ACCURAY INC
Form 10-K
August 25, 2017

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended June 30, 2017**

**or**

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

**Commission file number 001-33301**

# ACCURAY INCORPORATED

(Exact name of registrant as specified in its charter)

| **DELAWARE** | **20-8370041** |
|---|---|
| (State or Other Jurisdiction of Incorporation or organization) | (I.R.S. Employer Identification No.) |

**1310 Chesapeake Terrace**
**Sunnyvale, California 94089**
(Address of Principal Executive Offices) (Zip Code)

Registrants' telephone number, including area code: **(408) 716-4600**

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

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| Common Stock, $.001 par value per share | The NASDAQ Stock Market LLC |

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 o No ý

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

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer o | Accelerated filer ý | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|
| | | | Emerging growth company o |

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. o

Indicate by check mark whether the registrant is a Shell Company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant based on the last sale price for such stock on December 31, 2016, the last business day of the registrant's most recently completed second fiscal quarter was: $214,409,027. Shares of the registrant's common stock held by each executive officer, director and 5% stockholder 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 August 15, 2017, the number of outstanding shares of the registrant's common stock, $0.001 par value, was 83,746,253.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Registrant's 2017 Annual Meeting of stockholders are incorporated by reference in Part III of this Form 10-K.

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**ACCURAY INCORPORATED**

**YEAR ENDED JUNE 30, 2017**

**FORM 10-K**

**ANNUAL REPORT**

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We own or have rights to various trademarks and tradenames used in our business in the United States or other countries, including the following: Accuray®, Accuray Logo®, CyberKnife®, Hi-Art®, RayStation®, RoboCouch®, Synchrony®, TomoTherapy®· Xsight®, Accuray Precision , AutoSegmentation , CTrue , H Series, iDMS InCise , Iris , M6 Series, OIS Connect , PlanTouch , PreciseART , PreciseRTX , Treat Planning System , QuickPlan , TomoDirect , TomoEdge , TomoH , TomoHD , TomoHDA , TomoHelical , Tomo Quality Assurance Radixact , StatRT , and VoLO . ImagingRing® is a registered trademark belonging to medPhoton GmbH. RayStation® is a registered trademark belonging to RaySearch Laboratories, AB.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*This Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to, statements regarding future revenues and expenses, marketing efforts, reimbursement rates, regulatory requirements, future orders, radiation therapy market, our strategy, our products, intellectual property rights, and our earnings or other financial results, and other statements using words such as "anticipates," "believes," "can," "could," "estimates," "expects," "forecasts," "intends," "may," "plans," "projects," "seek," "should," "will" and "would," and words of similar import and the negatives thereof. Accuray Incorporated ("we," "our," or the "Company") has based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. These forward-looking statements speak only as of the date of this Form 10-K and are subject to business and economic risks. Factors that could cause our actual results to differ materially include those discussed under "Risk Factors" in Part I, Item 1A of this report. We undertake no obligation to update or revise any forward-looking statements to reflect any event or circumstance that arises after the date of this report except as required by applicable law.*

**PART I**

**Item 1. BUSINESS**

**The Company**

Accuray Incorporated is a radiation oncology company that develops, manufactures, sells and supports precise, innovative treatment solutions which set the standard of radiation therapy care with the aim of helping patients live longer, better lives. Our innovative technologies, the CyberKnife and TomoTherapy Systems, including the Radixact System, our next generation TomoTherapy System, are designed to deliver advanced treatments, including stereotactic radiosurgery (SRS), stereotactic body radiation therapy (SBRT), intensity modulated radiation therapy (IMRT), image guided radiation therapy (IGRT), and adaptive radiation therapy. The CyberKnife Systems and the TomoTherapy Systems have complementary clinical applications, enabling customers to deliver the most precise treatments while minimizing side effects and maximizing patient comfort and care. Each of these systems serves patient populations treated by the same medical specialty, radiation oncology, with advanced capabilities.

The CyberKnife Systems are the only fully robotic systems that deliver SRS and SBRT, and are used to treat multiple types of cancer and tumors throughout the body. The CyberKnife Systems automatically track, detect and correct for tumor and patient movement in real-time during the procedure, enabling delivery of precise, high dose radiation with sub-millimeter accuracy while patients breathe normally, without manual user intervention. Treatment with the CyberKnife Systems requires no anesthesia, and treatment sessions are done on an outpatient basis. In addition, the CyberKnife Systems are designed to minimize many of the risks and complications associated with other treatment options. The CyberKnife Systems are the only robotic radiosurgery systems available today which deliver such high precision treatments for intra- and extra-cranial disease sites throughout the body, including prostate, lung, brain, spine, liver, pancreas and kidney. The latest generation CyberKnife M6 Series System is available with the new InCise Multileaf Collimator (InCise MLC), the world's first multileaf collimator (MLC) to be available on a robotic platform. With the addition of the InCise MLC, clinicians can deliver the same precise radiosurgery treatments they have come to expect with the CyberKnife Systems, while significantly reducing treatment times, for a wider range of tumor types, including larger and different kinds of tumors than were previously treated. Additional options include

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the fixed collimator, and the Iris Variable Aperture Collimator, giving clinicians a range of collimation forms to choose from to meet the needs of their patients.

The TomoTherapy Systems, including the next-generation Radixact platform, represents the only radiation therapy platform specifically designed for image-guided intensity-modulated radiation therapy (IG-IMRT). Based on a ring gantry CT scanner platform, the TomoTherapy System provides continuous delivery of radiation from 360 degrees around the patient, or delivery from clinician-specified direct beam angles. These unique features, combined with daily 3D image guidance, enable physicians to deliver dose distributions which precisely conform to the shape of the patient's tumor while minimizing dose to normal, healthy tissue, resulting in fewer side effects for patients. The TomoTherapy Systems are capable of treating all standard radiation therapy indications including breast, prostate, lung, and head and neck cancers, in addition to complex treatments such as total marrow irradiation, while minimizing side effects; and enable efficient daily imaging to ensure the accuracy of the patient position before each treatment delivery. The TomoTherapy System includes the following options: TomoHelical, TomoDirect, and TomoEdge dynamic jaws. The system configuration depends on the options chosen by the customer. When we refer to "TomoTherapy Systems" in this Form 10-K, we mean that term to include the Radixact System unless otherwise noted.

We are also introducing Onrad, a lower priced, direct delivery system, to China. The Onrad System is designed to meet the ease of use and throughput demands of a market segment in which Accuray has not previously competed.

We were incorporated in California in 1990 and commenced operations in 1992. We reincorporated in Delaware in 2007. Our principal offices are located at 1310 Chesapeake Terrace, Sunnyvale, CA 94089, and our telephone number is (408) 716-4600.

**Market Overview**

Despite significant improvements in cancer diagnosis and treatment, cancer rates continue to increase globally and are a leading cause of death. According to the World Health Organization, cancer is the second leading cause of death worldwide and was responsible for 8.8 million deaths in 2015. Globally, nearly 1 in 6 deaths is due to cancer, and the number of new cases is expected to rise by about 70% over the next 2 decades.

Cancers can be broadly divided into two groups: solid tumor cancers, which are characterized by the growth of malignant tumors within the body in areas such as the brain, lung, liver, breast or prostate, and hematological, or blood-borne cancers, such as leukemia. The most common causes of cancer deaths are cancers of lung, liver, colorectal, stomach and breast. The American Cancer Society (ACS) estimates that solid tumor cancers will account for approximately 1.6 million, or approximately 92% of new cancer cases diagnosed annually, and will account for approximately 0.6 million cancer related deaths in the United States in 2017.

Traditional methods for the treatment of solid tumor cancers include chemotherapy, surgery and radiation therapy. The most common type of radiation therapy is external beam radiation therapy, in which patients are treated with high-energy radiation generated by medical equipment external to the patient. The global radiotherapy equipment and software market has three main segments: Linear Accelerators (Linacs), Treatment Planning Systems, and Radiation Therapy Simulators. According to the January 2015 Radiation Therapy Equipment Report by Global Industry Analysts, Inc., Linear Accelerators represent the largest segment of radiotherapy equipment and are forecast to expand from an estimated $3.4 billion for 2014 to reach $5.2 billion by the year 2020. Treatment planning systems are poised to grow to $1.9 billion by 2020, up from an estimated $1.1 billion in 2014. Increasing preference for non-surgical options is a major factor promoting radiotherapy. Approximately 60% of cancer patients worldwide will undergo some form of radiation therapy during the course of their treatment. While radiation therapy is widely available in the United States and Western Europe, many

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developing countries currently do not have a sufficient number of linacs to adequately treat their domestic cancer patient populations. We believe increasing demand for advanced medical treatments in many international markets and growth in cancer incidences worldwide will continue to drive demand for advanced linacs in the coming years.

Emerging markets are especially underequipped with external beam radiation therapy systems. According to a publication called the Lancet Oncology Commission in 2015, radiation therapy is required in more than half of the newly diagnosed cancer patients. There was an estimated shortage of over 15,000 linacs globally in 2015, expected to grow to over 21,000 by 2035. This gap is most pronounced in low and middle income countries, where only 10% of patients have access to radiotherapy. China alone is estimated to have a shortfall of over 5,000 systems because of increasing cancer incidence and an aging population that is estimated to more than double by 2040.

**Radiation Therapy**

Radiation therapy is used to treat a wide range of cancer and tumor types by using high-energy radiation to destroy cancer cells and shrink or control the growth of tumors. Radiation therapy works by exposing clusters of cancer cells, or tumors, to a dose of high-energy radiation sufficient to cause cell death and prevent cells from multiplying. During external beam radiation therapy, the clinician's goal is to target radiation delivery to the tumor as precisely as possible in order to maximize the radiation dose delivered to cancerous tissue and minimize the exposure of healthy tissue. Recent advances in radiation therapy technologies have allowed clinicians to further improve the ability to target the radiation dose more precisely at cancer cells while minimizing the exposure of healthy tissue. These advances include the following:

***Intensity modulated radiation therapy.*** Intensity modulated radiation therapy involves varying, or modulating, the radiation beam intensity across the treatment area. This technique aims to conform the high dose region of the radiation beam more closely with the shape of the tumor, enabling the delivery of higher doses of radiation to tumors with a reduced impact on surrounding healthy tissue.

***Image guided radiation therapy.*** IGRT involves delivering radiation guided by images of the treatment area taken shortly before and/or during treatment using CT scan, x-ray, ultrasound or other imaging technologies. By combining imaging with radiation treatment, clinicians can adjust the patient's position relative to the radiation source prior to each treatment to target the tumor more precisely.

***Radiosurgery and Stereotactic Body Radiation Therapy.*** Radiosurgery is a form of radiation therapy that uses precisely targeted radiation to destroy tumors. Radiosurgery is non-invasive; there is no cutting involved. It is commonly used by neurosurgeons to treat conditions within the brain and spine. SBRT is a treatment that uses precisely targeted radiation, like radiosurgery, to destroy tumors located outside the brain and spine. Radiosurgery and SBRT typically involve the delivery of a single high dose radiation treatment or a few fractionated radiation treatments (usually up to five) to ablate (destroy) all tissue within the tumor. To achieve the accuracy and precision required for both radiosurgery and SBRT, image guidance during treatment, the ability to adjust the aim of the beam in real-time to compensate for tumor motion and a wide range of beam angles, are critical for treatment.

***Adaptive radiation therapy.*** Adaptive radiation therapy involves adjusting a patient's radiation therapy plan during or between fractions to account for changes in the patient's anatomy, the amount and location of the radiation received by the patient, and the size, shape and location of the tumor. While there is no widely accepted definition of adaptive radiation therapy, it has been characterized to include as little as an adjustment to the physical position of the patient relative to the radiation source prior to treatment, as occurs during IGRT, rather than an adjustment to the

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treatment plan. Our approach is based on the belief that adaptive radiation therapy requires monitoring and adjustments to the treatment plan facilitated by both the regular acquisition of updated quantitative images showing the location, size, shape and density of the tumor, and verification of the radiation dose received by the patient throughout the entire course of treatment.

***Hypofractionation.*** Hypofractionation involves the delivery of higher doses of radiation in fewer fractions than are used in conventional radiation therapy. Higher doses of radiation have been shown to provide greater local control of the tumor. The advent of innovative technological features in radiation therapy treatment planning and delivery has enabled clinicians to maximize the radiation dose administered to tumors in the patient, improving local tumor control and, in some cases, improving patient survival rates. Additional benefits of hypofractionation include minimal side effects, fewer treatments and greater scheduling convenience for the patient. Hypofractionation is often used to treat small targets throughout the body, especially when located near critical structures, including the brain, head and neck, spine, lung and prostate. It is also being used more frequently in clinical applications where the radiobiology is appropriate for fewer fractions of higher doses, including the prostate and breast.

Despite advances in radiation therapy techniques, most commercially available radiation therapy systems from other manufacturers still present significant limitations that restrict clinicians' ability to provide the most precise treatment possible. These limitations include:

***Limited versatility and precision.*** The C-arm configuration of traditional radiation therapy systems has a limited range and speed of motion because of its size and mechanical structure. C-arm linac architecture is limited to delivering radiation in a single plane (coplanar) thus limiting its radiation delivery capability for complex and advanced cases. Additionally, most previously existing MLCs, which modulate or shape the radiation beams, have mechanical limitations that reduce their beam-shaping ability and the speed at which they operate. These design elements limit the motion and dynamic range of IMRT intensities capable of being delivered by traditional radiation therapy systems and often make it challenging to achieve the precision needed to maximize dose to the tumor while avoiding damage to healthy tissue and minimizing side effects. These limited treatment angles reduce the ability to deliver precisely targeted radiation that minimizes exposure to healthy tissue. Such imprecision may prevent clinicians from treating tumors near sensitive anatomic structures, such as the eye or the spinal cord, or from re-treating patients in an area of the body that was previously exposed to radiation and may be unable to tolerate additional exposure.

***Limited ability to provide frequent, quantitative images.*** Precise radiation therapy requires frequent images that accurately depict the size, shape and location of the tumor. Many traditional radiation therapy systems use imaging technologies that are not generally used on a daily basis to generate a quantitative assessment of the patient's and/or target volume's position due to concerns about the additional radiation exposure. In addition, traditional radiation therapy systems measure the amount of radiation emitted by the device based on the system's performance specifications. This calculation does not provide the clinician with data regarding the amount of radiation that was received by the patient or what tissue within the patient's body received any particular amount of radiation. Since it is common for internal organs to shift and for the size of the tumor to change during the course of treatment, failure to obtain updated images and adapt the patient and/or plan throughout the course of treatment may result in a portion, or potentially all, of the radiation dose missing the tumor and instead being absorbed by healthy tissue.

***Failure to integrate multiple functions.*** The basic architecture for traditional radiation therapy systems pre-dates many recent advances that enable integrated imaging, treatment planning, dose verification or quality assurance capabilities necessary for more advanced treatment protocols. Some conventional systems have been subsequently adapted to include certain elements of this

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functionality by incorporating modular add-on devices to legacy linac designs. These separate modular components can provide imaging, treatment planning, quality assurance procedures or post-treatment analysis functionality. However, this add-on architectural approach can have safety, accuracy, and workflow implications because of the manual methods used for checking proper system operation.

**Development of Radiosurgery**

Advanced radiation therapy systems designed to deliver radiosurgery or stereotactic body radiation therapy differ from traditional radiation therapy systems in that they are designed to deliver a very high cumulative dose of radiation, in a single or a small number of treatments precisely targeted at the tumor rather than at a region that consists of the tumor plus healthy tissue that surrounds the tumor area. The more accurate delivery of radiation allows higher doses to be delivered, increasing the probability of tumor cell death and better local control. In addition, radiosurgery can be administered to patients who have inoperable or surgically complex tumors, or who may prefer a clinically effective, non-surgical treatment option.

**Our Strategy**

Our goal is to develop equipment and technology that enable physicians to deliver precise, customized, leading-edge treatments that help cancer patients live longer, better lives. We endeavor to achieve this goal by expanding the clinical options for healthcare providers, helping them offer the best radiation treatment for each patient and by providing patients with treatment tailored to their specific needs. Our vision is a future where the fear, pain and suffering of cancer are a thing of the past. We believe our current technologies and our future innovation can help to achieve this. Some of the key elements of our strategy include the following:

***Increase physician adoption and patient awareness to drive utilization.*** We are continually working to increase adoption and awareness of our systems and demonstrate their advantages over more traditional treatment methods. We hold and sponsor symposia and educational meetings and support clinical studies to demonstrate the clinical benefits of our systems. We regularly meet with clinicians to educate them on the expanded versatility that our systems offer in comparison to more traditional radiation therapy products or surgery. We are expanding our digital and social presence to reach and educate a broader audience of physicians and patients. To support awareness of all our product offerings, we assist our customers with increasing patient awareness in their communities by providing them tools to develop marketing and educational campaigns.

***Continue to expand the radiosurgery market.*** While radiosurgery has traditionally been used to treat brain tumors, the CyberKnife Systems received U.S. Food and Drug Administration (FDA), clearance in 2001 to treat tumors anywhere in the body. Our system data demonstrate that over 55% of CyberKnife utilization is for cancers and tumors in the body in places other than the brain. There are now hundreds of peer-reviewed publications supporting use of CyberKnife in treatment of various cancer and tumor types.

***Continue to innovate through clinical development and collaboration.*** The clinical success of our products is largely the result of the collaborative partnerships we have developed over the last decade with clinicians, researchers and patients. We proactively seek out and rely on constructive feedback from system users to learn what is needed to enhance the technology. As a result of this collaborative process, we continually refine and upgrade our systems, thereby improving our competitive position in the radiation therapy and radiosurgery markets. Upgrades to our systems are designed to address customer needs in the areas of improving the ease of use and accuracy of treatment, decreasing treatment times, and improving utilization for specific types of tumors.

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***Expand sales in international markets.*** We intend to continue to increase our sales and distribution capabilities outside of the United States to take advantage of the large international opportunity for our products. Outside of the United States, we currently have regional offices in Morges, Switzerland, Hong Kong, China, Shanghai, China and Tokyo, Japan and direct sales staff in most countries in Western Europe, Japan, India and Canada. Combined with distributors in Eastern Europe, Russia, the Middle East, the Asia Pacific region and Latin America, our sales and distribution channels cover more than 92 countries. However, many of these countries are not highly developed at this time and therefore sales opportunities may be limited. We intend to increase our international revenue by focused additions of direct sales personnel in targeted areas to further penetrate our most promising international markets, and additional distributors where opportune.

***Strategic partnerships and joint ventures.*** We intend to pursue strategic partnerships and joint ventures we believe will allow us to complement our growth strategy, increase sales in our current markets and expand into adjacent markets, broaden our technology and intellectual property and strengthen our relationships with our customers. In fiscal 2016 we signed an agreement with RaySearch Laboratories AB, which will lead to the integration of treatment planning support for the TomoTherapy and CyberKnife Systems in the RayStation treatment planning system (TPS). We also signed an agreement with medPhoton GmbH to collaborate on integration of its ImagingRing system, a new technology for volumetric image guidance, with the CyberKnife System. In fiscal 2017, we signed an agreement with Photo Diagnostic Systems, Incorporated to enhance image quality of our TomoTherapy System through an enhanced tomographic reconstruction software.

**Our Products**

Our suite of products includes the CyberKnife Systems and the TomoTherapy Systems, including the Radixact Delivery Treatment System, the next generation TomoTherapy System. We also offer comprehensive software solutions to enable and enhance the precise and efficient radiotherapy treatment with our advanced delivery systems.

