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ÅRSREDOVISNING

2021-10-01--2022-09-30

för

Direct Conversion AB
556542-8918

Årsredovisningen omfattar: **Sida**

Förvaltningsberättelse	2
Resultaträkning	8
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FASTSTÄLLELSEINTYG

Undertecknad styrelseledamot i Direct Conversion AB intygar härmed, dels att denna kopia av årsredovisningen och revisionsberättelsen stämmer överens med originalet, dels att resultaträkningen och balansräkningen för företaget har fastställts på årsstämma den 31 maj 2023. Årsstämman beslutade att godkänna styrelsens förslag till resultatdisposition.

Danderyd den 31.05.2023

Dirk Schimmelschulze

20230707434 10

ÅRSREDOVISNING

2021-10-01--2022-09-30

för

Direct Conversion AB
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ÅRSREDOVISNING FÖR DIRECT CONVERSION AB

Styrelsen och verkställande direktören för Direct Conversion AB avger härmed årsredovisning för räkenskapsåret 2021-10-01--2022-09-30.

FÖRVALTNINGSBERÄTTELSE

Verksamhetens art och inriktning

Direct Conversion AB med organisationsnummer 556542-8918 är ett aktiebolag registrerat i Sverige med säte i Danderyd. Adressen till huvudkontoret är Svärdvägen 23, 182 33 Danderyd. Direct Conversion är en ledande producent av kadmiumtelluridbaserade detektorer och ledande inom fotonräknande digitala röntgendetektorer för dentala, medicinska och industriella områdena. Bolaget grundades 1997 och är baserat i Stockholm samt har dotterföretag i London, Esbo, och München. Årsredovisning avser enskilt Direct Conversion AB.

Bolagets verksamhet består främst av forskning och utveckling (FoU) och anpassning av fotonräknande detektorer samt ledning och administration. Antalet anställda i moderföretaget är 15 vid utgången av september 2022. Direct Conversion fokuserar på tre olika affärsområden vilka är oberoende av varandra. I dessa kan våra befintliga och kommande detektorer effektivt användas inom de dentala, medicinska och industriella marknaderna. Direct Conversion för ett nära samarbete med våra OEMs (Original Equipment Manufacturer) för att fortsatt stärka vår position inom alla områden och för att maximera vår tekniska utveckling.

Moderföretag i den största koncernen som Direct Conversion AB är dotterföretag till är Varex Imaging Corporation, org.nr. 813434516, med säte i Salt Lake City, Förenta Staterna. Moderföretaget i den minsta koncernen som är Direct Conversion är dotterföretag till är Varex Imaging Investments BV, org. nr. NL00533475, med säte i Dinxperio, Nederländerna.

Ägarförhållanden

Bolaget är helägt av Varex Imaging Corporation genom Varex Imaging Investments BV och Varex International Holdings BV.

Väsentliga händelser under räkenskapsåret

Direct Conversion AB mottog under året ett ovillkorat aktieägartillskott om 1,5 m€ (16,7 mkr) från Varex Imaging Investment BV för att stärka bolagets eget kapital. Bolaget har även gett ett ovillkorat aktieägartillskott till det helägda dotterföretaget Oy Direct Conversion Ltd.

I en ansträngning att konsolidera antalet företag under Varex Imaging Corporation har alla tillgångar i företagets helägda dotterföretaget Direct Conversion Ltd., sålts till Varex Imaging UK Ltd för 0,4 m£ (4,7 mkr). Även anställda i dotterföretaget och andra förpliktelser har tagits över av Varex Imaging UK Ltd.

Under året har Direct Conversion AB gjort betydande framsteg inom utvecklingen av nästa generations teknik och företaget fortsätter att investera en betydande i forskning och utveckling.

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Direct Conversion AB har inte kunna möta den efterfrågan våra kunder har haft under större delar av året. För att möta en ökad efterfrågan av företagets fotonräknande röntgendetektorer har ytterligare insvetsningar i dotterföretaget Oy Direct Conversion Ltd's produktionskapacitet inletts.

Till följd av den ökade efterfrågan och en mottaglig marknad för vår fotonräknande teknik inledes en ökad integration i moderföretagets organisation för att stärka företagets möjligheter att möta efterfrågan. I samband med denna integration avgick företagets verkställande direktör Spencer Gunn och finansdirektör Rasmus Ljungwe.

Tidigare styrelseledamot Dirk Schimmelschulze tillsattes under året som verkställande direktör för företaget. Dirk har betydande erfarenhet av produktion i tillväxtföretag.

Vid årsskiftet 2021/2022 och 2022/2023 har företaget migrerat affärssystem till SAP i en ansträngning att stärka företaget förmåga till tillväxt. Under året beslutade företaget att ändra redovisningsvaluta från svenska kronor till euro och bolagsverket har registrerat ärendet. Omräkning och ändring av redovisningsvaluta trädde i kraft 1 oktober 2022. Nästa bokslut kommer att presenteras i euro.

Nya redovisningsprinciper
Detta är Direct Conversion ABs första årsredovisning upprättad enligt BFNAR 2012:1 Årsredovisning och koncernredovisning ("K3"). Tidigare har årsredovisningen upprättats i enlighet med RFR 2. Ändringen redovisningsstandard bedöms ej ha medfört en materiell inverkan på företagets finansiella rapporter. Bolagets operationell leasing har tidigare redovisats i enlighet med IFRS 16 och har retroaktivt annullerats i balansräkningen. Inverkan bedöms immateriell och kommer fortsatt endast redovisas i resultaträkningen, samt upplysas om under not 7 Leasingavtal.

Utveckling av verksamhet, ställning och resultat
Efter ett svagt 2019 har företagets nettoomsättningen ökat från år till år trots en betydande negativ inverkan av den globala komponentbristen. Bolaget har inte kunnat möta efterfrågan av företagets produkter från våra kunder på grund av komponentbrist och produktionskapacitet under de senaste tre åren. Trots negativt resultat har den ägande koncernen finansierat företaget för att bibehålla en aggressiv strategi. Medlerna har använts till att finansiera ökad lagerhållning av nyckelkomponenter för att minska påverkan av den globala komponentbristen, investingar i produktionskapacitet, samt fortsatt betydande forskning och utveckling av ny teknik och förbättrade produkter. Bolaget har sett positiva resultat av dessa investeringar genom höjd produktionskapacitet och minskad komponentbrist under de senaste sex månaderna. Ökade råmaterialkostnader och förändrad produktmix har lett till en minskad bruttomarginal jämfört med tidigare år, företaget förväntar sig inte att denna utveckling fortsätter. I syfte att stärka företagets eget kapital har ett ovillkorat aktieägartillskott om 16,7 mkr mottagits under året. Bolagets belåning är denominerad i USD och under året har en betydande försvagningen av kronan gentemot USD resulterat i en valutakursförlust om 36,4 mkr, vilket motsvarar 80 procent av Årets förlust.

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(Tkr)	2021/2022	2020/2021	2019/2020	2019 (9 månader)	2018
Nettoomsättning	90 170	84 670	66 541	34 772	75 344
Rörelseresultat	-558	-5 435	-39 436	-25 681	15 239
Årets resultat	-43 652	-9 352	-40 066	-46 066	12 692
Balansomslutning	263 742	212 315	185 627	164 706	188 720
Soliditet [1]	17,5%	34,4%	24,6%	52,3%	70,0%
Medelantal anställda	15	15	13	14	12

[1] *Justerat eget kapital / Balansomslutning. Med justerat eget kapital avses eget kapital + obeskattade reserver med avdrag för uppskjuten skatteskuld.*

Väsentliga risker och osäkerhetsfaktorer

Tidigt utvecklingsstadium

Vissa av Bolagets produkter befinner sig i en tidig utvecklingsskede. Det finns ingen garanti för att produktutvecklingar kommer att utvecklas med framgång. Utöver det ovannämnda kan det uppstå förseningar i leveranser till kunder vilket kan ådra sig ytterligare kostnader utöver de kostnader man har budgeterat för. Vidare finns ingen garanti för att utvecklade produkter kommer att klara den kliniska testningen framgångsrikt eller att de kommer att uppfylla de tillsynsmässiga samt kostnads- och produktionskrav som ställs för kommersiell distribution. Även om bolagets produkter lanseras så finns det ingen garanti för att de accepteras av marknaden eller att de kommer att generera väsentliga intäkter.

Tekniska förändringar och nuvarande konkurrens

Marknaden för digital röntgen kännetecknas av betydande tekniska förändringar. Bolaget och dess dotterföretag riktar sig in på marknader där marknadsförda produkter redan finns och där andra företag också utvecklar nya produkter. Forskning och utveckling inom andra företag liksom förändringar i kompletterande röntgenteknologi kan göra att Bolagets produkter under utveckling blir omoderna. Bolagets konkurrenter har större finansiella och tekniska resurser. De kan antingen ligga före Direct Conversion när det gäller att utveckla produkter och få myndighetsgodkännande, eller lyckas utveckla en produkt som är effektivare och mer ekonomiskt livskraftig. Dessutom måste utvecklade produkter tillgodose klinisk praxis och patienternas förväntningar. Det finns inga garantier för att företagets teknologi inte kommer att bli föremål för kopiering, imitation eller omvänd ingenjörskonst.

Produktansvar

Bolagets verksamhet är utsatt för potentiella risker avseende produktansvar och professionellt skadeståndsansvar som följer av utveckling och tillverkning av diagnostiska medicinska instrument för diagnostisering med hjälp av röntgen. Eventuella krav på produktansvar som görs gällande mot Bolaget kan leda till en höjning av företagets försäkringspremie för produktansvar eller påverka Bolagets och dess dotterföretags möjlighet att i framtiden teckna sådan försäkring, samt till skyldighet att betala skadestånd som överstiger gränser i försäkringsvillkoren.

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Legala risker och kontrollrisker
Den kliniska utvärderingen, tillverkningen och marknadsföringen av Direct Conversions produkter faller under statliga bestämmelser och övervakning. Dessutom kan regelförändringar påverka verksamheten och framtidsutsikter. Kommersiella framgångarna är också delvis beroende på i vilken omfattning ersättning för behandlingarna kommer att finnas tillgänglig.

Patent och äganderätt
Framtidsutsikter för Direct Conversion beror delvis på hur man utnyttjar tekniken. Det finns till exempel ingen garanti för att patent beviljas för lämnade patentansökningar eller att tredje man inte gör anspråk på patents äganderätt, giltighet eller omfattning. Framgångar beror också på icke-intrång i tredje parts patent.

Beroende av tredje part
Direct Conversion är beroende av att säkerställa och kvarhålla parter för vidareutveckling, tillverkning och efterföljande marknadsföring av prototyper. Framgångarna med nuvarande affärsmodell är och kommer även i fortsättningen att delvis vara beroende av att tillfredsställande relationer upprättas och bibehålls och av licensiering av produktlicenser till tredje part.

Beroende av nyckelpersoner
Framgång för hela företaget är beroende av kompetensen hos chefer och teknisk personal.

Kunder och partner
Bolagets fem största partners och kunder ansvarade tillsammans för omkring 58% (2021: 57%) av nettoförsäljningen. Följaktligen kan förlusten av en kund ha en väsentlig effekt på intäkter och ställning. Som en följd av den förväntade ökningen och expansionen av verksamheten förväntas andelen av försäljning till sina största partners och kunder efterhand minska.

Förväntad framtida utveckling
Bolag har ökat omsättningen samt bibehållit marginalerna trots komponentbrist och ökade råmaterialkostnader. Omsättning förväntas öka betydligt då efterfrågan har varit högre än vår produktionskapacitet. Bolaget fortsätter att öka sina marknadsandelar inom inspektion av livsmedel och andra industriella marknader. Bolaget fortsätter även utvecklingen av vår XC-Pyxis-plattform som utvecklas för medicinsk fotonräknande CT med multispektrala egenskaper. Plattformen har verifierats för alla specifikationer relaterad till mänsklig CT och har under året förväntas leverera prototyper med kunder under 2023. Direct Conversion har goda förutsättningar att utnyttja sin marknadsledande position inom både medicinska och industriella applikationer. Under året kommer företaget att fortsätta sina investeringar inom forskning och utveckling samt introducera tre nya högpresterande detektorer.

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Finansiella instrument

Finansiella riskfaktorer

Bolaget utsätts genom sin verksamhet för olika finansiella risker: marknadsrisk (inklusive valutarisk), likviditetsrisk och kassaflödesrisk. Bolagets övergripande riskhanteringspolicy fokuserar på oförutsägbarheten på de finansiella marknaderna och eftersträvar att minimera potentiella ogynnsamma effekter på företagets finansiella resultat. Riskhanteringen sköts av företagets finansavdelning enligt riktlinjer som fastställs av styrelsen. Styrelsen upprättar skriftliga riktlinjer såväl för den övergripande riskhanteringen som för specifika områden, såsom valutarisk, ränterisk, kreditrisk, användning av icke-derivata finansiella instrument samt placering vid överlikviditet.

Valutakursrisk

Valutakursexponeringen inom företaget sker främst då företaget ingår transaktioner som inte är denominerade i företagets funktionella valuta. Den största utländska valutarisken är relaterad till lån från koncernföretag, från USD till SEK. Direct Conversions policy är att inte använda säkringsinstrument eftersom den eventuella vinst som kan erhållas genom sådana åtgärder inte bedöms som väsentlig. Bolaget övervakar löpande valutaexponeringen i nettoflöden och är berett att införa säkringsavtal om den vinst som kan erhållas genom sådana valutakontrakt bedöms som väsentlig.

Personal

Direct Conversion följer avtalen mellan Industri- och Kemigruppen och Sveriges Ingenjörer/Unionen. För att företaget ska kunna maximera sin konkurrenskraft är det viktigt att ta tillvara och optimera tillgängliga resurser, i synnerhet personalresurser. Direct Conversions jämställdhetspolicy innebär lika rättigheter oberoende av kön, utbildning, etniskt ursprung, religion etcetera Policyn ska beaktas i det dagliga arbetet, vid nyrekrytering till olika befattningar och arbetsgrupper samt i utbildning och organisation. Efterlevnaden kontrolleras och utvärderas årligen. I Direct Conversions arbetsmiljöpolicy finns instruktioner för hur verksamheten inom Direct Conversion ska utföras och om kontroller för att undvika olyckor och ohälsa.

Tillstånd för verksamhet med joniserande strålning

Bolaget innehar tillstånd för verksamhet med joniserande strålning. De fotonräknande detektorer företaget utvecklar har huvudsyftet att detektera joniserande strålning. För att utveckla prototyper och testa produkter används radioaktiva strålkällor regelbundet. De radioaktiva strålkällor företaget innehar finns registrerade hos Strålskyddsmyndigheten. Vid destruktion och hantering följer företaget strålskyddslagen (2018:396) samt kräver bevis av regelrätt hantering av tredje part.

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Resultatdisposition
Förslag till dispositioner beträffande förlust (kronor)

Till årsstämmans förfogande står följande ansamlade förlust

Balanserad förlust	-133 116 131
Ovillkorat aktieägartillskott	16 675 929
Årets resultat	-43 652 063
	-160 092 265

Styrelsen föreslår att I ny räkning balanseras	-160 092 265
	-160 092 265

Beträffande företagets resultat och ställning i övrigt hänvisas till efterföljande resultat-och balansräkning, rapport över förändringar i eget kapital, kassaflödesanalys samt noter. Alla belopp uttrycks i svenska kronor där ej annat anges.

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RESULTATRÄKNING

	Not	2021-10-01 2022-09-30	2020-10-01 2021-09-30
Rörelsens intäkter			
Nettoomsättning	4,5	90 170 393	84 669 697
Aktiverat arbete för egen räkning		27 470 000	28 885 471
		117 640 393	**113 555 168**
Rörelsens kostnader			
Råvaror och förnödenheter	5	-24 789 934	-18 708 748
Övriga externa kostnader	6,7	-66 248 304	-69 092 755
Personalkostnader	8	-18 715 189	-23 509 503
Avskrivningar och nedskrivningar av materiella och immateriella anläggningstillgångar	12, 13	-8 445 392	-7 678 665
Rörelseresultat		**-558 426**	**-5 434 503**
Resultat från finansiella poster			
Ränteintäkter från koncernföretag	9	241 714	66 790
Övriga ränteintäkter och liknande intäkter	9	0	1 220 648
Räntekostnader till koncernföretag	10	-6 910 568	-5 174 415
Räntekostnader och liknande kostnader	10	-36 424 783	-30 621
Resultat efter finansiella poster		**-43 652 063**	**-9 352 101**
Resultat före skatt		**-43 652 063**	**-9 352 101**
Skatt på årets resultat	11	0	0
ÅRETS RESULTAT		**-43 652 063**	**-9 352 101**

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BALANSRÄKNING

	Not	2022-09-30	2021-09-30
TILLGÅNGAR			
Anläggningstillgångar			
Immateriella anläggningstillgångar			
Balanserade utgifter för utvecklingsarbeten och liknande arbeten	12	143 152 563	122 541 676
		143 152 563	**122 541 676**
Materiella anläggningstillgångar			
Inventarier, verktyg och installationer	13	5 064 422	6 650 699
		5 064 422	**6 650 699**
Finansiella anläggningstillgångar			
Andelar i koncernföretag	14	74 586 417	59 950 420
Fordringar hos koncernföretag	15	1 379 610	1 538 998
		75 966 027	**61 489 418**
Summa anläggningstillgångar		**224 183 012**	**190 681 793**
Omsättningstillgångar			
Varulager m m			
Färdiga varor och handelsvaror		0	365 359
		0	**365 359**
Kortfristiga fordringar			
Kundfordringar		16 716 715	13 950 150
Fordringar hos koncernbolag		16 779 781	0
Övriga fordringar		527 815	605 642
Förutbetalda kostnader och upplupna intäkter	16	714 072	422 124
		34 738 383	**14 977 916**
Kassa och bank		**4 820 292**	**6 289 789**
Summa omsättningstillgångar		**39 558 675**	**21 633 064**
SUMMA TILLGÅNGAR		**263 741 687**	**212 314 857**

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BALANSRÄKNING

	Not	2022-09-30	2021-09-30
EGET KAPITAL OCH SKULDER			
Eget kapital			
Bundet eget kapital			
Aktiekapital	17	81 512 060	81 512 060
Fond för utvecklingsutgifter		124 732 222	104 039 199
		206 244 282	**185 551 259**
Ansamlad förlust			
Överkursfond		482 211 066	482 211 066
Ovillkorat aktieägartillskott		53 564 295	36 888 366
Balanserad förlust		-652 215 563	-622 170 439
Årets resultat		-43 652 063	-9 352 101
		-160 092 265	**-112 423 108**
Summa eget kapital		**46 152 017**	**73 128 151**
Långfristiga skulder			
Skulder till koncernföretag		0	33 824 692
		0	**33 824 692**
Kortfristiga skulder			
Förskott från kunder		807 225	0
Leverantörsskulder		3 680 174	8 773 533
Skulder till koncernbolag		204 954 899	87 147 930
Övriga kortfristiga skulder		1 168 979	535 708
Upplupna kostnader och förutbetalda intäkter	18	6 978 393	8 904 843
		217 589 670	**105 362 014**
SUMMA EGET KAPITAL OCH SKULDER		**263 741 687**	**212 314 857**

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RAPPORT ÖVER FÖRÄNDRINGAR I EGET KAPITAL

	Bundet eget kapital		*Ansamlad förlust*				
	Aktie-kapital	Fond för utvecklings-utgifter	Överkurs-fond	Ovillkorat aktieägar-tillskott	Balanserad förlust	Årets resultat	**Summa eget kapital**
Ingående balans per 1 oktober 2020	**81 512 060**	**81 748 339**	**482 211 066**	**0**	**-559 813 597**	**-40 065 982**	**45 591 886**
Disposition av föregående års resultat					-40 065 982	40 065 982	**0**
Årets resultat						-9 352 101	**-9 352 101**
Aktivering av utvecklingsutgifter		28 885 470			-28 885 470		**0**
Avskrivning av utvecklingsutgifter		-6 594 610			6 594 610		**0**
Minskning av reservfond							
Nyemission							**0**
Ovillkorat aktieägartillskott				36 888 366			**36 888 366**
Utgående balans per 30 september 2021	**81 512 060**	**104 039 199**	**482 211 066**	**36 888 366**	**-622 170 439**	**-9 352 101**	**73 128 151**

	Bundet eget kapital		*Ansamlad förlust*				
	Aktie-kapital	Fond för utvecklings-utgifter	Överkurs-fond	Ovillkorat aktieägar-tillskott	Balanserad förlust	Årets resultat	**Summa eget kapital**
Ingående balans per 1 oktober 2021	**81 512 060**	**104 039 199**	**482 211 066**	**36 888 366**	**-622 170 439**	**-9 352 101**	**73 128 151**
Disposition av föregående års resultat					-9 352 101	9 352 101	**0**
Årets resultat						-43 652 063	**-43 652 063**
Aktivering av utvecklingsutgifter		27 470 000			-27 470 000		**0**
Avskrivning av utvecklingsutgifter		-6 776 977			6 776 977		**0**
Minskning av reservfond							
Ovillkorat aktieägartillskott				16 675 929			**16 675 929**
Utgående balans per 30 september 2022	**81 512 060**	**124 732 222**	**482 211 066**	**53 564 295**	**-652 215 563**	**-43 652 063**	**46 152 017**

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KASSAFLÖDESANALYS

	Not	2021-10-01 2022-09-30	2020-10-01 2021-09-30
Den löpande verksamheten			
Rörelseresultat		-558 426	-5 434 503
Justeringar för poster som inte ingår i kassaflödet:			
Avskrivningar, immateriella		6 776 977	6 887 145
Avskrivningar, materiella		1 668 413	791 519
Realisationsförändringar		-42 673 339	-1 508 894
Erhållen ränta		241 714	66 790
Erlagd ränta		-662 012	-1 467 494
Kassaflöde från den löpande verksamheten före förändringar av rörelsekapital		**-35 206 673**	**-665 437**
Kassaflöde från förändringar i rörelsekapital			
Minskning(+)/ökning(-) av varulager		365 359	599 472
Minskning(+)/ökning(-) av kundfordringar		-3 189 121	-122 572
Minskning(+)/ökning(-) av övriga kortfristiga fordringar		-16 571 346	1 075 138
Minskning(-)/ökning(+) leverantörsskulder		1 350 552	-898 024
Minskning(-)/ökning(+) av övriga kortfristiga skulder		-9 195 647	-17 183 311
Kassaflöde från den löpande verksamheten		**-62 446 876**	**-17 194 734**
Investeringsverksamheten			
Förvärv av immateriella anläggningstillgångar		-27 470 000	-28 885 470
Förvärv av materiella anläggningstillgångar		0	-5 826 769
Förändring av lån till koncernföretag		159 388	989 487
Utbetalt aktieägartillskott		-14 635 997	0
Kassaflöde från investeringsverksamheten		**-41 946 609**	**-33 722 752**
Finansieringsverksamheten			
Förändring av lån från koncernföretag		86 248 059	16 832 616
Aktieägartillskott		16 675 929	36 888 366
Kassaflöde från finansieringsverksamheten		**102 923 988**	**53 720 982**
Årets kassaflöde		**-1 469 497**	**2 803 496**
Likvida medel vid årets början		**6 289 789**	**3 486 293**
Likvida medel vid årets slut	19	**4 820 292**	**6 289 789**

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NOTER

Not 1 Allmän information

Direct Conversion AB med organisationsnummer 556542-8918 är ett aktiebolag registrerat i Sverige med säte i Danderyd. Adressen till huvudkontoret är Svärdvägen 23, 182 33 Danderyd. Direct Conversion är en ledande producent av kadmiumtelluridbaserade detektorer och ledande inom fotonräknande digitala röntgendetektorer för dentala, medicinska och industriella områdena. Bolaget grundades 1997 och är baserat i Stockholm samt har dotterföretag i London, Esbo, och München. Årsredovisning avser enskilt Direct Conversion AB.

Bolagets verksamhet består främst av forskning och utveckling (FoU) och anpassning av fotonräknande detektorer samt ledning och administration. Antalet anställda i moderföretaget är 15 vid utgången av september 2022. Direct Conversion fokuserar på tre olika affärsområden vilka är oberoende av varandra. I dessa kan våra befintliga och kommande detektorer effektivt användas inom de dentala, medicinska och industriella marknaderna. Direct Conversion för ett nära samarbete med våra OEMs (Original Equipment Manufacturer) för att fortsatt stärka vår position inom alla områden och för att maximera vår tekniska utveckling.

Moderföretag i den största koncernen som Direct Conversion AB är dotterföretag till är Varex Imaging Corporation, org.nr. 813434516, med säte i Salt Lake City, Förenta Staterna. Moderföretag i den minsta koncernen som är Direct Conversion AB är dotterföretag till är Varex Imaging Investments BV, org.nr. NL00533475, med säte i Dinxperio, Nederländerna. Det utländska moderföretagets är noterat på Nasdaq i New York under "VREX" och koncernredovisning kan erhållas från Varex Imaging hemsida.

Ingen koncernredovisning har upprättats med stöd av Årsredovisningslagen 7 kap. 2 § punkt 1.

Not 2 Redovisningsprinciper och värderingsprinciper

Företaget tillämpar Årsredovisningslagen (1995:1554) och Bokföringsnämndens allmänna råd BFNAR 2012:1 *Årsredovisning och koncernredovisning* ("K3").

K3 tillämpas för första gången
Detta är första året företaget tillämpar K3 och övergångsdatum till K3 har fastställts till den 1 oktober 2021. Företaget tillämpade tidigare RFR 2.

Vid övergången till K3 har bestämmelserna i kapitel 35 Första gången detta allmänna råd tillämpas, tillämpats vilka kräver att företag tillämpar K3 retroaktivt. Detta innebär att jämförelsesiffrorna för 2020/2021 är omräknade enligt K3. Det finns emellertid ett antal frivilliga och obligatoriska undantag från denna generella regel, vilka syftar till att underlätta övergången till K3. En beskrivning av hur företaget tillämpat dessa undantag, inklusive en beskrivning av hur resultat och finansiella ställning påverkades av övergången till K3 samt en sammanfattning av de förändringar som gjorts av redovisningsprinciperna presenteras i not 22 Övergång till K3 är det inte längre en väsentligt bedömsningspost.

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Intäkter
Intäkter redovisas till det verkliga värdet av den ersättning som erhållits eller kommer att erhållas, med avdrag för mervärdeskatt, rabatter, returer och liknande avdrag.

Direct Conversion ABs intäkter består i huvudsak av försäljning av röntgendetektorer.

Varuförsäljning
Intäkter från försäljning av varor redovisas när varorna levererats och äganderätten har överförts till kunden, varmed samtliga villkor nedan är uppfyllda:
- Företaget har överfört de väsentliga risker och fördelar som är förknippade med varornas ägande,
- Företaget inte längre har något sådant engagemang i den löpande förvaltningen som vanligtvis förknippas med ägande och utövar inte heller utövar någon reell kontroll över de sålda varorna,
- inkomsten kan beräknas på ett tillförlitligt sätt,
- det ekonomiska fördelar som är förknippade med transaktionen sannolikt kommer att tillfalla företaget, och
- de utgifter som uppkommit eller som förväntas uppkomma till följd av transaktionen kan beräknas på ett tillförlitligt sätt.

Försäljning av tjänster

Intäkter från försäljning av tjänster till fast pris redovisas med tillämpning av s.k. succesiv vinstavräkning. Det innebär att intäkter och kostnader redovisas i förhållande till uppdragets färdigställandegrad på balansdagen. Färdigställandegraden fastställs genom en beräkning av förhållandet mellan nedlagda uppdragsutgifter för utfört arbete på balansdagen och beräknade totala uppdragsutgifter. Skillnaden mellan redovisad intäkt och fakturerade delikvider redovisas i balansräkningen i posten "Upparbetad men ej fakturerad intäkt" eller "Fakturerad men ej upparbetad intäkt".

En befarad förlust på ett tjänsteuppdrag redovisas omedelbart som en kostnad. När utfallet av ett tjänsteuppdrag inte kan beräknas på ett tillförlitligt sätt sker intäktsredovisning endast med belopp som motsvarar uppkomna uppdragsutgifter som sannolikt kommer att ersättas av beställaren. Uppdragsutgifter redovisas som kostnader i den period då de uppkommer.

Utdelning och ränteintäkter
Utdelning redovisas när ägarens rätt att erhålla betalning har fastställts.

Ränteintäkter redovisas fördelat över löptiden med tillämpning av effektivräntemetoden. Effektivräntan är den ränta som gör att nuvärdet av alla framtida in- och utbetalningar under räntebindningstiden blir lika med det redovisade värdet av fordran.

