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 we may incur as the consequence of regulatory violations. Consequently, we do not have insurance that would cover this type of liability.

We sell 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 we may be unable to receive registration approval or renewal of existing registrations.

We market and distribute certain X-ray tubes through distributors and third-party/multi-vendor service organizations that are used as equivalent replacements for specific OEM tubes. We are 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. 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 where we sell our products require products to undergo re-registration if the product is altered in any significant way. These registration processes can be costly and time consuming, and customers may decide to purchase products from our competitors that do not have to be involved in a re-registration process. In addition, our inability to receive or renew product registrations may prevent us from marketing and/or distributing those particular products for replacement applications in the specific country.

Existing and future healthcare reforms and changes to reimbursement rates, may indirectly have a material adverse effect on our business and results of operations.

Sales of our products to OEMs in the medical sector indirectly depend on whether adequate reimbursement is available for our 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 our customers' products, and therefore indirectly our products, may be limited, which could harm our business, results of operations, financial condition, and prospects.

Healthcare reform proposals and medical cost containment measures in the United States and in many foreign countries could limit the use of both ours and our customers' products, reduce reimbursement available for such use, further tax the sale or use of our products, and further increase the administrative and financial burden of compliance. Any changes that lower reimbursements for us or our 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 us or others in the healthcare sector could materially and adversely affect our business and results of operations.

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

Anti-corruption laws and regulations. We are subject to the U.S. Foreign Corrupt Practices Act and anti-corruption laws, and similar laws in foreign countries, such as the U.K. Bribery Act. Any violation of these laws by us or our agents or distributors could create substantial liability for us, subject our officers and directors to personal liability, and cause a loss of reputation in the market. We operate in many countries, including India and China, where the public sector is perceived as being corrupt. Our strategic business plans include expanding our business in regions and countries that are rated as higher risk for corruption activity by Transparency International e.V., an international non-profit that publishes an annual corruption perception index, which could subject us and our officers and directors to increased scrutiny and increased liability from our business operations. Becoming familiar with and implementing the infrastructure necessary to comply with laws, rules, and regulations applicable to new business activities and mitigating and protecting against corruption risks could be costly. Failure by us or our agents or distributors to comply with these laws, rules, and regulations could delay our expansion into high-growth markets and materially and adversely affect our business.

Competition and trade compliance laws. We are subject to various competition and trade compliance laws in the jurisdictions where we operate throughout the world. Regulatory authorities in those jurisdictions may have the power to subject us to sanctions and impose changes or conditions in the way we conduct our business. An increasing number of jurisdictions provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct and seek damages. Increased government scrutiny of our actions or enforcement or private rights of action could materially and adversely affect our business or damage our reputation. We 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 our management and key personnel from our business operations. An adverse outcome under any such investigation or audit could subject us to fines and criminal or other penalties, which could materially and adversely affect our business and financial results. Furthermore, competition laws may prohibit or increase the cost of future acquisitions that we may desire to undertake.

Laws and ethical rules governing interactions with healthcare providers. We may occasionally sell our products to healthcare providers through distributors or otherwise engage healthcare providers to provide services. 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 our sales, marketing, and other promotional activities by limiting the kinds of financial arrangements we may have with hospitals, physicians, or other potential purchasers of our products. They particularly impact how we structure our 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 we do 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 our practices could cause adverse publicity and be costly to defend and thus could harm our 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 us to implement the necessary and costly infrastructure to track and report certain payments to healthcare providers. Failure to comply with these tracking and reporting laws could subject us to significant civil monetary penalties.

Other Laws. We are subject to other laws in foreign countries where we conduct 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 activities. We could face civil, criminal, and administrative sanctions if any member state determines that we have breached such state's national laws. Industry associations also closely monitor the activities of member companies. If these organizations or authorities name us as having breached our obligations under their regulations, rules, or standards, our reputation would suffer, and our business and financial condition could be materially and adversely affected.