***The CyberKnife Systems***

Our principal radiosurgery products are the CyberKnife Systems, a robotic full-body radiosurgery system designed to treat tumors anywhere in the body non-invasively, which include the CyberKnife M6 Series with configuration options of fixed collimators plus the Iris Variable Aperture Collimator (FI), fixed collimators plus the InCise MLC (FM) and fixed collimators plus the Iris Variable Aperture Collimator plus the InCise MLC (FIM).

Using continual image guidance technology and computer controlled robotic mobility, the CyberKnife Systems are designed to deliver precise radiation from a wide array of beam angles and automatically track, detect and correct for tumor and patient movement in real-time throughout the treatment. This design is intended to enable the CyberKnife Systems to deliver high-dose radiation with precision, which minimizes damage to surrounding healthy tissue and eliminates the need for invasive head or body stabilization frames. Our patented image-guidance technology correlates low dose, real-time treatment X-rays with images previously taken with a CT scan of the tumor and surrounding tissue to direct each beam of radiation with increased precision versus treatments without this real-time feedback. This, in turn, enables delivery of a highly conformal, non-isocentric dose of radiation to the tumor, with minimal radiation delivered to surrounding healthy tissue. With its autonomous ability to track, detect and correct for even the slightest tumor and patient movement throughout the entire treatment, the CyberKnife System is intended to provide clinicians with an effective and accurate treatment.

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Our configurations of CyberKnife Systems include the following:

***The CyberKnife M6 Series with configurations of FI, FM and FIM.*** The M6 Series has been approved/cleared by the FDA, and is able to be sold in most major markets globally. It is used with either of the following options: an Iris collimator (I) or a multileaf collimator (M). With the InCise MLC, larger tumors previously thought untreatable with radiosurgery and SBRT are able to be treated efficiently and with unrivaled accuracy and tissue sparing. The InCise MLC and IMRT planning tools enable expansion of indications that can be treated with a CyberKnife to include many IMRT indications. The CyberKnife M6 Series includes disease-specific tracking and treatment delivery solutions for brain, spine, lung and prostate tumors, treatment speed improvements, more options to configure the treatment room, expanded number of nodes leading to more coverage and sparing of healthy tissue.

We believe the CyberKnife Systems offer clinicians and patients the following benefits:

***The only truly robotic system in the market.*** Combining the benefits of continual image guidance and non-isocentric, non-coplanar treatment delivery, the CyberKnife Systems precisely contour radiation delivery to spare healthy tissue while maintaining sub-millimeter accuracy, even for targets that move during treatment. The CyberKnife Systems are the clinical solution to choose when accuracy, flexibility, efficiency and patient comfort are essential.

***Treatment of inoperable or surgically complex tumors.*** The CyberKnife Systems may be used to target tumors that cannot be easily treated with traditional surgical techniques because of their location, number, size, shape or proximity to vital tissues or organs, or because of the age or health of the patient. The CyberKnife Systems' intelligent robotics enable the precise targeting of a tumor, while at the same time minimizing damage to surrounding healthy tissue.

***Treatment of tumors throughout the body.*** The CyberKnife Systems have been cleared by the FDA to provide treatment planning and image-guided radiosurgery treatment for tumors anywhere in the body where radiation treatment is indicated. By comparison, traditional frame-based radiosurgery systems are generally limited to treating brain tumors and use cobalt 60 radioactive material, which decays over time and is difficult to replace. The CyberKnife Systems are being used for the treatment of primary and metastatic tumors outside the brain, including tumors on or near the spine and in the lung, liver, prostate, kidney and pancreas in addition to tumors in the brain, with the same sub-millimeter accuracy in every disease site.

***Real-time tracking of tumor movement.*** The CyberKnife Systems are designed to enable the treatment of tumors that change position because of respiration, or tumor or patient movement during treatment. The CyberKnife Systems offer the following features which enhance image guided robotic radiation surgery: Synchrony Respiratory Tracking System, Xsight Lung Tracking System, Xsight Spine Tracking System, InTempo Adaptive Imaging System and Lung Optimized Treatment.

***Significant patient benefits.*** The CyberKnife Systems maximize patient comfort. Patients may be treated with the CyberKnife Systems on an outpatient basis without anesthesia and without the risks and complications inherent in traditional surgery. Patients do not require substantial pre-treatment preparation, and typically there is little to no recovery time or hospital stay associated with CyberKnife Systems' treatments. In addition, the CyberKnife Systems eliminate the need for an invasive rigid frame to be screwed into the patient's skull or affixed to other parts of the body, or for artificial breath holding or gating instruments.

***Additional revenue generation through increased patient volumes.*** We believe clinical use of the CyberKnife Systems allows our customers to effectively treat patients where extreme precision and ability to account for motion are important, and patients who otherwise would not have been treated with radiation or who may not have been good candidates for surgery.

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***Upgradeable modular design.*** The CyberKnife Systems have a modular design, which facilitates the implementation of upgrades that often do not require our customers to purchase an entirely new system to gain the benefits of new features. We continue to work to develop and offer new clinical capabilities enhancing ease of use, reducing treatment times, improving accuracy and improving patient access. The main components and options of the CyberKnife Systems include: the compact X-band linear accelerator; robotic manipulator, the real-time image-guidance system with continuous target tracking and correction; X-ray sources; image detectors. Key features of these components include:

***Robotic manipulator arm.*** The robotic manipulator arm, with six-degrees-of-freedom range of movement, is designed to move around the patient to position the linac and direct the radiation with an extremely high level of precision and repeatability. The manipulator arm provides what we believe to be a unique method of positioning the linac to deliver doses of radiation from nearly any direction and position, without the limitations inherent in gantry-based systems, creating a non-isocentric composite dose pattern with a high level of conformance to the shape of each treated tumor. This flexibility enhances the ability to diversify beam trajectories and beam entrance and exit points, helping to minimize risks of radiation damage to healthy cells near the tumor. Furthermore, the rapid response time of the manipulator arm allows tracking of tumors that move with respiration.

***Real-time image-guidance system with continuous target tracking and correction.*** Without the need for clinician intervention or treatment interruption, the CyberKnife Systems' real-time image-guided robotics are designed to enable continuous monitoring and correction for patient and tumor movements throughout each treatment as it is being delivered.

***X-ray sources.*** The low-energy X-ray sources generate the X-ray images that help determine the location of bony or other anatomic landmarks, or implanted fiducials, which are used for tracking throughout the entire treatment.

***Image detectors.*** The image detectors capture high-resolution anatomical images throughout the treatment. These live images are continually compared to the patient's CT scan to determine real-time patient positioning. Based on this information, the robotic manipulator automatically corrects for detected movements.

In addition to the main components listed above, we also offer the following components and options: Synchrony Respiratory Tracking System; Xsight Spine Tracking System; Xsight Lung Tracking System; Lung Optimized Treatment; RoboCouch Patient Positioning System; Xchange Robotic Collimator Changer; InTempo Adaptive Imaging System; Iris Variable Aperture Collimator; and the InCise MLC. Key features of some of these components are as follows:

***Synchrony Respiratory Tracking System.*** The CyberKnife Systems' proprietary motion tracking system, the Synchrony Respiratory Tracking System, is the first and only technology to continuously synchronize beam delivery to the motion of the tumor in real time, enabling the delivery of highly conformal radiation beams while reducing healthy tissue exposure. It is used to continuously track tumors that move with respiration as beams are synchronized in real-time to tumor position while adapting to changes in breathing patterns. The Synchrony system provides what we believe is unsurpassed clinical accuracy of approximately 1.5 millimeters for tumors that move with respiration without the need for implanted fiducials. It makes it possible and practical for clinicians to deliver radiation dose with sub-millimeter precision, even for tumors that move with respiration.

***Xsight Tracking System.*** The Xsight Spine and Lung Tacking Systems allow for tracking of tumors without the need for implanted markers in the spine and the lung.

***Lung Optimized Treatment.*** An integrated suite of tools that provides a complete fiducial-free clinical solution for lung cancer patients and optimizes non-invasive lung SBRT treatments.

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***InTempo Adaptive Imaging System.*** The InTempo System is designed to optimize imaging frequency during prostate treatments and uses time-based image guidance to assist with tracking and correcting non-predictable intrafraction target motion.

***Iris Variable Aperture Collimator.*** The Iris Variable Aperture Collimator enables delivery of beams in 12 unique sizes with a single collimator, which significantly reduces treatment times and the total radiation dose delivered to the patient.

***InCise Multileaf Collimator.*** The InCise MLC is designed specifically for the CyberKnife M6 Series. It delivers the same precise SRS and SBRT treatments clinicians expect from the CyberKnife Systems, while significantly reducing treatment times. With the InCise MLC, the CyberKnife M6 Series can be used to treat larger and irregular tumors more efficiently.

***TomoTherapy Systems, including the Radixact System, our next generation TomoTherapy System***

The TomoTherapy Systems include the Radixact System, the next-generation TomoTherapy Systems with configuration options of X5, X7 and X9, and the TomoTherapy H Series, with configuration options of TomoH, TomoHD, and TomoHDA. The Radixact System is cleared for sale by the FDA and in most major markets globally. These systems consist of fully integrated and versatile radiation therapy systems used by healthcare professionals in the treatment of a wide range of cancer types. We believe the TomoTherapy Systems offer clinicians and patients the following benefits:

***Versatile treatment capabilities.*** The TomoTherapy Systems' ring gantry platform enables precise and efficient treatments with a high degree of dose conformity. The high-speed binary InCise MLC, is integrated with the linac and consists of 64 individual low leakage tungsten leaves that move across the beam to either block or allow the passage of radiation, effectively shaping the beam as it is emitted. The combination of the ring gantry and the high-speed InCise MLC (which we refer to as TomoHelical) enable treatment to be delivered continuously in a 360-degree helical pattern around the patient's body. Additionally, the TomoDirect feature provides the TomoTherapy Systems added versatility to provide high quality, fixed angle beams for those cases suited to simple tangential beam radiation delivery. All TomoTherapy Systems enable an operator to provide non-isocentric three-dimensional conformal image-guided IMRT or stereotactic treatments within a typical cylindrical volume of 80 centimeters in diameter and up to 135 centimeters in length. This expansive treatment field allows large areas of the body to be treated in a single session and the treatment of widely distant tumors. The TomoTherapy Systems' versatility, efficiency and precision offer clinicians an extensive range of effective treatment possibilities.

***Daily, quantitative imaging for better identification of tumors, dose verification and treatment planning.*** The TomoTherapy Systems offer integrated quantitative CT imaging capabilities, which depict the density of tumors and healthy tissue more accurately than traditional radiation therapy systems. Our integrated mega-voltage computed tomography (MVCT), which we market as our CTrue imaging technology, uses a low-intensity, fan beam CT to collect quantitative images prior to each treatment. These images allow lung tissue, fat, muscle and bone to be clearly distinguished. In addition, because of the low radiation dose involved, the clinician can collect daily, quantitative images, which can be used to monitor changes in the patient's internal anatomy and quickly adapt the plan if deemed clinically necessary. We believe daily, quantitative, relatively low dose images are essential to optimizing patient treatment by enabling clinicians to adapt the treatment plan in response to anatomical changes.

***Integrated treatment system for precise radiation delivery.*** We believe the integration of our CT imaging technology, treatment planning and helical delivery mode of radiation beams enables highly accurate and precise radiation delivery. Our adaptive software allows clinicians to establish at the time of treatment the contours of a tumor and any sensitive structures at risk. The TomoTherapy Systems use a highly efficient dose optimization algorithm to ensure the radiation beam conforms to the

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patient's tumor and minimizes exposure to sensitive healthy tissue structures, providing a highly-targeted dose distribution. These features significantly benefit patients by increasing the radiation delivered to cancerous tissues while reducing damage to nearby healthy tissues and minimizing side effects.

***Efficient clinical workflow for Image Guided Radiation Therapy, or IGRT, and adaptive radiation therapy.*** The TomoTherapy Systems integrate into a single system all of the key elements for radiation therapy, including treatment planning, CT image-guided patient positioning, treatment delivery, quality assurance and adaptive planning. The imaging and treatment planning capabilities of many traditional systems are more modular or require cumbersome add-ons or separate treatment planning systems that result in clinicians taking more steps between scanning, planning and treatment of patients. Conversely, the integrated CT imaging and treatment features of the TomoTherapy Systems allow clinicians to scan, plan and treat cancer patients efficiently. Daily images can be easily accessed remotely, via our TomoPortal web-enabled interface, to verify patient positioning and collaboratively define patient treatment strategies. Taking advantage of this integration capability, our StatRT software allows the full radiation therapy process, CT scanning, treatment planning and treatment delivery, to be completed rapidly.

***Low barriers to installation and implementation.*** All external beam radiation systems must be housed in rooms which have special radiation shielding to capture any radiation not absorbed by the patient. The TomoTherapy Systems' size and self-contained design allow customers to retrofit them into existing treatment rooms previously used for legacy radiation therapy systems and avoid, or reduce, the significant construction costs that can be associated with building new, larger treatment rooms, which are often required to install many other radiation therapy systems. With both imaging and radiation delivery capabilities in its ring gantry, the TomoTherapy Systems require less space than other linac systems, which use large moving arms to position the linac or incorporate adjacent imaging equipment used for treatment planning. In addition, because the TomoTherapy Systems have an integrated radiation beam stop, which captures radiation that passes through the patient, they require less radiation shielding in treatment room walls as compared to the shielding required by a traditional system. We also preassemble, test and commission each TomoTherapy System at our manufacturing facility, and ship the system almost fully assembled. This assembly process typically allows radiation "beam on" within four days after delivery and first patient treatments to begin within 30 to 45 days after delivery.

***Platform for further technological advancements in adaptive radiation therapy.*** We believe the TomoTherapy Systems are uniquely positioned to enable truly adaptive radiation therapy because of their unique ability to provide daily, quantitative images, high speed delivery of radiation from fixed beam angles or helically from 360 degrees around the body and real-time verification of the dose received by the patient. We believe the combination of these design features and our integrated treatment planning and optimization software will allow us to continue to enhance the TomoTherapy Systems' adaptive capabilities to enable clinicians to routinely and easily adjust a patient's treatment as needed, thereby remaining true to the intent of the original treatment plan.

In addition to the functionality listed above, the TomoTherapy Systems may be enhanced with the following product options: TomoDirect Mode and TomoEdge Delivery. Key features of these options are as follow:

***TomoDirect Mode.*** The TomoDirect mode is a discrete angle, non-rotational delivery mode for the TomoTherapy Systems that allows the user to create a treatment plan that defines up to twelve target-specific gantry angles. Treatment planning is completed rapidly by all beams for each target being delivered sequentially with the couch passing through the bore of the system at an appropriate speed for each gantry angle. The TomoDirect mode enables users to plan and treat

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routine cases with greater efficiency, while achieving the quality of TomoTherapy's unique beamlet-based delivery.

***TomoEdge Delivery.*** TomoEdge is standard on the TomoTherapy HDA model and is also available on H and HD models. By dynamically varying the width of the collimator jaws during treatment delivery, dose to normal tissues immediately adjacent to the tumor is reduced, contributing to the minimization of radiation side effects. Additionally, overall irradiation time is shortened because the jaws are allowed to open more broadly throughout much of the delivery. The resulting gains in treatment quality and speed expand the TomoTherapy Systems clinical and market reach within the conventional and stereotactic radiotherapy spaces.

We received FDA and CE Mark approval for the new Radixact Treatment Delivery Platform in 2016. We also received 510(k) clearance for our new treatment planning and data management systems, Accuray Precision Treatment Planning System and iDMS Data Management System. These next generation hardware and software solutions which, together, make up the new Radixact System, enable faster, more efficient delivery of extremely precise treatment to a wider range of cancer patients, including those undergoing retreatment. The new Radixact System represents a major step forward in the evolution of the TomoTherapy System in treatment speed and ease of use. We continue to offer TomoTherapy Systems in other markets where Radixact is not yet registered.

In addition, we received approval from the China FDA for the Onrad System in 2016, a direct delivery only system designed to meet the ease of use and throughput needs for this market, which provides us with the ability to be competitive in this market sector.

***Our Software Solutions***

Our new Accuray Precision Treatment Planning and iDMS Data Management Systems provide fully integrated treatment planning and data management systems for use with all compatible Accuray delivery systems.

***Accuray Precision Treatment Planning.*** With a streamlined and intuitive Windows-based interface, Accuray Precision Treatment Planning System enables clinicians to efficiently generate high quality radiation therapy treatment plans for all case types. It is a complete planning solution, including multi-modality image fusion with proprietary deformable image registration algorithm, comprehensive suite of contouring tools, AutoSegmentation auto-contouring options for head and neck, brain, and prostate, side-by-side treatment plan comparison, plan summation and evaluation. It supports treatment plan creation for all case types with TomoHelical, TomoDirect IMRT and 3D CRT planning mode on both Radixact and TomoTherapy Systems enabled with iDMS Data Management Systems. It also supports planning for all case types on CyberKnife Systems, including Frameless Intracranial Radiosurgery, Fiducial-Free Lung Tracking with Dynamic Motion Compensation, SBRT, for the spine, abdomen and pelvis, as well as other forms of SRT and IMRT. It provides fast and accurate dose computation engines for both Accuray treatment systems, including Monte Carlo dose calculation for the CyberKnife InCise multi-leaf collimator and VoLO Technology for Radixact and TomoTherapy Systems. The VoLO solution features high-speed parallel processing for both dose calculation and optimization, based on Graphics Processing Unit (GPU) technology that empowers clinicians to create highly customized treatment plans in less time, with greater flexibility to work interactively and in real time to efficiently develop the best IMRT treatment plans for even the most complex cases.

The Accuray Precision Treatment Planning System can be further enhanced with optional advanced capabilities below:

***PreciseART Adaptive Radiation Therapy Option.*** The PreciseART Radiation Therapy Option extends adaptive radiotherapy possibilities, delivering an entirely new level of system integration and workflow automation for Radixact Treatment Systems and other TomoTherapy Systems

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compatible with iDMS. The PreciseART Option enables clinicians to monitor patient treatment and efficiently adapt plans, helping clinics of all sizes deliver more precise treatments to more patients. It offers automated processing of daily imaging to enable clinicians to monitor all patients and set protocol-specific action levels to flag cases for review and possible plan adaptation. Its streamlined re-planning capabilities leverage full integration of treatment delivery, planning and database systems to allow clinicians to efficiently generate new treatment plans based on previous plan data. It also maintains the integrity of original treatment plans to ensure tumor coverage, preserve Organ-At-Risk doses and reduce toxicity. We believe our PreciseART software is the only practically usable adaptive therapy solution available to the mainstream radiation therapy market.

***PreciseRTX Retreatment Option.*** The PreciseRTX Retreatment Option from Accuray, developed in partnership with MIM Software, makes retreatment planning more efficient and effective. The option helps to accelerate and enhance the process of creating new treatment plans for patients who have received previous irradiation. The workflow includes importation of patient dose data, from either Accuray or non-Accuray planning systems, automatic deformation of original plan contours onto a new treatment planning CT, automatic deformation of previously delivered dose onto a new planning CT, generation of the re-treatment plan based on the information from existing plan and sumation of the original and new treatment plans to review the total dose.