Leasingavtal
Ett finansiellt leasingavtal är ett avtal enligt vilket de ekonomiska risker och fördelar som förknippas med ägandet av en tillgång i allt väsentligt överförs från leasegivaren till leasetagaren. Övriga leasingavtal klassificeras som operationella leasingavtal. Samtliga leasingavtal redovisas enligt reglerna för operationell leasing.

Leasetagaren
Leasingavgifter vid operationella leasingavtal kostnadsförs linjärt över leasingperioden, såvida inte ett annat systematiskt sätt bättre återspeglar användarens ekonomiska nytta över tiden.

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Utländsk valuta
Företagets redovisningsvaluta är svenska kronor (SEK). Företaget byter redovisningsvaluta till euro (EUR) 1 oktober 2022.

Omräkning av poster i utländsk valuta
Vid varje balansdag räknas monetära poster i utländsk valuta om till balansdagens kurs. Icke-monetära poster, som värderas till historiskt anskaffningsvärde i en utländsk valuta, räknas inte om. Valutakursdifferenser redovisas i rörelseresultatet eller som finansiell post utifrån den underliggande affärshändelsen, i den period de uppstår, med undantag för transaktioner som utgör säkring och som uppfyller villkoren för säkringsredovisning av kassaflöden eller av nettoinvesteringar.

Låneutgifter
Låneutgifter redovisas i resultaträkningen i den period de uppkommer.

Ersättningar till anställda
Ersättningar i form av löner, bonus, betald semester, betald sjukfrånvaro mm samt pensioner redovisas i takt med intjänadet. Beträffande pensioner och andra ersättningar efter avslutad anställning klassificeras dessa som avgiftsbestämda eller förmånsbestämda pensionsplaner. Företaget har endast avgiftsbeslämda pensionsplaner. Det finns inga övriga långfristiga ersättningar till anställda.

Avgiftsbeslämda planer
För avgiftsbestämda planer betalar företaget fastställda avgifter till en separat oberoende juridisk enhet och har ingen förpliktelse att betala ytterligare avgifter. Företagets resultat belastas för kostnader i takt med att förmånerna intjänas vilket normalt sammanfaller med tidpunkten för när premier erläggs.

Koncernbidrag
Erhållna koncernbidrag redovisas som bokslutsdisposition i resultaträkningen. Koncernbidrag som moderföretaget lämnat till ett dotterföretag redovisas som en ökning av andelens redovisade värde.

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Inkomstskatter
Skattekostnaden utgörs av summan av aktuell skatt och uppskjuten skatt.

Aktuell skatt
Aktuell skatt beräknas på det skattepliktiga resultatet för perioden. Skattepliktigt resultat skiljer sig från det redovisade resultatet i resultaträkningen då det har justerats för ej skattepliktiga intäkter och ej avdragsgilla kostnader samt för intäkter och kostnader som är skattepliktiga eller avdragsgilla i andra perioder. Aktuell skatteskuld beräknas enligt de skattesatser som gäller per balansdagen.

Uppskjuten skatt
Uppskjuten skatt redovisas på temporära skillnader mellan det redovisade värdet på tillgångar och skulder i de finansiella rapporterna och det skattemässiga värdet som används vid beräkning av skattepliktigt resultat. Uppskjuten skatt redovisas enligt den s k balansräkningsmetoden. Uppskjutna skatteskulder redovisas för i princip alla skattepliktiga temporära skillnader, och uppskjutna skattefordringar redovisas i princip för alla avdragsgilla temporära skillnader i den omfattning det är sannolikt att beloppen kan utnyttjas mot framtida skattepliktiga överskott. Obeskattade reserver redovisas inklusive uppskjuten skatteskuld.

Det redovisade värdet på uppskjutna skattefordringar omprövas varje balansdag och reduceras till den del det inte längre är sannolikt att tillräckliga skattepliktiga resultat kommer att finnas tillgängliga för att utnyttjas, helt eller delvis, mot den uppskjutna skattefordran.

Värderingen av uppskjuten skatt baseras på hur företaget, per balansdagen, förväntar sig att återvinna det redovisade värdet för motsvarande tillgång eller reglera det redovisade värdet för motsvarande skuld. Uppskjuten skatt beräknas baserat på de skattesatser och skatteregler som har beslutats före balansdagen.

Aktuell och uppskjuten skatt för perioden
Aktuell och uppskjuten skatt redovisas som en kostnad eller intäkt i resultaträkningen, utom när skatten är hänförlig till transaktioner som redovisats direkt mot eget kapital. I sådana fall ska även skatten redovisas direkt mot eget kapital.

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Immateriella tillgångar
Anskaffning genom separata förvärv
Immateriella tillgångar som förvärvats separat redovisas till anskaffningsvärde med avdrag för ackumulerade avskrivningar och eventuella ackumulerade nedskrivningar. Avskrivning sker linjärt över tillgångens uppskattade nyttjandeperiod, vilken uppskattas till 10 år. Bedömda nyttjandeperioder och avskrivningsmetoder omprövas om det finns en indikation på att dessa har förändrats jämfört med uppskattningen vid föregående balansdag. Effekten av eventuella ändringar i uppskattningar och bedömningar redovisas framåtriktat. Avskrivning påbörjas när tillgången kan användas.

Anskaffning genom intern upparbetning
Företaget tillämpar *aktiveringsmodellen* vilket innebär att arbetet med att ta fram en internt upparbetad immateriell anläggningstillgång delas upp i en forsknings fas och en utvecklingsfas. Samtliga utgifter som härrör från företagets forsknings fas redovisas som kostnad när de uppkommer. Utgifter för utveckling som är hänförliga till design och testning av nya eller väsentligt förbättrade produkter bedöms som väsentliga redovisas som en tillgång om samtliga följande villkor är uppfyllda:
- Det är tekniskt möjligt att färdigställa den immateriella anläggningstillgången så att den kan användas eller säljas,
- företaget avsikt är att färdigställa den immateriella anläggningstillgången och att använda eller sälja den,
- det finns förutsättningar för att använda eller sälja den immateriella anläggningstillgången,
- det är sannolikt att den immateriella anläggningstillgången kommer att generera framtida ekonomiska fördelar,
- det finns erforderliga och adekvata tekniska, ekonomiska och andra resurser för att fullfölja utvecklingen och för att använda eller sälja den immateriella anläggningstillgången, och

Utgifter för en internt upparbetad immateriell anläggningstillgång ingår enbart anskaffningsvärdet om syftet vid förvärvet är att den delen genom eget utvecklingsarbete ska utgöra en del av en ny unik tillgång.

När företaget redovisar utgifter för eget utvecklingsarbete som tillgång omförs motsvarande belopp från fritt eget kapital till en fond för utvecklingsutgifter.

Efter första redovisningstillfället redovisas internt upparbetade immateriella anläggningstillgångar till anskaffningsvärde efter avdrag för ackumulerade avskrivningar och eventuella ackumulerade nedskrivningar. Avskrivning påbörjas när tillgången kan användas. Aktiverade utgifter för utvecklingen av fotonräknande röntgendetektorer skrivs av linjärt över en bedömd nyttjandeperiod om 10 år.

Borttagande från balansräkningen
En immateriell anläggningstillgång tas bort från balansräkningen vid utrangering eller avyttring eller när inte några framtida ekonomiska fördelar väntas från användning eller utrangering/avyttring av tillgången. Den vinst eller förlust som uppkommer när en immateriell anläggningstillgång tas bort från balansräkningen är skillnaden mellan vad som eventuellt erhålls, efter avdrag för direkta försäljningskostnader, och tillgångens redovisade värde. Detta redovisas i resultaträkningen som en övrig rörelseintäkt eller övrig rörelsekostnad.

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Materiella anläggningstillgångar
Materiella anläggningstillgångar redovisas till anskaffningsvärde efter avdrag för ackumulerade avskrivningar och eventuella nedskrivningar.

Anskaffningsvärdet består av inköpspriset, utgifter som är direkt hänförliga till förvärvet för att bringa den på plats och i skick att användas.

För tillgångar som delats upp i komponenter räknas utgifter för utbyte av sådan komponent in i tillgångens redovisade värde. Motsvarande gäller för tillkommande nya komponenter. För tillgångar som inte har delats upp i komponenter räknas tillkommande utgifter som är väsentliga in i tillgångens redovisade värde när det är sannolikt att framtida ekonomiska fördelar som är förknippade med posten kommer att tillfalla bolaget, och att anskaffningsvärdet för densamma kan mätas på ett tillförlitligt sätt. Alla övriga kostnader för reparationer och underhåll samt tillkommande utgifter redovisas i resultaträkningen i den period då de uppkommer.

Materiella anläggningstillgångar som är av mindre värde eller kan antas ha en ekonomisk livslängd på högst tre år redovisas som kostnad vid det första redovisningstillfället förutsatt att företaget kan göra motsvarande avdrag enligt Inkomstskattelagen.

Avskrivningar på materiella anläggningstillgångar kostnadsförs så att tillgångens anskaffningsvärde, eventuellt minskat med beräknat restvärde vid nyttjandeperiodens slut, skrivs av linjärt över dess bedömda nyttjandeperiod. Om en tillgång har delats upp på olika komponenter skrivs respektive komponent av separat över dess nyttjandeperiod. Avskrivning påbörjas är den materiella anläggningstillgången kan tas i bruk. Materiella anläggningstillgångars nyttjandeperioder uppskattas till:

Maskiner och andra tekniska anläggningar:	
Inventarier, verktyg och installationer	3-5 år

Bedömda nyttjandeperioder och avskrivningsmetoder omprövas om det finns indikationer på att förväntad förbrukning har förändrats väsentligt jämfört med uppskattningen vid föregående balansdag. Då företaget ändrar bedömning av nyttjandeperioder, omprövas även tillgångens eventuella restvärde. Effekten av dessa ändringar redovisas framåtriktat.

Borttagande från balansräkningen
Det redovisade värdet för en materiell anläggningstillgång tas bort från balansräkningen vid utrangering eller avyttring, eller när inte några framtida ekonomiska fördelar väntas från användning eller utrangering/avyttring av tillgången eller komponenten. När tillkommande utgifter räknas in i anskaffningsvärdet (se ovan) tas det redovisade värdet på de delar som byts ut bort från balansräkningen.

Den vinst eller förlust som uppkommer när en materiell anläggningstillgång eller en komponent tas bort från balansräkningen är skillnaden mellan vad som eventuellt erhålls, efter avdrag för direkta försäljningskostnader, och tillgångens redovisade värde. Den realisationsvinst eller realisationsförlust som uppkommer när en materiell anläggningstillgång eller en komponent tas bort från balansräkningen redovisas i resultaträkningen som en övrig rörelseintäkt eller övrig rörelsekostnad.

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Nedskrivningar av materiella anläggningstillgångar och immateriella tillgångar
Vid varje balansdag analyserar företaget de redovisade värdena för materiella anläggningstillgångar och immateriella tillgångar för att fastställa om det finns någon indikation på att dessa tillgångar har minskat i värde. Om så är fallet, beräknas tillgångens återvinningsvärde för att kunna fastställa värdet av en eventuell nedskrivning. Där det inte är möjligt att beräkna återvinningsvärdet för en enskild tillgång, beräknas återvinningsvärdet för den kassagenererande enhet till vilken tillgången hör.

Återvinningsvärdet är det högsta av verkligt värde med avdrag för försäljningskostnader och nyttjandevärdet. Verkligt värde med avdrag för försäljningskostnader är det pris som företaget beräknar kunna erhålla vid en försäljning mellan kunniga, av varandra oberoende parter, och som har ett intresse av att transaktionen genomförs, med avdrag för sådana kostnader som är direkt hänförliga till försäljningen. Vid beräkning av nyttjandevärde diskonteras uppskattat framtida kassaflöde till nuvärde med en diskonteringsränta före skatt som återspeglar aktuell marknadsbedömning av pengars tidsvärde och de risker som förknippas med tillgången. För att beräkna de framtida kassaflödena har företaget använt budget och prognoser för de kommande tio åren.

Om återvinningsvärdet för en tillgång (eller kassagenererande enhet) fastställs till ett lägre värde än det redovisade värdet, skrivs det redovisade värdet på tillgången (eller den kassagenererande enheten) ned till återvinningsvärdet. En nedskrivning har omedelbart kostnadsföras i resultaträkningen.

Vid varje balansdag gör företaget en bedömning om den tidigare nedskrivningen inte längre är motiverad. Om så är fallet återförs nedskrivningen delvis eller helt. Då en nedskrivning återförs, ökar tillgångens (den kassagenererande enhetens) redovisade värde. Det redovisade värdet efter återföring av nedskrivning får inte överskrida det redovisade värde som skulle fastställts om ingen nedskrivning gjorts av tillgången (den kassagenererande enheten) under tidigare år. En återföring av en nedskrivning redovisas direkt i resultaträkningen.

Andelar i koncernföretag
Andelar i dotterföretag redovisas till anskaffningsvärde. Utdelning från dotterföretag redovisas som intäkt när rätten att få utdelning bedöms som säker och kan beräknas på ett tillförlitligt sätt.

Finansiella instrument
En finansiell tillgång eller finansiell skuld redovisas i balansräkningen när företaget blir part till instrumentets avtalsenliga villkor. En finansiell tillgång bokas bort från balansräkningen när den avtalsenliga rätten till kassaflödet från tillgången upphör, regleras eller när företaget förlorar kontrollen över den. En finansiell skuld, eller del av finansiell skuld, bokas bort från balansräkningen när den avtalade förpliktelsen fullgörs eller på annat sätt upphör.

Vid det första redovisningstillfället värderas omsättningstillgångar och kortfristiga skulder till anskaffningsvärde. Långfristiga fordringar samt långfristiga skulder värderas vid det första redovisningstillfället till upplupet anskaffningsvärde. Låneutgifter periodiseras som en del i lånets räntekostnad enligt effektivräntemetoden (se nedan).

Vid värdering efter det första redovisningstillfället värderas omsättningstillgångar enligt lägsta värdets princip, dvs. det lägsta av anskaffningsvärdet och nettoförsäljningsvärdet på balansdagen. Kortfristiga skulder värderas till nominellt belopp. Långfristiga fordringar och långfristiga skulder värderas efter det första redovisningstillfället till upplupet anskaffningsvärde.

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Upplupet anskaffningsvärde
Med upplupet anskaffningsvärde avses det belopp till vilket tillgången eller skulden initialt redovisades med avdrag för amorteringar, tillägg eller avdrag för ackumulerad periodisering enligt effektivräntemetoden av den initiala skillnaden mellan erhållet/betalat belopp och belopp att betala/erhålla på förfallodagen samt med avdrag för nedskrivningar.

Effektivräntan är den ränta som vid en diskontering av samtliga framtida förväntade kassaflöden över den förväntade löptiden resulterar i det initialt redovisade värdet för den finansiella tillgången eller den finansiella skulden.

Nedskrivningar av finansiella anläggningstillgångar
Vid varje balansdag utvärderar företaget om det finns indikationer på att en eller flera finansiella anläggningstillgångar minskat i värde. Exempel på sådana indikationer är betydande finansiella svårigheter hos låntagaren, avtalsbrott eller att det är sannolikt att låntagaren kommer att gå i konkurs.

För finansiella anläggningstillgångar som värderas till upplupet anskaffningsvärde beräknas nedskrivningen som skillnaden mellan tillgångens redovisade värde och nuvärdet av företagsledningens bästa uppskattning av framtida kassaflöden. Diskontering sker med en ränta som motsvarar tillgångens ursprungliga effektivränta. För tillgångar med rörlig ränta används den på balansdagen aktuella räntan.

För finansiella anläggningstillgångar som inte värderas till upplupet anskaffningsvärde beräknas nedskrivningen som skillnaden mellan tillgångens redovisade värde och det högsta av verkligt värde med avdrag för försäljningskostnader och nuvärdet av företagsledningens bästa uppskattning av de framtida kassaflödena tillgången förväntas ge.

Varulager
Varulager värderas till det lägsta av anskaffningsvärdet och nettoförsäljningsvärdet på balansdagen. Anskaffningsvärdet beräknas genom tillämpning av först- in-först-ut-metoden (FIFU). Nettoförsäljningsvärde är försäljningsvärdet efter avdrag för beräknade kostnader som direkt kan hänföras till försäljningstransaktionen.

I anskaffningsvärdet ingår utgifter för inköp, tillverkning samt andra utgifter för att bringa varorna till deras aktuella plats och skick. I anskaffningsvärdet för en egentillverkad tillgång ingår, utöver sådana kostnader som direkt kan hänföras till produktionen av tillgången, en skälig andel av indirekta tillverkningskostnader.

Likvida medel
Likvida medel inkluderar kassamedel och disponibla tillgodohavanden hos banker och andra kreditinstitut samt andra kortfristiga likvida placeringar som lätt kan omvandlas till kontanter och är föremål för en obetydlig risk för värdefluktuationer. För att klassificeras som likvida medel får löptiden inte överskrida tre månader från tidpunkten för förvärvet.

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Avsättningar
Avsättningar redovisas när företaget har en befintlig förpliktelse (legal eller informell) som en följd av en inträffad händelse, det är sannolikt att ett utflöde av resurser kommer att krävas för att reglera förpliktelsen och en tillförlitlig uppskattning av beloppet kan göras.

En avsättning omprövas varje balansdag och justeras så att den återspeglar den bästa uppskattningen av det belopp som krävs för att reglera den befintliga förpliktelsen på balansdagen, med hänsyn tagen till risker och osäkerheter förknippade med förpliktelsen. Avsättningen redovisas till nuvärdet av de framtida betalningar som krävs för att reglera förpliktelsen.

Aktieägartillskott
Aktieägartillskott som en ägare lämnar redovisas som en ökning av andelens redovisade värde. Aktieägartillskott som en ägare erhåller redovisas direkt i fritt eget kapital.

Eventualförpliktelser
En eventualförpliktelse är en möjlig förpliktelse till följd av inträffade händelser och vars förekomst endast kommer att bekräftas av att en eller flera osäkra framtida händelser, som inte helt ligger inom företagets kontroll, inträffar eller uteblir, eller en befintlig förpliktelse till följd av inträffade händelser, men som inte redovisas som skuld eller avsättning eftersom det inte är sannolikt att ett utflöde av resurser kommer att krävas för att reglera förpliktelsen eller förpliktelsens storlek inte kan beräknas med tillräcklig tillförlitlighet.

Kassaflödesanalys
Kassaflödesanalysen visar företagets förändringar av företagets likvida medel under räkenskapsåret. Kassaflödesanalysen har upprättats enligt den indirekta metoden. Det redovisade kassaflödet omfattar endast transaktioner som medfört in- och utbetalningar.

Not 3 Viktiga uppskattningar och bedömningar

Viktiga källor till osäkerhet i uppskattningar
Nedan redogörs för de viktigaste antagandena om framtiden, och andra viktiga källor till osäkerhet i uppskattningar per balansdagen, som innebär en betydande risk för väsentliga justeringar i redovisade värden för tillgångar och skulder under nästa räkenskapsår.

Uppskattningar och bedömningar utvärderas löpande och baseras på historiska erfarenheter och andra faktorer, inklusive förväntningar om framtida händelser som under omständigheterna betraktas som rimliga.

Vid upprättandet av årsredovisning enligt K3 har bolagsledningen gjort uppskattningar och bedömningar samt antaganden som påverkar tillämpningen av redovisningsprinciperna och de redovisade beloppen av tillgångar och skulder, intäkter och kostnader. Faktiska resultat kan avvika från dessa uppskattningar.

Direct Conversion gör uppskattningar och antaganden som rör framtiden. Uppskattningarna och bedömningarna som har en betydande risk att innebära materiella justeringar av bokförda värden av tillgångar och skulder för nästkommande verksamhetsår beskrivs nedan.

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Immateriella tillgångar
Balanserade utvecklingskostnader redovisas som "Balanserade utgifter för utvecklingsarbeten och liknande arbeten" tillgångar och skrivs av från och med den tidpunkt då tillgången är färdig för användning. Avskrivning sker linjärt över tillgångens nyttjandeperiod. Eventuellt nedskrivningsbehov prövas årligen.

Bolaget genomför årligen en nedskrivningsprövning i enlighet med K3. Denna prövning genomförs genom att jämföra tillgångens bokförda värde med dess återvinningsvärde. Återvinningsvärdet anses vara nuvärdet av framtida nettokassaflöden hänförliga till den aktuella tillgången. Den kassaflödesprognos som bolaget använt sig av vid nedskrivningsprövningen 2022 sträcker sig över perioden från 2022 till 2031. Förväntade intäkter är baserade på leveranser av röntgendetektorer och årsvolymerna är avgörande för kassaflödesprognosen, större avvikelser för årsvolymerna kan ge ett nedskrivningsbehov. Kostnad för sålda varor ingår också i dessa prognoser.

Nedskrivningsprövning av immateriella tillgångar innefattar antagande kring diskonteringsfaktor vid beräkning av framtida kassaflöden. Modellen har stresstestats men innefattar fortsatt uppskattningar och bedömningar kring framtida händelser.

Uppskjuten skatt
Bolagsledningen har övervägt återvinningsmöjligheten för uppskjutna skattefordringar hänförliga till ackumulerade avdragsgilla temporära skillnader och outnyttjade skattemässiga förlustavdrag. Uppskjutna skattefordringar hänförliga till outnyttjade skattemässiga förlustavdrag redovisas som en tillgång då det kan anses sannolikt att beskattningsbara vinster kommer att genereras inom en överskådlig framtid. Bolaget har dock inte än redovisat några fordringar hänförliga till temporära skillnader och skattemässiga förlustavdrag i Direct Conversion AB, eftersom Direct Conversion AB historiskt har uppvisat förluster och att det inte finns några övertygande bevis för att beskattningsbara vinster kommer att finnas mot vilka de outnyttjade skattemässiga förlusterna kan utnyttjas.

Antagande om fortsatt drift
Bolaget följer löpande dess likviditetsbehov och har upprättat detaljerade kassaflödesprognoser för det kommande året. Dessa prognoser inkluderar antaganden om fortsatta utvecklingsprojekt, marknadstillväxt och samarbeten med leverantörer. Kassaflödesprognoserna är baserade på ett antal antaganden och förändringar i dessa antaganden kan få en väsentlig påverkan på dessa prognoser. Styrelsen och bolagsledningen bedömer baserat på nuvarande likviditet att nuvarande affärsplan är tillräcklig för att bolagen ska nå uthållig vinst och fortsatt drift.

Viktiga bedömningar vid tillämpning av bolagets redovisningsprinciper
I följande avsnitt beskrivs de viktigaste bedömningar, förutom de som innefattar uppskattningar (se ovan), som företagsledningen har gjort vid tillämpningen av företagets redovisningsprinciper och som har den mest betydande effekten på de redovisade beloppen i de finansiella rapporterna.

Leasing
Ändringen redovisningsstandard bedöms ej ha medfört en materiell inverkan på bolagets finansiella rapporter. Bolagets operationell leasing har tidigare redovisats i enlighet med IFRS 16 och har retroaktivt annullerats i balansräkningen. Inverkan bedöms immateriell och kommer fortsatt endast redovisas i resultaträkningnen, samt upplyses om under not 7 Leasingavtal. I och med övgång till K3 är det inte längre en väsentligt bedömsningspost.

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Not 4 Nettoomsättningens fördelning

Nettoomsättning per verksamhetsgren	2021/2022	2020/2021
Detektorer	89 634 428	82 416 645
Tjänster	535 965	2 253 052
Summa	**90 170 393**	**84 669 697**

Nettoomsättningen fördelar sig på geografiska marknader enligt följande	2021/2022	2020/2021
Asien/Oceanien	36 068 157	49 108 425
Europa	20 739 190	16 087 242
Nordamerika	33 363 045	19 474 030
Summa	**90 170 392**	**84 669 697**

Not 5 Uppgift om inköp och försäljning inom samma koncern

	2021/2022	2020/2021
Inköp	71,2%	82,2%
Försäljning	0,5%	3,4%

Internvinster på transaktioner inom koncernen är mellan 5-7 procent.

Not 6 Upplysning om ersättning till revisorn

	2021/2022	2020/2021
Deloitte AB revisionsuppdrag	500 000	0
PricewaterhouseCoopers AB revisionsuppdrag	0	803 900
Summa	**500 000**	**803 900**

Med revisionsuppdrag avses revisorns ersättning för den lagstadgade revisionen. Arbetet innefattar granskningen av årsredovisningen och bokföringen, styrelsens och verkställande direktörens förvaltning samt arvode för revisionsrådgivning som lämnats i samband med revisionsuppdraget.

Not 7 Leasingavtal

Operationella leasingavtal - leasetagare

Företaget är leasetagare genom operationella leasingavtal avseende en kontorslokal med tillhörande utrymmen. Summan av årets kostnadsförda leasingavgifter avseende operationella leasingavtal uppgår till 1 536 (1 160) Tkr. Framtida minimileaseavgifter avseende icke uppsägningsbara operationella leasingavtal förfaller enligt följande:

Förfallotidpunkt:	2021/2022	2020/2021
Inom ett år	1 524 948	1 524 948
Senare än ett år men inom fem år	6 099 792	6 099 792
Senare än fem år	254 158	1 779 106
Summa	**7 878 898**	**9 403 846**

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Not 8 Antal anställda, löner, andra ersättningar och sociala kostnader

	2021/2022		2020/2021	
Medeltalet anställda	**Antal anställda**	**Varav antal män**	**Antal anställda**	**Varav antal män**
	15	12	15	12
Totalt	**15**	**12**	**15**	**12**

	2022-09-30	2021-09-30
Fördelning ledande befattningshavare per balansdagen		
Kvinnor:		
andra personer i företagets ledning inkl VD	1	1
Män:		
styrelseledamöter	3	3
andra personer i företagets ledning inkl VD	3	3
Totalt	**7**	**7**

	2021/2022		2020/2021	
Löner, andra ersättningar m m	**Löner och andra ersättningar**	**Social kostnader (varav pensions-kostnader)**	**Löner och andra ersättningar**	**Social kostnader (varav pensions-kostnader)**
Personalkostnader	12 693 432	6 021 757	10 540 070	12 954 733
(varav pensionskostnader)		(2 579 031)		(8 206 176)
Totalt	**12 693 432**	**6 021 757**	**10 540 070**	**12 954 733**
		(2 579 031)		**(8 206 176)**

	2021/2022		2020/2021	
Löner och andra ersättningar fördelade mellan styrelse-ledamöter och anställda	**Löner och andra ersättningar (varav rörliga ersättningar)**	**Social kostnader (varav pensions-kostnader)**	**Löner och andra ersättningar (varav rörliga ersättningar)**	**Social kostnader (varav pensions-kostnader)**
Ledning	4 952 115	3 725 556	5 745 738	10 342 987
	(663 516)	(1 746 018)	(1 699 417)	(6 870 816)
Övriga anställda	7 741 317	2 296 201	4 794 332	2 611 746
	(1 351 062)	(833 013)	(418 694)	(1 335 360)
Totalt	**12 693 432**	**6 021 757**	**10 540 070**	**12 954 733**
	(2 014 578)	**(2 579 031)**	**(2 118 111)**	**(8 206 176)**

Pensioner och andra ersättningar
Företagets kostnad för avgiftsbestämda pensionsplaner uppgår till 2 579 (2 158) Tkr. I april 2019 förvärvade Varex Imaging en majoritetspostion i Direct Conversion. I samband med förvärvet avtaldes ett antal incitamentsactal för vissa nyckelpersoner. Under 2020/2021 betalades 34 958 tkr ut från dessa incitamentasavtal vilket 4 911 tkr kostnadsförts 2020/2021 (2019/2020: 20 852 tkr, 2019: 9 195 tkr).

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Not 9 Övriga ränteintäkter och liknande intäkter

	2021/2022	2020/2021
Ränteintäkter, koncernföretag	241 714	66 790
Kursdifferenser	0	1 220 648
Summa	**241 714**	**1 287 438**

Not 10 Räntekostnader och liknande kostnader

	2021/2022	2020/2021
Räntekostnader	-26 154	-27 458
Räntekostnader, koncernföretag	-6 910 568	-5 174 415
Kursdifferenser	-36 398 564	0
Övrigt	-65	-3 163
Summa	**-43 335 351**	**-5 205 036**

Not 11 Skatt på årets resultat

Avstämning årets skattekostnad

	2021/2022	2020/2021
Redovisat resultat före skatt	-43 652 063	-9 352 101
Skatt beräknad med skattesats 20,6 % (21,6%)	8 992 325	2 020 054
Ej redovisade uppskjutna skattefordringar på skattemässiga förlustavdrag	-8 992 325	-2 020 054
Årets redovisade skattekostnad	**0**	**0**

Uppskjutna skattefordringar redovisas för underskottsavdrag i den utsträckning som det är sannolikt att därmed sammanhängande skatteförmåner kan realiseras genom framtida beskattningsbara vinster. Direct Conversion AB har inte än redovisat någon uppskjuten skattefordran för underskottsavdrag, eftersom företaget historiskt har uppvisat förluster och det är osäkert huruvida tillräckliga beskattningsbara vinster kommer att finnas mot vilka ej utnyttjade underskottsavdrag kan utnyttjas.