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

As a manufacturer and seller of medical devices and devices emitting radiation or utilizing radioactive by-product material, we and some of our suppliers and distributors are subject to extensive regulation by 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, marketing, and disposal of our products. We are 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.

Our 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. Our manufacture, distribution, installation, service, and removal of industrial devices utilizing radioactive material or emitting radiation also requires us to obtain a number of licenses and certifications for these devices and materials. Service of these products must also be performed in accordance with specific radioactive materials licenses. Obtaining licenses and certifications may be time consuming, expensive, and uncertain.

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

Environmental laws impose compliance costs on our business and may also result in liability.

Environmental laws regulate many aspects of our operations, including our handling, storage, transport, and disposal of hazardous substances, such as the chemicals and materials that we use in the course of our manufacturing operations. They can also impose cleanup liabilities, including with respect to discontinued operations. Like other businesses, we may mishandle or inadequately manage hazardous substances used in our manufacturing operations and can never completely eliminate the risk of contamination or injury from certain materials that we use in our business and, therefore, we cannot completely eliminate the prospect of resulting claims and damage payments. We 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 we do not expect to maintain insurance coverage for costs or claims that might result from any future contamination.

Pursuant to the Separation and Distribution Agreement we entered into with Varian Medical Systems, Inc. ("Varian") when we spun off from Varian, we are obligated to indemnify Varian for 20% of the cleanup liabilities related to prior corporate restructuring activities undertaken while we were a division of Varian. This includes facilities sold as part of Varian's electron devices business in 1995 and thin film systems business in 1997. The U.S. Environmental Protection Agency ("EPA") or third parties have named Varian as a potentially responsible party under the amended Comprehensive Environmental Response Compensation and Liability Act of 1980 ("CERCLA"), at sites to which Varian or the facilities of the businesses sold in 1995 and 1997 were alleged to have shipped waste for recycling or disposal (the "CERCLA sites"). We anticipate that we will be obligated to reimburse Varian for 20% of the liabilities of Varian related to these CERCLA sites (after adjusting for any insurance proceeds or tax benefits received by Varian). We assess this indemnification obligation quarterly with Varian and make accruals accordingly. These accruals have historically been small, but can sometimes fluctuate significantly from period to period. For example, during the second quarter of fiscal year 2023, Varian informed us of an adjustment to their estimate of their liability, which resulted in an increase in our liability of approximately $2.9 million, net of expected insurance proceeds.

Future changes in environmental laws could also increase our 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, thereby 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 our products sold there. These directives, along with another that requires substance information to be provided upon request, could increase our operating costs in order to maintain our 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 our business.

Environmental, Social, Governance Risks

Our business is subject to evolving Environmental, Social, and Governance ("ESG") requirements and stakeholder expectations that could expose us to numerous risks.

Regulators, customers, investors, and other stakeholders are increasingly focusing on ESG issues and related disclosures. Changing ESG requirements and stakeholder expectations have resulted in, and are likely to continue to result in, increased general and administrative expenses and increased management time and attention spent complying with or meeting such regulations and expectations. We may also communicate certain ESG initiatives and goals in our SEC filings or in other public disclosures. If our ESG-related data, processes, and reporting are incomplete or inaccurate, or if we fail to achieve progress with respect to our ESG goals on a timely basis, or at all, our reputation, business, financial performance, and growth could be adversely affected.

In addition, our customers have adopted, and may continue to adopt, procurement policies that require us to comply with social and environmental provisions. An increasing number of investors have adopted, and may continue to adopt, ESG policies for their portfolio companies, and various voluntary sustainability initiatives and organizations have promulgated different social and environmental and sustainability guidelines. These practices, policies, provisions, and initiatives are under active development, subject to change, can be unpredictable and conflicting, and may prove difficult and expensive for us to comply with and could negatively affect our reputation, business, or financial condition.

If we are unable to retain, attract, expand, integrate, and train our management team and other key personnel, we may not be able to maintain or expand our business.