***Accuray iDMS Data Management System.*** Accuray iDMS creates a centralized platform for storing and managing all patient and treatment plan data. Designed to integrate with a wide range of technologies and systems, iDMS enables users and applications to securely and seamlessly access the data they need to drive efficient, informed, effective treatment. Information for patients to-be-treated or previously treated on any iDMS-compatible Accuray treatment delivery system will be maintained as a single treatment record, providing the flexibility to treat patients on any available Accuray treatment delivery system compatible with iDMS. It can manage users and privileges to control patient data access. It supports the Storage Vault option which can safely maintain years of encrypted patient data. It also offers customizable report generation of patient, plan and treatment system with Report Administration Application. In addition, the Accuray iDMS enables connectivity between Accuray Systems with other systems in radiation oncology departments, encompassing the entire radiotherapy workflow. iDMS offers several key capabilities:

***OIS Connect Option.*** The OIS Connect software option is a DICOM standard-based solution that provides the ability to interface all iDMS-enabled Accuray treatment systems to a compatible Oncology Information System (OIS). This integration with electronic medical record generates a comprehensive export of the radiotherapy treatment history delivered using Accuray treatment systems.

***PlanTouch.*** PlanTouch is the first commercially available, fully integrated software application in radiation oncology that allows physicians to remotely review and approve patients' radiation treatment plans for all iDMS-enabled Accuray treatment systems on an iPad. It offers the freedom of portability and access to the review functionalities of the Accuray Precision Treatment Planning System in a secure and simple way. PlanTouch gives users the freedom they desire and the efficiency the department needs.

***Tomo Quality Assurance (TQA) package.*** The TQA application offers trending and reporting of many system and dosimetric parameters that allow physicians to monitor the performance of their TomoTherapy Systems.

***Delivery Analysis.*** Delivery Analysis is a software option for TomoTherapy Systems that enables easy pre-treatment patient QA and also offers an innovative capability to monitor doses throughout the patient treatment using detector signals to ensure that the patient is receiving the expected dose from treatment to treatment. The product option provides both high level analytics for summary display as well as detailed analysis capability.

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**Sales and Marketing**

In the United States, we primarily market to customers directly through our sales organization, and we also market to customers through sales agents and Integrated Delivery Networks (IDNs). Outside the United States, we market to customers directly and through distributors. We have sales and service offices in many countries in Europe, Japan, China, and other countries in Asia, Latin America, and throughout the world.

In direct sales markets, we employ a combination of territory sales managers, training specialists and marketing managers. Territory sales managers and product specialists are responsible for selling the systems to hospitals and stand-alone treatment facilities. Our marketing managers help market our current products and work with our engineering group to identify and develop upgrades and enhancements for our suite of products. Our training specialists train radiation oncologists, surgeons, physicists, dosimetrists and radiation therapists.

We market our products to radiation oncologists, neurosurgeons, general surgeons, oncology specialists and other referring physicians in hospitals and stand-alone treatment facilities. We intend to continue to increase our focus on marketing and education efforts to surgical specialists and oncologists responsible for treating tumors throughout the body, and are also working closely with hospital administrators to demonstrate the economic benefits of our offering. Our marketing activities also include efforts to inform and educate cancer patients about the benefits of the CyberKnife and TomoTherapy Systems.

Under our standard distribution agreement, we generally appoint a distributor for a specific country. We typically also retain the right to distribute the CyberKnife and TomoTherapy Systems in such territories, though we remain bound by certain agreements entered into by TomoTherapy prior to our acquisition that did not retain such rights in certain jurisdictions. In most territories, our distributors generally provide the full range of service and sales capabilities, although we may provide installation and service support for certain distributors.

**Manufacturing**

We purchase major components for each of our products from outside suppliers, including the robotic manipulator, treatment couches, gantry, magnetrons and computers. We closely monitor supplier quality, delivery performance and conformance to product specifications, and we also expect suppliers to contribute to our efforts to improve our manufacturing cost and quality.

Some of the components are obtained from single-source suppliers. These components include the gantry, couch, magnetron and solid state modulator for the TomoTherapy Systems and the robot, couch, and magnetron for the CyberKnife Systems. In most cases, if a supplier was unable to deliver these components, we believe we would be able to find other sources for these components subject to any regulatory qualifications, if required. In the event of a disruption in any of these suppliers' ability to deliver a component, we would need to secure a replacement supplier. Additionally, any disruption or interruption of the supply of key subsystems could result in increased costs and delays in deliveries of our treatment systems, which could adversely affect our reputation and results of operations. To help mitigate these risks, we negotiate long-term supply contracts or submit long-term orders and forecasts to our single-source suppliers with the goal that our demand can be satisfied and any capacity problem can be mitigated.

Currently, we manufacture our CyberKnife and TomoTherapy Systems in Madison, Wisconsin. We manufacture the linear accelerator for our TomoTherapy Systems at our Chengdu, China facility and we manufacture the linear accelerator for our CyberKnife Systems at our Sunnyvale, California facility. Our facilities employ state-of-the-art manufacturing techniques and equipment. The components manufactured at our Chengdu facility are produced under the International Standard Organization

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(ISO), 9001:2008 certified quality management systems. The completed medical devices are designed, manufactured, installed, serviced and distributed at our Sunnyvale, Madison and Morges facilities under quality management systems which are compliant to the internationally recognized quality system standard for medical devices ISO, 13485:2003, and the Quality System regulations enforced by the FDA. We believe our manufacturing facilities will be adequate for our expected growth and foreseeable future demands for at least the next three years.

The manufacturing processes at our facilities include fabrication, subassembly, assembly, system integration and final testing. Our manufacturing personnel consist of fabricators, assemblers and technicians supported by production engineers as well as planning and supply chain managers. Our quality assurance program includes various quality control measures from inspection of raw material, purchased parts and assemblies through on-line inspection. We have also incorporated lean manufacturing techniques to improve manufacturing flow and efficiency. Lean manufacturing techniques include reducing wasteful and extraneous activities, balancing assembly and test flow, as well as better utilizing production assets and resources.

**Intellectual Property**

The proprietary nature of, and protection for, our products, product components, processes and know-how are important to our business. We seek patent protection in the United States and internationally for our systems and other technology where available and when appropriate. We may also in-license the technology, inventions and improvements that we consider important to the development of our business. In addition, we also rely upon trade secrets, know-how, trademarks, copyright protection, as well as confidentiality agreements with employees, consultants and other third parties, to protect our proprietary rights and to develop and maintain our competitive position.

As of June 30, 2017, we held exclusive field of use licenses or ownership of approximately 368 U.S. and foreign patents, and approximately 107 U.S. and foreign patent applications. These patents and applications cover various components and techniques incorporated into the CyberKnife and TomoTherapy Systems, or which may be incorporated into new technologies under current development, all of which we believe will allow us to maintain a competitive advantage in the field of radiation therapy systems. We cannot be certain that any patents will be issued from any of our pending patent applications, nor can we be certain that any of our existing patents or any patents that may be granted to us in the future will provide us with protection.

We periodically monitor the activities of our competitors and other third parties with respect to their use of intellectual property.

**Research and Development**

Continued innovation is critical to our future success. Our current product development activities include projects expanding clinical applications, driving product differentiation, and continually improving the usability, interoperability, reliability, and performance of our products. We continue to seek to develop innovative technologies so that we can improve our products and increase our sales. Some of our product improvements have been discussed above under the heading "Our Products."

Our research activities strive to enable new product development opportunities by developing new technologies and advancing areas of existing core technology such as next generation linear accelerators, adaptive therapy, patient imaging, motion management, or treatment planning capabilities.

The modular design of our systems supports rapid development for new clinical capabilities and performance enhancements by generally allowing each subsystem to evolve within the overall platform design. Access to regular product upgrades protects customer investment in the system, facilitates the rapid adoption of new features and capabilities among existing installed base customers, and drives

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increasing value in our multiyear service plans. These upgrades will generally consist of software and hardware enhancements designed to increase the ease of use of our systems, improve the speed and accuracy of patient treatment and meet other customer needs.

As of June 30, 2017, we had approximately 182 employees in our research and development departments. Research and development expenses for the fiscal years ended June 30, 2017, 2016, and 2015 were $49.9 million, $56.7 million and $55.8 million, respectively. We anticipate research and development expenses for fiscal 2018 to be higher than fiscal 2017 due to expected investment in development projects based on our current roadmap.

A key component of our research and development program is our collaboration with research programs at selected hospitals, cancer treatment centers, academic institutions and research institutions worldwide. Our agreements with these third-party collaborators generally require us to make milestone-based payments during the course of a particular project and often also require that we make up-front payments to fund initial activities. Generally, we obtain non-exclusive worldwide rights to commercialize results from the collaboration with an option to negotiate an exclusive license. For inventions resulting from the collaboration that we own or exclusively license, we generally grant a royalty-free license for the purpose of continuing the institution's research and development, and from time to time, we also grant broader licenses. Our research collaboration programs include work on clinical protocols and hardware and software developments. We also work with suppliers to develop new components in order to increase the reliability and performance of our products and seek opportunities to acquire or invest in the research of other parties where we believe it is likely to benefit our existing or future products.

We have entered into collaboration agreements with a variety of industrial partners within the fields of radiation oncology and medical imaging to provide us with opportunities to accelerate our innovation capability and bring complimentary products and technologies to market. We continue to seek out new partnerships to complement our internal developments and implement our product strategies.

**Competition**

The medical device industry in general and the non-invasive cancer treatment field in particular, are subject to intense and increasing competition and rapidly evolving technologies. Because our products often have long development and regulatory clearance and approval cycles, we must anticipate changes in the marketplace and the direction of technological innovation and customer demands. To compete successfully, we will need to continue to demonstrate the advantages of our products and technologies over well-established alternative procedures, products and technologies, and convince physicians and other healthcare decision makers of the advantages of our products and technologies. Traditional surgery and other forms of minimally invasive procedures, brachytherapy, chemotherapy and other drugs remain alternatives to the CyberKnife and TomoTherapy Systems.

New product sales in this competitive market are primarily dominated by two companies: Elekta AB (Elekta) and Varian Medical Systems, Inc. (Varian). Some manufacturers of standard linac systems, including Varian and Elekta, have products that can be used in combination with body and/or head frame systems and image-guidance systems to perform both radiosurgical and radiotherapy procedures. Our other competitors include BrainLAB AG (BrainLAB), ViewRay Inc. (ViewRay), and other companies in the radiosurgical and radiation therapy markets.

Furthermore, many government, academic and business entities are investing substantial resources in research and development of cancer treatments, including surgical approaches, radiation treatment, MRI-guided radiotherapy systems, proton therapy systems, drug treatment, immunotherapy, gene therapy, and other approaches. Successful developments that result in new approaches for the treatment of cancer could reduce the attractiveness of our products or render them obsolete.

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Our future success will depend in large part on our ability to establish and maintain a competitive position in current and future technologies. Rapid technological development may render the CyberKnife and TomoTherapy Systems and their technologies obsolete. Many of our competitors have or may have greater corporate, financial, operational, sales and marketing resources, and more experience in research and development than we have. We cannot assume that our competitors will not succeed in developing or marketing technologies or products that are more effective or commercially attractive than our products or that would render our technologies and products obsolete or less useful. We may not have the financial resources, technical expertise, marketing, distribution or support capabilities to compete successfully in the future. Our competitive position also depends, among other things, on:

- Widespread awareness, acceptance and adoption of our products by the radiation oncology and cancer therapy markets;
- Innovations that improve the effectiveness and productivity of our systems' treatment processes and enable them to address emerging customer needs;
- Availability of reimbursement coverage from third-party payors (including insurance companies, governments, and/or others) for procedures performed using our systems;
- Published, peer-reviewed data supporting the efficacy and safety of our systems;
- Limiting the time required from proof of feasibility to routine production;
- Limiting the time period and cost of regulatory approvals or clearances;
- The manufacture and delivery of our products in sufficient volumes on time, and accurately predicting and controlling costs associated with manufacturing, installation, warranty and maintenance of the products;
- Our ability to attract and retain qualified personnel;
- The extent of our intellectual property protection or our ability to otherwise develop proprietary products and processes;
- Securing sufficient capital resources to expand both our continued research and development, and sales and marketing efforts; and
- Obtaining and maintaining any necessary United States or foreign regulatory approvals or clearances.

Our customers' equipment purchase considerations typically include reliability, treatment quality, service capabilities, patient throughput, price, payment terms and equipment supplier viability. We believe we compete favorably with our competitors on price and value based upon the technology offered by our treatment systems. We strive to provide a technologically superior product that covers substantially all aspects of radiation therapy to deliver precise treatments with high-quality clinical outcomes that meet or exceed customer expectations.

In addition to competition from technologies performing similar functions as our treatment systems, competition also exists for the limited capital expenditure budgets of our customers. For example, our treatment systems may compete with other equipment required by a radiation therapy department for financing under the same capital expenditure budget, which is typically limited. A purchaser, such as a hospital or cancer treatment center, may be required to select between the two items of capital equipment. Our ability to compete may also be adversely affected when purchase decisions are based solely upon price, since our products are premium-priced systems due to their higher level of functionality and performance.

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**US Reimbursement**

In the United States, healthcare providers that purchase capital equipment such as the CyberKnife and TomoTherapy Systems generally rely on government and private third-party payors for reimbursement for the healthcare treatment and services they provide. Examples of these types of payors include Medicare, Medicaid, private health insurance plans, and health maintenance organizations, which reimburse all or a portion of the cost of treatment, as well as related healthcare services. Reimbursement involves three components: coverage, coding and payment.

***Coverage***

There are currently no national coverage determinations in place under Medicare for CyberKnife or TomoTherapy treatment. Coverage criteria for treatment with CyberKnife and TomoTherapy is outlined in local determinations or, in the absence of a formal policy, treatment is covered as long as it is considered reasonable and necessary. The most common indications covered by Medicare in local coverage determinations for radiotherapy are primary and metastatic tumors in the brain, spine, lung, liver, kidney, pancreas, adrenal gland, head and neck, breast, prostate, abdominal and retroperitoneal regions, as well as other cancers that have failed previous treatment. Commercial payor policies vary with respect to coverage for radiotherapy including many of the indications covered by Medicare, though coverage criteria may differ.

***Coding***

The codes that are used to report radiosurgery treatment delivery in 2017 for the hospital outpatient department are Current Procedural Terminology (CPT) codes 77372 and 77373 for single fraction intracranial radiosurgery and single fraction extracranial/multi-session radiosurgery/stereotactic body radiation therapy. For freestanding centers, robotic radiosurgery is billed with robotic radiosurgery Healthcare Common Procedural Codes (HCPCs) G codes. The non-robotic SRS/SBRT codes 77372 and 77373 are also payable codes in the freestanding site of service for non-robotic SRS/SBRT.

In 2017, in the hospital outpatient department, IMRT delivery is billed under CPT code 77385 for prostate, breast and physical compensator IMRT and 77386 for all other treatments. For 3D CRT three codes are used to report simple, intermediate, and complex treatments. TomoTherapy, considered a complex treatment, is reported under the complex 3D-CRT code 77413. In December 2015, the Patient Access and Medicare Protection Act stopped these codes from being implemented in the freestanding center setting until 2019. Until 2019, a series of temporary G codes will be used instead. We expect all valid delivery codes should be recognized by commercial payers. Other codes are used to report treatment planning, dosimetry, treatment management, and other procedures routinely performed for treating radiosurgery or radiotherapy patients.

***Payment***

The majority of procedures using the CyberKnife and TomoTherapy Systems are performed in the hospital outpatient department. Payment rates are established based on cost data submitted by hospitals. In 2017, Centers for Medicare and Medicaid Services (CMS) pays separately for certain ancillary procedures in addition to a Comprehensive APC that bundles delivery and some ancillary services for single session radiosurgery. Payment for all procedures performed in conjunction with all other types of radiosurgery, e.g. single session body radiosurgery or multi-session cranial and body radiosurgery remain separately payable. No major changes in payment have occurred in the past 2 years.

Payments for treatment with CyberKnife and TomoTherapy Systems are also available in the freestanding center settings. In 2017, the primary treatment delivery codes for robotic radiosurgery are carrier priced under Medicare and range from low payment to payment at parity with hospital

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outpatient departments to slightly above outpatient rates. TomoTherapy procedures are set by CMS and the American Medical Association nationally, with adjustments to account for geographic market variations. No major cuts to payment have occurred in the past 2 years and payment is expected to remain stable through 2018 as mandated by the 2015 Patient Access and Medicare Protection Act that froze payment at 2016 levels through 2018.

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, including radiotherapy and radiosurgery, in hospitals and free-standing clinics. In the past, we have seen our customers' decision-making process complicated by the uncertainties surrounding reimbursement rates for radiotherapy and radiosurgery 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.

***Foreign Reimbursement***

Internationally, reimbursement and healthcare payment systems vary from country to country and include single-payor, government-managed systems as well as systems in which private payors and government-managed systems exist side-by-side. In general, the process of obtaining coverage approvals has been slower outside of the United States. Our ability to achieve adoption of our treatment systems, and significant sales volume in international markets, will depend in part on the availability of reimbursement for procedures performed using our products.

**Regulatory Matters**

***Domestic Regulation***

Our products and software are medical devices subject to regulation by the FDA, as well as other regulatory bodies. FDA regulations govern the following activities that we perform and will continue to perform to ensure medical products distributed domestically or exported internationally are safe and effective for their intended uses:

Product design and development;

Document and purchasing controls;

Production and process controls;

Labeling and packaging controls;

Product storage;

Recordkeeping;

Servicing;

Corrective and preventive action and complaint handling;

Pre-market clearance or approval;

Advertising and promotion; and

Product sales and distribution.

***FDA pre-market clearance and approval requirements.*** Unless an exemption applies, each medical device we wish to commercially distribute in the United States will require either 510(k) clearance or pre-market approval from the FDA. The FDA classifies medical devices into one of three classes. Devices deemed to pose lower risks are placed in either class I or II, which requires the manufacturer

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to submit to the FDA a pre-market notification requesting permission to commercially distribute the device, known as 510(k) clearance. Some low risk devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risks, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously cleared 510(k) devices, are placed in class III, requiring pre-market approval. All of our current products are class II devices requiring 510(k) clearances.

***510(k) clearance pathway.*** When a 510(k) clearance is required, we must submit a pre-market notification demonstrating that our proposed device is substantially equivalent to a previously cleared and legally marketed 510(k) device or a device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for the submission of pre-market approval applications (PMA). By statute, the FDA has targets to clear or deny a 510(k) pre-market notification after 90 days of review from submission of the application. Clearance generally takes longer as the FDA may require further information, including clinical data, to make a determination regarding substantial equivalence.

In January 2002, we received 510(k) clearance for the TomoTherapy Hi-Art System intended to be used as an integrated system for the planning and delivery of IMRT for the treatment of cancer. In August 2008, we received 510(k) clearance for our TomoDirect System. In June 2016, we received 510(k) clearance for the Radixact Treatment Delivery Platform. We also received 510(k) clearance for our new treatment planning and data management systems, Accuray Precision Treatment Planning System and iDMS Data Management System.

In July 1999, we received 510(k) clearance for the CyberKnife System for use in the head and neck regions of the body. In August 2001, we received 510(k) clearance for the CyberKnife System to provide treatment planning and image guided stereotactic radiosurgery and precision radiotherapy for lesions, tumors and conditions anywhere in the body where radiation treatment is indicated. In April 2002, we received 510(k) clearance for the Synchrony Motion Tracking System as an option to the CyberKnife System, intended to enable dynamic image guided stereotactic radiosurgery and precision radiotherapy of lesions, tumors and conditions that move under influence of respiration. In October 2012, we received 510(k) clearance for the InCise MLC with clearance from the FDA on July 1, 2015.