Not 12 Balanserade utgifter för utvecklingsarbeten och liknande arbeten

	2022-09-30	2021-09-30
Ingående anskaffningsvärden	231 498 238	202 612 768
Internt utvecklade tillgångar	27 470 000	28 885 470
Utgående ackumulerade anskaffningsvärden	**258 968 238**	**231 498 238**
Ingående avskrivningar	-42 503 165	-35 616 020
Årets avskrivningar	-6 776 977	-6 887 145
Utgående ackumulerade avskrivningar	**-49 280 142**	**-42 503 165**
Ingående nedskrivningar	-66 453 397	-66 453 397
Omklassificeringar	-82 136	0
Utgående ackumulerade nedskrivningar	**-66 535 533**	**-66 453 397**
Utgående redovisat värde	**143 152 563**	**122 541 676**

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Not 13 Inventarier, verktyg och installationer

	2022-09-30	2021-09-30
Ingående anskaffningsvärden	21 827 436	16 000 667
Inköp	0	5 826 769
Utgående ackumulerade anskaffningsvärden	**21 827 436**	**21 827 436**
Ingående avskrivningar	-15 094 601	-14 385 218
Årets avskrivningar	-1 668 413	-709 383
Utgående ackumulerade avskrivningar	**-16 763 014**	**-15 094 601**
Ingående utrangeringar	-82 136	0
Försäljningar/utrangeringar	0	-82 136
Omklassificeringar	82 136	0
Utgående ackumulerade utrangeringar	**0**	**-82 136**
Utgående redovisat värde	**5 064 422**	**6 650 699**

Not 14 Andelar i koncernföretag

	2022-09-30	2021-09-30
Ingående anskaffningsvärden	59 950 420	59 950 420
Lämnade aktieägartillskott	14 635 997	0
Utgående ackumulerade anskaffningsvärden	**74 586 417**	**59 950 420**
Utgående redovisat värde	**74 586 417**	**59 950 420**

Företagets innehav av andelar i koncernföretag

			Redovisat värde	
Företagets namn	**Kapital/Röst-rättsandel**	**Antal andelar**	**2022-09-30**	**2021-09-30**
Direct Conversion Ltd.	100%	1	1 000	1 000
Direct Conversion GmbH	100%	25 000	245 628	245 628
Oy Direct Conversion Ltd.	100%	14 801	74 339 789	59 703 792
Summa			**74 586 417**	**59 950 420**

Företagets namn	**Org.nr**	**Säte**
Direct Conversion Ltd.	09313012	London, Storbritannien
Direct Conversion GmbH	238866	München, Tyskland
Oy Direct Conversion Ltd.	1735843-9	Esbo, Finland

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Not 15 Fordringar hos koncernföretag

	2022-09-30	2021-09-30
Ingående anskaffningsvärden	1 538 998	2 528 485
Reglerade fordringar	-159 388	-989 487
Utgående ackumulerade anskaffningsvärden	**1 379 610**	**1 538 998**
Utgående redovisat värde	**1 379 610**	**1 538 998**

Not 16 Förutbetalda kostnader och upplupna intäkter

	2022-09-30	2021-09-30
Förutbetalda hyror	361 669	324 964
Övriga poster	352 403	97 160
Summa	**714 072**	**422 124**

Not 17 Aktiekapital

Aktiekapitalet består av 16 302 452 aktier med ett kvotvärde om 5 kr.

Not 18 Upplupna kostnader och förutbetalda intäkter

	2022-09-30	2021-09-30
Upplupna löner	1 218 345	3 658 895
Upplupna semesterlöner	1 638 088	1 644 090
Upplupna sociala avgifter	554 971	530 375
Upplupen löneskatt	3 566 989	3 071 483
Summa	**6 978 393**	**8 904 843**

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Not 19 Likvida medel i kassaflödet

	2022-09-30	2021-09-30
Disponibla tillgodohavanden hos banker och andra kreditinstitut	4 820 292	6 289 789
Summa	**4 820 292**	**6 289 789**

Not 20 Ställda säkerheter och eventualförpliktelser

I dotterföretaget Oy Direct Conversion Ltd. finns ställda panter om 8 171 tkr (750 t€) (2020/2021: 17 067 tkr (1 681 t€)) gentemot företagets belåning.

Not 21 Händelser efter balansdagen

- Bolagets Teknikchef Christer Ullberg har sagt upp sig efter balansdagen. Christer kommer på obestämd tid konsultera företaget inom avancerad utveckling av fotonräknande chip på deltid.
- En ny produktionanläggning i det finska dotterföretaget har tagits i bruk och förväntas stärka företagets produktionskapacitet för att möta en fortsatt betydande efterfrågan i en turbulent global ekonomi.
- Bolaget har tagit ytterligare kapitallån om 2 miljoner USD från närstående företag inom koncernen för att fortsatt finansiera en agressiv teknikutveckling och fortsatt investering i dotterföretagets produktionskapacitet.
- Under det första halvåret i det nya året har valutapåverkan på kapitallånen varit marginell, samt har verksamheten gett ett postivet resultat.

Not 22 Övergång till K3

Företaget tillämpar Årsredovisningslagen (1995:1554) och Bokföringsnämndens allmänna råd BFNAR 2012:1 Årsredovisning och koncernredovisning (*"K3"*).

Övergångsdatum till K3 har fastställts till den 1 oktober 2021. Övergången till K3 redovisas i enlighet med kapitel 35 *Första gången detta allmänna råd tillämpas*. Huvudregeln i K3 kapitel 35 kräver att ett företag tillämpar samtliga råd retroaktivt vid fastställande av ingångsbalansen. Dock finns vissa tvingande och frivilliga undantag från den retroaktiva tillämpningen. Direct Conversion AB har valt att inte tillämpa några frivilliga undantag.

Ändringen redovisningsstandard bedöms ej ha medfört en materiell inverkan på bolagets finansiella rapporter. Bolagets operationell leasing har tidigare redovisats i enlighet med IFRS 16 och har retroaktivt annullerats i balansräkningen. Inverkan bedöms immateriell då endast Tillgångar och Skulder påverkas. Leasing kommer fortsatt inte redovisas i bokföring utan endast redovisas under not 7 Leasingavtal. Effekten av övergång medför ingen förändring inom eget kapital.

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Not 23 Disposition av företagets förlust

Till årsstämmans förfogande står följande ansamlade förlust	-160 092 265

Styrelsen föreslår att den ansamlade förlusten på 160 092 265 kr överförs i ny räkning.

Danderyd den 31 Maj 2023

Shubham Maheshwari
Styrelsens ordförande

Dirk Schimmelschulze
Styrelseledamot, Verkställande direktör

Marcus Kirchhoff
Styrelseledamot

Vår revisionsberättelse har avgivits den 31 MaJ 2023

Deloitte AB

Per Svensson
Auktoriserad revisor

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Direct Conversion AB
556542-8918

Not 23 Disposition av företagets förlust

Till årsstämmans förfogande står följande ansamlade förlust	-160 092 265

Styrelsen föreslår att den ansamlade förlusten på 160 092 265 kr överförs i ny räkning.

Danderyd den 31.05.2025

Shubham Maheshwari
Styrelsens ordförande

Dirk Schimmelschulze
Styrelseledamot, Verkställande direktör

Marcus Kirchhoff
Styrelseledamot

Vår revisionsberättelse har avgivits den 31 maj 2025

Deloitte AB

Per Svensson
Auktoriserad revisor

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Deloitte.

REVISIONSBERÄTTELSE

Till bolagsstämman i Direct Conversion AB
organisationsnummer 556542-8918

Rapport om årsredovisningen

Uttalanden

Vi har utfört en revision av årsredovisningen för Direct Conversion AB för räkenskapsåret 2021-10-01 - 2022-09-30.

Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av Direct Conversion ABs finansiella ställning per den 30 september 2022 och av dess finansiella resultat och kassaflöde för året enligt årsredovisningslagen. Förvaltningsberättelsen är förenlig med årsredovisningens övriga delar.

Vi tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen.

Grund för uttalanden

Vi har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionssed i Sverige. Vårt ansvar enligt dessa standarder beskrivs närmare i avsnittet *Revisorns ansvar*. Vi är oberoende i förhållande till Direct Conversion AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Övriga upplysningar

Revisionen av årsredovisningen för räkenskapsåret 2020-10-01 - 2021-09-30 har utförts av en annan revisor som lämnat en revisionsberättelse daterad 31 mars 2022 med omodifierade uttalanden i Rapport om årsredovisningen.

Styrelsens och verkställande direktörens ansvar

Det är styrelsen och verkställande direktören som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen och verkställande direktören ansvarar även för den interna kontroll som de bedömer är nödvändig för att upprätta en årsredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller på fel.

Vid upprättandet av årsredovisningen ansvarar styrelsen och verkställande direktören för bedömningen av bolagets förmåga att fortsätta verksamheten. De upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om styrelsen och verkställande direktören avser att likvidera bolaget, upphöra med verksamheten eller inte har något realistiskt alternativ till att göra något av detta.

Revisorns ansvar

Våra mål är att uppnå en rimlig grad av säkerhet om huruvida årsredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller på fel, och att lämna en revisionsberättelse som innehåller våra uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionssed i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller fel och anses vara väsentliga om de enskilt eller tillsammans rimligen kan förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen.

Som del av en revision enligt ISA använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Dessutom:

- identifierar och bedömer vi riskerna för väsentliga felaktigheter i årsredovisningen, vare sig dessa beror på oegentligheter eller på fel, utformar och utför granskningsåtgärder bland annat utifrån dessa risker och inhämtar revisionsbevis som är tillräckliga och ändamålsenliga för att utgöra en grund för våra uttalanden. Risken för att inte upptäcka en väsentlig felaktighet till följd av oegentligheter är högre än för en väsentlig felaktighet som beror på fel, eftersom oegentligheter kan innefatta agerande i maskopi, förfalskning, avsiktliga utelämnanden, felaktig information eller åsidosättande av intern kontroll.
- skaffar vi oss en förståelse av den del av bolagets interna kontroll som har betydelse för vår revision för att utforma granskningsåtgärder som är lämpliga med hänsyn till omständigheterna, men inte för att uttala oss om effektiviteten i den interna kontrollen.
- utvärderar vi lämpligheten i de redovisningsprinciper som används och rimligheten i styrelsens och verkställande direktörens uppskattningar i redovisningen och tillhörande upplysningar.
- drar vi en slutsats om lämpligheten i att styrelsen och verkställande direktören använder antagandet om fortsatt drift vid upprättandet av årsredovisningen. Vi drar också en slutsats, med grund i de inhämtade revisionsbevisen, om huruvida det finns någon väsentlig osäkerhetsfaktor som avser sådana händelser eller förhållanden som kan leda till betydande tvivel om bolagets förmåga att fortsätta verksamheten. Om

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vi drar slutsatsen att det finns en väsentlig osäkerhetsfaktor, måste vi i revisionsberättelsen fästa uppmärksamheten på upplysningarna i årsredovisningen om den väsentliga osäkerhetsfaktorn eller, om sådana upplysningar är otillräckliga, modifiera uttalandet om årsredovisningen. Våra slutsatser baseras på de revisionsbevis som inhämtas fram till datumet för revisionsberättelsen. Dock kan framtida händelser eller förhållanden göra att ett bolag inte längre kan fortsätta verksamheten.

- utvärderar vi den övergripande presentationen, strukturen och innehållet i årsredovisningen, däribland upplysningarna, och om årsredovisningen återger de underliggande transaktionerna och händelserna på ett sätt som ger en rättvisande bild.

Vi måste informera styrelsen om bland annat revisionens planerade omfattning och inriktning samt tidpunkten för den. Vi måste också informera om betydelsefulla iakttagelser under revisionen, däribland de eventuella betydande brister i den interna kontrollen som vi identifierat.

Rapport om andra krav enligt lagar och andra författningar

Uttalanden

Utöver vår revision av årsredovisningen har vi även utfört en revision av styrelsens och verkställande direktörens förvaltning för Direct Conversion AB för räkenskapsåret 2021-10-01 - 2022-09-30 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Vi tillstyrker att bolagsstämman Behandlar förlusten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter och verkställande direktören ansvarsfrihet för räkenskapsåret.

Grund för uttalanden

Vi har utfört revisionen enligt god revisionssed i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet *Revisorns ansvar*. Vi är oberoende i förhållande till moderbolaget enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

Styrelsens och verkställande direktörens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets verksamhetsart, omfattning och risker ställer på storleken av bolagets egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets ekonomiska situation och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt. Den verkställande direktören ska sköta den löpande förvaltningen enligt styrelsens riktlinjer och anvisningar och bland annat vidta de åtgärder som är nödvändiga för att bolagets bokföring ska fullgöras i överensstämmelse med lag och för att medelsförvaltningen ska skötas på ett betryggande sätt.

Revisorns ansvar

Vårt mål beträffande revisionen av förvaltningen, och därmed vårt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot eller verkställande direktören i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget, eller
- på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Vårt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed vårt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionssed i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

Som en del av en revision enligt god revisionssed i Sverige använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Granskningen av förvaltningen och förslaget till dispositioner av bolagets vinst eller förlust grundar sig främst på revisionen av räkenskaperna. Vilka tillkommande granskningsåtgärder som utförs baseras på vår professionella bedömning med utgångspunkt i risk och väsentlighet. Det innebär att vi fokuserar granskningen på sådana åtgärder, områden och förhållanden som är väsentliga för verksamheten och där avsteg och överträdelser skulle ha särskild betydelse för bolagets situation. Vi går igenom och prövar fattade beslut, beslutsunderlag, vidtagna åtgärder och andra förhållanden som är relevanta för vårt uttalande om ansvarsfrihet. Som underlag för vårt uttalande om styrelsens förslag till dispositioner beträffande bolagets vinst eller förlust har vi granskat om förslaget är förenligt med aktiebolagslagen.

Anmärkningar

Under räkenskapsåret 2021-10-01 - 2022-09-30 har avdragen skatt och sociala avgifter vid flera tillfällen inte betalats i rätt tid. Bolaget har därmed ej fullgjort sina skyldigheter enligt skatteförfarandelagen. Dröjsmålen har berott på bristande rutiner. Dessa brister och försummelser har inte medfört någon skada för bolaget, utöver dröjsmålsräntor.

Årsredovisningen har inte upprättats i sådan tid att det varit möjligt att, enligt 7 kap. 10 § aktiebolagslagen, hålla bolagsstämma inom sex månader efter räkenskapsårets utgång.

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Oskarshamn den 31 maj 2023

Deloitte AB

Per Svensson
Auktoriserad revisor

Fotokopians överensstämmelse
med originalet intygas:

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

FORM 10-K

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

For the year ended September 30, 2022

or

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

For the transition period from to

Commission File Number 001-37860

VAREX IMAGING CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of April 1, 2022, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of shares of the registrant's common stock held by non-affiliates of the registrant (based upon the closing sale price of such shares on the NASDAQ Global Select Market on April 1, 2022) was approximately $610.2 million. Shares of the registrant's common stock held by the registrant's executive officers and directors and by each entity that owned 10% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of November 8, 2022, there were 40.1 million shares of the registrant's common stock outstanding.

Documents Incorporated by Reference

Portions of registrant's proxy statement relating to registrant's 2023 annual meeting of stockholders are incorporated by reference in Part III of this annual report on Form 10-K.

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VAREX IMAGING CORPORATION

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Forward-Looking Statements

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

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

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

Summary of Principal Risk Factors

Investing in our common stock involves risks. See Item 1A. "Risk Factors" beginning on page 13 of this Annual Report for a discussion of the following principal risks and other risks that make an investment in Varex speculative or risky:

- Current economic conditions, including supply chain disruptions and logistical challenges, as well as uncertainty caused by the military conflict between Russia and Ukraine, have increased our costs, impacted our ability to obtain materials needed to manufacture products, and caused product delivery delays. These challenges and disruptions are likely to continue throughout our 2023 fiscal year.
- Our business and financial results may be adversely affected by the effects of inflation and the strong U.S. Dollar.
- It has become more difficult to attract and retain employees, which has impacted, and is likely to continue to impact, our ability to manufacture products.
- We sell products and services to a limited number of original equipment manufacturer ("OEM") customers, many of which are also competitors, and a reduction in or loss of business of one or more of these customers may materially reduce our sales.
- We may not be able to accurately predict customer demand for our products, which is subject to matters beyond our control.
- We compete in highly competitive markets, and we may lose business to our customers or other companies with greater resources or the ability to develop more effective technologies, or we could be forced to reduce our prices.
- Our success depends on the successful development, introduction, and commercialization of new generations of products and enhancements to or simplifications of existing product lines.
- Changes in import/export regulatory regimes and tariffs could continue to negatively impact our business.
- A disruption at our manufacturing facilities, as well as fluctuating manufacturing costs, could materially and adversely affect our business.
- Our operations, cash flow, and financial position have been adversely impacted, and in the future could continue to be adversely impacted by the COVID-19 pandemic and associated economic disruptions.
- Our international manufacturing operations subject us to volatility and other risks, including high security risks, which could result in harm to our employees and contractors or substantial costs.
- Warranty claims may materially and adversely affect our business.
- Product defects or misuse may result in material product liability or professional errors and omissions claims, litigation, investigation by regulatory authorities, or product recalls that could harm our future revenues and require us to pay material uninsured claims.
- Our competitive position would be harmed if we are not able to maintain our intellectual property rights and protecting our intellectual property can be costly.

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- Disruption of critical information systems or material breaches in the security of our systems may materially and adversely affect our business and customer relations.
- Compliance with laws and regulations across the globe applicable to the marketing, manufacture, and distribution of our products may be costly, and failure to comply may result in significant penalties and other harm to our business.
- Conversion of our Convertible Notes may dilute the ownership interest of our stockholders or may otherwise depress the market price of our common stock.
- We have significant debt obligations that could adversely affect our business, profitability and ability to meet our obligations.
- Our Asset-Based Loan credit facility and our indentures impose significant operating and financial restrictions that may limit current and future operating flexibility, and make it difficult to respond to economic or industry changes or to take certain actions, which could harm our long-term interest.
- Potential indemnification liabilities to Varian Medical Systems, Inc., a Siemens Healthineers Company ("Varian"), could materially and adversely affect our business, financial condition, results of operations, and cash flows.

PART I

Item 1. Business

Overview

Varex Imaging Corporation is a leading innovator, designer and manufacturer of X-ray components including tubes, digital detectors, 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 in their systems to detect, diagnose, protect, irradiate and inspect. Varex has approximately 2,300 full-time 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, Russia, 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 300 individuals in product development related activities. Our focus on innovation and product performance along with strong and long-term customer relationships allows us to collaborate with our customers to bring industry-leading products to the X-ray imaging market. We continue to work to improve the life and quality of our imaging components and leverage our scale as one of the largest independent X-ray imaging component suppliers to provide cost-effective solutions for our customers.

Operating Segments and Products

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

Medical

In our Medical segment, we design, manufacture, sell and service X-ray imaging components, including X-ray tubes, digital detectors, high voltage connectors, image-processing software and workstations, 3D reconstruction software, computer-aided diagnostic software, collimators, automatic exposure control devices, generators, 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.

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

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registrations for our customers' equipment that require regulatory approval to change. In addition to sales to OEM customers, we sell our products to independent service companies and distributors as well as directly to end-users for replacement purposes.

We are one of the largest global manufacturers of X-ray imaging components and each year we produce over 28,000 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 16,000 software instances. Replacement and service of our existing installed base makes up a significant portion of our revenue. Many of our components need to be replaced regularly depending upon usage and other factors. For example, CT X-ray tubes generally need to be replaced every 2 to 6 years. 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.

The COVID-19 pandemic had a significant effect on hospitals, clinics and outpatient imaging centers as they encountered declines in elective procedures volume. As a result, they reduced the capital purchases of imaging equipment from OEMs, which led to lower demand for X-ray imaging components for us. Additionally, equipment installations were delayed, due to reduced access to healthcare institutions. Partially offsetting this was an increased demand for imaging equipment used to diagnose respiratory diseases, such as radiographic X-ray imaging systems and CT imaging systems. The Company has experienced growth in demand for its products as health systems globally have continued to address healthcare services gaps. However, the Company has not been able to convert all the demand into sales due to on-going supply chain related interruptions and uncertainties, particularly with the availability of micro-controller chips and other electronic components. As a result, uncertainty in overall sales volume is expected to continue at least through the fiscal year 2023.

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 U.S. 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. 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.

Industrial

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

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

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

The economic downturn triggered by the COVID-19 pandemic reduced the demand for X-ray imaging equipment utilized in the non-destructive testing market as manufacturers focused on cash preservation and reduced spending for capital equipment. However, we have seen improved conditions in this market, which continued during the twelve months ended September 30, 2022.

Customers

Our customers are primarily large OEMs. Our top five customers, measured by revenue, are Canon Medical Systems Corporation ("Canon"), United Imaging Healthcare, General Electric Company, Siemens Healthineers AG, and Elekta AB, which collectively accounted for approximately 40% of total revenue in fiscal year 2022. Our largest customer, Canon, accounted for approximately 17%, 18% and 21% of our total revenue for fiscal years 2022, 2021, and 2020, respectively, while our ten largest customers as a group accounted for approximately 52%, 51% and 52% of our revenue for fiscal years 2022, 2021 and 2020, respectively.

Competition

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

Medical

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

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

Industrial

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

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Customer Services and Support

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

Manufacturing and Supplies

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

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

Research and Development

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

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

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

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Product and Other Liabilities

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

Government Regulation

U.S. Regulations

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

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

Quality systems. Our manufacturing operations for medical devices, and those of our third-party manufacturers, are required to comply with the FDA's Quality System Regulation ("QSR"), which addresses a company's responsibility for product design, testing, and manufacturing quality assurance, and the maintenance of records and documentation. The QSR requires that each manufacturer establish a quality systems program by which the manufacturer monitors the manufacturing process and maintains records that show compliance with FDA regulations and the manufacturer's written specifications and procedures relating to the devices. QSR compliance is necessary to receive and maintain FDA clearance or approval to market new and existing products. The FDA makes announced and unannounced periodic and ongoing inspections of medical device manufacturers to determine compliance with the QSR. If in connection with these inspections the FDA believes the manufacturer has failed to comply with applicable regulations and/or procedures, it may issue observations that would necessitate prompt corrective action. If FDA inspection observations are not

addressed and/or corrective action is not taken in a timely manner and to the FDA's satisfaction, the FDA may issue a warning letter (which would similarly necessitate prompt corrective action) and/or proceed directly to other forms of

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enforcement action. Failure to respond timely to FDA inspection observations, a warning letter or other notice of noncompliance and to promptly come into compliance could result in the FDA bringing enforcement action against us, which could include the total shutdown of our production facilities, denial of importation rights to the United States for products manufactured in overseas locations and denial of export rights for U.S. products and criminal and civil fines.

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

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

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

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

Medicare and Medicaid Reimbursement

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

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

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

The sale of medical devices, the referral of patients for diagnostic examinations and treatments utilizing such devices, and the submission of claims to third-party payors (including Medicare and Medicaid) seeking reimbursement for such services, are subject to various federal and state laws pertaining to healthcare "fraud and abuse." Anti-kickback laws make it illegal to solicit, induce, offer, receive or pay any remuneration in exchange for the referral of business, including the purchase of medical devices from a particular manufacturer or the referral of patients to a particular supplier of diagnostic services utilizing such devices. False claims laws prohibit

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anyone from knowingly and willfully presenting, or causing to be presented, claims for payment to third-party payors (including Medicare and Medicaid) that are false or fraudulent, for services not provided as claimed, or for medically unnecessary services. The Office of the Inspector General prosecutes violations of fraud and abuse laws and any violation may result in criminal and/or civil sanctions, including, in some instances, imprisonment and exclusion from participation in federal healthcare programs such as Medicare and Medicaid, which may negatively impact the demand for our products.

Foreign Regulations

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

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

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

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

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

Anti-Corruption Laws and Regulations

We are subject to the U.S. Foreign Corrupt Practices Act and anti-corruption laws, and similar laws in foreign countries, such as the U.K. Bribery Act of 2010 and the law "On the Fundamentals of Health Protection in the Russian Federation". In general, there

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is a worldwide trend to strengthen anti-corruption laws and their enforcement, and the healthcare industry and medical equipment manufacturers have been particular targets of these investigation and enforcement efforts. Any violation of these laws by us or our agents or distributors could create substantial liability for us, subject our officers and directors to personal liability and also cause a loss of reputation in the market.

Transparency International's 2021 Corruption Perceptions Index measured the degree to which public sector corruption is perceived to exist in 180 countries/territories around the world and found that two-thirds of the countries in the index, including many that we consider to be high-growth areas for our products, such as China and India, scored below 50, on a scale from 100 (very clean) to 0 (highly corrupt). We currently operate in many countries where the public sector is perceived as being more or highly corrupt and our strategic business plans include expanding our business in regions and countries that are rated as higher risk for corruption activity by Transparency International.

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

Competition and Trade Compliance Laws

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

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

Intellectual Property

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

We generally rely on a combination of patents, copyrights, trademarks, trade secret and other laws, and contractual restrictions on disclosure, copying and transferring title, including confidentiality agreements with vendors, strategic partners, co-developers, employees, consultants and other third parties, to protect our proprietary rights in the developments, improvements and inventions that we have originated and which are incorporated in our products or that fall within our fields of interest. As of September 30, 2022, we own approximately 260 patents issued in the United States, approximately 400 patents issued throughout the rest of the world and have approximately 130 patent applications pending with various patent agencies worldwide. The patents issued or issuing from the pending applications generally expire between 2022 and 2040. We intend to file additional patent applications as appropriate. We have trademarks, both registered and unregistered, that are maintained and enforced to provide customer recognition for our products in the marketplace. We also have agreements with third parties that provide for licensing of patented or proprietary technology, including royalty-bearing licenses and technology cross-licenses. These licenses generally can only be terminated for breach. See Item 1A. "Risk Factors - Risks Relating to our Intellectual Property and Information Systems."

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In conjunction with the January 2017 separation from Varian Medical Systems, Inc. ("Varian"), we entered into an Intellectual Property Matters Agreement with Varian, pursuant to which, among other things, we each granted the other licenses to use certain intellectual property. Varian was subsequently acquired by Siemens in April of 2021.

Environmental Matters

Our operations and facilities, past and present, are subject to environmental laws, including laws that regulate the handling, storage, transport and disposal of hazardous substances. Certain of those laws impose cleanup liabilities under certain circumstances. In connection with those laws and certain of our past and present operations and facilities, we are obligated to indemnify Varian for 20% of the cleanup liabilities related to prior corporate restructuring activities while a division of Varian and fully indemnify Varian for other liabilities arising from the operations of the business transferred to it as part of those activities. Those include facilities sold as part of Varian's electron devices business in 1995 and thin film systems business in 1997. The U.S. Environmental Protection Agency ("EPA") or third parties have named Varian as a potentially responsible party under the amended Comprehensive Environmental Response Compensation and Liability Act of 1980 ("CERCLA"), at sites to which Varian or the facilities of the businesses sold in 1995 and 1997 were alleged to have shipped waste for recycling or disposal (the "CERCLA sites"). We anticipate that we will be obligated to reimburse Varian for 20% of the liabilities of Varian related to these CERCLA sites (after adjusting for any insurance proceeds or tax benefits received by Varian). In connection with the CERCLA sites, to date Varian has been required to pay only a small portion of the total cleanup costs and we anticipate that any reimbursement to Varian in the future will not be material. As of September 30, 2022, we had an existing environmental liability of approximately $1.1 million, net of expected insurance proceeds, related to the CERCLA sites.

Working Capital

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

Human Capital Resources

Talent Management

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

As of September 30, 2022, we had approximately 2,300 full-time and part-time employees worldwide. None of our employees based in the United States are unionized or subject to collective bargaining agreements. Employees based in some foreign countries may, from time to time, be represented by works councils or unions or subject to collective bargaining agreements. We consider our relations with our employees to be good.