Our future success depends on our ability to retain, attract, expand, integrate, and train our management team and other key personnel, such as qualified engineering, service, sales, marketing, manufacturing, and other staff. We compete for key personnel with other medical equipment and software manufacturers and technology companies, as well as universities and research institutions. We have observed an overall tightening and increasingly competitive labor market over the past years, which has resulted in increased wages offered by other employers and voluntary attrition of employees in the industry, making it more difficult to recruit, hire, and retain talent. Because competition is intense, particularly in Utah, where unemployment rates are relatively low, compensation-related costs have increased and could continue to increase, significantly. Additionally, our United States-based employees, including our senior management team, work for us on an at-will basis, and there is no assurance that any such employees will remain with us. Replacing key employees may take an extended period of time, and to the extent we hire employees from competitors, we also may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information. Freezing new positions or terminating existing ones could hinder our ability to execute our strategic plan and achieve growth targets, resulting in long-term sacrifices for short-term gains. Further, potential employee turnover resulting from work from home policy changes, limited growth opportunities and competitive market conditions could lead to knowledge loss and decreased productivity. If we are unable to retain or hire and train qualified personnel, we may not be able to maintain or expand our business. Similarly, if we fail to adequately invest in leadership training and career development resources this could limit employee growth, lead to shortages of skilled personnel, hinder effective management and decision making, and hamper overall organizational success.

Risks Relating to Our Indebtedness

The ABL Facility and the indenture governing our Senior Secured Notes impose significant operating and financial restrictions that may limit our current and future operating flexibility, particularly our ability to respond to changes in the economy or our industry or to take certain actions, which could harm our long-term interests and may limit our ability to make payments on the notes. Because our Convertible Notes mature in June 2025, failure to maintain sufficient liquidity and/or to refinance our Convertible Notes could result in a material adverse effect on our results of operations and financial position.

As of December 29, 2023, our total combined indebtedness was approximately $447.8 million of principal, including our 4.00% Convertible Senior Unsecured Notes due 2025 (the "Convertible Notes") and our 7.875% Senior Secured Notes due 2027 (the “Senior Secured Notes”). For more information regarding our borrowings, see Note 9, *Borrowings* of the Notes to the Condensed Consolidated Financial Statements of this report.

Our $100.0 million ABL Facility and the indenture governing our Senior Secured Notes impose significant operational and financial restrictions on us that include, but are not limited to our ability to:

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

As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns;
- limited in our ability to borrow additional funds as needed or increasing the cost of such borrowing;
- challenged in satisfying our obligations, including our debt obligations;
- vulnerable to adverse economic and general industry conditions, including interest rate fluctuations, because a portion of our borrowings are and will continue to be at variable rates of interest;
- required to dedicate a substantial portion of our cash flow from operations to payments on our debt, which would reduce the availability of our cash flow from operations to fund working capital, capital expenditures, or other general corporate purposes;
- at a disadvantage compared to competitors that may have proportionately less debt; or
- unable to compete effectively or to take advantage of new business opportunities.

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

If our cash requirements in the future are greater than expected or our cash flow from operations is less than expected, our cash flow from operations may not be sufficient to repay all of the outstanding debt as it becomes due, and we may not be able to borrow money, sell assets, or otherwise raise funds on acceptable terms, or at all, to refinance our debt. Our Convertible Notes mature in June 2025, and the conversion price is currently above the trading price of our common stock. If the holders of the Convertible Notes have not converted their notes into our common stock, we currently anticipate we will need to refinance the Convertible Notes through a combination of borrowings under our ABL Facility, the entry into an expanded credit facility or the issuance of additional debt or equity securities, and cash. Any future refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants which could further restrict our business operations. Additionally, the indenture relating to our secured notes limit the use of the proceeds from any disposition of our assets. As a result, the indenture may prevent us from using the proceeds from such dispositions to satisfy our debt service obligations.