***Pre-market approval (PMA) pathway.*** A PMA must be submitted to the FDA if the device is not eligible for the 510(k) clearance process. A PMA must be supported by extensive data including, but not limited to, technical, preclinical, clinical trials, manufacturing and labeling to demonstrate reasonable evidence of the device's safety and efficacy to the FDA's satisfaction. Currently, no device we have developed and commercialized has required pre-market approval.

***Product modifications.*** After a device receives 510(k) clearance or a PMA approval, it may be changed or modified. Any modification that could significantly affect its safety or effectiveness, or that would constitute a significant change in its intended use, will require a new clearance or approval. Regulations provide that the manufacturer initially determines when a specific modification requires notification to FDA. The FDA has issued draft guidance that, if finalized and implemented, will result in manufacturers needing to seek a significant number of new clearances for changes made to legally marketed devices. The FDA reviews the manufacturer's decision to file a 510(k) or PMA for modifications during facility audits.

We have modified aspects of our CyberKnife and TomoTherapy families of products since receiving regulatory clearance, and we have applied for and obtained additional 510(k) clearances for these modifications when we determined such clearances were required. The FDA may review our 510(k) filing decision, and can disagree with our initial determination. FDA may take regulatory action from requiring new filings to injunction if it disagrees with our determinations not to seek a new 510(k) clearance or PMA approval for modifications. The FDA reviewed and cleared the most recent versions of the CyberKnife System and TomoTherapy, including Radixact System in this fiscal year.

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***Pervasive and continuing regulation.*** After a device is placed on the market, numerous regulatory requirements apply. These include:

- Quality System Regulation (QSR), which require manufacturers, including third-party manufacturers, to follow stringent design, testing, documentation and other quality assurance procedures during product design and throughout the manufacturing process;
- Labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label uses; and
- Medical device reporting regulations, which require that manufacturers report to the FDA if their device 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.

The FDA has broad post-market and regulatory enforcement powers. We are subject to unannounced inspections by the FDA and the Food and Drug Branch of the California Department of Health Services to determine our compliance with the QSR and other regulations, and these inspections may include the manufacturing facilities of some of our subcontractors. Our Sunnyvale facility, where we manufacture the CyberKnife Systems, was most recently inspected by the FDA in August 2016. The August 2016 inspection resulted in no observations. In addition, our Madison facility, where we manufacture the finished TomoTherapy and CyberKnife Systems, was most recently inspected by the FDA in July 2012. The July 2012 inspection resulted in no observations. We believe we are in substantial compliance with the QSR. Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions:

- Fines, injunctions, consent decrees and civil penalties;
- Recall or seizure of our products;
- Operating restrictions, partial suspension or total shutdown of production;
- Refusing our requests for 510(k) clearance or pre-market approval of new products or new intended uses;
- Withdrawing 510(k) clearance or pre-market approvals that are already granted; and
- Criminal prosecution.

The FDA also has the authority to require us to repair, replace or refund the cost of any medical device that we have manufactured or distributed. If any of these events were to occur, they could have a material adverse effect on our business.

***Radiological health.*** Because our CyberKnife and TomoTherapy Systems contain both laser and X-ray components, and because we assemble these components during manufacturing and service activities, we are also regulated under the Electronic Product Radiation Control Provisions of the United States Federal Food, Drug, and Cosmetic Act. This law requires laser and X-ray products to comply with regulations and applicable performance standards, and manufacturers of these products to certify in product labeling and reports to the FDA that their products comply with all such standards. The law also requires manufacturers to file new product reports, and to file annual reports and maintain manufacturing, testing and sales records, and report product defects. Various warning labels must be affixed. Assemblers of diagnostic X-ray systems are also required to certify in reports to the FDA, equipment purchasers, and where applicable, to state agencies responsible for radiation protection, that diagnostic and/or therapeutic X-ray systems they assemble meet applicable requirements. Failure to comply with these requirements could result in enforcement action by the FDA, which can include injunctions, civil penalties, and the issuance of warning letters.

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***Fraud and abuse laws.*** We are subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws and physician self-referral laws. Violations of these laws are punishable by significant criminal and civil sanctions, including, in some instances, exclusion from participation in federal and state healthcare programs, including Medicare and Medicaid. Because of the far-reaching nature of these laws, there can be no assurance that we would not be required to alter one or more of our practices to be in compliance with these laws. Evolving interpretations of current laws or the adoption of new federal or state laws or regulations could adversely affect many of the arrangements we have with customers and physicians. In addition, there can be no assurance that the occurrence of one or more violations of these laws or regulations would not result in a material adverse effect on our financial condition and results of operations.

***Anti-kickback laws.*** Our operations are subject to broad and changing federal and state anti-kickback laws. The Office of the Inspector General of the Department of Health and Human Services (OIG) is primarily responsible for enforcing the federal Anti-Kickback Statute and generally for identifying fraud and abuse activities affecting government programs. The federal Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, receiving, offering or providing remuneration directly or indirectly to induce either the referral of an individual, or the furnishing, recommending, or arranging of a good or service, for which payment may be made under a federal healthcare program such as Medicare and Medicaid. "Remuneration" has been broadly interpreted to include anything of value, including such items as gifts, discounts, the furnishing of supplies or equipment, credit arrangements, waiver of payments, and providing anything of value at less than fair market value.

Penalties for violating the federal Anti-Kickback Statute include criminal fines of up to $25,000 and/or imprisonment for up to five years for each violation, civil fines of up to $50,000 and possible exclusion from participation in federal healthcare programs such as Medicare and Medicaid. Many states have adopted prohibitions similar to the federal Anti-Kickback Statute, some of which apply to the referral of patients for healthcare services reimbursed by any source, not only by the Medicare and Medicaid programs, and do not include comparable exceptions.

The OIG has issued safe harbor regulations which set forth certain activities and business relationships that are deemed safe from prosecution under the federal Anti-Kickback Statute. There are safe harbors for various types of arrangements, including, without limitation, certain investment interests, leases and personal services and management contracts. The failure of a particular activity to comply in all regards with the safe harbor regulations does not mean that the activity violates the federal Anti-Kickback Statute or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcement authorities such as the OIG.

The OIG has identified the following arrangements with purchasers and their agents as ones raising potential risk of violation of the federal Anti-Kickback Statute:

Discount and free good arrangements that are not properly disclosed or accurately reported to federal healthcare programs;

Product support services, including billing assistance, reimbursement consultation and other services specifically tied to support of the purchased product, offered in tandem with another service or program (such as a reimbursement guarantee) that confers a benefit to the purchaser;

Educational grants conditioned in whole or in part on the purchase of equipment, or otherwise inappropriately influenced by sales and marketing considerations;

Research funding arrangements, particularly post-marketing research activities, that are linked directly or indirectly to the purchase of products, or otherwise inappropriately influenced by sales and marketing considerations; and

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Other offers of remuneration to purchasers that are expressly or impliedly related to a sale or sales volume, such as "prebates" and "upfront payments," other free or reduced-price goods or services, and payments to cover costs of "converting" from a competitor's products, particularly where the selection criteria for such offers vary with the volume or value of business generated.

We have a variety of financial relationships with physicians who are in a position to generate business for us. For example, physicians who own our stock also provide medical advisory and other consulting or collaboration services. Similarly, we have a variety of different types of arrangements with our customers. In the case of our former placement program, certain services and upgrades were provided without additional charge based on procedure volume. In the past, we have also provided loans to our customers. We also provide research or educational grants to customers to support customer studies related to, among other things, our CyberKnife and TomoTherapy Systems.

If our past or present operations are found to be in violation of the federal Anti-Kickback Statute or similar government regulations to which we or our customers are subject, we or our officers may be subject to the applicable penalty associated with the violation, including significant civil and criminal penalties, damages, fines, imprisonment, and exclusion from the Medicare and Medicaid programs. The impact of any such violation may lead to curtailment or restructuring of our operations. Any penalties, damages, fines, or curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. The risk of our being found in violation of these laws is increased by the fact that some of these laws are open to a variety of interpretations. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management's attention from the operation of our business and damage our reputation. If an enforcement action were to occur, our reputation and our business and financial condition could be harmed, even if we were to prevail or settle the action. Similarly, if the physicians or other providers or entities with which we do business are found to be non-compliant with applicable laws, they may be subject to sanctions, which could also have a negative impact on our business.

***Transparency laws.*** The Physician Payment Sunshine Act (the Sunshine Act), which was enacted by Congress as part of the Patient Protection and Affordable Care Act on December 14, 2011, requires each applicable manufacturer, which includes medical device companies such as Accuray, to track and report to the federal government on an annual basis all payments and other transfers of value from such applicable manufacturer to U.S. licensed physicians and teaching hospitals as well as physician ownership of such applicable manufacturer's equity, in each case subject to certain statutory exceptions. Such data will be made available by the government on a publicly searchable website. Failure to comply with the data collection and reporting obligations imposed by the Sunshine Act can result in civil monetary penalties ranging from $1,000 to $10,000 for each payment or other transfer of value that is not reported (up to a maximum of $150,000 per reporting period) and from $10,000 to $100,000 for each knowing failure to report (up to a maximum of $1 million per reporting period). In addition, we are subject to similar state and foreign laws related to the tracking and reporting of payments and other transfers of value to healthcare professionals. These laws require or will require that we implement the necessary and costly infrastructure to track and report such payments and transfers of value. Failure to comply with these new tracking and reporting laws could subject us to significant civil monetary penalties.

***Physician self-referral laws.*** We are also subject to federal and state physician self-referral laws. The federal Ethics in Patient Referrals Act of 1989, commonly known as the Stark Law, prohibits, subject to certain exceptions, physician referrals of Medicare and Medicaid patients to an entity providing certain "designated health services" if the physician or an immediate family member has any financial relationship with the entity. The Stark Law also prohibits the entity receiving the referral from billing any good or service furnished pursuant to an unlawful referral.

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In addition, in July 2008, CMS issued a final rule implementing significant amendments to the regulations under the Stark Law. The final rule, which was effective October 1, 2009, imposes additional limitations on the ability of physicians to refer patients to medical facilities in which the physician or an immediate family member has an ownership interest for treatment. Among other things, the rule provides that leases of equipment between physician owners that may refer patients and hospitals must be on a fixed rate, rather than a per use basis. Prior to enactment of the final rule, physician owned entities had increasingly become involved in the acquisition of medical technologies, including the CyberKnife System. In many cases, these entities entered into arrangements with hospitals that billed Medicare for the furnishing of medical services, and the physician owners were among the physicians who referred patients to the entity for services. The rule limits these arrangements and could require the restructuring of existing arrangements between physicians owned entities and hospitals and could discourage physicians from participating in the acquisition and ownership of medical technologies. The final rule also prohibits percentage-based compensation in equipment leases. As a result of the finalization of these regulations, some existing CyberKnife System operators have modified or restructured their corporate or organizational structures. In addition, certain customers that planned to open CyberKnife centers in the United States involving physician ownership have restructured their legal ownership structure. Certain entities were not able to establish viable models for CyberKnife System operation and therefore canceled their CyberKnife System purchase agreements. Accordingly, these regulations have resulted in cancellations of CyberKnife System purchase agreements and could also reduce the attractiveness of medical technology acquisitions, including CyberKnife System purchases, by physician-owned joint ventures or similar entities. As a result, these regulations have had, and could continue to have, an adverse impact on our product sales and therefore on our business and results of operations.

A person who engages in a scheme to circumvent the Stark Law's referral prohibition may be fined up to $100,000 for each such arrangement or scheme. In addition, any person who presents or causes to be presented a claim to the Medicare or Medicaid programs in violations of the Stark Law is subject to civil monetary penalties of up to $15,000 per bill submission, an assessment of up to three times the amount claimed, and possible exclusion from federal healthcare programs such as Medicare and Medicaid. Various states have corollary laws to the Stark Law, including laws that require physicians to disclose any financial interest they may have with a healthcare provider to their patients when referring patients to that provider. Both the scope and exceptions for such laws vary from state to state.

***Federal False Claims Act.*** The federal False Claims Act prohibits the knowing filing or causing the filing of a false claim or the knowing use of false statements to obtain payment from the federal government. When an entity is determined to have violated the False Claims Act, it may be required to pay three times the actual damages sustained by the government, plus mandatory civil penalties of between $10,957 and $21,916 for each separate false claim. Suits filed under the False Claims Act, known as "qui tam" actions, can be brought by any individual on behalf of the government and such individuals, sometimes known as "relators" or, more commonly, as "whistleblowers," may share in any amounts paid by the entity to the government in fines or settlement. In addition, certain states have enacted laws modeled after the federal False Claims Act. Qui tam actions have increased significantly in recent years, causing greater numbers of healthcare companies to have to defend a false claim action, pay fines or be excluded from Medicare, Medicaid or other federal or state healthcare programs as a result of an investigation arising out of such action. We have retained the services of a reimbursement consultant, for which we pay certain consulting fees, to provide us and facilities that have purchased a CyberKnife or TomoTherapy System, with general reimbursement advice. While we believe this will assist our customers in filing proper claims for reimbursement, and even though such consultants do not submit claims on behalf of our customers, the fact that we provide these consultant services could expose us to additional scrutiny and possible liability in the event one of our customers is investigated and determined to be in violation of any of these laws.

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***HIPAA.*** The Health Insurance Portability and Accountability Act of 1996 (HIPAA), created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. A violation of this statute is a felony and may result in fines, imprisonment or exclusion from government sponsored programs. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. A violation of this statute is a felony and may result in fines or imprisonment.

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, including privacy and security standards required under HIPAA. The HIPAA privacy standard was amended by the Health Information Technology for Economic and Clinical Health Act (HITECH), enacted as part of the American Recovery and Reinvestment Act of 2009. HITECH significantly increases the civil money penalties for violations of patient privacy rights protected under HIPAA. Although we are not a covered entity under HIPAA, we have entered into agreements with certain covered entities under which we are considered to be a "business associate" under HIPAA. As a business associate, we are required to implement policies, procedures and reasonable and appropriate security measures to protect individually identifiable health information we receive from covered entities. Furthermore, as of February 2010, business associates are now directly subject to regulations under HIPAA, including a new enforcement scheme, criminal and civil penalties for certain violations, and inspection requirements.

***Foreign Corrupt Practices Act.*** The United States and foreign government regulators have increased regulation, enforcement, inspections and governmental investigations of the medical device industry, including increased United States government oversight and enforcement of the Foreign Corrupt Practices Act. Whenever the United States or another foreign governmental authority concludes that we are not in compliance with applicable laws or regulations, such governmental authority can impose fines, delay or suspend regulatory clearances, institute proceedings to detain or seize our products, issue a recall, impose operating restrictions, enjoin future violations and assess civil penalties against us or our officers or employees, and can recommend criminal prosecution to the Department of Justice. Moreover, governmental authorities can ban or request the recall, repair, replacement or refund of the cost of any device or product we manufacture or distribute. We are also potentially subject to the UK Bribery Act, which could also lead to the imposition of civil and criminal fines. Any of the foregoing actions could result in decreased sales as a result of negative publicity and product liability claims, and could have a material adverse effect on our financial condition, results of operations and prospects.

***International Regulation***

International sales of medical devices are subject to foreign government regulations, which vary substantially from country to country. The time required to obtain clearance or approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may be different.

The primary regulatory environment in Europe is that of the European Union and the three additional member states of the European Economic Area (EEA), which have adopted similar laws and regulations with respect to medical devices. The European Union has adopted numerous directives and the European Committee for Standardization has promulgated standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of the relevant directive will be entitled to bear CE conformity marking,

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indicating that the device conforms to the essential requirements of the applicable directives and, accordingly, may be commercially distributed throughout the member states of the EEA.

The method of assessing conformity to applicable standards and directives depends on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a notified body, an independent and neutral institution appointed by a European Union member state to conduct the conformity assessment. This relevant assessment may consist of an audit of the manufacturer's quality system (currently ISO 13485), provisions of the Medical Devices Directive, and specific testing of the manufacturer's device. In September 2002 and February 2005, our and TomoTherapy's facilities, respectively, were awarded the ISO 13485 certification, which replaces the ISO 9001 and EN 46001 standards, which have been subsequently maintained through periodic assessments, in accordance with the expiration dates of the standards, and we are currently authorized to affix the CE mark to our products, allowing us to sell our products throughout the European Economic Area.

We are also currently subject to regulations in Japan. Under the Pharmaceutical Affairs Law in Japan, a pre-market approval necessary to sell, market and import a product (Shonin) must be obtained from the Ministry of Health, Labor and Welfare (MHLW), for our products. A Japanese distributor received the first government approval to market the CyberKnife System from MHLW in November 1996. On June 30, 2009, our subsidiary, Accuray Japan KK, became the Marketing Authorization Holder in Japan, which allowed the Company to directly sell our products in Japan. In August 2010, we received Shonin approval from MHLW to market the CyberKnife G4 System to treat tumors non-invasively anywhere in the body, inclusive of head and neck. Hi- Art Co. Ltd., the original distributor for TomoTherapy in Japan, received the Shonin approval from the MHLW to market the TomoTherapy System for use as an integrated system for the planning and delivery of IMR for the treatment of cancer in January 2006. In July 2012, Accuray took responsibility for both the CyberKnife and TomoTherapy Shonins and the service operations in Japan. In March 2014, we received Shonin approval from MHLW for CyberKnife M6 Series as well as the InCise MLC and in January 2017, we received Shonin approval from MHLW for the Radixact Treatment Delivery Platform.

We are subject to additional regulations in other foreign countries, including, but not limited to, Canada, Taiwan, China, Korea, and Russia in order to sell our products. We intend that either we or our distributors will receive any necessary approvals or clearance prior to marketing our products in those international markets.

***State Certificate of Need Laws***

In some states, a certificate of need or similar regulatory approval is required prior to the acquisition of high-cost capital items or the provision of new services. These laws generally require appropriate state agency determination of public need and approval prior to the acquisition of such capital items or addition of new services. Certificate of need regulations may preclude our customers from acquiring one of our systems, and from performing stereotactic radiosurgery procedures using one of our systems. Several of our prospective customers currently are involved in appeals of certificate of need determinations. If these appeals are not resolved in favor of these prospective customers, they may be precluded from purchasing and/or performing services using one of our systems. Certificate of need laws are the subject of continuing legislative activity, and a significant increase in the number of states regulating the acquisition and use of one of our systems through certificate of need or similar programs could adversely affect us.

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**Backlog**

For a discussion of the Company's fiscal 2017 backlog, please refer to the section entitled *"Backlog,"* in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Employees**

As of June 30, 2017, we had 944 employees worldwide. None of the employees are represented by a labor union or covered by a collective bargaining agreement. We have never experienced any employment related work stoppages and we believe our relationship with our employees is good.

**Geographic Information**

For financial reporting purposes, net sales and long-lived assets attributable to significant geographic areas are presented in Note 15, *Segment Disclosure,* to the consolidated financial statements, which are incorporated herein by reference.

**Available Information**

Our main corporate website address is *www.accuray.com*. We make available on this web site, free of charge, copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and our proxy statements, and any amendments to those reports, as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the Securities and Exchange Commission, the SEC. All SEC filings are also available at the SEC's website at *www.sec.gov*. In addition, the Corporate Governance Guidelines and the charters of the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee, and Disclosure Committee of our Board of Directors are also available on the investor relations page of our website. The contents of our web site are not intended to be incorporated by reference into this report or in any other report or document we file or furnish, and any references to our web site are intended to be textual references only.

We operate in a rapidly changing environment that involves significant risks, a number of which are beyond our control. In addition to the other information contained in this Form 10-K, the following discussion highlights some of these risks and the possible impact of these factors on our business, financial condition and future results of operations. If any of the following risks actually occur, our business, financial condition or results of operations may be adversely impacted, causing the trading price of our common stock to decline. In addition, these risks and uncertainties may impact the "forward-looking" statements described elsewhere in this Form 10-K and in the documents incorporated herein by reference. They could affect our actual results of operations, causing them to differ materially from those expressed in "forward- looking" statements.