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

Total Rewards

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

- Health insurance coverage available to full-time employees;
- Tuition reimbursement up to a specified dollar amount on an annual basis;

- Matching contributions to a tax-qualified defined contribution savings ("401(k)") plan, on a dollar-for-dollar basis up to four percent of the employee's base compensation;

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- An employee assistance program; and
- Training and development programs designed to help employees improve workplace performance.

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

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

Safety and Wellness

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

The COVID-19 pandemic presented challenges for our workplace. Because our business involves the manufacture of physical products, many of our employees were unable to work from home. In an effort to keep our employees safe and to maintain operations during the COVID-19 pandemic, we implemented a number of health-related measures and incentivized our employees to become vaccinated. In addition, we implemented a hybrid-office work program where certain employees could work a portion of the workweek from a home office if approved by their leadership.

Diversity and Inclusion

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

Information Available to Investors

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

- our annual reports on Form 10-K;
- quarterly reports on Form 10-Q;
- current reports on Form 8-K (including any amendments to those reports);
- proxy statements; and
- Section 16 ownership reports.

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

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Executive Officers of the Registrant

The biographical summaries of our executive officers are as follows:

Sunny S. Sanyal, 58, has served as President, Chief Executive Officer, and Director since January 2017. Prior to the separation of Varex from Varian, Sunny served as senior vice president and president of Varian's Imaging Components business for Varian since February 2014. Prior to joining Varian in 2014, Sunny was chief executive officer of T-System, a privately held company providing information technology solutions and services to hospitals and urgent care facilities. He also served as president of McKesson Provider Technologies, where he led the company to significant market expansion with its clinical software, medical imaging technology, and services solutions. Sunny has held executive positions at GE Healthcare, Accenture, and IDX Systems. He received a Master of Business Administration ("MBA") from Harvard Business School, a Master of Science in industrial engineering from Louisiana State University, and a Bachelor of Engineering in electrical engineering from the University of Bombay.

Shubham Maheshwari, 51, has served as Chief Financial Officer ("CFO") since July 2020. Shubham (Sam) joined Varex from SiFive, Inc., a leading provider of hardware and software solutions for developing RISC-V based processors and semiconductor chips, where he served as CFO. Before SiFive, Sam served for six years as CFO, and later as CFO and COO, of Veeco Instruments Inc. (Nasdaq: VECO), a manufacturer of semiconductor process equipment. Previous notable positions include Senior Vice President, Finance for semiconductor company Spansion, Inc., where he helped lead the company through its restructuring and IPO in 2010, and more than 10 years in various senior positions, including Vice President of M&A and Corporate Controller, at KLA-Tencor Corp., a global semiconductor equipment company. Sam holds an MBA in Finance from Wharton, and a bachelor's degree in chemical engineering from the Indian Institute of Technology, Delhi.

Kimberley E. Honeysett, 51, has served as Chief Legal Officer since February 2022 and as Senior Vice President, General Counsel, and Corporate Secretary since January 2017. Prior to the separation of Varex from Varian, Kim served as vice president and assistant general counsel and assistant corporate secretary for Varian, where she advised Varian's Board of Directors, executive management and corporate functions, including business development, investor relations, human resources, information technology and was responsible for corporate governance, general compliance matters, litigation and global subsidiary governance. Prior to joining Varian in 2005, Kim served as group director, legal affairs at Siebel Systems, Inc., an enterprise software company, and as an associate with the law firm Brobeck, Phleger & Harrison LLP. Kim holds a juris doctor degree from Cornell Law School and a bachelor's degree in communications from the University of California, Los Angeles.

Brian W. Giambattista, 63, has served as Senior Vice President, and General Manager - X-ray Detectors since May 2017 and joined Varex after the acquisition of the PerkinElmer Medical Imaging business. He has over 30 years of experience in the industry, having held various management and engineering roles at PerkinElmer and General Electric Company, and received his doctorate degree in physics from the University of Virginia.

Andrew Hartmann, 60, has served as Senior Vice President, Medical Sales & Marketing since July 2018. Prior to joining Varex he worked for a number of leading OEMs in various leadership roles, most recently as General Manager of the X-ray and Ultrasound Business for Carestream Health, Inc., a worldwide provider of X-ray imaging systems, from April 2012 to June 2018. Prior to Carestream, Andrew worked for Siemens Medical Solutions USA, Inc. (Siemens Healthineers), a leading medical technology company, in sales and marketing roles both domestically in the United States and internationally for Siemens' ultrasound business. Prior to Siemens, he held leadership roles at Acuson Corp. (subsequently acquired by Siemens), including General Manager for Acuson's Australia and New Zealand business. Andrew received a Master of Business Administration ("EMBA") from Ashridge Business School in London, United Kingdom, and received a diploma in electronics from Sydney Technical College in Australia.

Mark S. Jonaitis, 61, has served as Senior Vice President and General Manager - X-Ray Sources since January 2017. Prior to the separation of Varex from Varian, Mark served in various management positions at Varian, including most recently as vice president and general manager, X-ray Tube Products and global manufacturing. Mark joined Varian's predecessor, Varian Associates, in 1983, where he served in various product and engineering positions. Mark received his Bachelor of Science in physics from the University of Utah.

Item 1A. Risk Factors

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

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Risks Relating to Our Business

Current economic conditions, including supply chain disruptions and logistical challenges, as well as the military conflict between Russia and Ukraine, have increased our costs, and have impacted, and may in the future impact, our ability to obtain materials needed to manufacture our products, to deliver those products to our customers, and otherwise adversely impact our financial condition and results of operations.

Current economic conditions have had, and we believe will continue to have, an adverse impact on our manufacturing capacity, supply chain and distribution systems. We have experienced, and continue to experience, difficulties in obtaining materials used to build our products and these difficulties have impacted our ability to deliver finished products to our customers. We believe that it will continue to be difficult to obtain certain materials throughout fiscal year 2023. We have used more of our inventory on hand than we have used historically and are purchasing materials that are critical to our processes, often at higher costs. Shortages of materials, particularly micro-controller chips and associated electronic components, have caused and may continue to cause, delays in manufacturing products for our customers. In some cases, raw material shortages and delivery delays from our suppliers are communicated to us with very little advanced warning, which has caused operational and customer order fulfillment challenges. During fiscal year 2022, inventory levels increased due to uneven component flow, impacting our ability to finish products and resulting in a higher inventory count. If our actions to mitigate such challenges are not successful, material shortages could cause us to temporarily stop production of certain products. Production delays have had and could continue to have a material adverse effect on our business and results of operations. For example, if we are unable to deliver products to our customers without unreasonable delay, those customers may seek alternative suppliers or decide to in-source certain products. 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.

In addition to material shortages, supply chain logistics have become more challenging, could remain challenging, and result in higher costs and efforts. Our ability to move unfinished goods and finished products around the world has been impacted by the decreased availability of global transportation networks. We have been subject to price increases on both the components used to make our products, and for moving unfinished goods and finished products across the globe. Increased freight charges and shipping delays have also become more common during the pandemic and are expected to continue into the foreseeable future. If we are not able to mitigate these price increases and/or raise prices for our products, our operations, cash flow, and financial position could be adversely impacted. See Management's Discussion and Analysis of Financial Condition and Results of Operations for more information regarding the risks related to supply chain disruptions and logistical challenges on our business.

The escalation of geopolitical tensions and the military conflict between Russia and Ukraine have introduced further uncertainty into the economic environment, which could impact our business. Although the length and impact of the ongoing military conflict is highly unpredictable, the conflict in Ukraine could lead to market disruptions, including significant volatility in commodity prices, credit and capital markets, as well as supply chain interruptions. Poor relations between the United States and Russia; sanctions by the United States, European Union, and other countries against Russia; the response by Russia and other countries to these sanctions; and any escalation of political tensions or economic instability in the area could have an adverse impact on our business, our customers, and our suppliers. Further, our customers, suppliers, and other third parties with whom we do business may have staff, operations, materials or equipment located in Ukraine or Russia, which could impact our supply chain, the services being provided to us, or our financial condition or results of operations.

Our business and financial results may be adversely affected by the effects of sustained inflation and increased interest rates.

Inflation has the potential to adversely affect our liquidity, business, financial condition and results of operations by increasing our overall cost structure, particularly if we are unable to achieve commensurate increases in the prices we charge our customers. The existence of sustained inflation in the economy 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. As interest rates rise to address inflation or otherwise, we may experience further increases in capital and other costs. Further, changes in monetary or other policies here and abroad to combat inflation may lead to an economic downturn in some of our markets. Although we may take measures to mitigate the impact of this inflation, if these measures are not effective, our business, financial condition, results of operations and liquidity could be materially adversely affected. Even if such measures are effective, the benefits of such measures may not be realized until after the costs of inflation have been incurred.

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 sell our products to a limited number of OEM customers, many of which are also our competitors with in-house X-ray component manufacturing operations. We had one customer during fiscal year 2022 that accounted for 17% of our revenue. Our ten

largest customers as a group accounted for approximately 52%, 51% and 52% of our revenue for fiscal years 2022, 2021 and 2020, respectively. Although we seek to broaden our customer base, we will continue to depend on sales to a relatively small number of

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major customers. Because we often take significant time to replace lost business, 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. If one or more of these customers were to cancel a product order or service contract (whether in accordance with its terms or otherwise), become insolvent or otherwise be unable or fail to pay for our products and services, our operating results and financial condition could be materially and adversely affected.

We may not be able to accurately predict the demand for our products by our customers.

End-user product demand, economic uncertainties, the COVID-19 pandemic, natural disasters, 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 the demand for our products. Because the manufacture of our products requires some lead-time, changes in customer purchasing forecasts have previously impacted our business, resulting in excess inventory and slowdowns in sales. Similar inventory adjustments and slowdowns in sales are likely to occur in the future. Changes to customer forecasts can occur on short notice. Our customers also face inherent competitive issues and new product introduction delays which can result in changes in forecasts. The market and regulatory risks faced by our customers also ultimately impact our ability to forecast future business. Our agreements for imaging components, such as our pricing agreement with Canon Medical Systems, may contain purchasing estimates that are based on our customers' historical purchasing patterns rather than firm commitments, and actual purchasing volumes under the agreements may vary significantly from these estimates. The variation from forecasted purchasing volume may be due, in part, to the increasing life of X-ray tubes, which can result in reduced demand for replacement X-ray tubes in ways 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. In the past, decreased economic activity associated with the COVID-19 pandemic had a significant negative impact on the demand for our industrial products and a similar impact could occur again.

We compete in highly competitive markets, and we may lose business to our customers or other companies with greater resources or the ability to develop more effective technologies, or we could be forced to reduce our prices.

We compete in a market 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 components, also manufacture X-ray components, including X-ray tubes, for use in their own imaging systems products. We must compete with these in-house manufacturing operations for business. If these customers manufacture a greater percentage of their components in-house or otherwise decrease purchases from external sources, which may occur for a number of reasons, including a strong U.S. Dollar or a general economic slowdown, we could experience reductions in purchasing volume by, or loss of, one or more of these customers. Such a reduction or loss may have a material and adverse effect on our business. 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. As a result of these competitive dynamics, to effectively retain the business of our customers and compete with our competitors we must have an advantage in one or more significant areas, such as lower product cost, better product quality and/or superior technology and/or performance. We have made price concessions to maintain existing customers and attract new customers, and may have to make additional price concessions in the future.

In our Industrial segment, we compete with other OEM suppliers primarily outside of the United States. The market for our X-ray tube and flat panel products used for nondestructive testing in industrial applications is small and highly fragmented. 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. Therefore, our ability to compete in certain high-growth markets may be limited compared to our competitors.

Our competitors could develop technologies and products that are more effective than those we currently use or produce or that could render our products obsolete or noncompetitive. In addition, the timing of our competitors' introduction of products into the market could affect the market acceptance and sales of our products. Some competitors offer specialized products that provide, or may be perceived by customers to provide, an advantage over our products. Also, some of our non-U.S. competitors may not be 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 reduce our sales. Any of these competitive factors could negatively and materially affect our pricing, sales, revenues, market share and gross margins and our ability to maintain or increase our operating margins.

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

We 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 or enhancements, and, even if we succeed, 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. In addition, certain costs, including installation and warranty costs, associated with new products may be proportionately greater than the costs associated with other products and may therefore disproportionately, materially, and adversely affect our gross and operating margins. 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.

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

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

Furthermore, as discussed in greater detail elsewhere in this "Risk Factors" section, we cannot be sure that we will be able to successfully develop, manufacture, or introduce new products or enhancements, the roll-out of which involves compliance with complex quality assurance processes, including the Quality System Regulation of the U.S. Food and Drug Administration ("FDA"). Failure to complete these processes timely and efficiently could result in delays that could affect 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 revenues are generated from customers located outside the United States, and economic, political, and other risks associated with international sales and operations could materially and adversely affect our sales or make them less predictable.

We conduct business globally. Revenues generated from customers located outside the United States accounted for approximately 69%, 68% and 66% of our total revenues during fiscal years 2022, 2021, and 2020, respectively. As a result, we must provide significant service and support globally. We intend to continue to expand our presence in international markets and expect to expend significant resources in doing so. We cannot be sure that we will be able to meet our sales, service, and support objectives or obligations in these international markets or recover our investment in these international markets. Our future results could be harmed by a variety of factors, including:

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

Although our sales fluctuate from period to period, in recent years our international operations have represented a larger share of our business. The more we depend on international sales, the more vulnerable we become to these factors.

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

The pandemic caused by the spread of COVID-19 adversely impacted our operations, cash flow, and financial position. The pandemic created significant volatility, uncertainty and economic disruption that could continue into the future. In addition, in part due to the COVID-19 pandemic, we have observed an overall tightening and increasingly competitive labor market, 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. New or continuing outbreaks of COVID-19 could have a negative impact on our business, future operating results, cash flows and financial condition. Local government lockdowns or prohibitions on travel could adversely affect our ability to manufacture or sell our products or to provide service to our customers or to meet and build relationships with customers, suppliers, or other third parties. For example, the Chinese government has closed, and may in the future close, our factory in China for extended periods of time to combat COVID-19 infection rates in the region. Even though the effects of COVID-19 have been lessening, a resurgence of COVID-19 or other infections variants could have an adverse impact on our operating results, cash flows and financial condition. See Management's Discussion and Analysis of Financial Condition and Results of Operations for more information regarding the risks related to COVID-19 on our business.

Our business may suffer if we are not able to hire and retain qualified personnel.

Our future success depends, to a great degree, on our ability to retain, attract, expand, integrate, and train our management team and other key personnel, such as qualified engineering, service, sales, marketing, 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. Competition for qualified personnel has increased over the past years. Because this competition is intense, particularly in Utah, where unemployment rates are relatively low, compensation-related costs could increase significantly. If we are unable to hire and train qualified personnel, we may not be able to maintain or expand our business. Additionally, if we are unable to retain key personnel, we may not be able to replace them readily or on terms that are reasonable, which also could hurt our business.

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

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

Statutory changes included in proposed U.S. legislation, if passed, including interpretive guidance, could have a material impact on income tax expense, the effective tax rate, or the value of deferred tax assets and liabilities. Changes in the valuation of our deferred tax assets or liabilities, additional changes in tax laws or rates, changes in the interpretation of tax laws in other jurisdictions, or other changes beyond 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.

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

From time to time, we may acquire or develop new lines of business. There are substantial risks and uncertainties associated with new lines of business, particularly in instances where the markets are not fully developed or are ones we have not operated in before. Risks include developing knowledge of and experience in the new business, recruiting market professionals, new types or greater levels of liability exposure, increasing research and development expenditures, and developing and capitalizing on new relationships with experienced market participants. This may mean significant investment and involvement of our senior management to acquire or develop, then integrate, the business into our operations. Timelines for integration of new businesses may not be achieved, and price and profitability targets may not prove feasible, as new products can carry lower gross margins than existing products. External factors, such as compliance with regulations (including in the case of some evolving end-markets, fast-changing regulatory developments and legal uncertainties), competitive alternatives, and shifting market preferences may also impact whether implementation of a new business will be successful. Failure to manage these risks could have a material and adverse effect on our business, results of operations, and/or financial condition.

In addition, some of our products are multi-purpose products designed and intended to be used by OEMs and end users for a wide range of imaging and irradiation purposes including for use in new and emerging industries. Certain of these industries may be subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions. The demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions develop, and we cannot reasonably predict the nature of these developments or the effect, if any, that these developments could have on our business.

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

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

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

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

Further, we may find that we need to restructure or divest acquired businesses or assets of those businesses. Completed acquisitions may not produce the full efficiencies, growth, or benefits that were expected. If we decide to sell assets or a business, it may be difficult to identify buyers or alternative exit strategies on acceptable terms, in a timely manner, or at all, which could delay the accomplishment of our strategic objectives. We may be required to dispose of a business at a lower price or on less advantageous terms, or to recognize greater losses than we had anticipated.

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

Additionally, we participate in joint ventures and have 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 (flat panels used in our digital detectors), and a 50% interest in VEC Imaging GmbH & Co. KG, a joint venture to develop nanotube based x-ray sources, and we recently invested in another nanotube technology company. These and other investments and joint ventures are subject to risk of loss of investment capital as well as other risks. 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. If these companies do not succeed, we could lose some or all of our investment in these companies. There is no guarantee that the time and money invested by us in these projects will yield the expected returns.

Warranty claims may materially and adversely affect our business.

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

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

Our business exposes us to potential product liability claims that are inherent in the manufacture, sale, installation, servicing, and support of components that are used in medical devices and other devices that deliver radiation. Because 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 (for example, when our security and inspection products are being used to scan cargo or in the diagnosis of medical problems), the possibility for significant personal injury or loss of life exists. Although our products are incorporated into OEMs' systems, and thus only perform pursuant to the design and operating systems of OEMs, we may also be subject to 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.

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

Product liability actions are subject to uncertainty and may be expensive, time consuming, and disruptive to our operations. For these and other reasons, 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.

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

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.

We are exposed to credit risk and fluctuations in the values of our investment portfolio.

Our investments can be negatively affected by liquidity, credit deterioration, financial results, market and economic conditions, political risk, sovereign risk, interest rate fluctuations or other factors. As a result, the value and liquidity of our cash, cash equivalents and marketable securities may fluctuate substantially. Therefore, although we have not realized any significant losses on our cash, cash equivalents and marketable securities, future fluctuations in their value could result in significant losses and could have a material adverse impact on our financial condition and operating results.

ESG issues, including those related to climate change and sustainability, may increase our costs and impose difficult and expensive compliance requirements.

Customers, consumers, investors, and other stakeholders are increasingly focusing on environmental issues, including climate change, water use, deforestation, waste, and other sustainability concerns. We have increased our focus on sustainability and measurement of our progress against Environmental, Social, and Governance ("ESG") criteria by establishing sustainability and ESG programs that reflect our current initiatives. The implementation of these initiatives may impose additional costs on us. If our ESG initiatives fail to satisfy investors, current or potential customers, consumers, and our other stakeholders, our reputation, our ability to sell products and services to customers, our ability to attract or retain employees, and our attractiveness as an investment or business partner could be negatively impacted.

In addition, our customers have adopted, and may continue to adopt, procurement policies that require us to comply with social, and environmental responsibility provisions. An increasing number of investors have adopted, and may continue to adopt, ESG policies for their portfolio companies, and various voluntarily sustainability initiatives and organizations have promulgated different social and environmental responsibility 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.

Risks Relating to the Manufacture of our Products

Supply chain disruptions, including the loss of a supplier, and any inability to obtain supplies of important components have impacted 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.

As discussed under the heading "Risks Related to our Business" above, supply chain disruptions have had, and will likely continue to have, an impact on our ability to manufacture our products. We have experienced delays in receiving materials used to make our products due both to material shortages and shipping delays. These delays are likely to continue. In addition, poor relations between the United States and Russia; sanctions by the United States, European Union, and other countries against Russia; the

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response by Russia and other countries to these sanctions; and any escalation of political tensions or economic instability in the area could have an adverse impact on our business, our customers, and our suppliers. Further, our customers, suppliers, and other third parties with whom we do business may have staff, operations, materials or equipment located in Ukraine or Russia, which could impact our supply chain, the services being provided to us, or our financial condition or results of operations. During fiscal year 2022, material shortages increased and have caused, and could continue to cause, us to temporarily stop production of certain products. If we are unable to obtain the materials necessary to make our products or if we must pay more for those materials, it could have a material adverse effect on our business and financial results.

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

If we lose any of these limited- or sole-source suppliers, if their operations are substantially interrupted, or if any of them fail to meet performance or quality specifications or delivery deadlines, 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, or (2) could significantly increase costs for the affected products and cause material delays in delivery of those and other related products. In addition, manufacturing capacity limitations of any of our suppliers or other inability of these suppliers to meet increasing demand or delivery deadlines could limit growth opportunities for the affected product lines and damage customer relationships. Shortage of, and greater demand for, components and subassemblies could also increase manufacturing costs if the supply/demand imbalance increases the price of the components and subassemblies. Any of these events could materially and adversely affect our business and financial results. If we decide to manufacturer a component that was previously purchased from an external supplier, we may not be able to manufacture the component as efficiently as the external supplier and may experience delays or problems in successfully manufacturing the component, which could materially and adversely affect our ability to manufacture and supply products to customers.

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

We rely on the supplies of certain raw materials such as tungsten, lead, iridium, and copper for security and inspection products and copper, lead, tungsten, rhenium, molybdenum zirconium, and various high grades of steel alloy for X-ray tubes. Worldwide demand, availability, and pricing of these raw materials have been volatile. We have experienced and expect that we will continue to experience increases in raw material costs due to inflation and other market constraints. We expect that availability and pricing will continue to fluctuate in the future. If supplies are restricted or become unavailable or if prices increase further, this could constrain our manufacturing of affected products, reduce our profit margins, or otherwise materially and adversely affect our business.

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

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 not be able 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.

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A disruption at our manufacturing facilities, as well as fluctuating manufacturing costs, could materially and adversely affect our business.

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

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

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

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

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

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

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

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

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

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

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

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

- difficulties in staffing and managing employee relations and foreign operations, particularly in attracting and retaining personnel qualified to design, sell, test, and support our products;
- fluctuations in currency exchange rates;
- difficulties in coordinating our operations globally and in maintaining uniform standards, controls, procedures, and policies across our operations;
- difficulties in enforcing contracts and protecting intellectual property;
- diversion of management attention;
- imposition of burdensome governmental regulations, including changing laws and regulations with respect to collection and maintenance of personally identifiable data;
- regional and country-specific political and economic instability, as discussed in greater detail below; and
- inadequacy of the local infrastructure to support our operations.

Our international locations expose us to higher security risks compared to our U.S. 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. Despite these precautions, the safety of our personnel in these locations may continue to be at risk, and we may in the future suffer the loss of employees and contractors, which could harm our business reputation and operating results.

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

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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. Our insurance coverage for such disasters may not be adequate or continue to be available at commercially-reasonable terms, or at all. A major disaster (such as a major fire, hurricane, earthquake, flood, tsunami, volcanic eruption or terrorist attack) affecting 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 a disaster, shipments of our products could be delayed. Additionally, customers may delay purchases of our products until our operations return to normal. For example, following the earthquake and tsunami disasters in Japan in 2011, the operations of Canon Medical Systems, our largest customer, were impacted, and, as a consequence, orders to and product shipment from our business were delayed for several months. Even if our suppliers or customers are able to quickly respond to a disaster, the ongoing effects of the disaster could create some uncertainty in the operations of our business. In addition, our facilities may be subject to a shortage of available electrical power and other energy supplies. Any shortages may increase our costs for power and energy supplies or could result in blackouts, which could disrupt the operations of our affected facilities and harm our business. Further, our products are typically shipped from a limited number of ports, and any disaster, strike, or other event blocking shipment from these ports could delay or prevent shipments and harm our business. In addition, concerns about terrorism, the effects of a terrorist attack, political turmoil, or an outbreak of epidemic diseases could have a negative effect on 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 our intellectual property rights and protecting our intellectual property 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. We also cannot be sure 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. Issued patents owned by, or licensed to, us may be challenged, invalidated, or circumvented, or the rights granted under the patents may not provide us with competitive advantages. Asserting our patent rights against others in litigation or other legal proceedings is costly and diverts managerial resources. An adverse finding in patent infringement litigation could adversely impact our competitive position. In addition, we may not be able to detect patent infringement by others or may lose our competitive position in the market before we are able to do so.

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. These protections may prove to be inadequate, since agreements may still be breached, and we may not have adequate remedies for a breach. 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. If our proprietary or confidential information is misappropriated, 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. As we expand our manufacturing capabilities outside of the United States, more of our intellectual property may be held in jurisdictions that do not have robust intellectual property protections, which may make it harder for us to adequately protect our Intellectual Property.

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

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. Determining whether a product infringes on a party's intellectual property rights involves complex legal and factual issues, and the outcome of this type of litigation is often uncertain. Parties may claim that we are infringing upon their intellectual property rights. We may not be aware of intellectual property rights of others that relate to our products, services, or technologies. 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. Any dispute regarding patents or other intellectual property 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, 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. Furthermore, a third party claiming infringement may not be willing to license our rights to us, and even if a third-party rights holder is willing to do so, the amounts we might be required to pay under the associated royalty or license agreement could be significant. We could decide to alter our business strategy or voluntarily cease the allegedly infringing actions rather than face litigation or pay a royalty, which could materially and adversely impact our business and results of operations.

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 that of customers, suppliers and business partners, 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 disrupt our operations. If we do not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, we could be subject to, among other things, transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through a security breach or misappropriation of intellectual property. Such security breaches could expose us to a risk of loss of information, litigation, and possible liability to employees, customers, 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.

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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.

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

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

In addition 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. Both the United States and China could pursue policies to reduce their dependence on foreign goods, which could have a material adverse impact on our business, results of operations and financial position. In addition, as a consequence of such policies, 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.

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

Regulatory requirements affecting our operations and sales outside the United States vary from country to country, often differing significantly from those in the United States. In general, outside the United States, some of 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. These processes (including, for example, the processes in the EU, the European Economic Area ("EEA"), Switzerland, Brazil, Australia, China, Japan and Canada) can be time consuming, expensive and uncertain, which can delay our ability to market products in those countries. Delays in the receipt of or failure to receive regulatory approvals, the inclusion of significant limitations on the indicated uses of a product, the loss of previously obtained approvals or failure to comply with existing or future regulatory requirements could restrict or prevent 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.

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Within the EU/EEA, we must obtain, and in turn affix, a CE mark certification, which is a European marking of conformity that indicates that a product meets the essential requirements of the European Union's Medical Device Directive. Compliance with the Medical Device Directive is done through a self-certification process that is then verified by an independent certification body called a "Notified Body," which is an organization empowered by the legislature to conduct this verification. Once the CE mark is affixed, the Notified Body will regularly audit us to ensure that we remain in compliance with the applicable European laws and Medical Device Directive. 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 Medical Device Directive, 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. In April 2017, the European Commission adopted two regulations on medical devices that impose stricter requirements for placing medical devices in the EU market, as well as for Notified Bodies. These regulations have resulted in the limited availability of recognized Notified Bodies, which could delay our ability to obtaining CE marks. We may be subject to risks associated with additional testing, modification, certification, or amendment of our existing market authorizations, or we may be required to modify products already installed at our customers' facilities to comply with the official interpretations of these revised regulations.

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

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

Further, 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. Becoming familiar with and implementing the infrastructure necessary to comply with these laws, rules, and regulations is costly. Additionally, in some countries, we rely or may rely in the future on foreign distributors and agents to assist in complying with foreign regulatory requirements, and we cannot be sure that they will always do so. The failure of 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 U.S. laws and regulations applicable to the marketing, manufacture, 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 prevent us from distributing our products, require us to recall our products, or result in significant penalties or other harm to our business.

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

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Generally, our manufacturing operations for medical devices, and those of our third-party manufacturers, are required to comply with the Quality System Regulations ("QSR") of the FDA, as well as other federal and state regulations for medical devices and radiation-emitting products. The FDA, through authorized auditing organizations, makes announced and unannounced periodic and on-going inspections of medical device manufacturers to determine compliance with QSR and, in connection with these inspections, issues reports known as Form FDA 483 reports when the FDA believes the manufacturer has failed to comply with applicable regulations and/or procedures. If Form FDA 483 reports are not addressed or corrective action is not taken in a timely manner and to the FDA's satisfaction, the FDA may issue a warning letter or proceed directly to an enforcement action. Failure to respond in a timely manner to a warning letter, or any other notice of noncompliance and to promptly come into compliance could result in the FDA bringing an enforcement action, which could include the total shutdown of 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.