Our ability to continue to have the necessary liquidity to operate our business may be adversely impacted by a number of factors, and a deterioration of our results of operations and cash flow resulting from decreases in consumer spending, could, among other things, impact our ability to comply with the fixed charge coverage ratio contained in our ABL Facility.

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

The ABL Facility contains a minimum Fixed Charge Coverage Ratio of 1.00 to 1.00 that is tested when excess availability under the ABL is less than the greater of (i) 10.0% of the Loan Cap (the lesser of (a) the aggregate commitments under the ABL Facility and (b) the aggregate borrowing base) and (ii) $7.5 million. Adverse developments in the economy in the past have led and in the future could lead to reduced spending by our customers and end-users which could adversely impact our net sales and cash flow, which could affect our ability to comply with the fixed charge coverage ratio.

We entered into certain hedging positions that may affect the value of the Convertible Notes and the volatility and value of our common stock.

In connection with the issuance of the Convertible Notes, we entered into certain convertible note hedge transactions. These hedge transactions are expected generally to reduce potential dilution of our common stock on any conversion of the Convertible Notes or offset any cash payments we are required to make in excess of the principal amount of such converted Convertible Notes, as the case may be, with such reduction or offset subject to a cap. The counterparties to these hedging positions or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock or purchasing or selling our common stock in secondary market transactions prior to the maturity of the Convertible Notes (and are likely to do so during any observation period related to a conversion of Convertible Notes or following any repurchase of Convertible Notes by us on any fundamental change repurchase date or otherwise) which could cause or avoid an increase or a decrease in the market price of our common stock or the Convertible Notes and could adversely affect the value of our common stock.

Risks Relating to Our Common Stock

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

In the event the conditions for optional conversion of the Convertible Notes by holders are met before the close of business on the business day immediately preceding June 1, 2025, holders of the Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If we elect to satisfy our conversion obligation by settling all or a portion of our conversion obligation in cash, it could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital and may seriously harm our business. If we elect to settle our conversion obligation in shares of common stock or a combination of cash and shares of common stock, any sales of our common stock issuable on such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Convertible Notes may encourage short selling by market participants because the conversion of the Convertible Notes could be used to satisfy short positions, or anticipated conversion of the Convertible Notes into shares of our common stock, any of which could depress the market price of our common stock.

Risks Relating to Our Spin-Off

Liabilities related to our operations when we were part of Varian, or liabilities associated with the spin-off from Varian, could materially and adversely affect our business, financial condition, results of operations, and cash flows.

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

General Risks

Failure to maintain effective internal controls and procedures could negatively impact us.

In the past, we have not always been successful in maintaining effective internal controls and procedures. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business or changes in applicable accounting rules. We cannot assure that our internal control over financial reporting will be effective in the future or that material weaknesses will not be discovered with respect to a prior period for which we had previously believed that internal controls were effective. If our internal controls and procedures are not effective, our financial statements may not accurately reflect the results of our business and operations. In addition, there could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements, which could affect our stock price.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the fiscal quarter ended December 29, 2023, none of our directors or officers informed us of the adoption or termination of a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as those terms are defined in Regulation S-K, Item 408, except as follows:

On December 15, 2023, Kimberley Honeysett, our Chief Legal Officer, adopted a Rule 10b5-1 trading arrangement providing for the sale of up to 21,821 shares of our common stock that have vested or may vest to Ms. Honeysett pursuant to previously awarded stock options and restricted stock unit awards. The arrangement is intended to satisfy the affirmative defense of Rule 10b5-1(c). The first date that shares are permitted to be sold under the trading arrangement is March 15, 2024, and subsequent sales may occur until the arrangement's expiration date, which is February 14, 2025, or earlier if all transactions under the trading arrangement are completed or the trading arrangement is otherwise earlier terminated.

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).
3.2	Amended and Restated Bylaws of the Company, as amended February 11, 2021 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed February 16, 2021).
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*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File - (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VAREX IMAGING CORPORATION

Date: February 6, 2024

By: /s/ SHUBHAM MAHESHWARI

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