## Item 1A. RISK FACTORS

**Risks Related to Our Business**

***If the CyberKnife or TomoTherapy Systems do not achieve widespread market acceptance, we will not be able to generate the revenue necessary to support our business.***

Achieving physician, patient, hospital administrator and third-party payor acceptance of the CyberKnife and TomoTherapy Systems as preferred methods of tumor treatment is crucial to our continued success. Physicians will not begin to use or increase the use of the CyberKnife or TomoTherapy Systems unless they determine, based on experience, clinical data and other factors, that the CyberKnife and TomoTherapy Systems are safe and effective alternatives to traditional treatment methods.

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We often need to educate physicians about the use of stereotactic radiosurgery, IGRT and adaptive radiation therapy, convince healthcare payors that the benefits of the CyberKnife and TomoTherapy Systems and their related treatment processes outweigh their costs, and help train qualified physicians in the skilled use of these systems. In addition, we also must educate prospective customers regarding the entire functionality of our radiation therapy systems and their relative benefits compared to alternative products and treatment methods. We have expended and will continue to expend significant resources on marketing and educational efforts to create awareness of stereotactic radiosurgery and Robotic IMRT as well as adaptive radiation therapy and IGRT generally and to encourage the acceptance and adoption of our products for these technologies. We cannot be sure that our products will gain significant market acceptance among physicians, patients and healthcare payors, even if we spend significant time and expense on their education.

In addition, the CyberKnife and TomoTherapy Systems are major capital purchases, and purchase decisions are greatly influenced by hospital administrators who are subject to increasing pressures to reduce costs. These and other factors, including the following, may affect the rate and level of market acceptance of each of the CyberKnife and TomoTherapy Systems:

- the CyberKnife and TomoTherapy Systems' price relative to other products or competing treatments;
- our ability to develop new products and enhancements and receive regulatory clearances and approval, if required, to existing products in a timely manner;
- increased scrutiny by state boards when evaluating certificates of need requested by purchasing institutions;
- perception by patients, physicians and other members of the healthcare community of the CyberKnife and TomoTherapy Systems' safety, efficacy, efficiency and benefits compared to competing technologies or treatments;
- willingness of physicians to adopt new techniques and the ability of physicians to acquire the skills necessary to operate the CyberKnife and TomoTherapy Systems;
- extent of third-party coverage and reimbursement rates, particularly from Medicare, for procedures using the CyberKnife and TomoTherapy Systems; and
- development of new products and technologies by our competitors or new treatment alternatives.

If the CyberKnife or TomoTherapy Systems are unable to achieve or maintain market acceptance, new orders and sales of our systems would be adversely affected, our revenue levels would decrease and our business would be harmed.

***If we do not effectively manage our growth, our business may be significantly harmed.***

In order to implement our business strategy, we expect continued growth in our infrastructure requirements, particularly as we expand our manufacturing capacities and our sales and marketing capabilities. To manage our growth, we must expand our facilities, augment our management, operational and financial systems, hire and train additional qualified personnel, scale-up our manufacturing capacity and expand our marketing and distribution capabilities. Our manufacturing, assembly and installation process is complex and occurs over many months, and we must effectively scale this entire process to satisfy customer expectations and changes in demand. Further, to accommodate our growth and compete effectively, we will be required to improve our information systems. We cannot be certain that our personnel, systems, procedures and internal controls will be adequate to support our future operations. If we cannot manage our growth effectively, our business will suffer.

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***Our ability to achieve profitability depends in part on maintaining or increasing our gross margins on product sales and services, which we may not be able to achieve.***

As of June 30, 2017, we had an accumulated deficit of $450.4 million. We may incur net losses in the future, particularly as we improve our selling and marketing activities. Our ability to achieve and sustain long-term profitability is largely dependent on our ability to successfully market and sell the CyberKnife and TomoTherapy Systems, control our costs, and effectively manage our growth. We cannot assure you that we will be able to achieve profitability. In the event we fail to achieve profitability, our stock price could decline.

A number of factors may adversely impact our gross margins on product sales and services, including:

- lower than expected manufacturing yields of high cost components leading to increased manufacturing costs;
- low production volume which will result in high levels of overhead cost per unit of production;
- the timing of revenue recognition and revenue deferrals;
- increased material or labor costs;
- increased service or warranty costs or the failure to reduce service or warranty costs;
- increased price competition;
- variation in the margins across products installed in a particular period; and
- how well we execute on our strategic and operating plans.

If we are unable to maintain or increase our gross margins on product sales and service, our results of operations could be adversely impacted, we may not achieve profitability and our stock price could decline.

***Our operating results, including our quarterly orders, revenues and margins fluctuate from quarter to quarter and may be unpredictable, which may result in a decline in our stock price.***

We have experienced and expect in the future to experience fluctuations in our operating results, including gross orders, revenues and margins, from period to period. Drivers of orders include the introduction and timing of new product or product enhancement announcements by us and our competitors, as well as changes or anticipated changes in third-party reimbursement amounts or policies applicable to treatments using our products. The availability of economic stimulus packages or other government funding, or reductions thereof, may also affect timing of customer purchases. Our products have a high unit price and require significant capital expenditures by our customers. Accordingly, we experience long sales and implementation cycles, which is of greater concern during the current volatile economic environment where we have had customers delaying or cancelling orders. When orders are placed, installation, delivery or shipping, as applicable, is accomplished and the revenues recognized affect our quarterly results. Further, because of the high unit price of the CyberKnife and TomoTherapy Systems and the relatively small number of units sold or installed each quarter, each sale or installation of a CyberKnife or TomoTherapy System can represent a significant percentage of our net orders, backlog or revenue for a particular quarter.

Once orders are received and booked into backlog, factors that may affect whether these orders become revenue (or are cancelled or deemed aged-out and reflected as a reduction in net orders) and the timing of revenue include:

- economic or political instability in foreign countries;

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- delays in the customer obtaining funding or financing;
- delays in construction at the customer site and delays in installation;
- delays in the customer obtaining receipt of local or foreign regulatory approvals such as certificates of need in certain states or Class A user licenses in China;
- timing of when we are able to recognize revenue associated with sales of the CyberKnife and TomoTherapy Systems, which varies depending upon the terms of the applicable sales and service contracts; and
- the proportion of revenue attributable to orders placed by our distributors which may be more difficult to forecast due to factors outside our control.

Our operating results may also be affected by a number of other factors some of which are outside of our control, including:

- the proportion of revenue attributable to our legacy service plans;
- timing and level of expenditures associated with new product development activities;
- regulatory requirements in some states for a certificate of need prior to the installation of a radiation device or foreign regulatory approvals, such as Class A user licenses in China;
- delays in shipment due, for example, to unanticipated construction delays at customer locations where our products are to be installed, cancellations by customers, natural disasters or labor disturbances;
- delays in our manufacturing processes or unexpected manufacturing difficulties;
- the timing of the announcement, introduction and delivery of new products or product upgrades by us and by our competitors;
- timing and level of expenditures associated with expansion of sales and marketing activities such as trade shows and our overall operations; and
- fluctuations in our gross margins and the factors that contribute to such fluctuations, as described in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

Because many of our operating expenses are based on anticipated sales 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. Our overall gross margins are impacted by a number of factors described in our risk factor entitled "Our ability to achieve profitability depends in part on maintaining or increasing our gross margins on product sales and services, which we may not be able to achieve." If our financial results fall below the expectation of securities analysts and investors, the trading price of our common stock would almost certainly decline.

We report on a quarterly and annual basis our orders and backlog. Unlike revenues, orders and backlog are not defined by U.S. GAAP, and are not within the scope of the audit conducted by our independent registered public accounting firm. Also, for the reasons discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, our orders and backlog cannot necessarily be relied upon as accurate predictors of future revenues. Order cancellation or significant delays in installation date will reduce our backlog and future revenues, and we cannot predict if or when orders will mature into revenues. Particularly high levels of cancellations or age-outs in one or more periods may cause our revenue and gross margins to decline in current or future periods and will make it difficult to compare our operating results from quarter to quarter.

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***If we encounter manufacturing problems, or if our manufacturing facilities do not continue to meet federal, state or foreign manufacturing standards, we may be required to temporarily cease all or part of our manufacturing operations, which would result in delays and lost revenue.***

The CyberKnife and TomoTherapy Systems are complex and require the integration of a number of components from several sources of supply. We must manufacture and assemble these complex systems in commercial quantities in compliance with regulatory requirements and at an acceptable cost. Our linear accelerator components are extremely complex devices and require significant expertise to manufacture, and we may encounter difficulties in scaling up production of the CyberKnife or TomoTherapy Systems, including problems with quality control and assurance, component supply shortages, increased costs, shortages of qualified personnel, the long lead time required to develop additional radiation-shielded facilities for purposes of testing our products and/or difficulties associated with compliance with local, state, federal and foreign regulatory requirements. If our manufacturing capacity does not keep pace with product demand, we will not be able to fulfill orders in a timely manner, which in turn may have a negative effect on our financial results and overall business. Conversely, if demand for our products decreases, the fixed costs associated with excess manufacturing capacity may adversely affect our financial results.

Our manufacturing processes and the manufacturing processes of our third-party suppliers are required to comply with the FDA's QSR for any products imported into, or sold within, the United States. The QSR is a complex regulatory scheme that covers the methods and documentation of the design, testing, production process and controls, manufacturing, labeling, quality assurance, packaging, storage and shipping of our products. Furthermore, we are required to verify that our suppliers maintain facilities, procedures and operations that comply with our quality requirements. We are also subject to state licensing and other requirements and licenses applicable to manufacturers of medical devices, and we are required to comply with ISO, quality system standards in order to produce products for sale in Europe and Canada, as well as various other foreign laws and regulations. Because our manufacturing processes include the production of diagnostic and therapeutic X-ray equipment and laser equipment, we are subject to the electronic product radiation control provisions of the Federal Food, Drug and Cosmetic Act, which requires that we file reports with the FDA, applicable states and our customers regarding the distribution, manufacturing and installation of these types of equipment. The FDA enforces the QSR and the electronic product radiation control provisions through periodic inspections, some of which may be unannounced. We have been, and anticipate in the future being subject to such inspections. FDA inspections usually occur every two to three years. During such inspections, the FDA may issue Inspectional Observations on Form FDA 483, listing instances where the manufacturer has failed to comply with applicable regulations and procedures, or warning letters.

If a manufacturer does not adequately address the observations, the FDA may take enforcement action against the manufacturer, including the imposition of fines, restriction of the ability to export product, total shutdown of production facilities and criminal prosecution. If we or a third-party supplier receive a Form FDA 483 with material or major observations that are not promptly corrected, fail to pass a QSR inspection, or fail to comply with these, ISO and other applicable regulatory requirements, our operations could be disrupted and our ability to generate sales could be delayed. Our failure to take prompt and satisfactory corrective action in response to an adverse inspection or our failure to comply with applicable standards could result in enforcement actions, including a public warning letter, a shutdown of our manufacturing operations, a recall of our products, civil or criminal penalties, or other sanctions, which would cause our sales and business to suffer. In addition, because some foreign regulatory approvals are based on approvals or clearances from the FDA, any failure to comply with FDA requirements may also disrupt our sales of products in other countries. We cannot assure you that the FDA or other governmental authorities would agree with our interpretation of applicable regulatory requirements or that we or our third-party suppliers have in all instances fully complied with all applicable requirements. If any of these events occur, our reputation could be harmed, we could lose

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customers and there could be a material adverse effect on our business, financial condition and results of operations.

If we cannot achieve the required level and quality of production, we may need to outsource production or rely on licensing and other arrangements with third parties who possess sufficient manufacturing facilities and capabilities in compliance with regulatory requirements. Even if we could outsource needed production or enter into licensing or other third-party arrangements, this could reduce our gross margin and expose us to the risks inherent in relying on others. We also cannot assure you that our suppliers will deliver an adequate supply of required components on a timely basis or that they will adequately comply with the QSR. Failure to obtain these components on a timely basis would disrupt our manufacturing processes and increase our costs, which would harm our operating results.

***Our industry is subject to intense competition and rapid technological change, which may result in products or new tumor treatments that are superior to the CyberKnife and TomoTherapy Systems. If we are unable to anticipate or keep pace with changes in the marketplace and the direction of technological innovation and customer demands, our products may become obsolete or less useful and our operating results will suffer.***

The medical device industry in general and the non-invasive cancer treatment field in particular are subject to intense and increasing competition and rapidly evolving technologies. Because our products often have long development and government approval cycles, we must anticipate changes in the marketplace and the direction of technological innovation and customer demands. To compete successfully, we will need to continue to demonstrate the advantages of our products and technologies over well-established alternative procedures, products and technologies, and convince physicians and other healthcare decision makers of the advantages of our products and technologies. Traditional surgery and other forms of minimally invasive procedures, brachytherapy, chemotherapy or other drugs remain alternatives to the CyberKnife and TomoTherapy Systems.

We consider the competition for the CyberKnife and TomoTherapy Systems to be existing radiation therapy systems, primarily using C-arm linacs, which are sold by large, well-capitalized companies with significantly greater market share and resources than we have. Several of these competitors are also able to leverage their fixed sales, service and other costs over multiple products or product lines. In particular, we compete with a number of existing radiation therapy equipment companies, including Varian, Elekta, BrainLAB and ViewRay. Varian has been the leader in the external beam radiation therapy market for many years and has the majority market share for radiation therapy systems worldwide. In general, because of aging demographics and attractive market factors in oncology, we believe that new competitors will enter the radiosurgery and radiation therapy markets in the years ahead. In October 2012, Varian announced a new line of C-arm gantries, called the Edge systems, which Varian claims are specifically designed for radiosurgery to compete with our CyberKnife Systems. In addition, some manufacturers of conventional linac based radiation therapy systems, including Varian and Elekta, have products that can be used in combination with body and/or head frames and image guidance systems to perform both radiosurgical and radiotherapy procedures. In May 2017, Varian launched a new radiation therapy product called Halcyon which they have positioned against our TomoTherapy product line.

Furthermore, many government, academic and business entities are investing substantial resources in research and development of cancer treatments, including surgical approaches, radiation treatment, MRI-guided radiotherapy systems, proton therapy systems, drug treatment, gene therapy (which is the treatment of disease by replacing, manipulating, or supplementing nonfunctional genes), and other approaches. Successful developments that result in new approaches for the treatment of cancer could reduce the attractiveness of our products or render them obsolete.

Our future success will depend in large part on our ability to establish and maintain a competitive position in current and future technologies. Rapid technological development may render the

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CyberKnife and TomoTherapy Systems and their technologies obsolete. Many of our competitors have or may have greater corporate, financial, operational, sales and marketing resources, and more experience and resources in research and development than we have. We cannot assure you that our competitors will not succeed in developing or marketing technologies or products that are more effective or commercially attractive than our products or that would render our technologies and products obsolete or less useful. We may not have the financial resources, technical expertise, marketing, distribution or support capabilities to compete successfully in the future. Our success will depend in large part on our ability to maintain a competitive position with our technologies.

***If we are unable to develop new products or enhance existing products to meet our customers' needs and compete favorably in the market, we may be unable to attract or retain customers.***

Our success depends on the successful development, regulatory clearance or approval, introduction and commercialization of new generations of products, treatment systems, and enhancements to and/or simplification of existing products that will meet our customers' needs provide novel, features and compete favorably in the market. The CyberKnife and TomoTherapy Systems, which are currently our principal products, are technologically complex and must keep pace with, among other things, the products of our competitors and new technologies. We are making significant investments in long-term growth initiatives. Such initiatives require significant capital commitments, involvement of senior management and other investments on our part, which we may be unable to recover. Our timeline for the development of new products or enhancements may not be achieved and price and profitability targets may not prove feasible. Commercialization of new products may prove challenging, and we may be required to invest more time and money than expected to successfully introduce them. Once introduced, new products may adversely impact orders and sales of our existing products, or make them less desirable or even obsolete. Compliance with regulations, competitive alternatives, and shifting market preferences may also impact the successful implementation of new products or enhancements.

Our ability to successfully develop and introduce new products, treatment systems and product enhancements and simplifications, and the revenues and costs associated with these efforts, will be affected by our ability to:

- properly identify and address customer needs;
- prove feasibility of new products in a timely manner;
- educate physicians about the use of new products and procedures;
- comply with internal quality assurance systems and processes timely and efficiently;
- manage the timing and cost of obtaining regulatory approvals or clearances;
- accurately predict and control costs associated with inventory overruns caused by phase-in of new products and phase-out of old products;
- price new products competitively;
- manufacture and deliver our products in sufficient volumes on time, and accurately predict and control costs associated with manufacturing, installation, warranty and maintenance of the products;
- meet our product development plan and launch timelines;
- improve manufacturing yields of components; and

manage customer demands for retrofits of both old and new products.

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Even if customers accept new products or product enhancements, the revenues from these products may not be sufficient to offset the significant costs associated with making them available to customers.

We cannot be sure that we will be able to successfully develop, obtain regulatory approval or clearance for, manufacture or introduce new products, treatment systems or enhancements, the roll-out of which involves compliance with complex quality assurance processes, including QSR. Failure to obtain regulatory approval or clearance for our products or to complete these processes in a timely and efficient manner could result in delays that could affect our ability to attract and retain customers, or could cause customers to delay or cancel orders, causing our backlog, revenues and operating results to suffer.

***We could become subject to product liability claims, product recalls, other field actions and warranty claims that could be expensive, divert management's attention and harm our business.***

Our business exposes us to potential liability risks that are inherent in the manufacturing, marketing and sale of medical device products. We may be held liable if a CyberKnife or TomoTherapy System causes injury or death or is found otherwise unsuitable during usage. Our products incorporate sophisticated components and computer software. Complex software can contain errors, particularly when first introduced. In addition, new products or enhancements may contain undetected errors or performance problems that, despite testing, are discovered only after installation. Because our products are designed to be used to perform complex surgical and therapeutic procedures involving delivery of radiation to the body, defects, even if small, could result in a number of complications, some of which could be serious and could harm or kill patients. Any alleged weaknesses in physician training and services associated with our products may result in unsatisfactory patient outcomes and product liability lawsuits. It is also possible that defects in the design, manufacture or labeling of our products might necessitate a product recall or other field corrective action, which may result in warranty claims beyond our expectations and may harm our reputation and create adverse publicity. A product liability claim, regardless of its merit or eventual outcome, could result in significant legal defense costs. We may also be subject to claims for property damage or economic loss related to, or resulting from, any errors or defects in our products, or the installation, servicing and support of our products, or any professional services rendered in conjunction with our products. The coverage limits of our insurance policies may not be adequate to cover future claims. If sales of our products increase or we suffer future product liability claims, we may be unable to maintain product liability insurance in the future at satisfactory rates or with adequate amounts of coverage. A product liability claim, any product recalls or other field actions or excessive warranty claims, whether arising from defects in design or manufacture or labeling, could negatively affect our sales or require a change in the design, manufacturing process or the indications for which the CyberKnife or TomoTherapy Systems may be used, any of which could harm our reputation and business and result in a decline in revenue.