In addition, 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 even prevent the marketing and full commercialization of future products or services that we may develop and/or may impose costly requirements on our business. Further, 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. Becoming familiar with and implementing the infrastructure necessary to comply with these laws, rules, and regulations is costly and time consuming. In addition, failure to comply with these laws, rules and regulations could delay the introduction of new products and could materially and adversely affect our business.

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

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.

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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 if we fail to meet regulatory approval requirements or if the approval process becomes commercially infeasible or impractical.

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. For example, to sell X-ray tubes for replacement applications in China, product registrations must be approved by the new National Medical Products Administration ("NMPA"). We must comply with the requirements of the NMPA, and we may not be able to receive registration approval or renewal of existing registrations if we fail to meet regulatory approval requirements or if the process of gaining approval becomes commercially infeasible or impractical. Certain of these local laws and regulations have the effect of serving as a barrier to trade and can be difficult to navigate predictably.

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

These registration processes can be costly and time consuming, and customers may decide to purchase products from 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.

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. These reforms and measures, including the uncertainty in the medical community regarding their nature and effect, could have a material and adverse effect on us and our customers' purchasing decisions regarding our products and treatments and could harm our business, results of operations, financial condition, and prospects. We cannot predict the specific healthcare programs and regulations that will be ultimately implemented by local, regional, and national governments globally. However, any changes that lower reimbursements for 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, as well as similar laws in foreign countries, such as the U.K. Bribery Act and the Law on the Fundamentals of Health Protection in the Russian Federation. In general, there is a worldwide trend to strengthen anti-corruption laws and their enforcement, and the healthcare industry and medical equipment manufacturers have been particular targets of these investigation and enforcement efforts. Any violation of these laws by 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. 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 could materially and adversely affect our business. We will likely do more business, directly and potentially indirectly, in countries where the

public sector is perceived to be corrupt. Increased business in higher-risk countries could subject us and our officers and directors to increased scrutiny and increased liability from our business operations.

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Competition and trade compliance laws. We are subject to various competition and trade compliance laws in the jurisdictions where we operate. 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 do not generally sell our products directly to healthcare providers, but 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. From time to time, new laws or regulations may be adopted and compliance with these laws or regulations could be costly or time consuming. For example, in July 2021, the U.S. government passed the Uyghur Forced Labor Prevention Act (the "UFLPA"), which imposes importation limits on goods produced using forced labor in China, especially the Xinjiang Uyghur Autonomous Region, and imposes related sanctions. Guidance related to compliance with the UFLPA has not yet been issued, and we cannot yet evaluate the impact that compliance with the UFLPA will have on our business or financial condition.

We are subject to similar 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 activity by companies. We could face civil, criminal, and administrative sanctions if any member state determines that we have breached our obligations under 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.

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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, and 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 a specific radioactive materials licenses. Obtaining licenses and certifications may be time consuming, expensive, and uncertain.

The handling and disposal of radioactive materials resulting from the manufacture, use, or disposal of 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.

If we are unable to obtain required FDA clearances or approvals for a product or are unduly delayed in doing so, or the uses of that product are limited, our business could suffer.

Typically, 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. Modifications or enhancements to a product that could significantly affect its safety or effectiveness, or that would constitute a major change in the intended use of the device, technology, materials, labeling, packaging, or manufacturing process also require a new 510(k) clearance. Although manufacturers make the initial determination whether a change to a cleared device requires a new 510(k) clearance, 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. We may not be able to obtain the necessary clearances or approvals or may be unduly delayed in doing so, which could harm our business. 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 is unduly delayed in doing so, or the uses of that product were limited, our business could suffer.

Unfavorable results of legal proceedings could materially and adversely affect our financial results.

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. Legal proceedings are often lengthy, taking place over a period of years with interim motions or judgments subject to multiple levels of review (such as appeals or rehearings) before the outcome is final. Litigation and other legal proceedings, claims, government inspections, audits and investigations are subject to significant uncertainty and may be expensive, time consuming, and disruptive to 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, it could result in significant compensatory damages, and, in certain circumstances, punitive damages, disgorgement of revenue or profits, remedial corporate measures, or injunctive relief imposed on us. If our existing insurance does not cover the amount or types of damages awarded, or if other resolution or actions taken as a result of such legal proceeding were to restrain our ability to market one or more of our material products or services, our combined financial position, results of operations, or cash flows could be materially and adversely affected. In addition, legal proceedings, and any adverse resolution thereof, can result in adverse publicity and damage to our reputation, which could materially and adversely impact our business.

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

We are subject to environmental laws around the world. These 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. As a consequence, we can incur significant environmental costs and liabilities, some recurring and others not recurring. Although we follow procedures intended to comply with existing environmental laws, we, like other businesses, 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.

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.

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

We must, among other things, maintain effective internal controls and procedures for financial reporting and disclosure purposes. 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 it 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.

Risks Relating to Our Indebtedness

We have significant debt obligations that could adversely affect our business, profitability and ability to meet our obligations.

As of September 30, 2022, our total combined indebtedness was approximately $449.7 million. The borrowings under our unsecured convertible senior notes due 2025 (the "Convertible Notes") bear interest at a fixed rate of 4.00% and borrowings under our Senior Secured Notes due 2027 (the "Senior Secured Notes") bear interest at a fixed rate of 7.875%.

Our debt could potentially have important consequences to us and our investors, including:

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

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If our cash requirements in the future are greater 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. For example, holders of the Convertible Notes will have the right to require us to repurchase all or a portion of the Convertible Notes on the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. Further, if a make-whole fundamental change as defined in the Indenture governing the Convertible Notes occurs prior to the maturity date of the Convertible Notes, we will in some cases be required to increase the conversion rate for a holder that elects to convert its Convertible Notes in connection with such make-whole fundamental change. Unless we elect to deliver solely shares of common stock to settle a conversion of the Convertible Notes (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments for those Convertible Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make such repurchases of the Convertible Notes surrendered or pay cash with respect to the Convertible Notes being converted.

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

We and our subsidiaries may be able to incur substantial indebtedness in the future. As of September 30, 2022, we had approximately $100 million of additional available borrowing capacity (subject to borrowing base availability) under the revolving credit agreement that we entered into on September 30, 2020 (the "Asset-Based Loan", or "ABL Facility"). In addition to any amounts that might be available to us for borrowing under the ABL Facility, subject to certain conditions, we will have the right to request an increase of aggregate commitments under the ABL Facility by an aggregate amount of up to $75 million by obtaining additional commitments either from one or more of the lenders under the ABL Facility or other lending institutions.

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

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

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

Our ABL Facility and the indenture governing our Senior Secured Notes impose significant operating and financial restrictions on us limit our ability, among other things, to:

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

As a result of these restrictions, we may be:

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

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

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

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

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

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

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

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

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

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). This activity could cause or avoid an increase or a decrease in the market price of our common stock or the Convertible Notes. In addition, if any such hedging positions fail to become effective, the counterparties to these hedging positions or their respective affiliates may unwind their hedge positions, which could adversely affect the value of our common stock.

Risks Relating to Our Common Stock

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

In the past year, our stock price has ranged from a low of $18.90 to a high of $32.65. We cannot guarantee that an active trading market will be sustained for our common stock. Nor can we predict the prices at which shares of our common stock may trade. We have experienced and expect in the future to experience fluctuations in our operating results, including revenues and margins, from period to period. These fluctuations may cause our stock price to be volatile, which could cause losses for our stockholders.

Our quarterly and annual operating results, including our revenues and margins, may be affected by a number of other factors, including:

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

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

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

The conversion of the Convertible Notes may dilute the ownership interests of our stockholders. On conversion of the Convertible Notes, we have the option to pay or deliver, as the case may be, cash, shares of common stock, or a combination of cash and shares of common stock. If 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.

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.

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in Salt Lake City, Utah, where we own approximately 37 acres of land and approximately 494,000 square feet of space used for manufacturing, administrative functions and research and development, for both our Medical and Industrial segments. We also own or lease 24 other facilities throughout North America, Europe and Asia that comprise over 1,000,000 square feet of manufacturing facilities, warehouses, sales and service, research and development and office space, which are used for our Medical and/or Industrial segments, depending on the location.

In addition to our location in Salt Lake City, Utah, our other primary owned facilities are located in Las Vegas, Nevada; Franklin Park, Illinois; and Doetinchem, the Netherlands. Our Las Vegas, Nevada facility has approximately 5 acres of land and 94,000 square feet of space used for manufacturing, administrative functions and research and development, for our Industrial segment. Our Franklin Park, Illinois, facility has approximately 3 acres of land and approximately 61,000 square feet of space used for manufacturing, administrative functions and research and development, for both our Medical and Industrial segments. Our Doetinchem, Netherlands, facility is approximately 4 acres and approximately 100,000 square feet of space used for manufacturing, engineering, administrative functions, and research and development, for our Medical and Industrial segments.

Primary leased facilities include approximately 288,000 square feet in Laguna, Philippines, approximately 46,000 square feet in Wuxi, China, approximately 34,000 square feet in Bremen, Germany, approximately 34,000 of square feet in Walluf, Germany and approximately 26,000 square feet in San Jose, California, all of which are used for manufacturing, research and development, or administrative functions for our Medical and Industrial segments.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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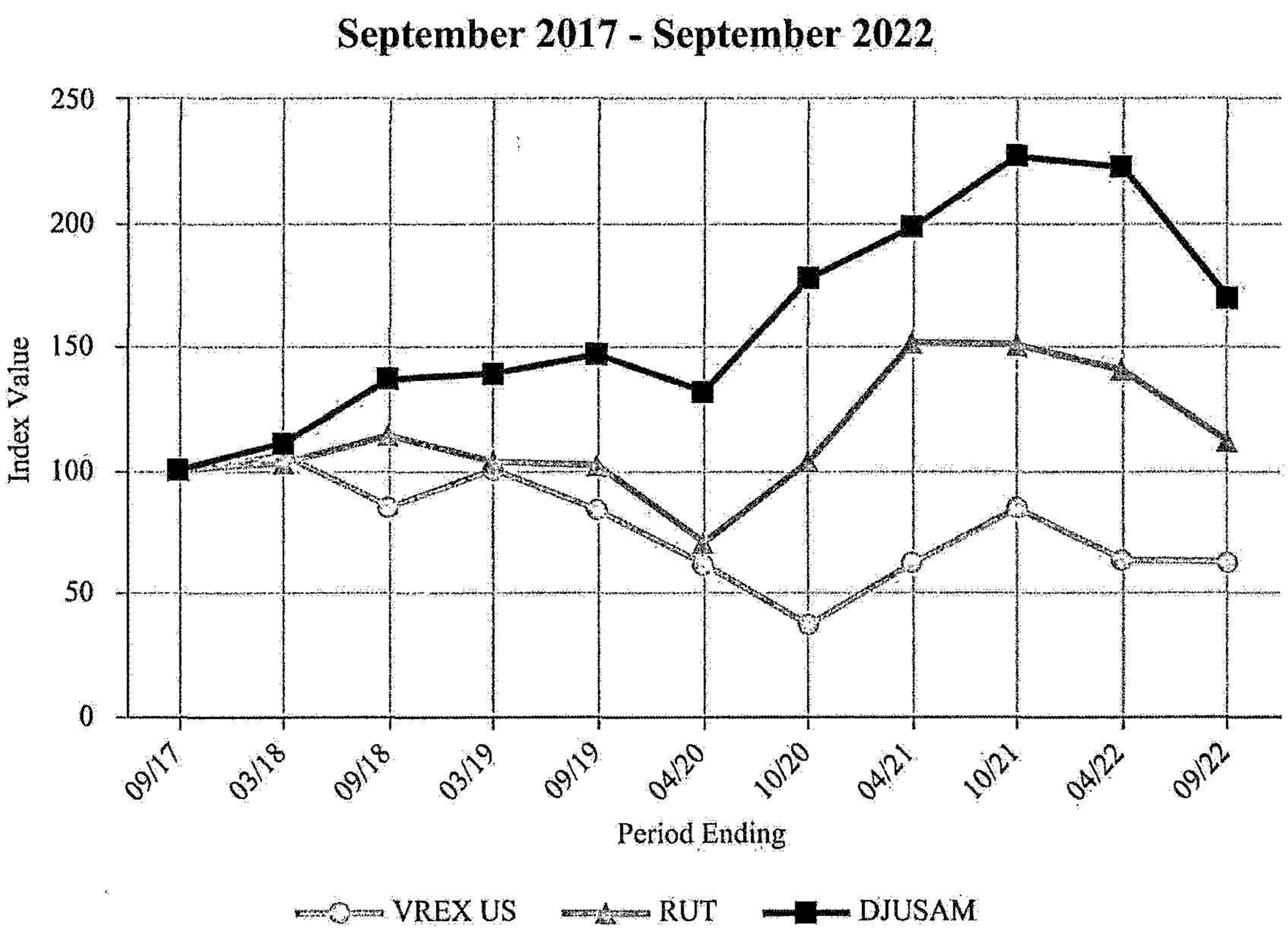
PART II

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

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

Since our inception, we have not paid any cash dividends and have no current plan to pay cash dividends on Varex common stock. As of November 7, 2022, there were 1,385 holders of record of Varex common stock.

This graph shows the total return on VREX common stock from September 29, 2017 through September 30, 2022, with comparative total returns for the Russell 2000 Index ("RUT") and the Dow Jones Medical Equipment Index ("DJUSAM"). The graph below assumes that $100.00 was invested on September 29, 2017 in our common stock and the companies listed in the RUT and the DJUSAM, as well as a reinvestment of dividends paid on such investments throughout the period.



Item 6. [Reserved]

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

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

Our Business

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

Impact of COVID-19, Inflation and the General Economic Environment

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

During the twelve months ended September 30, 2022, demand for many of our products recovered to pre-pandemic levels and our business has continued to grow. We believe that demand for our products has increased due to increased investments in healthcare and diagnostics coupled with end-users (such as hospitals) making capital purchases that were previously deferred due to the uncertainty surrounding COVID-19. While we are encouraged by the recovery that we have seen, we remain cautious as many factors remain unpredictable and recent high rates of inflation have increased our costs and could negatively affect our future profit margins. The existence of inflation in the economy 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.

We continue to experience logistics, supply chain, and manufacturing challenges that we expect will continue into 2023. As economies around the world continue to recover, shortages in raw materials have become more widespread. During the latter half of fiscal year 2021 and throughout fiscal year 2022, we experienced shortages of certain materials and used more of our inventory on hand than we have used historically. Shortages of materials, particularly micro-controller chips and associated electronic components, have caused and may continue to cause, delays in manufacturing products for our customers. In some cases, raw material shortages and delivery delays from our suppliers are communicated to us with very little advanced warning, which has caused operational and customer order fulfillment challenges. While we are dedicating significant resources to manage, mitigate, and resolve these issues, we currently expect supply chain challenges to continue to impact our ability to deliver products to our customers over the next several quarters. Increased freight charges and shipping delays have also become more common and are expected to continue into the foreseeable future. Due to the rising cost environment, in addition to ongoing expense management, we began to raise prices on certain products in fiscal year 2022 and anticipate making further pricing adjustments throughout fiscal year 2023.

During the twelve months ended September 30, 2022, our manufacturing facilities continued to operate with minimal disruption. Notwithstanding the foregoing, local government lockdowns, particularly in China, have impacted, and could continue to impact, our manufacturing operations in affected countries.

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

Fiscal Year

Our fiscal year is the 52- or 53-week period ending on the Friday nearest September 30. Fiscal year 2022 was the 52-week period that ended September 30, 2022, fiscal year 2021 was the 52-week period that ended October 1, 2021, and fiscal year 2020 was the 53-week period that ended October 2, 2020. Set forth below is a discussion of our results of operations for fiscal years 2022, 2021 and 2020.

Results of Operations

Our annual report on Form 10-K for the fiscal year ended October 1, 2021, filed November 19, 2021, includes a discussion and analysis of our year-over-year changes, financial condition, and results of operations for the fiscal years ended October 1, 2021

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and October 2, 2020 in Item 7 of Part II therein. Our year-over-year changes, financial condition, and results of operations for the fiscal years ended September 30, 2022 and October 1, 2021 are set forth below.

Comparison of Results of Operations for Fiscal Year 2022 and 2021

Revenues, net

(In millions)	2022	% Change	2021	% Change	2020
Medical	$ 674.7	5%	$ 643.8	10%	$ 584.5
Industrial	184.7	6%	174.3	13%	153.8
Total revenues, net	$ 859.4	5%	$ 818.1	11%	$ 738.3
Medical as a percentage of total revenues	*78.5 %*		*78.7 %*		*79.2 %*
Industrial as a percentage of total revenues	*21.5 %*		*21.3 %*		*20.8 %*

Medical revenues increased $30.9 million in fiscal year 2022 compared to 2021 primarily due to increased sales of X-ray tubes and digital detectors for CT, oncology and dental applications in fiscal year 2022.

Industrial revenues increased $10.4 million due to increased sales of X-ray tubes for airport security and digital detectors for inspection applications in fiscal year 2022.

Revenues by Region

(In millions)	2022	% Change	2021	% Change	2020
Americas	$ 273.3	2%	$ 268.5	5%	$ 255.0
EMEA	280.8	2%	276.3	19%	231.5
APAC	305.3	12%	273.3	9%	251.8
Total revenues, net	$ 859.4	5%	$ 818.1	11%	$ 738.3
Americas as a percentage of total revenues	*31.8 %*		*32.8 %*		*34.5 %*
EMEA as a percentage of total revenues	*32.7 %*		*33.8 %*		*31.4 %*
APAC as a percentage of total revenues	*35.5 %*		*33.4 %*		*34.1 %*

The Americas revenues increased $4.8 million in fiscal year 2022 compared to 2021 primarily due to increased sales of digital detectors, high voltage cables, and computer-aided detection software in fiscal year 2022. EMEA revenues increased $4.5 million primarily due to increased sales of X-ray tubes and security inspection systems and machines. APAC revenues increased $32.0 million primarily due to increased sales of OEM X-ray tubes and digital detectors in China.

Gross Profit

(In millions)	2022	% Change	2021	% Change	2020
Medical	$ 210.5	4%	$ 203.2	49%	$ 136.4
Industrial	73.0	7%	68.3	27%	53.8
Total gross profit	$ 283.5	4%	$ 271.5	43%	$ 190.2
Medical gross margin	*31.2 %*		*31.6 %*		*23.3 %*
Industrial gross margin	*39.5 %*		*39.2 %*		*35.0 %*
Total gross margin	*33.0 %*		*33.2 %*		*25.8 %*

Gross profit increased $12.0 million in fiscal year 2022 compared to 2021. The Medical segment gross profit in 2022 increased $7.3 million primarily due to the increased sales of CT X-ray tubes and oncology modalities partially offset by higher freight and material costs. The Industrial segment gross profit in 2022 increased $4.7 million primarily as a result of increased sales of digital detectors for dynamic imaging applications and non-destructive inspection applications, partially offset by higher freight and material costs.

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Operating Expenses

(In millions)	2022	% Change	2021	% Change	2020
Research and development	$ 77.0	7%	$ 71.9	(9)%	$ 78.9
As a percentage of total revenues	*9.0 %*		*8.8 %*		*10.7 %*
Selling, general and administrative	$ 118.3	(6)%	$ 125.5	(12)%	$ 142.2
As a percentage of total revenues	*13.8 %*		*15.3 %*		*19.3 %*
Impairment of intangible assets	$ —	—%	$ —	(100)%	$ 2.8
As a percentage of total revenues	*— %*		*— %*		*0.4 %*
Operating expenses	$ 195.3	(1)%	$ 197.4	(12)%	$ 223.9
As a percentage of total revenues	*22.7 %*		*24.1 %*		*30.3 %*

Research and Development

Research and development costs for fiscal year 2022 increased to 9.0% of revenues primarily due to increased spending on material costs supporting research and development initiatives and includes $1 million in costs related to a development agreement entered into during the fourth quarter of fiscal year 2022 with a third-party company. See Note 12, *Commitments and Contingencies*, included in the accompanying Notes to Consolidated Financial Statements. We are committed to investing in research and development efforts to support long-term growth objectives by bringing new and innovative products to market for our customers.

Selling, General and Administrative

Selling, general and administrative expenses as a percentage of total revenues decreased to 13.8% for fiscal year 2022 from 15.3% for fiscal year 2021 due to lower compensation costs and higher revenue.

Interest and Other Expense, Net

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

(In millions)	2022	% Change	2021	% Change	2020
Interest income	$ 0.4	300%	$ 0.1	—%	$ 0.1
Interest expense	(39.8)	(5)%	(42.1)	34%	(31.4)
Other expense, net	(4.3)	23%	(3.5)	(54)%	(7.6)
Interest and other expenses, net	$ (43.7)	(4)%	$ (45.5)	17%	$ (38.9)

Interest and other expense, net decreased in fiscal year 2022 compared to fiscal year 2021. Interest income increased primarily due to an increase in investments made into marketable debt securities. Interest expense decreased due to the redemption of $27 million of our Senior Secured Notes in March 2022 and the redemption of $30 million of our Senior Secured Notes in July 2021, as well as reduced fees on the ABL Facility.

Taxes on Income

	Fiscal Years	
	2022	2021
Effective tax rate	30.8 %	37.4 %

We had an income tax expense of $13.7 million and an income tax expense of $10.7 million, for effective rates of 30.8% and 37.4%, for fiscal years 2022 and 2021, respectively.

During fiscal year 2022, our effective tax rate varied from the U.S. federal statutory rate of 21% primarily due to the unfavorable impact of profit in foreign jurisdictions with statutory tax rates greater than 21% and also U.S. deferred tax attributes and losses in certain foreign jurisdictions for which a valuation allowance is provided. These unfavorable items were partially offset by the favorable impact of U.S. tax reform regarding international provisions, return to provision adjustments, and R&D tax credits.

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

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We estimated the fiscal year 2022 GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax), FDII (foreign-derived intangible income), limitations on interest expense deductions, and other components of U.S. tax reform, and have included these amounts in the calculation of the fiscal year 2022 tax provision. We made an accounting policy election, as allowed by the SEC and FASB, to recognize the impact of GILTI as a period cost if and when incurred.

Liquidity and Capital Resources

We assess our liquidity in terms of our ability to generate cash to fund our operations, including working capital and investing activities. We continue to generate cash from operating activities and believe that our operating cash flow, cash on our balance sheet and availability under our ABL facility are sufficient to meet our anticipated operating cash needs 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 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 our liquidity increasing or decreasing in any material way that will impact our capital needs during or beyond the next 12 months. See Item 1A. "Risk Factors" for a further discussion. The maximum availability under our ABL Facility was $100.0 million as of September 30, 2022; however, the borrowing base under the ABL Facility fluctuates from month-to-month depending primarily on the amount of eligible accounts receivable and inventory. As of September 30, 2022 the amount available under our ABL Facility was $94.5 million, and the ABL Facility remained undrawn. At September 30, 2022 we had $412.3 million in long-term debt, net of discounts and deferred issuance costs of $35.3 million.

On March 18, 2022, the Company redeemed $27 million of principal of our $270.0 million, 7.875% Senior Secured Notes due 2027 (the "Senior Secured Notes"), in accordance with the terms and conditions of the governing indenture by paying cash of $28.7 million, inclusive of the redemption premium and accrued interest, and recognized a $1.2 million loss related to the redemption premium and the write-off of previously recorded debt issuance costs. See Note 9, *Borrowings,* in the accompanying Notes to Consolidated Financial Statements for more information regarding our indebtedness.

Our consolidated cash and cash equivalents decreased from $144.6 million as of October 1, 2021, to $89.4 as of September 30, 2022. This decrease was primarily due to capital expenditures of $21.3 million, debt repayments of $29.4 million, and net purchases of marketable debt securities of $16.7 million and certificates of deposit of $7.2 million, offset by cash inflows from operating activities of $16.9 million and $4.9 million in proceeds from shares issued under employee stock purchase plan.

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

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

(In millions)	September 30, 2022	October 1, 2021	$ Change	% Change
Cash and cash equivalents	$ 89.4	$ 144.6	$ (55.2)	(38.2)%
Marketable debt securities not included in cash and cash equivalents	16.7	—	16.7	100.0 %
Certificates of deposit not included in cash and cash equivalents	7.2	—	7.2	100.0 %
Total	$ 113.3	$ 144.6	$ (31.3)	(21.6)%

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Borrowings

The following table summarizes the changes in our debt outstanding:

(In millions, except for percentages)	September 30, 2022	October 1, 2021	$ Change	% Change
Current maturities of long-term debt				
Current portion of other debt	$ 2.1	$ 2.8	$ (0.7)	(25.0)%
Total current maturities of long-term debt:	$ 2.1	$ 2.8	$ (0.7)	(25.0)%
Non-current maturities of long-term debt:				
Convertible Senior Unsecured Notes	$ 200.0	$ 200.0	$ —	— %
Senior Secured Notes	243.0	270.0	(27.0)	(10.0)%
Other debt	4.6	7.8	(3.2)	(41.0)%
Total non-current maturities of long-term debt:	$ 447.6	$ 477.8	$ (30.2)	(6.3)%
Unamortized issuance costs and debt discounts				
Unamortized discount - Convertible Notes	$ (28.7)	$ (37.6)	$ 8.9	(23.7)%
Unamortized issuance costs - Convertible Notes	(3.1)	(4.1)	1.0	(24.4)%
Debt issuance costs - Senior Secured Notes	(3.5)	(4.4)	0.9	(20.5)%
Total	$ (35.3)	$ (46.1)	$ 10.8	(23.4)%
Total debt outstanding, net	$ 414.4	$ 434.5	$ (20.1)	(4.6)%

Cash Flows

	Fiscal Years		
(In millions)	**2022**	**2021**	**2020**
Net cash flow provided by (used in):			
Operating activities	$ 16.9	$ 92.6	$ 13.2
Investing activities	(48.4)	(16.2)	(26.9)
Financing activities	(23.8)	(32.3)	83.6
Effects of exchange rate changes on cash and cash equivalents	(0.2)	(0.1)	0.9
Net (decrease) increase in cash and cash equivalents	$ (55.5)	$ 44.0	$ 70.8

Net cash provided by operating activities. Net cash provided by operating activities was $16.9 million and $92.6 million for the fiscal years 2022 and 2021, respectively. The decrease in cash provided by operating activities was primarily due to increased purchases of inventory during fiscal year 2022.

Net cash used in investing activities. Cash used in investing activities was $48.4 million and $16.2 million for the fiscal years 2022 and 2021, respectively. The increase in cash used in investing activities was primarily due to the purchase of investments and higher capital spending during the twelve months ended September 30, 2022.

Net cash (used in) provided by financing activities. Net cash used in financing activity for the twelve months ended September 30, 2022, was $23.8 million and was primarily due to our early redemption of $27 million of our Senior Secured Notes. Net cash used in financing activities for the twelve months ended October 1, 2021, was $32.3 million and was primarily due to our early redemption of $30 million of our Senior Secured Notes.

Days Sales Outstanding

Trade accounts receivable days sales outstanding ("DSO") was 68 days and 62 days at September 30, 2022 and October 1, 2021, respectively. Our accounts receivable and DSO are impacted by a number of factors, primarily including the timing of product shipments, collections performance, payment terms, the mix of revenues from different regions and the effects of economic instability.

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Contractual Obligations

The following table summarizes, as of September 30, 2022, the total amount of future payments due in various future periods:

	Payments Due by Period				
(In millions)	Total	Fiscal Year 2023	Fiscal Years 2024-2025	Fiscal Years 2026-2027	Beyond
Lease obligations	$ 26.9	$ 5.4	$ 9.1	$ 5.9	$ 6.5
Principal payments on borrowings	449.7	2.1	202.8	244.8	—
dpiX fixed cost commitment	3.3	3.3	—	—	—
Dividends to MeVis noncontrolling interest	3.1	0.4	0.9	0.9	0.9
Supplier equipment acquisition	2.5	2.5	—	—	—
Development and share purchase commitments	6.6	6.6	—	—	—
Total	$ 492.1	$ 20.3	$ 212.8	$ 251.6	$ 7.4

We lease office space under non-cancelable operating leases. For further information on our operating leases, see Note 3, *Leases*, included in the accompanying Notes to Consolidated Financial Statements.

For further discussion regarding our borrowings, see Note 9, *Borrowings,* included in the accompanying Notes to Consolidated Financial Statements.

In October 2013, we entered into an amended agreement with dpiX and other parties that, among other things, provides us with the right to 50% of dpiX's total manufacturing capacity produced after January 1, 2014. The amended agreement requires us to pay for 50% of the fixed costs (as defined in the amended agreement), as determined at the beginning of each calendar year. For the remainder of calendar year 2022, we estimate that we have fixed cost commitments of $3.3 million related to this amended agreement. The fixed cost commitment for future periods will be determined and approved by the dpiX board of directors at the beginning of each calendar year. The amended agreement will continue unless the ownership structure of dpiX changes (as defined in the amended agreement).