In addition, if a product we designed or manufactured is defective, whether because of design or manufacturing, or labeling defects, improper use of the product or other reasons, we may be required to notify regulatory authorities and/or to recall the product, possibly at our expense. We have voluntarily initiated recalls and product corrections in the past, including two recalls for the CyberKnife System in fiscal year 2017. The two recalls initiated in 2017 have been closed with FDA. One recall initiated in fiscal year 2016 continued into fiscal 2017 and was closed in October 2016. While no serious adverse health consequences have been reported in connection with these recalls and the costs associated with each such recall were not material, we cannot ensure that the FDA will not require that we take additional actions to address problems that resulted in previous recalls. A required notification of a correction or removal to a regulatory authority or recall could result in an investigation by regulatory authorities of our products, which could in turn result in required recalls, restrictions on the sale of the products or other civil or criminal penalties. The adverse publicity resulting from any of

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these actions could cause customers to review and potentially terminate their relationships with us. These investigations, corrections or recalls, especially if accompanied by unfavorable publicity, patient injury or termination of customer contracts, could result in incurring substantial costs, losing revenues and damaging our reputation, each of which would harm our business.

***Our reliance on single-source suppliers for critical components of the CyberKnife and TomoTherapy Systems could harm our ability to meet demand for our products in a timely and cost effective manner.***

We currently depend on single-source suppliers for some of the critical components necessary for the assembly of the CyberKnife and TomoTherapy Systems, including, with respect to the CyberKnife System, the robot, couch and, magnetron and, with respect to the TomoTherapy Systems, the ring gantry, couch, the solid state modulator and the magnetron. If any single-source supplier was to cease delivering components to us or fail to provide the components to our specifications and on a timely basis, we might be required to find alternative sources for these components. In some cases, alternative suppliers may be located in the same geographic area as existing suppliers, and are thus subject to the same economic, political, and geographic factors that may affect existing suppliers to meet our demand. We may have difficulty or be unable to find alternative sources for these components. As a result, we may be unable to meet the demand for the CyberKnife or TomoTherapy Systems, which could harm our ability to generate revenue and damage our reputation. Even if we do find alternate suppliers, we will be required to qualify any such alternate suppliers and we would likely experience a lengthy delay in our manufacturing processes or a cessation in production, which would result in delays of shipment to end users. We cannot assure you that our single-source suppliers will be able or willing to meet our future demands.

We generally do not maintain large volumes of inventory, which makes us even more susceptible to harm if a single-source supplier fails to deliver components on a timely basis. Furthermore, if we are required to change the manufacturer of a critical component of the CyberKnife or TomoTherapy Systems, we will be required to verify that the new manufacturer maintains facilities, procedures and operations that comply with our quality and applicable regulatory requirements and guidelines, which could further impede our ability to manufacture our products in a timely manner. If the change in manufacturer results in a significant change to the product, a new 510(k) clearance would be necessary, which would likely cause substantial delays. The disruption or termination of the supply of key components for the CyberKnife or TomoTherapy Systems could harm our ability to manufacture our products in a timely manner or within budget, harm our ability to generate revenue, lead to customer dissatisfaction and adversely affect our reputation and results of operations.

***We depend on key employees, the loss of whom would adversely affect our business. If we fail to attract and retain employees with the expertise required for our business, we may be unable to continue to grow our business.***

We are highly dependent on the members of our senior management, sales, marketing, operations and research and development staff. Our future success will depend in part on our ability to retain our key employees and to identify, hire and retain additional personnel. Competition for qualified personnel in the medical device industry is intense and finding and retaining qualified personnel with experience in our industry is very difficult. We believe there are only a limited number of individuals with the requisite skills to serve in many of our key positions and we compete for key personnel with other medical equipment and software manufacturers and technology companies, as well as universities and research institutions. A significant portion of our compensation to our key employees is in the form of stock related grants. A prolonged depression in our stock price could make it difficult for us to retain our employees and recruit additional qualified personnel and we may have to pay additional compensation to employees to incentivize them to join or stay with the Company. We do not maintain, and do not currently intend to obtain, key employee life insurance on any of our personnel. If we fail

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to hire and retain personnel in key positions, we may be unable to continue to grow our business successfully.

***Disruption of critical information technology systems, infrastructure, and data could harm our business and financial condition.***

Information technology helps us operate more efficiently, interface with customers, maintain financial accuracy and efficiency, and accurately produce our financial statements. If we do not allocate and effectively manage the resources necessary to build, sustain and secure the proper technology infrastructure, we could be subject to transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through a security breach. In addition, we have moved some of our data and information to a cloud computing system, where applications and data are hosted, accessed and processed through a third-party provider over a broadband Internet connection. In a cloud computing environment, we could be subject to outages and security breaches by the third-party service provider. If our data management systems do not effectively collect, store, process and report relevant data for the operation of our business, whether due to equipment malfunction or constraints, software deficiencies, computer viruses, security breaches, catastrophic events 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 internally and externally report our operating results.

Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving legal and regulatory standards, the increasing need to protect patient and customer information, and the information technology needs associated with our changing products and services. There can be no assurance that our process of consolidating the number of systems we operate, upgrading and expanding our information systems capabilities, continuing to build security into the design of our products, protecting and enhancing our systems and developing new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future.

If we are unable to maintain reliable information technology systems and prevent data breaches, we may suffer regulatory consequences in addition to business consequences. Our worldwide operations mean that we are subject to data protection and cyber security laws and regulations in many jurisdictions, and that some of the data we process, store and transmit may be transmitted across countries. In the U.S., HIPAA privacy and security rules require us as a business associate to protect the confidentiality of patient health information, and the Federal Trade Commission has begun to assert authority over protection of privacy and the use of cyber security in information systems. In Europe, the General Data Protection Regulation requires us to manage individually identifiable information in the E.U. and, in the event of violations, may impose significant fines. China and Russia have also passed laws that require individually identifiable data on their citizens to be maintained on local servers and that may restrict transfer or processing of that data. There is no guarantee that we will avoid enforcement actions by governmental bodies or that our costs of compliance will not increase significantly. Enforcement actions can be costly and interrupt regular operations of our business. In addition, there has been a developing trend of civil lawsuits and class actions relating to breaches of consumer data held by large companies. While we have not been named in any such suits, if a substantial breach or loss of data from our records were to occur, we could become a target of such litigation.

Likewise, data privacy breaches by employees and others with permitted access to our systems may pose a risk that sensitive data may be exposed to unauthorized person or to the public. There can be no assurance that any efforts we make to prevent against such privacy breaches will prevent

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breakdowns or breaches in our systems that could adversely affect our business. Moreover, we manufacture and sell products that allow our customers to store confidential information about their patients. We do not have measures to secure our customers' equipment or any information stored in our customers' systems or at their locations, which is the responsibility of our customers. A breach of network security and systems or other events that cause the loss or public disclosure of, or access by third parties to, sensitive information stored by us or our customers could have serious negative consequences for our business, including possible 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 an adverse effect on our financial results.

***If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential stockholders could lose confidence in our financial reporting, which could have an adverse effect on our business and our stock price.***

Effective internal controls are necessary for us to provide reliable financial reports and to protect from fraudulent, illegal or unauthorized transactions. If we cannot maintain effective controls and provide reliable financial reports, our business and operating results could be harmed.

A failure to implement and maintain effective internal control over financial reporting could result in a material misstatement of our financial statements or otherwise cause us to fail to meet our financial reporting obligations. This, in turn, could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our business and operating results and our stock price, and we could be subject to stockholder litigation.

***We may have difficulties in determining the effectiveness of our internal controls due to our complex financial model.***

The complexity of our financial model contributes to the difficulties in determining the effectiveness of our financial reporting systems and internal controls. We recognize revenue from a range of transactions including CyberKnife and TomoTherapy Systems sales and services. The CyberKnife and TomoTherapy Systems are complex products that contain both hardware and software elements. The complexity of the CyberKnife and TomoTherapy Systems and of our financial model pertaining to revenue recognition requires us to process a broader range of financial transactions than would be required by a company with a less complex financial model. Accordingly, deficiencies or weaknesses in our internal controls would likely impact us more significantly than they would impact a company with a less complex financial model. If we were to find that our internal controls were deficient, and/or we would be required to amend or restate historical financial statements, this would likely have a negative impact on our stock price.

***If third-party payors do not provide sufficient coverage and reimbursement to healthcare providers for use of the CyberKnife and TomoTherapy Systems, demand for our products and our revenue could be adversely affected.***

Our customers rely significantly on reimbursement from public and private third-party payors for CyberKnife and TomoTherapy systems procedures. Our ability to commercialize our products successfully will depend in significant part on the extent to which public and private third-party payors provide adequate coverage and reimbursement for procedures that are performed with our products. Third-party payors may establish or change the reimbursement for medical products and services that could significantly influence the purchase of medical products and services. If reimbursement policies or other cost containment measures are instituted in a manner that significantly reduces the coverage or payment for the procedures that are performed with our products, our existing customers may not continue using our products or may decrease their use of our products, and we may have difficulty obtaining new customers. Such actions would likely have a material adverse effect on our operating results.

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CMS reviews reimbursement rates annually and may implement significant changes in future years, which could discourage existing and potential customers from purchasing or using our products.

***The safety and efficacy of our products for certain uses is not yet supported by long-term clinical data, and our products may therefore prove to be less safe and effective than initially thought.***

Although we believe that the CyberKnife and TomoTherapy Systems have advantages over competing products and technologies, we do not have sufficient clinical data demonstrating these advantages for all tumor indications. In addition, we have only limited five-year patient survival rate data, which is a common long-term measure of clinical effectiveness in cancer treatment. We also have limited clinical data directly comparing the effectiveness of the CyberKnife Systems to other competing systems. Future patient studies or clinical experience may indicate that treatment with the CyberKnife System does not improve patient survival or outcomes.

Likewise, because the TomoTherapy Systems have only been on the market since 2003, we have limited complication or patient survival rate data with respect to treatment using the system. In addition, while the effectiveness of radiation therapy is well understood, there is a growing but still limited number of peer-reviewed medical journal publications regarding the efficacy of highly conformal treatment such as that delivered by the TomoTherapy System. If future patient studies or clinical experience do not support our beliefs that the TomoTherapy System offers a more advantageous treatment for a wide variety of cancer types, use of the system could fail to increase or could decrease, and our business would therefore be adversely affected.

Such results could reduce the rate of reimbursement by both public and private third-party payors for procedures that are performed with our products, slow the adoption of our products by physicians, significantly reduce our ability to achieve expected revenues and could prevent us from becoming profitable. In addition, if future results and experience indicate that our products cause unexpected or serious complications or other unforeseen negative effects, the FDA could rescind our clearances, our reputation with physicians, patients and others may suffer and we could be subject to significant legal liability.

***We rely on third parties to perform spare parts shipping and other logistics functions on our behalf. A failure or disruption at our logistics providers would adversely impact our business.***

Customer service is a critical element of our sales strategy. Third-party logistics providers store most of our spare parts inventory in depots around the world and perform a significant portion of our spare parts logistics and shipping activities. If any of our logistics providers terminates its relationship with us, suffers an interruption in its business, or experiences delays, disruptions or quality control problems in its operations, or we have to change and qualify alternative logistics providers for our spare parts, shipments of spare parts to our customers may be delayed and our reputation, business, financial condition and results of operations may be adversely affected.

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

The medical device industry is characterized by a substantial amount of litigation over patent and other intellectual property rights. In particular, the field of radiation treatment of cancer is well established and crowded with the intellectual property of competitors and others. We also expect that other participants will enter the field. A number of companies in our market, as well as universities and research institutions, have issued patents and have filed patent applications which relate to the use of radiation therapy and stereotactic radiosurgery to treat cancerous and benign tumors.

Determining whether a product infringes a patent involves complex legal and factual issues, and the outcome of patent litigation actions is often uncertain. We have not conducted an extensive search

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of patents issued to third parties, and no assurance can be given that third-party patents containing claims covering our products, parts of our products, technology or methods do not exist, have not been filed, or could not be filed or issued. Because of the number of patents issued and patent applications filed in our technical areas or fields, our competitors or other third parties may assert that our products and the methods we employ in the use of our products are covered by United States or foreign patents held by them.

In addition, because patent applications can take many years to issue and because publication schedules for pending applications vary by jurisdiction, there may be applications now pending of which we are unaware, and which may result in issued patents which our current or future products infringe. Also, because the claims of published patent applications can change between publication and patent grant, there may be published patent applications that may ultimately issue with claims that we infringe. There could also be existing patents that one or more of our products or parts may infringe and of which we are unaware. As the number of competitors in the market for less invasive cancer treatment alternatives grows, and as the number of patents issued in this area grows, the possibility of patent infringement claims against us increases. Regardless of the merit of infringement claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise funds, if necessary, to continue our operations.

In the event that we become subject to a patent infringement or other intellectual property lawsuit and if the relevant patents or other intellectual property were upheld as valid and enforceable and we were found to infringe or violate the terms of a license to which we are a party, we could be prevented from selling our products unless we could obtain a license or are able to redesign the product to avoid infringement. Required licenses may not be made available to us on acceptable terms or at all. If we are unable to obtain a license or successfully redesign our system, we might be prevented from selling our system. If there is an allegation or determination that we have infringed the intellectual property rights of a competitor or other person, we may be required to pay damages, pay ongoing royalties or otherwise settle such matter upon terms that are unfavorable to us. In these circumstances, we may be unable to sell our products at competitive prices or at all, and our business and operating results could be harmed.

***We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.***

As is common in the medical device industry, we employ individuals who were previously employed at other medical equipment or biotechnology companies, including our competitors or potential competitors. We may be subject to claims that we or those employees have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against claims of this nature, litigation could result in substantial costs and be a distraction to management.

***It is difficult and costly to protect our intellectual property and our proprietary technologies, and we may not be able to ensure their protection.***

Our success depends significantly on our ability to obtain, maintain and protect our proprietary rights to the technologies used in our products. Patents and other proprietary rights provide uncertain protections, and we may be unable to protect our intellectual property. For example, we may be unsuccessful in defending our patents and other proprietary rights against third-party challenges. As key patents expire, our ability to prevent competitors from copying our technology may be limited.

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In addition to patents, we rely on a combination of trade secrets, copyright and trademark laws, nondisclosure agreements and other contractual provisions and technical security measures to protect our intellectual property rights. These measures may not be adequate to safeguard the technology underlying our products. If these measures do not protect our rights adequately, third parties could use our technology, and our ability to compete in the market would be reduced. Although we have attempted to obtain patent coverage for our technology where available and appropriate, there are aspects of the technology for which patent coverage was never sought or never received. There are also countries in which we sell or intend to sell the CyberKnife or TomoTherapy Systems but have no patents or pending patent applications. Our ability to prevent others from making or selling duplicate or similar technologies will be impaired in those countries in which we have no patent protection. Although we have several issued patents in the United States and in foreign countries protecting aspects of the CyberKnife and TomoTherapy Systems, our pending United States and foreign patent applications may not issue, may issue only with limited coverage or may issue and be subsequently successfully challenged by others and held invalid or unenforceable.

Similarly, our issued patents and those of our licensors may not provide us with any competitive advantages. Competitors may be able to design around our patents or develop products which provide outcomes comparable or superior to ours. Our patents may be held invalid or unenforceable as a result of legal challenges by third parties, and others may challenge the inventorship or ownership of our patents and pending patent applications. In addition, the laws of some foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States. In the event a competitor infringes upon our patent or other intellectual property rights, enforcing those rights may be difficult and time consuming. Even if successful, litigation to enforce our intellectual property rights or to defend our patents against challenge could be expensive and time consuming and could divert our management's attention from our core business. We may not have sufficient resources to enforce our intellectual property rights or to defend our patents against a challenge. In addition, we may not prevail in any lawsuits that we initiate, and the damages or other remedies awarded, if any, may not be commercially valuable. Litigation also puts our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing. Additionally, we may provoke third parties to assert claims against us.

We also license patent and other proprietary rights to aspects of our technology to third parties in fields where we currently do not operate as well as in fields where we currently do operate. Disputes with our licensees may arise regarding the scope and content of these licenses. Further, our ability to expand into additional fields with our technologies may be restricted by our existing licenses or licenses we may grant to third parties in the future.

The policies we have in place to protect our trade secrets may not be effective in preventing misappropriation of our trade secrets by others. In addition, confidentiality agreements executed by our employees, consultants and advisors may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure. Litigating a trade secret claim is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge methods and know-how. If we are unable to protect our intellectual property rights, we may be unable to prevent competitors from using our own inventions and intellectual property to compete against us and our business may be harmed.

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

We are and may become a party to legal proceedings, claims and other legal matters in the ordinary course of business or otherwise. These legal proceedings, claims and other legal matters, regardless of merit, may be costly, time-consuming and require the attention of key management and other personnel. The outcomes of such matters are uncertain and difficult to predict. If any such

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matters are adjudicated against us, in whole or in part, we may be subject to substantial monetary damages, disgorgement of profits, and injunctions that prevent us from operating our business, any of which could materially and adversely affect our business and financial condition. We cannot guarantee that our insurance coverage will be sufficient to cover any damages awarded against us.

***International sales of our products account for a significant portion of our revenue, which exposes us to risks inherent in international operations.***

Our international sales, as a percentage of total revenue, have increased over the last five fiscal years. The percentage of our revenue derived from sales outside of the Americas region was 60% in 2017, 60% in 2016 and 54% in 2015. To accommodate our international sales, we have invested significant financial and management resources to develop an international infrastructure that will meet the needs of our customers. We anticipate that a significant portion of our revenue will continue to be derived from sales of our products in foreign markets and that the percentage of our overall revenue that is derived from these markets may continue to increase. This revenue and related operations will therefore continue to be subject to the risks associated with international operations, including:

- economic or political instability in foreign countries, including the market volatility caused by the recent approval by voters in the U.K. of a referendum to leave the EU;
- import delays;
- changes in foreign regulatory laws governing, among other matters, the clearance, approval and sales of medical devices;
- the potential failure to comply with foreign regulatory requirements to sell and market our products;
- longer payment cycles associated with many customers outside the United States;
- adequate coverage and reimbursement for the CyberKnife and TomoTherapy treatment procedures outside the United States;
- failure of local laws to provide the same degree of protection against infringement of our intellectual property;
- protectionist laws and business practices that favor local competitors;
- the possibility that foreign countries may impose additional taxes, tariffs or other restrictions on foreign trade;
- risks relating to foreign currency, including fluctuations in foreign currency exchange rates possibly causing fewer sales due to the strengthening of the U.S. Dollar; and
- contractual provisions governed by foreign laws and various trade restrictions, including U.S. prohibitions and restrictions on exports of certain products and technologies to certain nations.

Our inability to overcome these obstacles could harm our business, financial condition and operating results. Even if we are successful in managing these obstacles, our partners internationally are subject to these same risks and may not be able to manage these obstacles effectively.

In addition, future imposition of, or significant increases in, the level of customs duties, export quotas, regulatory restrictions or trade restrictions could materially harm our business.

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***We face risks related to the current global economic environment, which could delay or prevent our customers from obtaining financing to purchase the CyberKnife and TomoTherapy Systems and implement the required facilities, which would adversely affect our business, financial condition and results of operations.***

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. A general economic slowdown and the volatility in current economic conditions could adversely affect our business including our ability to raise financing. Concerns over the slow economic recovery, the level of U.S. national debt, currency fluctuations and volatility, the rate of growth of Japan, China, and other Asian economies, unemployment, the availability and cost of credit, the U.S. housing market, inflation levels, negative interest rates, energy costs and geopolitical issues have contributed to increased volatility and diminished expectations for the economy and the markets.

Additionally, uncertain credit markets and concerns regarding the availability of credit could impact consumer and customer demand for our products, as well as our ability to manage normal commercial relationships with our customers, suppliers and creditors, including financial institutions. If the current situation continues to deteriorate or does not improve, our business could be negatively affected, including by reduced demand for our products resulting from a slow-down in the general economy, supplier or customer disruptions and/or temporary interruptions in our ability to conduct day-to-day transactions through our financial intermediaries involving the payment to or collection of funds from our customers, vendors and suppliers. For example, in the United States, some of our customers have been delayed in obtaining, or have not been able to obtain, necessary financing for their purchases of the CyberKnife or TomoTherapy Systems. In addition, some of our customers have been delayed in obtaining, or have not been able to obtain, necessary financing for the construction or renovation of facilities to house CyberKnife or TomoTherapy Systems, the cost of which can be substantial. These delays have in some instances led to our customers postponing the shipment and installation of previously ordered systems or cancelling their system orders, and may cause other customers to postpone their system installation or to cancel their agreements with us. An increase in delays and order cancellations of this nature would adversely affect our product sales, backlog and revenues, and therefore harm our business and results of operations. In addition, the recent approval by voters in the U.K. of a referendum to leave the EU has caused, and may continue to cause, uncertainty in the global markets. The U.K.'s proposed exit from the EU, if implemented, will take some period of time to complete and could result in regulatory changes that impact our business. We will review the impact of any resulting changes to EU or U.K. law that could affect our operations, such as labor policies, financial planning, product manufacturing, and product distribution. Political and regulatory responses to the vote are still developing and we are in the process of assessing the impact the vote may have on our business as more information becomes available.

***Because the majority of our product revenue is derived from sales of the CyberKnife and TomoTherapy Systems, which have a long and variable sales and installation cycle, our revenues and cash flows may be volatile and difficult to predict.***

Our primary products are the CyberKnife and TomoTherapy Systems. We expect to generate substantially all of our revenue for the foreseeable future from sales of and service contracts for the CyberKnife and TomoTherapy Systems. The CyberKnife and TomoTherapy Systems have lengthy sales and purchase order cycles because they are major capital equipment items and require the approval of senior management at purchasing institutions. Selling our systems, from first contact with a potential customer to a complete order, generally spans six months to two years and involves personnel with multiple skills. The sales process in the United States typically begins with pre-selling activity followed by sales presentations and other sales related activities. After the customer has expressed an intention to purchase a CyberKnife or TomoTherapy System, we negotiate and enter into a definitive purchase contract with the customer. The negotiation of terms that are not standard for Accuray may require

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additional time and approvals. Typically, following the execution of the contract, the customer begins the building or renovation of a radiation-shielded facility to house the CyberKnife or TomoTherapy System, which together with the subsequent installation of the CyberKnife or TomoTherapy System, can take up to 24 months to complete. In order to construct this facility, the customer must typically obtain radiation device installation permits, which are granted by state and local government bodies, each of which may have different criteria for permit issuance. If a permit was denied for installation at a specific hospital or treatment center, our CyberKnife or TomoTherapy System could not be installed at that location. In addition, some of our customers are cancer centers or facilities that are new, and in these cases it may be necessary for the entire facility to be completed before the CyberKnife or TomoTherapy System can be installed, which can result in additional construction and installation delays. Our sales and installations of CyberKnife and TomoTherapy Systems tend to be heaviest during the third month of each fiscal quarter.

Under our revenue recognition policy, we generally do not recognize revenue attributable to a CyberKnife or TomoTherapy System purchase until after installation has occurred, if we are responsible for providing installation. For international sales through distributors, we typically recognize revenue when the system is shipped and we have evidence of a purchase commitment from the end user. Under our current forms of purchase and service contracts, we record a majority of the purchase price as revenue for a CyberKnife or TomoTherapy System upon installation or delivery of the system. Events beyond our control may delay installation and the satisfaction of contingencies required to receive cash inflows and recognize revenue, including delays in the customer obtaining funding or financing, delays in construction at the customer site or delays in the customer obtaining receipt of regulatory approvals such as certificates of need.

The long sales cycle, together with delays in the shipment and installation of CyberKnife and TomoTherapy Systems or customer cancellations, could adversely affect our cash flows and revenue, which would harm our results of operations and may result in significant fluctuations in our reporting of quarterly revenues. Because of these fluctuations, it is likely that in some future quarters, our operating results will fall below the expectations of securities analysts or investors. If that happens, the market price of our stock would likely decrease. These fluctuations also mean that you will not be able to rely upon our operating results in any particular period as an indication of future performance.

***We depend on third-party distributors to market and distribute our products in international markets. If our distributors fail to successfully market and distribute our products, our business will be materially harmed.***

We depend on a number of distributors in our international markets. We cannot control the efforts and resources our third-party distributors will devote to marketing the CyberKnife or TomoTherapy Systems. Our distributors may not be able to successfully market and sell the CyberKnife or TomoTherapy Systems, may not devote sufficient time and resources to support the marketing and selling efforts and may not market the CyberKnife or TomoTherapy Systems at prices that will permit the product to develop, achieve or sustain market acceptance. In some jurisdictions, we rely on our distributors to manage the regulatory process, and we are dependent on their ability to do so effectively. In addition, if a distributor is terminated by us or goes out of business, it may take us a period of time to locate an alternative distributor, to seek appropriate regulatory approvals and to train its personnel to market the CyberKnife or TomoTherapy Systems, and our ability to sell and service the CyberKnife or TomoTherapy Systems in the region formerly serviced by such terminated distributor could be materially and adversely affected. Any of these factors could materially and adversely affect our revenue from international markets, increase our costs in those markets or damage our reputation. If we are unable to attract additional international distributors, our international revenue may not grow. If our distributors experience difficulties, do not actively market the CyberKnife or TomoTherapy Systems or do not otherwise perform under our distribution agreements, our potential for revenue and

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gross margins from international markets may be dramatically reduced, and our business could be harmed.

***The high unit price of the CyberKnife and TomoTherapy Systems, as well as other factors, may contribute to substantial fluctuations in our operating results, which could adversely affect our stock price.***

Because of the high unit price of the CyberKnife and TomoTherapy Systems and the relatively small number of units installed each quarter, each installation of a CyberKnife or TomoTherapy System can represent a significant percentage of our revenue for a particular quarter. Therefore, if we do not install a CyberKnife or TomoTherapy System when anticipated, our operating results will vary significantly from our expectations. This is of particular concern in the current volatile economic environment, where we have had experiences with customers cancelling or postponing orders for our CyberKnife and TomoTherapy Systems and delaying any required build-outs. These fluctuations and other potential fluctuations mean that you should not rely upon our operating results in any particular period as an indication of future performance.

***As a strategy to assist our sales efforts, we may offer extended payment terms, which may potentially result in higher Days Sales Outstanding and greater payment defaults.***

We offer longer or extended payment terms for qualified customers in some circumstances. As of June 30, 2017, customer contracts with extended payment terms of more than one year amounted to approximately 9% of our total accounts receivable balance. While we qualify customers to whom we offer longer or extended payment terms, their financial positions may change adversely over the longer time period given for payment. This may result in an increase in payment defaults, which would affect our revenue, as we recognize revenue on such transactions on a cash basis.

***Our operations are vulnerable to interruption or loss because of natural disasters, epidemics, terrorist acts and other events beyond our control, which would adversely affect our business.***

We have facilities in countries around the world, including three manufacturing facilities, each of which is equipped to manufacture unique components of our products. The manufacturing facilities are located in Sunnyvale, California, Madison, Wisconsin and Chengdu, China. We do not maintain backup manufacturing facilities for all of our manufacturing facilities or for our IT facilities, so we depend on each of our current facilities for the continued operation of our business. In addition, we conduct a significant portion of other activities, including administration and data processing, at facilities located in the State of California which has experienced major earthquakes in the past, as well as other natural disasters. Chengdu, China, where one of our manufacturing facilities is located, has also experienced major earthquakes in the past. We do not carry earthquake insurance. Unexpected events at any of our facilities, including fires or explosions; natural disasters, such as hurricanes, floods, tornados and earthquakes; war or terrorist activities; unplanned outages; supply disruptions; and failures of equipment or systems, or the failure to take adequate steps to mitigate the likelihood or potential impact of such events, could significantly disrupt our operations, delay or prevent product manufacture and shipment for the time required to repair, rebuild or replace our manufacturing facilities, which could be lengthy, result in large expenses to repair or replace the facilities, and adversely affect our results of operation.

***We may attempt to acquire new businesses, products or technologies, or enter into strategic collaborations or alliances, and if we are unable to successfully complete these acquisitions or to integrate acquired businesses, products, technologies or employees, we may fail to realize expected benefits or harm our existing business.***

Our success will depend, in part, on our ability to expand our product offerings and grow our business in response to changing technologies, customer demands and competitive pressures. In some circumstances, we may determine to do so through the acquisition of complementary businesses,

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products or technologies, or through collaborating with complementary businesses, rather than through internal development. The identification of suitable acquisition or alliance candidates can be difficult, time consuming and costly, and we may not be able to successfully complete identified acquisitions or alliances. Other companies may compete with us for these strategic opportunities. In addition, even if we successfully complete an acquisition or alliance, we may not be able to successfully integrate newly acquired organizations, products or technologies into our operations, and the process of integration could be expensive, time consuming and may strain our resources, and we may not realize the expected benefits of any acquisition, collaboration or strategic alliance. Furthermore, the products and technologies that we acquire or with respect to which we collaborate may not be successful, or may require significantly greater resources and investments than we originally anticipated. In addition, we may be unable to retain employees of acquired companies, or retain the acquired company's customers, suppliers, distributors or other partners who are our competitors or who have close relationships with our competitors. Consequently, we may not achieve anticipated benefits of the acquisitions or alliances which could harm our existing business. In addition, future acquisitions or alliances could result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities or expenses, or other charges such as in-process research and development, any of which could harm our business and affect our financial results or cause a reduction in the price of our common stock.

***Multiple factors may adversely affect our ability to fully utilize certain tax loss carryforwards.***

As of June 30, 2017, we had approximately $329.8 million and $154.5 million in federal and state net operating loss carry forwards, respectively, which expire in varying amounts beginning in 2019 for federal and 2018 for state purposes. In addition, as of June 30, 2017, we had federal and state research and development tax credit carryforwards of approximately $18.6 million and $18.7 million, respectively. The federal research credits will begin to expire in 2019, the California research credits have no expiration date, and the other state research credits will begin to expire in 2018. Utilization of our net operating loss and credit carry forwards is subject to annual limitation due to the application of the ownership change limitations provided by Section 382 of the Internal Revenue Code and similar state provisions to us. However, none of the federal and state net operating loss carryforwards are expected to expire as a result of the ownership change limitation.

***Our results may be impacted by changes in foreign currency exchange rates.***

Currently, the majority of our international sales are denominated in U.S. Dollars. As a result, an increase in the value of the U.S. Dollar relative to foreign currencies could require us to reduce our sales price or make our products less competitive in international markets. For example, the announcement of Brexit caused severe volatility in global currency exchange rate fluctuations that resulted in the strengthening of the U.S. Dollar against foreign currencies in which we conduct business. We believe the strengthening of the U.S. Dollar has caused a potential delay in orders and we may continue to see our sales decline due to the strengthening of the U.S. Dollar. Also, if our international sales increase, we may enter into a greater number of transactions denominated in non-U.S. Dollars, which would expose us to foreign currency risks, including changes in currency exchange rates. If we are unable to address these risks and challenges effectively, our international operations may not be successful and our business would be materially harmed.

***Changes in interpretation or application of generally accepted accounting principles may adversely affect our operating results.***

We prepare our financial statements to conform to United States Generally Accepted Accounting Principles. These principles are subject to interpretation by the Financial Accounting Standards Board, American Institute of Certified Public Accountants, the Public Company Accounting Oversight Board, the Securities and Exchange Commission and various other regulatory or accounting bodies. A change

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in interpretations of, or our application of, these principles can have a significant effect on our reported results and may even affect our reporting of transactions completed before a change is announced. Additionally, as we are required to adopt new accounting standards, our methods of accounting for certain items may change, which could cause our results of operations to fluctuate from period to period. For example, due to the significance of the software component in certain of our products, we are currently bound by the software revenue recognition rules for a portion of our business.

***Our liquidity could be adversely impacted by adverse conditions in the financial markets.***

At June 30, 2017, we had $72.1 million in cash and cash equivalents and $23.9 million in investments. The available cash and cash equivalents are held in accounts managed by third-party financial institutions and consist of cash in our operating accounts and cash invested in money market funds. The investments are managed by third-party financial institutions and primarily consist of U.S. agency and corporate debt securities. To date, we have experienced no material realized losses on or lack of access to our invested cash, cash equivalents or investments; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

At any point in time, we also have funds in our operating accounts that are with third-party financial institutions that exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits. While we monitor daily the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or become subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to cash in our operating accounts.

***Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy.***

While we believe that our existing cash, cash equivalents and investments will be sufficient to meet our anticipated cash needs for at least the next twelve months, the timing and amount of our working capital and capital expenditure requirements may vary significantly depending on numerous factors, including the other risk factors described above and below.

If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain other debt financing, which could be difficult or impossible in the current economic and capital markets environments. Our debt levels may impair our ability to obtain additional financing in the future. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders. We cannot assure that additional financing, if required, will be available in amounts or on terms acceptable to us, if at all.

**Risks Related to the Regulation of our Products and Business**

***Modifications, upgrades and future products related to the CyberKnife or TomoTherapy Systems or new indications may require new FDA 510(k) clearances or premarket approvals, and such modifications, or any defects in design, manufacture or labeling may require us to recall or cease marketing the CyberKnife or TomoTherapy Systems until approvals or clearances are obtained.***

The CyberKnife and TomoTherapy Systems are medical devices that are subject to extensive regulation in the United States by local, state and the federal government, including by the FDA. The FDA regulates virtually all aspects of a medical device's design, development, testing manufacturing, labeling, storage, record keeping, adverse event reporting, sale, promotion, distribution and shipping. Before a new medical device, or a new intended use or indication of or claim for an existing product, can be marketed in the United States, it must first receive either premarket approval or 510(k)

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clearance from the FDA, unless an exemption exists. Either process can be expensive, lengthy and unpredictable. The FDA's 510(k) clearance process generally takes from three to twelve months, but it can last longer. The process of obtaining premarket approval is much more costly and uncertain than the 510(k) clearance process and it generally takes from one to three years, or even longer, from the time the application is filed with the FDA. Despite the time, effort and cost, there can be no assurance that a particular device or a modification of a device will be approved or cleared by the FDA in a timely fashion, if at all. 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 those products, and how those products can be promoted.

Medical devices may be marketed only for the indications for which they are approved or cleared. The FDA also may change its policies, adopt additional regulations, or revise existing regulations, each of which could prevent or delay premarket approval or 510(k) clearance of our device, or could impact our ability to market our currently cleared device. We are also subject to medical device reporting regulations which require us to report to the FDA if our products cause or contribute to a death or a serious injury, or malfunction in a way that would likely cause or contribute to a death or a serious injury. We also are subject to Quality System regulations. Our products are also subject to state regulations and various worldwide laws and regulations.

A component of our strategy is to continue to upgrade the CyberKnife and TomoTherapy Systems. Upgrades previously released by us required 510(k) clearance before we were able to offer them for sale. We expect our future upgrades will similarly require 510(k) clearance; however, future upgrades may be subject to the substantially more time consuming data generation requirements and uncertain premarket approval or clearance process. If we were required to use the premarket approval process for future products or product modifications, it could delay or prevent release of the proposed products or modifications, which could harm our business.

The FDA requires device manufacturers to make their own determination of whether or not a modification requires an approval or clearance; however, the FDA can review a manufacturer's decision not to submit for additional approvals or clearances. Any modification to an FDA approved or cleared device that would significantly affect its safety or efficacy or that would constitute a major change in its intended use would require a new premarket approval or 510(k) clearance. The FDA has recently issued a draft guidance that, if finalized, will result in manufacturers needing to seek a significant number of new or additional clearances for changes made to legally marketed devices. We cannot assure you that the FDA will agree with our decisions not to seek approvals or clearances for particular device modifications or that we will be successful in obtaining premarket approvals or 510(k) clearances for modifications in a timely fashion, if at all.

We have obtained 510(k) clearance for the CyberKnife Systems for the treatment of tumors anywhere in the body where radiation is indicated, and we have obtained 510(k) clearance for the TomoTherapy Systems to be used as integrated systems for the planning and delivery of IMRT for the treatment of cancer. We have made modifications to the CyberKnife and TomoTherapy Systems in the past and may make additional modifications in the future that we believe do not or will not require additional approvals or clearances. If the FDA disagrees, based on new finalized guidance and requires us to obtain additional premarket approvals or 510(k) clearances for any modifications to the CyberKnife or TomoTherapy Systems and we fail to obtain such approvals or clearances or fail to secure approvals or clearances in a timely manner, we may be required to cease manufacturing and marketing the modified device or to recall such modified device until we obtain FDA approval or clearance and we may be subject to significant regulatory fines or penalties.

The FDA and similar governmental authorities in other countries in which we market and sell our products have the authority to require the recall of our products in the event of material deficiencies or defects in design, manufacture or labeling. A government mandated recall, or a voluntary recall by us,

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could occur as a result of component failures, manufacturing errors or design defects, including defects in labeling and user manuals. Any recall could divert management's attention, cause us to incur significant expenses, generate negative publicity, harm our reputation with customers, negatively affect our future sales and business, require redesign of the CyberKnife or TomoTherapy Systems, and harm our operating results. In these circumstances, we may also be subject to significant enforcement action. If any of these events were to occur, our ability to introduce new or enhanced products in a timely manner would be adversely affected, which in turn would harm our future growth.

***We are subject to federal, state and foreign laws applicable to our business practices, the violation of which could result in substantial penalties and harm our business.***

*Laws and ethical rules governing interactions with healthcare providers.* The Medicare and Medicaid "anti-kickback" laws, and similar state laws, prohibit soliciting, offering, paying or accepting any payments or other remuneration that is intended to induce any individual or entity to either refer patients to or purchase, lease or order, or 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. Such laws impact our sales, marketing and other promotional activities by reducing the types of financial arrangements we may have with our customers, potential customers, marketing consultants and other service providers. They particularly impact how we structure our sales offerings, including discount practices, customer support, product loans, education and training programs, physician consulting, research grants and other service arrangements. Many of these laws are broadly drafted and are open to a variety of interpretations, making it difficult to determine with any certainty whether certain arrangements violate such laws, even if statutory safe harbors are available.

In addition to such anti-kickback laws, federal and state "false claims" laws generally prohibit the knowing filing or causing the filing of a false claim or the knowing use of false statements to obtain payment from government payors. Although we do not submit claims directly to payors, manufacturers can be 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 or indications that are not approved by the FDA.

We are also subject to federal and state physician self-referral laws. The federal Ethics in Patient Referrals Act of 1989, commonly known as the Stark Law, prohibits, subject to certain exceptions, physician referrals of Medicare and Medicaid patients to an entity providing certain "designated health services" if the physician or an immediate family member has any financial relationship with the entity. The Stark Law also prohibits the entity receiving the referral from billing any good or service furnished pursuant to an unlawful referral. Various states have corollary laws to the Stark Law, including laws that require physicians to disclose any financial interest they may have with a healthcare provider to their patients when referring patients to that provider. Both the scope and exceptions for such laws vary from state to state.

If our past or present operations are found to be in violation of any of these "anti-kickback," "false claims," "self-referral" or other similar laws in foreign jurisdictions, we may be subject to the applicable penalty associated with the violation, which may include significant civil and criminal penalties, damages, fines, imprisonment and exclusion from healthcare programs. The impact of any such violations may lead to curtailment or restructuring of our operations, which could adversely affect our ability to operate our business and our financial results.