In October 2015, pursuant to a Domination and Profit and Loss Transfer Agreement (the "MeVis Agreement"), we committed to grant the noncontrolling shareholders of MeVis: (1) an annual recurring net compensation of €0.95 per MeVis share; and, (2) a put right for their MeVis shares at €19.77 per MeVis share. The annual net payment will continue for the life of the MeVis Agreement, which we anticipate will continue for as long as we remain as the controlling shareholder of MeVis. As of September 30, 2022, noncontrolling shareholders together held approximately 0.5 million shares of MeVis, representing 26.3% of the outstanding shares.

Varex entered into a purchase agreement with a supplier to acquire certain equipment and intellectual property from the supplier that is utilized to manufacture X-ray cables utilized in Varex's products. For more information about our supplier equipment acquisition, see Note 12, *Commitments and Contingencies*, included in the accompanying Notes to Consolidated Financial Statements.

In the fourth quarter of fiscal year 2022, the Company entered into a development agreement and a share purchase agreement with a third-party company. For more information about these agreements, see Note 12, *Commitments and Contingencies*, included in the accompanying Notes to Consolidated Financial Statements.

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 its 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 September 30, 2022 and October 1, 2021. Legal expenses are expensed as incurred.

See Part 1, Item 3 of this Annual Report for additional information regarding legal proceedings and Note 12, *Commitments and Contingencies,* in the Notes to Consolidated Financial Statements for further information regarding certain of our contractual obligations and contingencies, which discussion is incorporated herein by reference.

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Critical Accounting Policies and Estimates

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

We periodically review our accounting policies, estimates and assumptions and make adjustments when facts and circumstances dictate. Such accounting policies require us to use judgments, often as a result of the need to make estimates and assumptions regarding matters that are inherently uncertain, and actual results could differ materially from these estimates. Our critical accounting policies that are affected by accounting estimates include valuation of inventories, assessment of recoverability of goodwill and intangible assets, and income taxes. Note 1, *Summary of Significant Accounting Policies,* of the Notes to Consolidated Financial Statements, Item 8 of this Form 10-K describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Such accounting policies require us to use judgments, often as a result of the need to make estimates and assumptions regarding matters that are inherently uncertain, and actual results could differ materially from these estimates. For a discussion of how these estimates and other factors may affect our business, see Item 1A. "Risk Factors."

Inventories, net

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

Goodwill and Intangible Assets

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

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

In fiscal years 2022, 2021 and 2020, we performed the annual goodwill impairment test for our two reporting units and found no impairment. We performed the annual goodwill analysis as of the first day of the fourth quarter of each fiscal year (using balances as of the end of the third quarter of that fiscal year). For both reporting units, based upon the annual goodwill analysis that we performed as of the first day of the fourth quarter of the respective fiscal years, either a quantitative analysis of the impairment test was not completed based on evaluation of qualitative factors or, if quantitative analysis was completed, the fair value was substantially in excess of carrying value. However, significant changes in our projections of our operating results or other factors could cause us to make interim assessments of impairments in any quarter that could result in some or all of the goodwill being impaired.

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

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

Taxes on Income

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

During fiscal year 2022, the Company received cash tax refunds related to net operating loss carryback claims for U.S. losses incurred in fiscal year 2020. On August 16, 2022, the Inflation Reduction Act was enacted in response to rising inflation. The Company does not meet financial statement thresholds for the minimum tax applicability and does not anticipate other provisions will have a material impact. The 2017 Tax Cuts and Jobs Act included a provision requiring research and development expenditures to be capitalized for tax years beginning after December 31, 2021, which is effective for the Company starting in fiscal year 2023. The Company has a significant amount of research and development expenditures and expects increased cash taxes in the early effective years related to this provision.

Recent Accounting Standards or Updates Not Yet Effective

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

Backlog

Backlog is the accumulation of all orders for which revenues have not been recognized and are still considered valid. Backlog also includes a small portion of billed service contracts that are included in deferred revenue. Our estimated total backlog at September 30, 2022 was approximately $425 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.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risks

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

Foreign Currency Exchange Rate Risk

A significant portion of our customers are outside the United States, while our financial statements are denominated, and our products are generally priced in U.S. Dollars. A strong U.S. Dollar may result in pricing pressure for our customers that are located outside the United States and that conduct their businesses in currencies other than the U.S. Dollar. Such pricing pressure has caused, and could continue to cause, some of our customers to ask for discounted prices, delay purchasing decisions, 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 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 a cross-currency swap between the Euro and U.S. Dollar as a net investment hedge of our acquisition of Direct Conversion. Depending on the spot rate between the Euro and U.S. Dollar at the time of settlement and whether we have sufficient Euros available, we may have to borrow incrementally in U.S. Dollars to settle this obligation. Additionally, we may choose not to hedge certain foreign exchange exposures for a variety of reasons including, but not limited to, accounting considerations, the prohibitive economic cost of hedging particular exposures, or due to natural offsets among the different exposures.

Credit and Counterparty Risk

We use a centralized approach to manage substantially all of our cash and to finance our operations. Our cash and cash equivalents 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 September 30, 2022, we had no borrowings subject to floating interest rates. See Note 9, *Borrowings,* of the Notes to Consolidated Financial Statements for further information.

Our exposure to interest rate risk also is related 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 fiscal year ended September 30, 2022, we did not have any commodity derivative instruments in place to manage our exposure to price changes.

Item 8. Financial Statements and Supplementary Data.

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

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

None.

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Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") are designed to provide reasonable assurance that information required to be disclosed in our periodic reports that we file or submit under the Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed, and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that our disclosure controls and procedures were effective as of September 30, 2022.

Management's Annual Report on Internal Control Over Financial Reporting

Management, under the supervision of our CEO and CFO, is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management evaluated the design and operating effectiveness of our internal control over financial reporting based on the criteria established in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework" (2013)). All internal control systems, no matter how well designed, have inherent limitations. Accordingly, even effective internal controls and procedures can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2022. Based on this evaluation, our management concluded that we maintained effective internal control over financial reporting as of September 30, 2022.

The effectiveness of our internal control over financial reporting as of September 30, 2022 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which appears below in "Item 9a. Controls and Procedures".

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting during the quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Varex Imaging Corporation and subsidiaries (the "Company") as of September 30, 2022, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended September 30, 2022 of the Company and our report dated November 18, 2022, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
November 18, 2022

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Item 9B. Other Information

None.

Item 9C. Disclosures Regarding Foreign Jurisdictions that Prevent Inspections.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

The information required by this item with respect to our executive officers is set forth in Part I of this Annual Report on Form 10-K and information relating to the availability of our code of conduct for executive officers and directors is set out below. The other information required by this item is incorporated by reference from our definitive proxy statement for the 2023 Annual Meeting of Stockholders. Our definitive proxy statement for the 2023 Annual Meeting of Stockholders will be filed with the SEC no later than 120 days after September 30, 2022.

Code of Conduct

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

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

Item 11. Executive Compensation

The information required by this item is incorporated by reference from our definitive proxy statement for the 2023 Annual Meeting of Stockholders under the caption "Executive Compensation."

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

Equity Compensation Plan Information

The following table provides information as of September 30, 2022 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category (amounts in thousands except per share data)	Number of securities to be issued upon exercise of outstanding options, warrants and rights [1] (a)	Weighted average exercise price of outstanding options, warrants, and rights [2] (b)	Number of securities remaining available for future issuance under equity compensation plans [3] (excluding securities reflected in columns (a) and (b))
Equity compensation plans approved by security holders	3,947	$ 28.97	3,981
Equity compensation plans not approved by security holders	—	—	—
Total	3,947	$ 28.97	3,981

(1) Consists of stock options, restricted stock units ("RSUs"), and deferred stock units ("DSUs") granted under the Varex Imaging Corporation 2017 Omnibus Stock Plan and the 2020 Stock Plan. Excludes purchase rights under the ESPP.
(2) The weighted average exercise price does not take into account the shares issuable upon vesting of outstanding RSUs and DSUs, which have no exercise price.
(3) Includes 3,157 thousand shares available for future issuance under the 2020 Stock Plan, and also includes 824 thousand shares available for future issuance under the ESPP. Shares available for issuance under the ESPP are subject to the number of shares remaining in the share reserve, and the maximum number of shares purchasable by any participant on any one purchase date for any purchase period, which may not exceed 2,000 shares.

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The information required by this item with respect to the security ownership of certain beneficial owners and the security ownership of directors and executive officers is incorporated by reference from our definitive proxy statement for the 2023 Annual Meeting of Stockholders under the caption "Stock Ownership—Beneficial Ownership of Certain Stockholders, Directors and Executive Officers."

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

The information required by this item with respect to certain relationships and related transactions is incorporated by reference from our definitive proxy statement for the 2023 Annual Meeting of Stockholders under the caption "Certain Relationships and Related Transactions." The information required by this item with respect to director and committee member independence is incorporated by reference from our definitive proxy statement for the 2023 Annual Meeting of Stockholders under the caption "Proposal - Election of Directors."

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference from our definitive proxy statement for the 2023 Annual Meeting of Stockholders under the caption "Proposal - Ratification of the Appointment of Our Independent Registered Public Accounting Firm."

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PART IV

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

Documents filed as part of this annual report include:

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

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

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

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

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10.7*†	Form of Nonqualified Stock Option Agreement under the 2017 Omnibus Stock Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 16, 2017).
10.8*†	Form of Restricted Stock Unit Award Agreement under the 2017 Omnibus Stock Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 16, 2017).
10.9*†	Varex Imaging Corporation 2017 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 99.2 to the Company's Form S-8, filed January 27, 2017).
10.10*†	Varex Imaging Corporation Management Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed January 30, 2017).
10.11†	Form of Change in Control Agreement (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed November 19, 2021).
10.12*†	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K filed January 30, 2017).
10.13*†	Varex Imaging Corporation 2016 Deferred Compensation Plan (incorporated by reference to Exhibit 10.6 to Amendment No. 2 to Form 10 filed by the Company on December 8, 2016).
10.14*†	Varex Imaging Corporation Frozen Deferred Compensation Plan (incorporated by reference to Exhibit 10.7 to Amendment No. 2 to Form 10 filed by the Company on December 8, 2016).
10.15*†	Form of Grant Agreement for Deferred Stock Units under the 2017 Omnibus Stock Plan (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed December 13, 2017.
10.16*†	Form of Grant Agreement for Deferred Stock Units under the 2017 Omnibus Stock Plan (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K filed December 20, 2019).
10.17*†	Varex Imaging Corporation 2020 Omnibus Stock Plan, including the Form of Nonqualified Stock Option Agreement, the Form of Restricted Stock Unit Agreement and the Form of Grant Agreement – Deferred Stock Units (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 14, 2020).
10.18*	Credit Agreement dated as of September 30, 2020, by and among Varex Imaging Corporation, Varex Imaging West, LLC, Varex Imaging Deutschland AG, the Guarantors party thereto and Bank of America N.A., as administrative and collateral agent, and the lenders party thereto (incorporated by reference to Exhibit 10.18 to the Company's Current Report on Form 10-K filed November 30, 2021).
10.19*	Form of Base Convertible Bond Hedge Confirmation, dated June 4, 2020, between Varex Imaging Corporation and each of the counterparties thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 9, 2020).
10.20*	Form of Base Warrant Confirmation, dated June 4, 2020, between Varex Imaging Corporation and each of the counterparties thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 9, 2020).
10.21*	Form of Additional Convertible Bond Hedge Confirmation, dated June 5, 2020, between Varex Imaging Corporation and each of the counterparties thereto (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 9, 2020).
10.22*	Form of Additional Warrant Confirmation, dated June 5, 2020, between Varex Imaging Corporation and each of the Counterparties (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed June 9, 2020).
10.23*	LIBOR Transition Amendment, dated as of March 9, 2022, among Varex Imaging Corporation, Varex Imaging West, LLC, Varex Imaging Deutschland AG, the other Loan Parties, the Lenders, Issuing Banks and Swing Line Lender, and BANK OF AMERICA, N.A., as administrative agent and collateral agent.
10.24*	Share Purchase Agreement dated March 21, 2019 between Varex Imaging Corporation, Varex Imaging Investments, B.V. and certain shareholders of Direct Conversions AB (publ) (incorporated by reference to Exhibit 10.1 to Company's Quarterly Report on Form 10-Q filed on May 8, 2019).
10.25*†	Offer Letter dated June 8, 2020 by Varex Imaging Corporation to Shubham Maheshwari (incorporated by reference to Exhibit 10.25 to the Company's Current Report on Form 10-K filed November 30, 2021).
21.1	List of Subsidiaries as of November 14, 2022

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

Item 16. Form 10-K Summary

None

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SIGNATURES

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

VAREX IMAGING CORPORATION

Date: November 18, 2022

By: /s/ Shubham Maheshwari

Shubham Maheshwari

Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

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

Signature	Capacity	Date
/s/ SUNNY S. SANYAL Sunny S. Sanyal	President and Chief Executive Officer and Director *(Principal Executive Officer)*	November 18, 2022
/s/ SHUBHAM MAHESHWARI Shubham Maheshwari	Chief Financial Officer *(Principal Financial and Accounting Officer)*	November 18, 2022
/s/ RUEDIGER NAUMANN-ETIENNE Ruediger Naumann-Etienne	Chairman of the Board	November 18, 2022
/s/ KATHLEEN L. BARDWELL Kathleen L. Bardwell	Director	November 18, 2022
/s/ JOCELYN D. CHERTOFF Jocelyn D. Chertoff	Director	November 18, 2022
/s/ TIMOTHY E. GUERTIN Timothy E. Guertin	Director	November 18, 2022
/s/ JAY K. KUNKEL Jay K. Kunkel	Director	November 18, 2022
/s/ WALTER M ROSEBROUGH, JR. Walter M Rosebrough, Jr.	Director	November 18, 2022
/s/ CHRISTINE A. TSINGOS Christine A. Tsingos	Director	November 18, 2022

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Varex Imaging Corporation and subsidiaries (the "Company") as of September 30, 2022 and October 1, 2021, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended September 30, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022 and October 1, 2021, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 30, 2022, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 18, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

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

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

Critical Audit Matter Description

Inventories are valued at the lower of cost or net realizable value. The Company evaluates the carrying value of its inventories taking into consideration such factors as historical sales and anticipated future sales compared to quantities on hand and the prices the Company expects to obtain for products in its various markets. The Company adjusts excess and obsolete inventories to net realizable value, and write-downs of excess and obsolete inventories are recorded as a component of cost of revenues. As of September 30, 2022, the Company's inventories, net, were $303.2 million. For the year ended September 30, 2022, inventory write-downs were $6.4 million. Estimating the amount of excess and obsolete inventories involves significant judgment and estimates.

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

How the Critical Audit Matter Was Addressed in the Audit

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

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

/s/ Deloitte & Touche LLP
Salt Lake City, Utah
November 18, 2022

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

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Varex Imaging Corporation

Opinion on the Financial Statements

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

Change in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it accounts for leases as of September 28, 2019.

Basis for Opinion

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

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

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

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

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

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VAREX IMAGING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)	Fiscal Years 2022	2021	2020
Revenues, net	$ 859.4	$ 818.1	$ 738.3
Cost of revenues	575.9	546.6	548.1
Gross profit	283.5	271.5	190.2
Operating expenses:			
Research and development	77.0	71.9	78.9
Selling, general and administrative	118.3	125.5	142.2
Impairment of intangible assets	—	—	2.8
Total operating expenses	195.3	197.4	223.9
Operating income (loss)	88.2	74.1	(33.7)
Interest income	0.4	0.1	0.1
Interest expense	(39.8)	(42.1)	(31.4)
Other expense, net	(4.3)	(3.5)	(7.6)
Interest and other expense, net	(43.7)	(45.5)	(38.9)
Income (loss) before taxes	44.5	28.6	(72.6)
Income tax expense (benefit)	13.7	10.7	(15.2)
Net income (loss)	30.8	17.9	(57.4)
Less: Net income attributable to noncontrolling interests	0.5	0.5	0.5
Net income (loss) attributable to Varex	$ 30.3	$ 17.4	$ (57.9)
Net income (loss) per common share attributable to Varex			
Basic	$ 0.76	$ 0.44	$ (1.49)
Diluted	$ 0.73	$ 0.43	$ (1.49)
Weighted average common shares outstanding			
Basic	39.8	39.3	38.8
Diluted	41.6	40.3	38.8

See accompanying Notes to Consolidated Financial Statements.

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VAREX IMAGING CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)	Fiscal Years 2022	2021	2020
Net income (loss)	$ 30.8	$ 17.9	$ (57.4)
Other comprehensive income (loss), net of tax			
Unrealized income on interest rate swap contracts	—	—	0.4
Unrealized gain (loss) on defined benefit obligations	1.4	(0.1)	0.6
Unrealized loss on forward contracts	(0.6)	—	—
Unrealized loss on available-for-sale securities	(0.1)	—	—
Foreign currency translation adjustments	(0.6)	(0.7)	1.5
Total comprehensive income (loss)	30.9	17.1	(54.9)
Less: Comprehensive income attributable to noncontrolling interests	0.5	0.5	0.5
Comprehensive income (loss) attributable to Varex	$ 30.4	$ 16.6	$ (55.4)

See accompanying Notes to Consolidated Financial Statements.

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VAREX IMAGING CORPORATION
CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)	September 30, 2022	October 1, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 89.4	$ 144.6
Accounts receivable, net of allowance for credit losses of $0.6 million and $1.0 million at September 30, 2022 and October 1, 2021, respectively	173.3	155.3
Inventories, net	303.2	224.8
Prepaid expenses and other current assets	44.0	29.5
Total current assets	609.9	554.2
Property, plant and equipment, net	141.3	140.2
Goodwill	284.5	292.2
Intangible assets, net	33.6	50.7
Investments in privately-held companies	46.4	49.3
Deferred tax assets	2.3	4.0
Operating lease assets	23.2	24.3
Other assets	43.2	32.6
Total assets	$ 1,184.4	$ 1,147.5
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 78.2	$ 58.8
Accrued liabilities and other current liabilities	81.4	89.7
Current operating lease liabilities	4.0	6.2
Current maturities of long-term debt	2.1	2.8
Deferred revenues	7.4	9.1
Total current liabilities	173.1	166.6
Long-term debt, net	412.3	431.7
Deferred tax liabilities	0.5	2.2
Operating lease liabilities	18.0	18.7
Other long-term liabilities	33.8	31.8
Total liabilities	637.7	651.0
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.01 par value: 20,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value: 150,000,000 shares authorized		
Shares issued and outstanding: 40,085,126 and 39,435,830 at September 30, 2022 and October 1, 2021, respectively	0.4	0.4
Additional paid-in capital	469.1	449.4
Accumulated other comprehensive income	0.1	—
Retained earnings	63.8	33.5
Total Varex stockholders' equity	533.4	483.3
Noncontrolling interests	13.3	13.2
Total stockholders' equity	546.7	496.5
Total liabilities and stockholders' equity	$ 1,184.4	$ 1,147.5

See accompanying Notes to Consolidated Financial Statements.

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VAREX IMAGING CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Varex Equity	Noncontrolling Interests	Total Stockholders' Equity
September 27, 2019	38.4	$ 0.4	$ 371.8	$ (1.7)	$ 74.4	$ 444.9	$ 3.3	$ 448.2
Cumulative effect of accounting change	—	—	—	—	(0.3)	(0.3)	—	(0.3)
Net loss	—	—	—	—	(57.9)	(57.9)	—	(57.9)
Exercise of stock options	0.1	—	1.5	—	—	1.5	—	1.5
Common stock issued upon vesting of restricted shares	0.2	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	(0.1)	—	(1.8)	—	—	(1.8)	—	(1.8)
Common stock issued under employee stock purchase plan	0.2	—	3.6	—	—	3.6	—	3.6
Share-based compensation	—	—	13.4	—	—	13.4	—	13.4
Unrealized gain on interest rate swap contracts, net of tax	—	—	—	0.4	—	0.4	—	0.4
Unrealized gain on defined benefit obligations, net of tax	—	—	—	0.6	—	0.6	—	0.6
Conversion feature of Convertible Notes, net of issuance costs	—	—	49.7	—	—	49.7	—	49.7
Purchase of hedges	—	—	(61.0)	—	—	(61.0)	—	(61.0)
Issuance of warrants	—	—	49.8	—	—	49.8	—	49.8
Foreign currency translation adjustments	—	—	—	1.5	—	1.5	—	1.5
Shares issued to settle deferred consideration	0.3	—	7.4	—	—	7.4	—	7.4
Reclassification from mezzanine equity to equity for noncontrolling interest in MeVis Medical Solutions, AG	—	—	—	—	—	—	11.3	11.3
Other	—	—	—	—	(0.1)	(0.1)	(0.5)	(0.6)
October 2, 2020	39.1	$ 0.4	$ 434.4	$ 0.8	$ 16.1	$ 451.7	$ 14.1	$ 465.8
Net income	—	—	—	—	17.4	17.4	0.5	17.9
Common stock issued upon vesting of restricted shares	0.2	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	(0.1)	—	(1.5)	—	—	(1.5)	—	(1.5)
Common stock issued under employee stock purchase plan	0.2	—	2.8	—	—	2.8	—	2.8
Share-based compensation	—	—	13.9	—	—	13.9	—	13.9
Unrealized loss on defined benefit obligations, net of tax	—	—	—	(0.1)	—	(0.1)	—	(0.1)
Foreign currency translation adjustments	—	—	—	(0.7)	—	(0.7)	—	(0.7)
Other	—	—	(0.2)	—	—	(0.2)	(1.4)	(1.6)
October 1, 2021	39.4	$ 0.4	$ 449.4	$ —	$ 33.5	$ 483.3	$ 13.2	$ 496.5
Net income	—	—	—	—	30.3	30.3	0.5	30.8
Exercise of stock options	0.1	—	3.8	—	—	3.8	—	3.8
Common stock issued upon vesting of restricted shares	0.4	—	—	—	—	—	—	—
Shares withheld on vesting of restricted stock	(0.1)	—	(2.8)	—	—	(2.8)	—	(2.8)
Common stock issued under employee stock purchase plan	0.3	—	4.9	—	—	4.9	—	4.9
Share-based compensation	—	—	14.0	—	—	14.0	—	14.0
Unrealized loss on forward contracts	—	—	—	(0.6)	—	(0.6)	—	(0.6)
Unrealized loss on change in fair value of available-for-sale securities	—	—	—	(0.1)	—	(0.1)	—	(0.1)
Unrealized gain on defined benefit obligations, net of tax	—	—	—	1.4	—	1.4	—	1.4
Foreign currency translation adjustments	—	—	—	(0.6)	—	(0.6)	—	(0.6)
Other	—	—	(0.2)	—	—	(0.2)	(0.4)	(0.6)
September 30, 2022	40.1	$ 0.4	$ 469.1	$ 0.1	$ 63.8	$ 533.4	$ 13.3	$ 546.7

See accompanying Notes to Consolidated Financial Statements.

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VAREX IMAGING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Fiscal Years 2022	2021	2020
Cash flows from operating activities:			
Net income (loss)	$ 30.8	$ 17.9	$ (57.4)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Share-based compensation expense	14.0	13.9	13.4
Depreciation	19.0	20.5	22.3
Amortization of intangible assets	14.6	16.8	17.2
Deferred taxes	0.6	(3.0)	(3.1)
Loss from equity method investments	2.6	3.0	1.3
Amortization of deferred loan costs	10.9	10.0	5.1
Impairment of intangible assets	—	—	2.8
Other assets impairment charges	—	0.5	2.7
Inventory write-down	6.4	3.5	18.1
Loss on operating lease abandonment	1.9	—	—
Other, net	4.1	1.3	4.7
Changes in assets and liabilities:			
Accounts receivable	(18.1)	(32.9)	17.7
Inventories	(85.0)	42.8	(42.7)
Prepaid expenses and other assets	10.3	(0.9)	(9.3)
Accounts payable	19.7	(13.6)	14.3
Accrued liabilities and other current and long-term liabilities	(14.9)	12.2	8.1
Deferred revenues	—	0.6	(2.0)
Net cash provided by operating activities	16.9	92.6	13.2
Cash flows from investing activities:			
Purchases of property, plant and equipment	(21.3)	(15.1)	(23.5)
Loss on settlement of cash flow hedge	(0.5)	—	—
Proceeds from maturities of marketable debt securities	2.0	—	—
Purchase of marketable debt securities	(18.7)	—	—
Purchase of marketable equity securities	(2.4)	—	—
Purchase of certificates of deposit	(7.2)	—	—
Acquisitions of businesses, net of cash acquired	—	—	(1.6)
Proceeds from sales of business and assets	1.7	—	—
Investments in and loans to privately-held companies	(0.6)	(1.4)	(1.8)
Other	(1.4)	0.3	—
Net cash used in investing activities	(48.4)	(16.2)	(26.9)
Cash flows from financing activities:			
Proceeds from issuance of debt	—	1.5	593.8
Repayments of borrowings	(29.4)	(33.1)	(483.9)
Payment of debt issuance costs	—	—	(16.7)
Proceeds from issuance of warrant	—	—	49.8
Purchases of hedges	—	—	(61.0)
Proceeds from shares issued under employee stock purchase plan	4.9	2.8	3.6
Proceeds from exercise of stock options	3.8	—	1.5
Taxes related to net share settlement of equity awards	(2.8)	(1.5)	(1.8)
Other financing activities	(0.3)	(2.0)	(1.7)
Net cash (used in) provided by financing activities	(23.8)	(32.3)	83.6
Effects of exchange rate changes on cash and cash equivalents and restricted cash	(0.2)	(0.1)	0.9
Net (decrease) increase in cash and cash equivalents and restricted cash	(55.5)	44.0	70.8
Cash and cash equivalents and restricted cash at beginning of period	146.1	102.1	31.3
Cash and cash equivalents and restricted cash at end of period	$ 90.6	$ 146.1	$ 102.1
Supplemental cash flow information:			
Cash paid for interest	$ 29.5	$ 21.6	$ 16.7
Cash paid for income tax, net of refunds	2.2	14.1	4.2
Supplemental non-cash activities:			
Purchases of property, plant and equipment financed through accounts payable	$ 1.5	$ 1.5	$ 1.6

See accompanying Notes to Consolidated Financial Statements.

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VAREX IMAGING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Varex Imaging Corporation (the "Company," "Varex," or "Varex Imaging") designs, manufactures, sells and services a broad range of medical products, which include X-ray components including tubes, digital detectors and accessories, high voltage connectors, image processing software and workstations, computer-aided diagnostic software, collimators, automatic exposure control devices, generators, ionization chambers and buckys, for use in a range of applications, including radiographic or fluoroscopic imaging, mammography, computed tomography, oncology and computer-aided detection. The Company sells its products to imaging system original equipment manufacturer ("OEM") customers for incorporation into new medical diagnostic, radiation therapy, dental, and veterinary equipment, 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, digital detectors, high voltage connectors, imaging processing software and image detection products for security and inspection purposes, such as cargo screening at ports and borders and nondestructive examination in a variety of applications. The Company generally sells security and inspection products to OEM customers who incorporate Varex's products into their inspection 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 consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the SEC and in accordance with accounting principles generally accepted in the United States ("GAAP"). The Company has consolidated all the majority owned subsidiaries and entities over which we have control. All intercompany balances and transactions have been eliminated in consolidation.

Segment Reporting

The Company has two reportable operating segments; (i) Medical and (ii) Industrial. See Note 16, *Segment Information,* included in this report, for further information on the Company's segments.

Fiscal Year

The fiscal years of the Company as reported are the 52 or 53-week period ending on the Friday nearest September 30. Fiscal year 2022 was the 52-week period that ended September 30, 2022, fiscal year 2021 was the 52-week period that ended October 1, 2021, and fiscal year 2020 was the 53-week period that ended October 2, 2020.

Variable Interest Entities

For entities in which the Company has variable interests, the Company focuses on identifying which entity has the power to direct the activities that most significantly impact the variable interest entity's economic performance and which entity has the obligation to absorb losses or the right to receive residual returns from the variable interest entity. If the Company is the primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity will be included in the Company's consolidated financial statements. As of September 30, 2022, the Company had variable interests in two entities, neither of which were consolidated by the Company.

Use of Estimates

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

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Impact of COVID-19

The coronavirus ("COVID-19") pandemic, the emerging variants, uneven vaccination rates across the globe, and the mitigation efforts by governments to control its spread have created uncertainties and disruptions in the economic and financial markets. The extent to which COVID-19 will continue to impact the Company's business and financial results depends on numerous evolving factors including: the magnitude and duration of COVID-19, the extent to which it will continue to impact worldwide macroeconomic conditions, including supply chain disruptions, interest rates, unemployment rates, the speed of the economic recovery, and governmental and business reactions to the pandemic. The Company has experienced continuing supply chain disruptions and other issues that are at least partially related to the ongoing COVID-19 pandemic. In addition, while we have from time to time taken significant precautions to maintain employee safety, such as implementing mask requirements, encouraging vaccination, and periodically asking non-production related employees to work from home when possible, the Company has experienced, and may in the future experience, COVID-19 related employee absences that adversely impact our production or business.

The Company assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to the Company, including the estimated future impacts of COVID-19, through the date of filing this report. The accounting matters assessed included, but were not limited to, the Company's carrying value of goodwill, intangibles, long-lived assets, equity method investments, inventory and related reserves, and the allowance for credit losses. The Company's assessment of the magnitude and duration of COVID-19, as well as other factors, could result in material negative impacts to the Company's consolidated financial statements in future reporting periods. These future developments are highly uncertain and the outcomes cannot be estimated with certainty. Actual results may differ from those estimates, and such differences may be material to the financial statements.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash primarily consists of cash collateral related to certain leases and inventory arrangements. Restricted cash is included in other assets on the Company's Consolidated Balance Sheets. Cash and cash equivalents and restricted cash as reported within the Consolidated Statements of Cash Flows consisted of the following:

	Twelve Months Ended September 30, 2022		Twelve Months Ended October 1, 2021	
(In millions)	**Beginning of Period**	**End of Period**	**Beginning of Period**	**End of Period**
Cash and cash equivalents	$ 144.6	$ 89.4	$ 100.6	$ 144.6
Restricted cash	1.5	1.2	1.5	1.5
Cash and cash equivalents and restricted cash as reported per statement of cash flows	$ 146.1	$ 90.6	$ 102.1	$ 146.1

Fair Value

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

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

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

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

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Derivative Instruments and Hedging Activities

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

Concentration of Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash, cash equivalents, marketable securities, 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 experienced any losses on its deposits of cash and cash equivalents. The Company performs ongoing credit evaluations of its customers and, except for government tenders, group purchases and orders with a letter of credit, its industrial customers often provide a down payment. The Company maintains an allowance for 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:

	Fiscal Year		
	2022	2021	2020
Canon Medical Systems Corporation	17.2 %	17.9 %	20.5 %

Canon Medical Systems Corporation accounted for 10.3% and 16.2% of the Company's accounts receivable as of September 30, 2022 and October 1, 2021, respectively.

Inventories, net

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

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

(In millions)	September 30, 2022	October 1, 2021
Raw materials and parts	$ 240.3	$ 168.0
Work-in-process	23.2	20.4
Finished goods	39.7	36.4
Total inventories	$ 303.2	$ 224.8

The Company recorded inventory write-downs of $6.4 million, $3.5 million and $18.1 million for the twelve months ended September 30, 2022, October 1, 2021 and October 2, 2020, respectively, of which $0.0 million, $3.5 million, and $15.8 million were from certain discontinued products in relation to COVID-19.

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Property, Plant and Equipment, net

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

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

(In millions)	September 30, 2022	October 1, 2021
Land	$ 8.3	$ 8.3
Buildings and leasehold improvements	149.2	148.7
Machinery and equipment	182.9	179.7
Construction in progress	29.1	18.1
Gross property, plant and equipment	369.5	354.8
Accumulated depreciation and amortization	(228.2)	(214.6)
Total property, plant and equipment, net	$ 141.3	$ 140.2

The Company recorded depreciation expense of $19.0 million, $20.5 million and $22.3 million in fiscal years 2022, 2021 and 2020, respectively. During fiscal years 2022, 2021 and 2020, the Company recorded accelerated depreciation of $0.0 million, $0.2 million and $2.9 million, respectively, which primarily related to the machinery and equipment used at the Santa Clara, California facility. See Note 5, *Restructuring*, included in this report, for further information.

Investments

The Company accounts for its equity investments in privately-held companies under the equity method of accounting if the Company has the ability to exercise significant influence in these investments. Distributions received from an equity method investment are classified using the cumulative earnings approach, which means that distributions up to the amount of cumulative equity in earnings recognized will be treated as returns on investment and classified as operating cash flows and those in excess of that amount will be treated as returns of investment and classified as investing cash flows. The Company reviews its equity investments in privately-held companies for impairment whenever events or changes in business circumstances are other than temporary and indicate that the carrying amount of the investments may not be fully recoverable. There were no impairments recorded during fiscal years 2022 and 2021. During the fiscal year 2020, the Company wrote off a $2.7 million cost investment in a privately-held company, the related expense is included as part of other expense, net in the Company's consolidated financial statements.

Marketable Securities

The Company's marketable securities consist primarily of financial instruments such as U.S. treasury securities, U.S. agency obligations, corporate bonds, commercial paper, money market funds, and equity securities. The Company classifies marketable debt securities as available-for-sale at the time of purchase and reevaluates such classifications as of each balance sheet date. All marketable debt securities are recorded at estimated fair value. Any unrealized gains or losses for marketable debt securities are included in accumulated other comprehensive income within the Consolidated Balance Sheets. Marketable equity securities are stated at fair value as determined by the most recently traded price of each security at the balance sheet date. All unrealized gains and losses on equity securities are recorded as part of other expense, net in the Company's consolidated financial statements. See Note 10, *Fair Value,* for further details.

When the fair value of a 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 our Consolidated Statements of Operations. When the fair value of a debt security declines below its amortized cost basis due to changes in interest rates, such amounts are recorded in accumulated other comprehensive income, and are recognized in our Consolidated Statements of Operations only if we sell or intend to sell the security before recovery of its cost basis. There were no credit losses related to marketable debt securities recorded during the twelve months ended September 30, 2022.

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Goodwill and Intangible Assets

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

Impairment of Long-lived Assets, Intangible Assets and Goodwill

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

The Company evaluates goodwill and indefinite lived intangible assets for impairment at least annually at the beginning of the fourth quarter of each fiscal year or whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The evaluation includes consideration of qualitative factors including industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting unit. If the Company determines that a quantitative analysis is necessary, the Company performs a step one analysis, which consists of a comparison of the fair value of a reporting unit against its carrying amount, including the goodwill allocated to each reporting unit. The Company determines the fair value of its reporting units based on a combination of income and market approaches. The income approach is based on the present value of estimated future cash flows of the reporting units, and the market approach is based on a market multiple calculated for each reporting unit based on market data of other companies engaged in similar business. If the carrying amount of the reporting unit is in excess of its fair value, the difference between the fair value and carrying amount is recorded as an impairment loss. The impairment test for intangible assets with indefinite useful lives, if any, consists of a comparison of fair value to carrying value, with any excess of carrying value over fair value being recorded as an impairment loss. In fiscal years 2022, 2021 and 2020, the Company performed the annual goodwill impairment test for our two reporting units and found no impairment.

During the fiscal years ended September 30, 2022, October 1, 2021 and October 2, 2020, the Company recognized $0.0 million, $0.0 million, and $2.8 million of impairments of intangible assets, respectively.

Loss Contingencies

From time to time, the Company is involved in legal proceedings, claims and government inspections or investigations, customs and duties audits, other contingency matters, both inside and outside the United States, arising in the ordinary course of its business or otherwise. The Company accrues amounts for probable losses, to the extent they can be reasonably estimated, that it believes are adequate to address any liabilities related to legal proceedings and other loss contingencies that the Company believes will result in a probable loss (including, among other things, probable settlement value). A loss or a range of loss is disclosed when it is reasonably possible that a material loss will be incurred and can be estimated or when it is reasonably possible that the amount of a loss, when material, will exceed the recorded provision. When a loss contingency is probable but not reasonably estimable the nature of the contingency and the fact that an estimate cannot be made is disclosed. See Note 12, *Commitments and Contingencies,* for further information regarding certain of our contractual obligations and contingencies.

Product Warranty

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

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

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

(In millions)	Fiscal Years Ended	
	September 30, 2022	October 1, 2021
Accrued product warranty, at beginning of period	$ 8.5	$ 8.1
New accruals charged to cost of revenues	11.3	13.0
Product warranty expenditures	(11.9)	(12.6)
Accrued product warranty, at end of period	$ 7.9	$ 8.5

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 Consolidated Balance Sheets. The Company recognizes finance leases with lease terms of more than twelve months in property, plant and equipment, net, accrued liabilities and other current liabilities, and other long-term liabilities on its Consolidated Balance Sheets. For purposes of calculating lease liabilities and the corresponding ROU assets, the Company's lease term may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option.

Revenue Recognition

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

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

The Company determines revenue recognition through the following steps:

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

Transaction Price and Allocation to Performance Obligations

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

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

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

Contracts and Performance Obligations

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

Recognition of Revenue

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

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

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

Disaggregation of Revenue

Revenue is disaggregated from contracts between geography and by reportable operating segment, which the Company believes best depicts how the nature, amount, timing, and uncertainty of revenues and cash flows are affected by economic factors. Refer to Note 16, *Segment Information,* included in this report, for the disaggregation of the Company's revenue based on reportable operating segments and disaggregated by geographic region.

Contract Balances

Contract assets are included within the prepaid expenses and other current assets, and other assets balances in the Consolidated Balance Sheets. Contract liabilities, which also includes refund obligations, are included within the accrued liabilities and other current liabilities, deferred revenues, and other long-term liabilities balances in the Consolidated Balance Sheets.

Costs to Obtain or Fulfill a Customer Contract

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

Deferred Revenues

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

Allowance for Credit Losses

The Company evaluates the creditworthiness of customers prior to authorizing shipment for all major sale transactions. On a quarterly basis, the Company considers historical trends, current information and any reasonable and supportable forecasts to determine if an amount should be included in the allowance for credit losses. The Company had an allowance for credit losses of $0.6 million and $1.0 million as of September 30, 2022 and October 1, 2021, respectively.

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Share-Based Compensation Expense

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

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

The Company measures and recognizes expense for all share-based payment awards based on their fair values. Share-based compensation expense recognized in the Consolidated Statements of Operations includes compensation expense for the share-based payment awards based on the grant date fair value estimated in accordance with the guidance on share-based compensation. The Company records forfeitures as they occur. The Company attributes the value of share-based compensation to expense using the straight-line method. The Company considers only the direct tax impacts of share-based compensation awards when calculating the amount of tax windfalls or shortfalls. For additional information, see Note 14, *Employee Stock Plans*, included in this report.

Software Development Costs

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

Research and Development

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

Taxes on Income

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

During fiscal year 2022, the Company received cash tax refunds related to net operating loss ("NOL") carryback claims for U.S. losses incurred in fiscal year 2020. On August 16, 2022, the Inflation Reduction Act was enacted in response to rising inflation. The Company does not meet the financial statement thresholds for the minimum tax applicability and does not anticipate other provisions will have a material impact. The 2017 Tax Cuts and Jobs Act ("TCJA") included a provision requiring research and development expenditures to be capitalized for tax years beginning after December 31, 2021, which will be effective for the Company starting in fiscal year 2023. Because the Company has a significant amount of research and development expenditures, it expects increased cash taxes in the early years following the effective date of TCJA.

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Foreign Currency Translation

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

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes by removing certain exceptions to the current guidance, and improving the consistent application and simplification of other areas of the guidance. The Company adopted this ASU on October 2, 2021, using a prospective approach. The adoption of ASU 2019-12 did not have a material impact on the Company's consolidated financial statements and related disclosures.

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

Recent Accounting Standards Updates Not Yet Effective

In August 2020, the FASB issued ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The standard removes certain separation models in ASC 470-20 for convertible instruments, and, as a result, embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under ASC 815. These convertible debt instruments will be accounted for as a single liability measured at amortized cost. This will also result in the interest expense recognized for convertible debt instruments to be typically closer to the coupon interest rate. Further, the ASU made amendments to the earnings per share ("EPS") guidance in Topic 260 for convertible instruments, the most significant impact of which is requiring the use of the if-converted method for diluted EPS calculation, and no longer allowing the net share settlement method. The ASU is effective for annual periods beginning after December 15, 2021, including interim periods within those years. Adoption of the ASU can either be on a modified retrospective or full retrospective basis. The Company will adopt the new standard effective October 1, 2022, the first day of the fiscal year ending September 29, 2023, using the modified retrospective method. On the date of adoption, the Company estimates that its entry to adopt this ASU will be to record a reduction in additional paid-in capital of $34.6 million, an increase to long-term debt, net of $28.0 million, an increase to deferred tax assets of $6.7 million, and an increase to retained earnings of $13.3 million in 2023 for the after-tax impact of previously recognized amortization of the debt discount associated with the Company's Convertible Senior Notes. The unamortized discount on our Convertible Notes (see Note 9, *Borrowings*) will be reclassified from equity to liabilities and the interest expense from our Convertible Notes will decrease and be closer to the coupon rate of 4.00%. The impact that adoption of ASU 2020-06 will have on our net income per diluted share will depend on the amount of earnings in each period and our share price, and could result in additional dilution.

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

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2. REVENUE RECOGNITION

The following tables summarize the changes in the contract assets and refund liabilities for the twelve months ended September 30, 2022 and October 1, 2021:

(In millions)	Contract Assets
Balance at October 2, 2020	$ 24.6
Costs recovered from product returns during the period	(4.8)
Contract asset from shipments of products, subject to return during the period	6.4
Adjustment for actual vs. reserved product returns	(1.9)
Balance at October 1, 2021	$ 24.3
Costs recovered from product returns during the period	(5.4)
Contract asset from shipments of products, subject to return during the period	7.1
Adjustment for actual vs. reserved product returns	(0.6)
Balance at September 30, 2022	$ 25.4

(In millions)	Refund Liabilities
Balance at October 2, 2020	$ 27.4
Release of refund liability included in beginning of year refund liability	(5.3)
Additions to refund liabilities	7.1
Adjustment for actual vs. reserved product returns	(2.2)
Balance at October 1, 2021	$ 27.0
Release of refund liability included in beginning of year refund liability	(6.1)
Additions to refund liabilities	7.9
Adjustment for actual vs. reserved product returns	(0.6)
Balance at September 30, 2022	$ 28.2

During fiscal year 2022, the Company recognized revenue of $6.7 million related to deferred revenue which existed at October 1, 2021. During fiscal year 2021, the Company recognized revenue of $6.9 million related to deferred revenue which existed at October 2, 2020.

Remaining Performance Obligations

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

3. LEASES

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

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

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During the twelve months ended September 30, 2022, the Company recorded a loss due to abandonment of $1.9 million, which is included in selling, general and administrative on the Consolidated Statements of Operations.

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

(In millions)	Balance Sheet Location	September 30, 2022	October 1, 2021
Assets			
Operating lease right-of-use assets	*Operating lease assets*	$ 23.2	$ 24.3
Finance lease right-of-use assets	*Property, plant and equipment, net*	0.3	0.5
Liabilities			
Operating lease liabilities (current)	*Current operating lease liabilities*	4.0	6.2
Finance lease liabilities (current)	*Accrued liabilities and other current liabilities*	0.2	0.2
Operating lease liabilities (non-current)	*Operating lease liabilities*	18.0	18.7
Finance lease liabilities (non-current)	*Other long-term liabilities*	$ 0.1	$ 0.3

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

	September 30, 2022	October 1, 2021
Operating lease weighted average remaining lease term (in years)	6.4	5.9
Operating lease weighted average discount rate	5.6 %	5.5 %
Finance lease weighted average remaining lease term (in years)	2.0	2.5
Finance lease weighted average discount rate	3.6 %	3.6 %

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

(In millions)	2022	2021	2020
Total operating lease costs[1]	$ 6.4	$ 8.1	$ 8.4
Total finance lease costs	$ 0.2	$ 0.3	$ 0.3
Operating cash flows from operating leases	$ 7.3	$ 7.9	$ 8.0
Financing cash flows from finance leases	0.2	0.2	0.3
Total cash paid for amounts included in the measurement of lease liabilities	$ 7.5	$ 8.1	$ 8.3
Noncash operating right-of-use assets obtained in exchange for new lease liabilities	$ 5.4	$ 5.6	$ 10.6
Noncash finance right-of-use assets obtained in exchange for new lease liabilities	0.1	0.2	0.2
Total right-of-use assets obtained in exchange for new lease liabilities	$ 5.5	$ 5.8	$ 10.8

[1] Includes variable and short-term lease expense, which were immaterial for fiscal years 2022, 2021, and 2020.

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As of September 30, 2022, maturities of operating lease and finance lease liabilities for each of the following five years and a total thereafter were as follows:

(In millions) Fiscal years:	Operating Leases	Finance Leases
2023	$ 5.2	$ 0.2
2024	4.6	0.1
2025	4.4	—
2026	3.1	—
2027	2.8	—
Thereafter	6.5	—
Total future lease payments	$ 26.6	$ 0.3
Less: imputed interest	(4.6)	—
Present value of lease liabilities	$ 22.0	$ 0.3

As of September 30, 2022, the Company had not entered into any material leases that have not yet commenced.

4. RELATED-PARTY TRANSACTIONS

Investment in Privately-Held Companies

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

The investment in dpiX Holding is accounted for under the equity method of accounting. When the Company recognizes its share of net profits or losses of dpiX Holding, profits or losses in inventory purchased from dpiX are eliminated. In fiscal years 2022, 2021 and 2020, the Company recorded a loss on the equity investment in dpiX Holding of $2.6 million, $2.3 million and $0.8 million, respectively. Loss on the equity investment in dpiX Holding is included in other expense, net in the Consolidated Statements of Operations. The carrying value of the equity investment in dpiX Holding was $42.4 million and $45.0 million at September 30, 2022 and October 1, 2021, respectively.

In fiscal years 2022, 2021 and 2020, the Company purchased glass transistor arrays from dpiX totaling $21.0 million, $18.5 million and $20.4 million, respectively. These purchases of glass transistor arrays are included as a component of inventories, net on the Consolidated Balance Sheets or cost of revenues in the Consolidated Statements of Operations.

As of September 30, 2022 and October 1, 2021, the Company had accounts payable to dpiX totaling $3.1 million and $2.8 million, respectively.

The Company has the right to 50% of dpiX's total manufacturing capacity. In addition, the Company is required to pay for 50% of dpiX's fixed costs, as determined at the beginning of each calendar year. In January 2022, the fixed cost commitment was determined and approved by the dpiX board of directors to be $13.2 million for calendar year 2022. As of September 30, 2022, the Company estimated it has fixed cost commitments of $3.3 million related to this amended agreement through the remainder of calendar year 2022. The amended agreement will continue unless the ownership structure of dpiX changes (as defined in the amended agreement).

The Company has determined that dpiX Holding is a variable interest entity because at-risk equity holders, as a group, lack the characteristics of a controlling financial interest. Majority votes are required to direct the manufacturing activities, legal operations and other activities that most significantly affect dpiX's economic performance. The Company does not have majority voting rights and no power to unilaterally direct the activities of dpiX Holding and therefore is not the primary beneficiary of dpiX Holding. The Company's exposure to loss as a result of its involvement with dpiX Holding is limited to the carrying value of the Company's investment of $42.4 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,

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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.

In fiscal years 2022, 2021 and 2020, the Company recorded a loss on the equity investment in VEC of $0.8 million, $1.1 million, and $1.2 million respectively. The Company's investment in VEC was $2.5 million and $3.0 million as of September 30, 2022 and October 1, 2021, respectively. In fiscal years 2022 and 2021, the Company made contributions to VEC totaling $0.3 million and $1.2 million, respectively. As of September 30, 2022 and October 1, 2021 the Company had loans outstanding to VEC totaling $0.6 million and $0.3 million, respectively, and other receivables from VEC of $0.3 million at September 30, 2022 and October 1, 2021, respectively, which are recorded in prepaid expenses and other current assets in the Consolidated Balance Sheets.

5. RESTRUCTURING

In July 2018, the Company committed to relocate the production of amorphous silicon glass for digital detectors, from its Santa Clara facility, to the jointly owned dpiX fabrication facility in Colorado. In July 2019, the Company committed to close its Santa Clara facility and to relocate the remaining production to its other existing facilities. The Company ceased all operations at the Santa Clara facility as of October 2, 2020, and all activities related to the closure of the facility were completed by the end of December 2020. In connection with the relocation of the glass production and site closure, the Company recorded $0.0 million, $0.0 million and $9.1 million of restructuring charges during fiscal years 2022, 2021 and 2020, respectively.

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

Cash outflows associated with these restructuring charges are limited to employee termination expenses, facility closure and equipment sales and disposals. Below is a detail of restructuring charges incurred during the 2022, 2021 and 2020 fiscal years, which predominately relate to the Company's Medical segment:

(In millions)	Location of Restructuring Charges in Consolidated Statements of Operations	2022	2021	2020
Other assets impairment charges	Selling, general and administrative	$ 1.8	$ —	$ —
Inventory write downs	Cost of revenues	—	—	1.3
Accelerated depreciation	Cost of revenues	—	0.2	2.9
Severance costs	Selling, general and administrative	—	0.6	5.7
Facility closure costs	Selling, general and administrative	—	0.2	3.6
Total restructuring charges		$ 1.8	$ 1.0	$ 13.5

6. OTHER FINANCIAL INFORMATION

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

(In millions)	September 30, 2022	October 1, 2021
Accrued compensation and benefits	$ 37.5	$ 44.2
Product warranty	7.9	8.5
Taxes payable	11.3	8.0
Right of return liability	6.8	6.7
Accrued interest	11.7	12.5
Other	6.2	9.8
Total accrued liabilities and other current liabilities	$ 81.4	$ 89.7

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

(In millions)	September 30, 2022	October 1, 2021
Long-term income tax payable	$ 4.3	$ 1.8
Environmental liabilities	1.3	0.6
Defined benefit obligation liability	3.3	5.9
Long-term right of return liability	21.4	20.3
Long-term other	3.5	3.2
Total other long-term liabilities	$ 33.8	$ 31.8

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

	Fiscal Years		
(In millions)	2022	2021	2020
Loss from equity method investments	$ (3.0)	$ (3.4)	$ (2.1)
Change in fair value of deferred consideration	—	—	0.9
Impairment of investment	—	—	(2.7)
Realized losses on foreign currencies, net	(1.5)	(0.2)	(3.7)
Other	0.2	0.1	—
Total other expense, net	$ (4.3)	$ (3.5)	$ (7.6)

7. NET INCOME (LOSS) PER SHARE

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

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

	Fiscal Year		
(In millions, except per share amounts)	2022	2021	2020
Net income (loss) attributable to Varex	$ 30.3	$ 17.4	$ (57.9)
Weighted average shares outstanding – basic	39.8	39.3	38.8
Dilutive effect of Convertible Senior Notes	1.3	0.6	—
Dilutive effect of share-based awards and other	0.5	0.4	—
Weighted average shares outstanding – diluted	41.6	40.3	38.8
Net income (loss) per share attributable to Varex – basic	$ 0.76	$ 0.44	$ (1.49)
Net income (loss) per share attributable to Varex – diluted	$ 0.73	$ 0.43	$ (1.49)
Anti-dilutive share-based awards, excluded	3.0	2.8	3.5

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 income (loss) per share attributable to Varex when their effect is dilutive. Since we intend to settle in cash the principal outstanding under our Convertible Senior Notes, we apply the treasury stock method applied using our average share price during the period when calculating their potential dilutive effect, if any. Furthermore, in connection with the offerings of our notes, we entered into convertible note hedges and warrants (see Note 9, *Borrowings*). However, our convertible note hedges are not included when calculating potentially dilutive shares since their effect is always anti-dilutive. Warrants, which have a strike price above our average share price for the periods presented, were out of the money and were not included in the tables above. Because the Company incurred a net loss for fiscal year 2020, none of the potentially dilutive common shares were included in the diluted share calculation for that period as they would have been anti-dilutive.

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8. FINANCIAL DERIVATIVES AND HEDGING ACTIVITIES

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

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

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

Derivatives Designated as Hedging Instruments - Cash Flow Hedges

During the twelve months ended October 2, 2020 the Company used interest rate swap contracts as cash flow hedges to manage its exposure to fluctuations in LIBOR interest rates. Interest rate swap contracts effectively fix the LIBOR component of variable interest rate debt for a specific period of time.

During the twelve months ended September 30, 2022, the Company entered into forward contracts which have been designated as cash flow hedges and are intended to manage its risk of variability in foreign currency-denominated contracts. All changes in fair value of the derivatives designated as cash flow hedges are reported in accumulated other comprehensive income in the Consolidated Balance Sheet.

As of September 30, 2022, the Company had the following outstanding derivatives designated as cash flow hedging instruments.

(In millions, except for number of instruments)	Number of Instruments	Notional Value
Forward contracts	4	$ 2.5

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

	Amount of Loss Recognized in OCI on Derivatives Fiscal Year Ended			Location of Loss Reclassified from Accumulated OCI into Income	Amount of Loss Reclassified from Accumulated OCI into Income Fiscal Year Ended		
(In millions)	2022	2021	2020		2022	2021	2020
Interest rate swap contracts	$ —	$ —	$ (3.4)	Interest expense	$ —	$ —	$ (1.5)
Forward contracts	(0.8)	—	—	Interest expense	—	—	—
	$ (0.8)	$ —	$ (3.4)		$ —	$ —	$ (1.5)

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

(In millions)		Derivative Liabilities
Derivatives designated as cash flow hedges	Balance sheet location	2022
Forward contracts	Accrued liabilities and other current liabilities	$ 0.3

Derivatives Designated as Hedging Instruments - Net Investment Hedges

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

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loss on the swap was recorded in accumulated other comprehensive income where it will remain until substantial liquidation of the international operations.

As of September 30, 2022, the Company had the following outstanding derivatives designated as net investment hedging instruments:

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

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

	Amount of Gain or (Loss) Recognized in OCI on Derivatives Fiscal Year Ended			Location of Gain or (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing)	Amount of Gain Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing)		
(In millions)	2022	2021	2020		2022	2021	2020
Cross currency swap contracts	$ 8.7	$ (0.3)	$ (1.3)	Interest expense	$ 1.2	$ 1.3	$ 1.5

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

(In millions)		Derivative Assets and Liabilities	
Derivatives Designated as Net Investment Hedges	Balance Sheet Location	2022	2021
Cross currency swap contracts	Prepaid expenses and other current assets	$ 1.2	$ 1.2
Cross currency swap contracts	Other assets	6.3	—
Cross currency swap contracts	Other long-term liabilities	$ —	$ 2.4

Balance Sheet Hedges

The Company also enters into foreign currency forward contracts to hedge fluctuations associated with foreign currency-denominated monetary assets and liabilities, primarily cash, lease contracts, third-party accounts receivable and payable, and intercompany accounts receivable and payables. These forward contracts expire within 30 days. These forward contracts are not designated for hedge accounting treatment; therefore, the change in fair value of these derivatives is recorded as a component of other expense, net and offsets the change in fair value of the foreign currency-denominated assets and liabilities, which are also recorded in other 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 September 30, 2022:

	Notional Value of Derivatives not Designated as Hedging Instruments:	
(In millions of equivalent USD)	Buy contracts	Sell contracts
Indian Rupee	$ —	$ 5.2
Chinese Renminbi	—	11.1
Euro	—	9.1
Total notional value	$ —	$ 25.4

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9. BORROWINGS

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

(In millions, except for percentages)	September 30, 2022 Amount	September 30, 2022 Weighted-Avg Effective Interest Rate	October 1, 2021 Amount	October 1, 2021 Weighted-Avg Effective Interest Rate	$ Change
Current maturities of long-term debt					
Other debt	$ 2.1		$ 2.8		$ (0.7)
Total current maturities of long-term debt	**$ 2.1**		**$ 2.8**		**$ (0.7)**
Non-current maturities of long-term debt:					
Convertible Senior Unsecured Notes	$ 200.0	10.9%	$ 200.0	10.9%	$ —
Senior Secured Notes	243.0	8.2%	270.0	8.2%	(27.0)
Other debt	4.6		7.8		(3.2)
Total non-current maturities of long-term debt:	**$ 447.6**		**$ 477.8**		**$ (30.2)**
Unamortized issuance costs and debt discounts					
Unamortized discount - Convertible Notes	$ (28.7)		$ (37.6)		$ 8.9
Unamortized issuance costs - Convertible Notes	(3.1)		(4.1)		1.0
Debt issuance costs - Senior Secured Notes	(3.5)		(4.4)		0.9
Total	**$ (35.3)**		**$ (46.1)**		**$ 10.8**
Total debt outstanding, net	**$ 414.4**		**$ 434.5**		**$ (20.1)**
Equity component of Convertible Senior Unsecured Notes[(1)]	$ 49.7		$ 49.7		$ —

[(1)] Included in additional paid-in capital on the Consolidated Balance Sheets.

Future principal payments of long-term debt outstanding as of September 30, 2022 are as follows:

(In millions)	
Fiscal years:	
2023	$ 2.1
2024	1.4
2025	201.4
2026	1.2
2027	243.6
Thereafter	—
Total debt outstanding	$ 449.7
Less: current maturities of long-term debt	(2.1)
Non-current portion of long -term debt	$ 447.6

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The following table summarizes the Company's interest expense:

	Twelve Months Ended		
	September 30, 2022	**October 1, 2021**	**October 2, 2020**
Contractual interest coupon and other	$ 27.6	$ 30.7	$ 19.1
Amortization/extinguishment of debt issuance costs	3.4	3.5	7.0
Amortization of debt discounts	8.8	7.9	5.3
Total interest expense	**$ 39.8**	**$ 42.1**	**$ 31.4**

Convertible Senior Unsecured Notes

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

Call Spread

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

On June 4, 2020 and June 5, 2020, Varex also entered into privately negotiated warrant transactions (collectively, the "Warrant Transactions" and, together with the Hedge Transactions, the "Call Spread Transactions"), whereby the Company sold warrants at a higher strike price relating to the same number of shares of Varex common stock that initially underlie the Convertible Notes, subject to customary anti-dilution adjustments. The initial strike price of the warrants is $24.975 per share (subject to adjustment under the terms of the Warrant Transactions), which is 50% above the last reported sale price of Varex common stock on June 4, 2020. The Warrant Transactions could have a dilutive effect to the Company's stockholders to the extent that the market price per share of Varex common stock, as measured under the terms of the Warrant Transactions, exceeds the applicable strike price of the warrants. The number of shares underlying the Warrant Transactions is 9.6 million. The number of warrants outstanding as of September 30, 2022, was 9.6 million.

Senior Secured Notes

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

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

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

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On March 18, 2022, the Company redeemed $27 million of Senior Secured Notes, in accordance with the terms and conditions of the governing indenture, by paying cash of $28.7 million, inclusive of the redemption premium and accrued interest, and recognized a $1.2 million loss related to the redemption premium and the write-off of previously recorded debt issuance costs. The redemption price of the redeemed notes was 103% of the principal amount, plus accrued and unpaid interest from, and including, October 15, 2021 to, but excluding, the redemption date of March 18, 2022. As of September 30, 2022, the aggregate principal amount of the outstanding Senior Secured Notes was $243.0 million.

Asset-Based Loan

Concurrent with the termination of the Credit Agreement (defined below) and closing of the Senior Secured Notes on September 30, 2020, the Company entered into a revolving credit agreement consisting of a $100.0 million asset-based loan revolving credit facility (the "Asset-Based Loan", or "ABL Facility").

From September 30, 2020 through March 9, 2022, borrowings under the Asset-Based Loan bore interest at floating rates based on LIBOR, 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 was required to pay a quarterly commitment fee of 0.375% to 0.5%, based on the aggregate unused commitments under the Asset-Based Loan.

On March 9, 2022, the ABL Facility was amended to transition the reference rate for certain dollar denominated advances to the Secured Overnight Financing Rate ("SOFR") from the London Interbank Offered Rate ("LIBOR") and the quarterly commitment fee was amended to 0.25%, based on the aggregate unused commitments under the Asset-Based Loan. Additionally, the applicable margin rates were reduced by 75 basis points and the interest rate floor was reduced from 50 basis points to 0 basis points.

The ABL Facility matures on the earlier of September 30, 2025 or 91 days prior to the maturity of the Convertible Notes, at which time all outstanding amounts under the ABL Facility will be due and payable. The maximum availability under our ABL Facility is $100.0 million; however, the borrowing base under the ABL fluctuates from month-to-month depending on the amount of eligible accounts receivable, inventory, and real estate. As of September 30, 2022, the amount available under our ABL Facility was $94.5 million, and the ABL Facility remains undrawn.

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

The ABL Facility contains a minimum Fixed Charge Coverage Ratio of 1.00 to 1.00 that is tested when excess availability under the ABL is less than the greater of (i) 10.0% of the Loan Cap (the lesser of (a) the aggregate commitments under the ABL Facility and (b) the aggregate borrowing base) and (ii) $7.5 million. As of September 30, 2022, the Company is compliant with the ABL Facility covenants.

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

Credit Agreement

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

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

10. FAIR VALUE

Assets/Liabilities Measured at Fair Value on a Recurring Basis

The fair values of certain of the Company's financial instruments, including bank deposits included in cash and cash equivalents, accounts receivable, net and accounts payable, approximate their fair values due to their short maturities. As of September 30, 2022,

the fair value of the Company's Convertible Notes and Senior Secured Notes, as defined in Note 9, *Borrowings*

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and measured using Level 1 inputs, were $250.2 million and $241.3 million, respectively. As of October 1, 2021, the fair values of the Company's Convertible Notes and Senior Secured Notes, measured using Level 1 inputs, were $296.3 million and $304.8 million, respectively. The Company has elected to use the income approach to value its derivative instruments using standard valuation techniques and Level 2 inputs, such as currency spot rates, forward points and credit default swap spreads. There were no financial assets or liabilities measured on a recurring basis using significant unobservable inputs (Level 3) and there were no transfers in or out of Level 1, 2 or 3 during fiscal year 2022.

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

	Fair Value Measurements at September 30, 2022			
(In millions)	**Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets:				
Money market funds	$ —	$ 36.6	$ —	$ 36.6
Commercial paper	—	5.9	—	5.9
Corporate notes/bonds	—	3.6	—	3.6
Government agencies	—	0.3	—	0.3
US Treasury bills	—	10.2	—	10.2
Derivative assets	—	7.5	—	7.5
Marketable equity securities	2.5	—	—	2.5
Total assets measured at fair value	$ 2.5	$ 64.1	$ —	$ 66.6
Liabilities:				
Derivative liabilities	$ —	$ 0.3	$ —	$ 0.3
Total liabilities measured at fair value	$ —	$ 0.3	$ —	$ 0.3

At October 1, 2021, the Company determined the following levels of inputs for the following assets or liabilities:

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

The Company holds assets under its deferred compensation plan which total $5.4 million as of September 30, 2022.

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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 Consolidated Balance Sheets.

	September 30, 2022			
(In millions)	**Amortized Costs**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Commercial paper	$ 5.9	$ —	$ —	$ 5.9
Corporate notes/bonds	3.7	—	(0.1)	3.6
US Treasury bills	10.2	—	—	10.2
Government agencies	0.3	—	—	0.3
Total marketable debt securities	$ 20.1	$ —	$ (0.1)	$ 20.0

On October 1, 2021, the Company did not hold any marketable debt securities.

The contractual maturities of marketable debt securities as of September 30, 2022, are shown in the table below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	September 30, 2022	
(In millions)	**Amortized Costs**	**Fair Value**
Contractual maturities:		
Due within one year	$ 17.8	$ 17.7
Due after one year through five years	2.3	2.3
Total marketable debt securities	$ 20.1	$ 20.0

During the twelve months ended September 30, 2022, there were no gross realized gains or losses from the sale of certain marketable debt securities that were reclassified out of accumulated other comprehensive income.

The following table summarizes the balance sheet locations for marketable debt securities:

	September 30, 2022				
(In millions)	**Commercial paper**	**Corporate notes/bonds**	**Government agencies**	**Treasury Bills**	**Total**
Cash and cash equivalents	$ —	$ —	$ —	$ 3.3	$ 3.3
Prepaid expenses and other current assets	5.9	1.9	0.3	6.4	14.5
Other assets	—	1.7	—	0.5	2.2
Total marketable debt securities	$ 5.9	$ 3.6	$ 0.3	$ 10.2	$ 20.0

11. GOODWILL AND INTANGIBLE ASSETS

The following table reflects goodwill by reportable segment:

(In millions)	**Medical**	**Industrial**	**Total**
Balance at October 1, 2021	$ 173.9	$ 118.3	$ 292.2
Foreign currency translation adjustments	(4.5)	(3.2)	(7.7)
Balance at September 30, 2022	$ 169.4	$ 115.1	$ 284.5

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The following table reflects the gross carrying amount and accumulated amortization of the Company's finite-lived intangible assets included in other assets in the Consolidated Balance Sheets:

	September 30, 2022			October 1, 2021		
(In millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Acquired existing technology	$ 70.0	$ (49.9)	$ 20.1	$ 74.2	$ (45.5)	$ 28.7
Patents, licenses and other	12.3	(11.6)	0.7	12.8	(10.9)	1.9
Customer contracts and supplier relationship	49.6	(36.8)	12.8	51.1	(31.0)	20.1
Total intangible assets	$ 131.9	$ (98.3)	$ 33.6	$ 138.1	$ (87.4)	$ 50.7

Amortization expense for intangible assets was $14.6 million, $16.8 million and $17.2 million in fiscal years 2022, 2021 and 2020, respectively. The Company recognized intangible asset impairment charges of $0.0 million, $0.0 million, and $2.8 million in fiscal years 2022, 2021, and 2020, respectively, which are included in the Consolidated Statements of Operations under impairment of intangible assets. These impairment charges related primarily to the Company's Medical reporting segment.

As of September 30, 2022, the estimated future amortization expense of intangible assets with finite lives is as follows:

(In millions)	
Fiscal years:	
2023	$ 12.9
2024	8.7
2025	2.6
2026	2.5
2027	2.4
Thereafter	4.5
Total	$ 33.6

12. COMMITMENTS AND CONTINGENCIES

Lease Commitments

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

Purchase Agreement With Supplier

During fiscal year 2020, Varex entered into a purchase agreement with a supplier to acquire certain equipment and intellectual property from the supplier that is utilized to manufacture X-ray cables utilized in Varex's products. As of September 30, 2022, transfer of the underlying equipment has been completed and installation and calibration is underway. All activities related to this asset purchase are expected to be completed during the 2023 fiscal year. Total consideration to be paid by Varex for the acquired assets is expected to be ¥1,084.7 million, subject to potential decreases for costs incurred by the Company. On April 14, 2022, we entered into a foreign currency hedge related to this Japanese Yen payment, which is expected to fix the purchase price of these assets at approximately $7.9 million. As of September 30, 2022, the Company has made payments totaling $5.4 million and estimates that our remaining cash payments to be made total $2.5 million.

Other Commitments

See Note 4, *Related-Party Transactions,* included in this report, for additional information about the Company's commitments to dpiX.

See Note 13, *Noncontrolling Interests,* included in this report, for additional information about the Company's commitment to the noncontrolling shareholders of MeVis.

The Company has an environmental liability of approximately $1.6 million as of September 30, 2022.

In the fourth quarter of 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

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$5 million upon achievement of specified milestones. During fiscal year 2022, the first of these milestones was achieved and the Company paid $1 million to the third party company, which was recorded in research and development in the Consolidated Statements of Operations. The remaining milestones are expected to be achieved in fiscal year 2023.

In addition, the Company agreed to acquire, through two separate purchases, a fixed number of shares for consideration of approximately $5 million, representing 9.9% of the shares of the third-party company outstanding on the date the agreements were signed. The Company completed the acquisition of the first tranche of shares during fiscal year 2022 for approximately $2.4 million. The Company has recorded this investment as marketable equity securities, which is included in other assets on the Consolidated Balance Sheet. Refer to Note 1, *Summary of Significant Accounting Policies*, and Note 10, *Fair Value*. The second tranche of the investment is subject to foreign regulatory approval and, if approved, is expected to be completed in fiscal year 2023.

Contingencies

The Company did not have any material contingent liabilities as of September 30, 2022 and October 1, 2021. Legal expenses are expensed as incurred.

13. NONCONTROLLING INTERESTS

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

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

In April 2015, the Company completed the acquisition of 73.5% of the then outstanding shares of MeVis Medical Solutions AG ("MeVis"), a public company based in Bremen, Germany that provides image processing software and services for cancer screening. In August 2015, the Company, through one of its German subsidiaries, entered into a domination and profit and loss transfer agreement (the "DPLTA") with MeVis. In October 2015, the DPLTA became effective upon its registration at the local court of Bremen, Germany. Under the DPLTA, MeVis subordinates its management to the Company and undertakes to transfer all of its annual profits and losses to the Company. In return, the DPLTA grants the noncontrolling shareholders of MeVis: (1) an annual recurring net compensation of €0.95 per MeVis share starting from January 1, 2015 and (2) a put right for their MeVis shares at €19.77 per MeVis share. During fiscal year 2018, an immaterial number of MeVis' shares were purchased under the put right. During the fourth quarter of fiscal year 2020, the put right granted to the noncontrolling shareholders of MeVis under the DPLTA expired unexercised, which resulted in the redeemable noncontrolling interests being reclassified to permanent equity as noncontrolling interest in the Consolidated Balance Sheet. As of September 30, 2022, noncontrolling shareholders together held approximately 0.5 million shares of MeVis, representing 26.3% of the outstanding shares.

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

	Fiscal Years	
	2022	2021
(In millions)	Noncontrolling Interests	Noncontrolling Interest
Balance at beginning of period	$ 13.2	$ 14.1
Net income attributable to noncontrolling interests	0.5	0.5
Other, including foreign currency remeasurement	(0.4)	(1.4)
Balance at end of period	$ 13.3	$ 13.2

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14. EMPLOYEE STOCK PLANS

Employee Stock Plans

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

In January 2017, Varex stockholders approved the 2017 ESPP, which provides eligible employees with an opportunity to purchase shares of Varex common stock at 85% of the lower of its fair market value at the start and end of a six-month purchase period. During the fiscal year 2022, the Company's Board of Directors approved an increase in the number of shares available for issuance under the 2017 ESPP of 0.8 million shares. As of September 30, 2022 the 2017 ESPP provides for the purchase of up to 1.8 million shares of Varex common stock.

Share-Based Compensation Expense

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

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

	Fiscal Year		
(In millions)	**2022**	**2021**	**2020**
Cost of revenues	$ 1.6	$ 1.4	$ 1.1
Research and development	3.1	3.0	2.5
Selling, general and administrative	9.3	9.5	9.8
Total share-based compensation expense	$ 14.0	$ 13.9	$ 13.4

The unrecognized share-based compensation cost as of September 30, 2022 was $23.2 million, and is expected to be recognized over a weighted average period of 2.5 fiscal years. As of September 30, 2022, there were approximately 3.2 million and 0.8 million shares of common stock available for future issuances under the 2020 Stock Plan and the 2017 ESPP, respectively.

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

	Employee Stock Option Plan			Employee Stock Purchase Plans		
	Fiscal Year			Fiscal Year		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Expected term (in years)	7.0	7.0	6.1	0.4	0.5	0.5
Risk-free interest rate	1.4 %	1.0 %	1.1 %	1.6 %	0.1 %	0.9 %
Expected volatility	42.7 %	41.5 %	36.9 %	33.6 %	68.4 %	50.0 %
Expected dividend	— %	— %	— %	— %	— %	— %
Weighted average fair value at grant date	$12.07	$9.37	$7.53	$5.41	$5.90	$7.94

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

Risk-Free Interest Rate

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

Expected Term

Options granted generally vest over a period of 36 to 48 months and expire 7 to 10 years from date of grant. Employee stock purchase plan offering periods are typically 6 months and provides eligible employees with an opportunity to purchase shares of Varex

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common stock at 85% of the lower of its fair market value at the start or end of a six-month purchase period. The Company has elected to use the simplified method in calculating the expected term of its options due to a lack of sufficient historical information.

Expected Dividend Yield

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

Expected Volatility

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

Stock Option Activity

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

(In thousands, except per share amounts and the remaining term)	Options	Price range	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value (1)
Outstanding at October 1, 2021	2,811	$13.61 - $37.60	$ 28.69	4.7	$ 5,161.0
Granted	319	$30.95 - $30.95	$ 30.95		
Canceled, expired or forfeited	(90)	$25.17 - $31.42	$ 30.22		
Exercised	(138)	$13.61 - $30.74	$ 27.11		
Outstanding at September 30, 2022	2,902	$13.61 - $37.60	$ 28.97	4.5	$ 1,361.4
Exercisable at September 30, 2022	2,085	$13.61 - $37.60	$ 29.81	3.1	$ 666.1

(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 $21.14 as of September 30, 2022, the last trading date of the Company's respective fiscal years, and which represents the amount that would have been received by the option holders had all option holders exercised their options and sold the shares received upon exercise as of that date.

The grant-date fair value of options granted during fiscal years 2022, 2021 and 2020 was $3.9 million, $3.7 million and $4.4 million, respectively. The total intrinsic value of the options exercised during the years ended September 30, 2022, October 1, 2021 and October 2, 2020 was $0.5 million, $0.0 million and $0.4 million, respectively.

Restricted Stock Units, Restricted Stock Awards and Deferred Stock Units

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

(In thousands, except per share amounts)	Number of Shares	Weighted Average Grant-Date Fair Value
Balance at October 1, 2021	1,080	$ 23.25
Granted	392	27.53
Vested	(364)	24.83
Canceled, expired or forfeited	(63)	22.31
Balance at September 30, 2022	1,045	$ 24.35

The total grant-date fair value of shares granted was $10.8 million, $8.9 million and $11.9 million for fiscal years 2022, 2021 and 2020, respectively. Shares outstanding at September 30, 2022, October 1, 2021 and October 2, 2020 had an estimated market value of $22.1 million, $30.9 million and $11.8 million, respectively.

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15. TAXES ON INCOME

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

Income tax expense (benefit) was as follows:

	Fiscal Years		
(In millions)	**2022**	**2021**	**2020**
Current income tax expense (benefit)			
Federal	$ 3.7	$ 5.4	$ (16.3)
State and local	0.2	1.4	(1.4)
Foreign	10.3	6.8	5.7
Total current	$ 14.2	$ 13.6	$ (12.0)
Deferred income tax expense (benefit):			
Federal	$ 0.4	$ 1.8	$ (1.7)
State and local	(0.9)	(1.3)	0.6
Foreign	—	(3.4)	(2.1)
Total deferred	$ (0.5)	$ (2.9)	$ (3.2)
Income tax expense (benefit)	$ 13.7	$ 10.7	$ (15.2)

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

	Fiscal Years		
(In millions)	**2022**	**2021**	**2020**
United States	$ 16.4	$ (4.1)	$ (74.1)
Foreign	28.1	32.7	1.5
Income (loss) before taxes	$ 44.5	$ 28.6	$ (72.6)

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

	Fiscal Years		
	2022	**2021**	**2020**
Federal statutory income tax rate	21.0 %	21.0 %	21.0 %
State and local taxes, net of federal tax benefit	(1.4)	0.3	1.0
Statutory rate change impact on prior year deferreds	1.1	—	—
Return to provision	(2.1)	4.2	2.8
Research and development credit	(0.9)	(4.2)	3.7
Prior year research and development credit	—	(0.3)	—
Foreign rate difference	6.5	1.7	(0.4)
Foreign research innovation box	—	(3.8)	—
Change in valuation allowance	6.3	8.4	(11.0)
U.S. tax reform - international provisions	(4.6)	(0.7)	—
U.S. net operating loss carryback	—	5.2	5.6
Other	4.9	5.6	(1.8)
Effective tax rate	30.8 %	37.4 %	20.9 %

During fiscal year 2022, the Company's effective tax rate varied from the U.S. federal statutory rate of 21% primarily due to the unfavorable impact of profit in foreign jurisdictions with statutory tax rates greater than 21% and also U.S. deferred tax attributes and losses in certain foreign jurisdictions for which a valuation allowance is provided. These unfavorable items are partially offset by the favorable impact of U.S. tax reform international provisions, return to provision adjustments, and R&D tax credits.

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

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

The Company has estimated its fiscal year 2022 GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax), FDII (foreign-derived intangible income), limitations on interest expense deductions, and other components of U.S. tax reform, and have included these amounts in the calculation of the fiscal year 2022 tax provision. The Company has made an accounting policy election, as allowed by the SEC and FASB, to recognize the impact of GILTI as a period cost if and when incurred.

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

(In millions)	**September 30, 2022**	**October 1, 2021 [1]**
Deferred tax assets:		
Inventory adjustments	$ 6.4	$ 4.9
Share-based compensation	6.3	5.5
Product warranty	1.4	1.8
Unrealized exchange gain	2.6	1.7
Deferred compensation	1.3	1.6
Net operating loss carryforwards	19.7	25.7
Accrued vacation	0.9	1.0
Accrued incentives	2.8	4.2
Credit carryforwards	2.5	3.3
Deferred financing fees	2.4	3.0
Interest expense limitation	3.9	4.3
Capitalized interest	0.9	—
Lease liabilities	5.4	6.8
Other	2.5	4.7
	$ 59.0	$ 68.5
Valuation allowance	(32.2)	(30.2)
Total deferred tax assets	$ 26.8	$ 38.3
Deferred tax liabilities:		
Acquired intangibles	$ (7.9)	$ (13.9)
Property, plant and equipment	(8.8)	(13.0)
Investments in privately held companies	(1.4)	(1.8)
Operating lease assets	(5.6)	(6.5)
Other	(1.3)	(1.3)
Total deferred tax liabilities	(25.0)	(36.5)
Net deferred tax assets	$ 1.8	$ 1.8
Reported As:		
Deferred tax assets	$ 26.8	$ 38.3
Deferred tax liabilities	(25.0)	(36.5)
Net deferred tax assets (liabilities)	$ 1.8	$ 1.8

[1] Certain prior year amounts have been reclassified to conform to current year presentation.

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The Company is maintaining its reinvestment assertion with respect to foreign earnings for the year ended September 30, 2022, which is that all earnings prior to fiscal year 2018 are permanently reinvested for all countries, and that all earnings for Direct Conversion, located primarily in Sweden and Finland, are also indefinitely reinvested in those countries, but post fiscal year 2017 earnings in all other countries are not permanently reinvested. Due to the level of earnings available for repatriation, the treaty benefits applicable to jurisdictions in which those earnings are located, and the now favorable U.S. tax treatment of repatriated foreign earnings, the amount of deferred tax liability recorded related to the potential repatriation is approximately $0.1 million. This estimated liability is for U.S. state income taxes and foreign withholding taxes that would apply if the foreign earnings were repatriated in the form of a dividend.

As of September 30, 2022, the Company had foreign net operating loss carryforwards ("NOL") of approximately $19.3 million with $0.9 million expiring between 2022 and 2033 and $18.4 million carried forward indefinitely. During fiscal year 2022, the Company received cash tax refunds related to NOL carryback claims for U.S. losses incurred during fiscal year 2020.

The valuation allowance relates primarily to net operating losses in certain foreign jurisdictions, limitations on interest expense deductions, and other deferred tax attributes where, based on the weight of available evidence, it is more likely than not that the tax benefit will not be realized. The valuation allowance increased by $2.0 million during fiscal year 2022 and increased by $1.5 million during fiscal year 2021. The increase during the current year was primarily related to other U.S. deferred tax attributes.

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

	Fiscal Years		
(In millions)	**2022**	**2021**	**2020**
Valuation allowance balance–beginning of fiscal year	$ 30.2	$ 28.7	$ 18.8
Other increases	6.9	5.4	10.2
Other decreases	(4.9)	(3.9)	(0.3)
Valuation allowance balance—end of fiscal year	$ 32.2	$ 30.2	$ 28.7

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

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

	Fiscal Years	
(In millions)	**2022**	**2021**
Unrecognized tax benefits balance–beginning of fiscal year	$ 1.1	$ 0.8
Additions based on tax positions related to a prior year	0.1	0.4
Additions based on tax positions related to the current year	—	0.1
Reductions resulting from the expiration of the applicable statute of limitations	—	(0.2)
Unrecognized tax benefits balance—end of fiscal year	$ 1.2	$ 1.1

As of September 30, 2022 and October 1, 2021, the total amount of gross unrecognized tax benefits was $1.2 million and $1.1 million, respectively, all of which would affect the effective tax rate if recognized.

The Company includes interest and penalties related to income taxes within income tax expense (benefit) on the Consolidated Statements of Operations. For the year ended September 30, 2022, $0.2 million interest and penalties have been included for this period. For the year ended October 1, 2021, $0.2 million interest and penalties have been included for this period. For the year ended October 2, 2020, $0.1 million interest and penalties have been included for this period.

The Company files U.S. federal and state income tax returns and non-U.S. income tax returns in various jurisdictions. All of these returns are subject to examination by their respective taxing jurisdictions from the date of filing through each applicable statute of limitation period. Other periods for entities acquired are still open and subject to examination. Generally, periods prior to 2012 are no longer subject to examination.

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During fiscal year 2021, the New York Department of Finance and Taxation and the Utah State Tax Commission commenced examinations of Varex's tax returns for the years 2017, 2018, and 2019, which remain open as of September 30, 2022. The Swedish Tax Agency commenced an examination of Direct Conversion's tax returns for the fiscal year 2019 in fiscal year 2022 and closed the examination with no adjustments. Although the outcome of tax audits are uncertain, based on currently available information, the Company believes the outcomes will not have a material adverse effect on the Company's financial position.

16. SEGMENT INFORMATION

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

Description of Segments

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

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

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

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

	Fiscal Year		
(In millions)	**2022**	**2021**	**2020**
Revenues			
Medical	$ 674.7	$ 643.8	$ 584.5
Industrial	184.7	174.3	153.8
Total revenues	859.4	818.1	738.3
Gross profit			
Medical	210.5	203.2	136.4
Industrial	73.0	68.3	53.8
Total gross profit	283.5	271.5	190.2
Total operating expenses	195.3	197.4	223.9
Interest and other expense, net	(43.7)	(45.5)	(38.9)
Income (loss) before taxes	44.5	28.6	(72.6)
Income tax expense (benefit)	13.7	10.7	(15.2)
Net income (loss)	30.8	17.9	(57.4)
Less: Net income attributable to noncontrolling interests	0.5	0.5	0.5
Net income (loss) attributable to Varex	$ 30.3	$ 17.4	$ (57.9)

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

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Geographic Information

(In millions)	Revenues Fiscal Years 2022	2021	2020	Long-Lived Assets Fiscal Years 2022	2021
Americas	$ 273.3	$ 268.5	$ 255.0	$ 99.8	$ 105.4
EMEA	280.8	276.3	231.5	23.2	23.9
APAC	305.3	273.3	251.8	18.3	10.9
Total company	$ 859.4	$ 818.1	$ 738.3	$ 141.3	$ 140.2

Revenue in the United States of America was $263.7 million, $262.3 million and $249.8 million in fiscal years 2022, 2021 and 2020, respectively.

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

17. EMPLOYEE BENEFIT PLANS

Varex's 401(k) plan is intended to be qualified under Section 401(a) of the Code with the 401(k) plan's related trust intended to be tax exempt under Section 501(a) of the Code and intended for all full-time employees in the United States. This plan allows employees to contribute a portion of their pretax salary up to the maximum dollar limitation prescribed by the Internal Revenue Service. The Company made matching contributions to the plan totaling $4.4 million, $2.8 million and $4.4 million in fiscal years 2022, 2021 and 2020, respectively.

The Company also maintains defined benefit plans for certain employees located outside the US. The net pension liability is included in other long-term liabilities on the Company's Consolidated Balance Sheets and totaled $3.3 million and $5.9 million as of September 30, 2022 and October 1, 2021, respectively. The Company's net periodic benefit costs for the Company's defined benefit plans were not material for fiscal years 2022, 2021, and 2020.

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

(In millions)	Unrealized (Loss) Gain on Derivative Financial Instruments	Unrealized (Loss) Gain on Defined Benefit Obligations	CTA, Including Impact of Net Investment Hedge	Unrealized Loss on Available-for-Sale Securities	Accumulated Other Comprehensive Income (Loss)
Balance at October 2, 2020	$ —	$ (0.7)	$ 1.5	$ —	$ 0.8
Other comprehensive loss before reclassifications	—	(0.1)	(0.3)	—	(0.4)
Income tax impact	—	—	0.1	—	0.1
Foreign currency translation adjustment	—	—	(0.5)	—	(0.5)
Balance at October 1, 2021	$ —	$ (0.8)	$ 0.8	$ —	$ —
Other comprehensive (loss) income before reclassifications	(0.8)	2.0	8.7	(0.1)	9.8
Income tax impact	0.2	(0.6)	(0.4)	—	(0.8)
Foreign currency translation adjustment	—	—	(8.9)	$ —	(8.9)
Balance at September 30, 2022	$ (0.6)	$ 0.6	$ 0.2	$ (0.1)	$ 0.1