*Anti-corruption laws.* We are also subject to laws regarding the conduct of business overseas, such as the U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act of 2010, the Brazil Clean Companies Act, and other similar laws in foreign countries in which we operate. The FCPA prohibits the provision of illegal or improper inducements to foreign government officials in connection with the

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obtaining of business overseas. Becoming familiar with and implementing the infrastructure necessary to ensure that we and our distributors comply with such laws, rules and regulations and mitigate and protect against corruption risks could be quite costly, and there can be no assurance that any policies and procedures we do implement will protect us against liability under the FCPA or related laws for actions taken by our employees, executive officers, distributors, agents and other intermediaries with respect to our business. Violations of the FCPA or other similar laws by us or any of our employees, executive officers, distributors, agents or other intermediaries could subject us or the individuals involved to criminal or civil liability, cause a loss of reputation in the market, and materially harm our business.

*Laws protecting patient health information.* There are a number of federal and state laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. In particular, the U.S. Department of Health and Human Services (HHS) has promulgated patient privacy rules under the HIPAA. These privacy rules protect medical records and other personal health information of patients by limiting their use and disclosure, giving patients the right to access, amend and seek accounting of their own health information and limiting most uses and disclosures of health information to the minimum amount reasonably necessary to accomplish the intended purpose. The HIPAA privacy standard was amended by the HITECH, enacted as part of the American Recovery and Reinvestment Act of 2009. Although we are not a "covered entity" under HIPAA, we are considered a "business associate" of certain covered entities and, as such, we are directly subject to HIPAA, including its enforcement scheme and inspection requirements, and are required to implement policies, procedures as well as reasonable and appropriate physical, technical and administrative security measures to protect individually identifiable health information we receive from covered entities. Our failure to protect health information received from customers in compliance with HIPAA or other laws could subject us to civil and criminal liability to the government and civil liability to the covered entity, could result in adverse publicity, and could harm our business and impair our ability to attract new customers.

*Transparency laws.* The Sunshine Act, which was enacted by Congress as part of the Patient Protection and Affordable Care Act on December 14, 2011, requires each applicable manufacturer, which includes medical device companies such as Accuray, to track and report to the federal government on an annual basis all payments and other transfers of value from such applicable manufacturer to U.S. licensed physicians and teaching hospitals as well as physician ownership of such applicable manufacturer's equity, in each case subject to certain statutory exceptions. Such data will be made available by the government on a publicly searchable website. Failure to comply with the data collection and reporting obligations imposed by the Sunshine Act can result in civil monetary penalties ranging from $1,000 to $10,000 for each payment or other transfer of value that is not reported (up to a maximum of $150,000 per reporting period) and from $10,000 to $100,000 for each knowing failure to report (up to a maximum of $1 million per reporting period). In addition, we are subject to similar state and foreign laws related to the tracking and reporting of payments and other transfers of value to healthcare professionals, the violation of which could, among other things, result in civil monetary penalties and adversely impact our reputation and business.

*Conflict Minerals.* The Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules promulgated by the SEC under such act require companies, including Accuray, to disclose the existence in their products of certain metals, including tantalum, tin, gold, tungsten and their derivatives, that originate from the Democratic Republic of the Congo and adjoining countries. Under these rules, we are required to obtain sourcing data from suppliers, perform supply chain due diligence, and file annually with the SEC a specialized disclosure report on Form SD covering the prior calendar year. These requirements could adversely affect the sourcing, availability, and pricing of minerals used in the manufacture of components used in our products. We may also encounter customers who require that all of the components of our products be certified as conflict free. If we are not able to meet this

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requirement, such customers may choose not to purchase our products, which could adversely impact sales of our products, and impact our results of operation. In addition, we have incurred and expect to incur additional costs to comply with these disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products.

***If we or our distributors do not obtain and maintain the necessary regulatory approvals in a specific country, we will not be able to market and sell our products in that country.***

To be able to market and sell our products in a specific country, we or our distributors must comply with applicable laws and regulations of that country. In jurisdictions where we rely on our distributors to manage the regulatory process, we are dependent on their ability to do so effectively. While the laws and regulations of some countries do not impose barriers to marketing and selling our products or only require notification, others require that we or our distributors obtain the approval of a specified regulatory body. These laws and regulations, including the requirements for approvals, and the time required for regulatory review vary from country to country. The governmental agencies regulating medical devices in some countries, for example, require that the user interface on medical device software be in the local language. We currently provide user guides and manuals, both paper copies and electronically, in the local language but only provide an English language version of the user interface. Obtaining regulatory approvals is expensive and time-consuming, and we cannot be certain that we or our distributors will receive regulatory approvals in each country in which we market or plan to market our products. If we modify our products, we or our distributors may need to apply for additional regulatory approvals before we are permitted to sell them. We may not continue to meet the quality and safety standards required to maintain the authorizations that we or our distributors have received. It can also be costly for us and our distributors to keep up with regulatory changes issued or mandated from time to time. If we change distributors, it may be time-consuming and disruptive to our business to transfer the required regulatory approvals, particularly if such approvals are maintained by our third-party distributors on our behalf. If we or our distributors are unable to maintain our authorizations, or fail to obtain appropriate authorizations in a particular country, we will no longer be able to sell our products in that country, and our ability to generate revenue will be materially adversely affected.

Within the European Union, we are required under the Medical Device Directive to affix the Conformité Européene, or CE, mark on our products in order to sell the products in member countries of the EU. This conformity to the applicable directives is done through self-declaration and is verified by an independent certification body, called a Notified Body, before the CE mark can be placed on the device. Once the CE mark is affixed to the device, the Notified Body will regularly audit us to ensure that we remain in compliance with the applicable European laws or directives. CE marking demonstrates that our products comply with the laws and regulations required by the European Union countries to allow free movement of trade within those countries. If we cannot support our performance claims and/or demonstrate or maintain compliance with the applicable European laws and directives, we lose our CE mark, which would prevent us from selling our products within the European Union.

Under the Pharmaceutical Affairs Law in Japan, a pre-market approval necessary to sell, market and import a product, or Shonin, must be obtained from the Ministry of Health, Labor and Welfare (MHLW), for our products. Before issuing approvals, MHLW examines the application in detail with regard to the quality, efficacy, and safety of the proposed medical device. The Shonin is granted once MHLW is content with the safety and effectiveness of the medical device. The time required for approval varies. A delay in approval could prevent us from selling our products in Japan, which could impact our ability to generate revenue and harm our business.

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In addition to laws and regulations regarding medical devices, we are subject to a variety of environmental laws and regulations regulating our operations, including those relating to the use, generation, handling, storage, transportation, treatment and disposal of hazardous materials, which laws impose compliance costs on our business and can also result in liability to us. For example, the recast Directive on Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (the RoHS Directive), which began applying to medical devices in July 2014, bans placing new electrical and electronic equipment on the EU market containing more than certain specified levels of lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyl or PBB and polybrominated diphenyl ether. We believe that the RoHS Directive does not impose any restrictions on our products because our products are exempt as large scale fixed installations. The Notified Body which audits our compliance efforts has indicated that they share our view in this respect and that we are and will remain in compliance with the RoHS Directive because the RoHS Directive's restrictions do not apply to our products. Nevertheless, there can be no guarantee that the EU will not challenge such determination and, accordingly, we intend to comply with the RoHS restrictions, whether or not they apply, and are in the process of updating the way our products are built with a view toward achieving such compliance gradually over time.

***Healthcare reform legislation could adversely affect demand for our products, our revenue and our financial condition.***

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law. The Affordable Care Act (ACA) provides for, among other things, a 2.3% excise tax on U.S. sales of medical devices, including our products, effective as of 2013. The excise tax was suspended for a two year period beginning January 1, 2016. This tax burden may have a material, negative impact on our business, results of operations and cash flow. In addition, these two pieces of legislation include a large number of other health related provisions, including expanding Medicaid eligibility, requiring most individuals to have health insurance, establishing new regulations on health plans, establishing health insurance exchanges, requiring manufacturers to report payments or other transfers of value made to physicians and teaching hospitals, modifying certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste and including new tools to address fraud and abuse. The laws also include a decrease in the annual rate of inflation for Medicare payments to hospitals and the establishment of an independent payment advisory board to suggest methods of reducing the rate of growth in Medicare spending. There continue to be many programs and requirements for which the details have not yet been fully established or consequences not fully understood, and it is unclear what the full impact of the legislation will be.

In addition, since the adoption of the Affordable Care Act, other legislation designed to keep federal healthcare costs down has been proposed or passed. For example, under the sequestration required by the Budget Control Act of 2011, as amended by the American Taxpayer Relief Act of 2012, Medicare payments for all items and services under Parts A and B incurred on or after April 1, 2013 have been reduced by up to 2%. Future federal legislation may impose further limitations on the coverage or amounts of reimbursement available for our products from governmental agencies or third-party payors. These limitations could have a negative impact on the demand for our products and services, and therefore on our financial position and results of operations.

Since the enactment of the ACA, CMS continues its efforts to move away from fee-for-service payments for furnishing items and services in Medicare. In the past several rulemaking cycles, CMS has increased packaging policies and created larger payment bundles across the Medicare Hospital Outpatient Prospective Payment System (OPPS). One example is CMS' expansion of Comprehensive Ambulatory Payment Classifications (C-APCs), under which payment for adjunctive and secondary items, services and procedures are packaged into the most costly primary procedure at the claim level.

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Beyond the OPPS, CMS' Innovation Center has launched a number of alternative payment model (APM) demonstrations that involve episode-based payment. Since 2011, for example, CMMI has created or is in the process of creating major federal initiatives to test episode-based payments, such as the Bundled Payments for Care Improvement (BPCI), Oncology Care Model (OCM), and Specialty Practitioners Payment Model Opportunities.

Furthermore, the Patient Access and Medicare Protection Act (PAMPA) of 2015 froze payment for some radiation therapy delivery and related services, and requires CMS to provide a report to Congress on the development of an APM for radiation therapy services provided in non-facility settings. While these types of payment packaging policies and episode-based payments may impact reimbursement for overall patient care, including items and services furnished to patients, they also create incentives for providers to carefully assess the value proposition of technology purchases and uses. The impacts of these payment and delivery system changes are in their infancy and their overall effects remain under review.

Future legislative or policy initiatives directed at reducing costs could be introduced at either the federal or state level. We cannot predict what healthcare reform legislation or regulations, if any, including any potential repeal or amendment of the ACA, will be enacted in the United States or elsewhere, what impact any legislation or regulations related to the healthcare system that may be enacted or adopted in the future might have on our business, or the effect of ongoing uncertainty or public perception about these matters will have on the purchasing decisions of our customers. However, the implementation of new legislation and regulation may materially lower reimbursements for our products, materially reduce medical procedure volumes and significantly and adversely affect our business.

**Risks Related to Our Common Stock**

***The price of our common stock is volatile and may continue to fluctuate significantly, which could lead to losses for stockholders.***

The trading prices of the stock of high-technology companies of our size can experience extreme price and volume fluctuations. These fluctuations often have been unrelated or out of proportion to the operating performance of these companies. Our stock price has experienced periods of volatility. Broad market fluctuations may also harm our stock price. Any negative change in the public's perception of the prospects of companies that employ similar technology or sell into similar markets could also depress our stock price, regardless of our actual results.

In addition to the other risk factors described above and below, factors affecting the trading price of our common stock include:

- regulatory developments related to manufacturing, marketing or sale of the CyberKnife or TomoTherapy Systems;
- political or social uncertainties;
- changes in product pricing policies;
- variations in our operating results, as well as costs and expenditures;
- announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- recruitment or departure of key personnel;
- changes in earnings estimates by analysts or changes in accounting policies; and
- market conditions in our industry, the industries of our customers and the economy as a whole.

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***The sale of material amounts of common stock by our stockholders could encourage short sales by third parties and depress the price of our common stock.***

The downward pressure on our stock price caused by the sale of a significant number of shares of our common stock, or the perception that such sales could occur, by any of our significant stockholders could cause our stock price to decline, thus allowing short sellers of our stock an opportunity to take advantage of any decrease in the value of our stock. The presence of short sellers in our common stock may further depress the price of our common stock.

***Future issuances of shares of our common stock could dilute the ownership interests of our stockholders.***

Any issuance of equity securities could dilute the interests of our stockholders and could substantially decrease the trading price of our common stock. We may issue equity securities in the future for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding options or for other reasons.

In February 2013, we issued $115.0 million aggregate principal amount of our 3.50% Convertible Senior Notes due February 1, 2018 (the "3.50% Convertible Notes"). In April 2014, we issued approximately $70.3 million aggregate principal amount of our 3.50% Series A Convertible Senior Notes due February 1, 2018 (the "3.50% Series A Convertible Notes", and collectively with the 3.50% Convertible Notes, the Existing 3.50% Convertible Notes) and paid approximately $0.4 million in cash to refinance approximately $70.3 million aggregate principal amount of our 3.50% Convertible Notes. Following such transactions, approximately $44.7 million aggregate principal amount of the 3.50% Convertible Notes remained outstanding. To the extent we issue common stock upon conversion of any outstanding Convertible Notes, that conversion would dilute the ownership interests of our stockholders.

On August 7, 2017, we issued $85.0 million aggregate principal amount of our 3.75% Convertible Senior Notes due 2022 (the "3.75% Convertible Senior Notes," and collectively with the Existing 3.50% Convertible Notes, the "Convertible Notes") consisting of (i) $53.0 million aggregate principal amount of 3.75% Convertible Senior Notes to certain holders of the Company's outstanding Existing 3.50% Convertible Notes (the "Exchange Participants") in exchange for approximately $47.0 million aggregate principal amount of such holders' Existing 3.50% Convertible Notes and (ii) $32.0 million aggregate principal amount of 3.75% Convertible Senior Notes to certain other qualified new investors for cash. The net proceeds of the cash issuance were used to repurchase approximately $28.0 million of additional Existing 3.50% Convertible Notes from the Exchange Participants. Immediately following such transactions, approximately $40.0 million aggregate principal amount of the Existing 3.50% Convertible Notes remained outstanding.

***Increased leverage as a result of the Convertible Notes offering and our Revolving Credit Facility may harm our financial condition and operating results.***

On June 14, 2017, the Company entered into a credit and security agreement (the "Credit Agreement") by and among the Company, TomoTherapy Incorporated (together with the Company, the "Borrowers"), any additional borrower that may be added thereto, MidCap Financial Trust, individually as a lender and as agent, and the other lenders from time to time parties thereto. The Credit Agreement provides for a revolving credit facility in the initial amount of $52.0 million, which the Company may request be increased by up to $33.0 million to a new total of $85.0 million through additional tranches, each with a $1.0 million minimum (the "Revolving Credit Facility"). Availability for borrowings under the Revolving Credit Facility is subject to a borrowing base that is calculated as a function of the value of the Borrowers' eligible accounts receivable and eligible inventory. The Revolving Credit Facility's stated maturity date is June 14, 2021, but may mature earlier than the stated

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maturity date if certain conditions set forth in the Credit Agreement are not met, including conditions related to the Convertible Notes. The Borrowers' obligations under the Credit Agreement are secured by first-priority liens on substantially all the assets of the Borrowers, subject to certain exceptions. Interest on the borrowings under the Revolving Credit Facility is payable monthly in arrears at an annual interest rate of reserve-adjusted, 90-day LIBOR (subject to a 1.00% floor) plus 4.50%.

The Credit Agreement also includes certain financial covenants, events of default, and other covenants that limit, among other things, the ability of the Company and its subsidiaries to (i) incur indebtedness, (ii) incur liens on their property, (iii) pay dividends or make other distributions, (iv) sell their assets, (v) make certain loans or investments, (vi) merge or consolidate, (vii) voluntarily repay or prepay certain indebtedness and (viii) enter into transactions with affiliates, in each case subject to certain exceptions.

Our level of indebtedness could have important consequences to stockholders and note holders, because:

- it could affect our ability to satisfy our obligations under the Convertible Notes;
- a substantial portion of our cash flows from operations will have to be dedicated to interest and principal payments and may not be available for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes;
- it may impair our ability to obtain additional financing in the future;
- it may limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- it may make us more vulnerable to downturns in our business, our industry or the economy in general.

As of June 30, 2017, we had total consolidated liabilities of approximately $359.9 million; including the short-term liability components of the 3.50% Convertible Senior Notes in the amount of $44.1 million and the 3.50% Series A Convertible Senior Notes of $68.9 million. In addition, as of June 30, 2017, there was a long-term liability component of the Revolving Credit Facility in the amount of $51.5 million. In August 2017, we issued $85.0 million aggregate principal amount of our 3.75% Convertible Senior Notes and reduced the aggregate principal amount of the Existing 3.50% Convertible Notes outstanding to approximately $40.0 million.

***The conditional conversion features of the 3.50% Series A Convertible Notes and 3.75% Convertible Senior Notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion features of the 3.50% Series A Convertible Notes or 3.75% Convertible Senior Notes are triggered, holders of the 3.50% Series A Convertible Notes or 3.75% Convertible Senior Notes, as applicable, will be entitled to convert such notes at any time during specified periods at their option. If one or more holders elect to convert such notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying solely cash in lieu of any fractional share), including if we have irrevocably elected full physical settlement upon conversion, we would be required to make cash payments to satisfy all or a portion of our conversion obligation based on the applicable conversion rate, which could adversely affect our liquidity. In addition, even if holders do not elect to convert such notes, if we have irrevocably elected net share settlement upon conversion we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of such notes as a current rather than long-term liability, which could result in a material reduction of our net working capital.

The 3.50% Convertible Notes do not provide for such a conditional conversion feature.

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***Provisions in the indenture for the Convertible Notes, our certificate of incorporation and our bylaws could discourage or prevent a takeover, even if an acquisition would be beneficial in the opinion of our stockholders.***

Provisions of our certificate of incorporation and bylaws could make it more difficult for a third-party to acquire us, even if doing so would be beneficial in the opinion of our stockholders. These provisions include:

- authorizing the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;
- establishing a classified board of directors, which could discourage a takeover attempt;
- prohibiting cumulative voting in the election of directors, which would limit the ability of less than a majority of stockholders to elect director candidates;
- limiting the ability of stockholders to call special meetings of stockholders;
- prohibiting stockholder action by written consent and requiring that all stockholder actions be taken at a meeting of our stockholders; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change of control of our company. Generally, Section 203 prohibits stockholders who, alone or together with their affiliates and associates, own more than 15% of the subject company from engaging in certain business combinations for a period of three years following the date that the stockholder became an interested stockholder of such subject company without approval of the board or $66^{2}/_{3}$% of the independent stockholders. The existence of these provisions could adversely affect the voting power of holders of common stock and limit the price that investors might be willing to pay in the future for shares of our common stock.

A change of control will also trigger an event of default under the Revolving Credit Facility. If an event of default occurs, the agent for the lenders under the Revolving Credit Facility may, at its discretion, suspend or terminate any of the lenders' loan obligations thereunder and/or declare all or any portion of the loan then-outstanding under the Revolving Credit Facility, including all accrued but unpaid interest thereon, to be accelerated and immediately due and payable.

Furthermore, if a "fundamental change" (as such terms are defined in each the indentures of the Convertible Notes) occurs, holders of the Convertible Notes will have the right, at their option, to require us to repurchase all or a portion of their Convertible Notes. A "fundamental change" generally occurs when there is a change in control of Accuray (acquisition of 50% or more of our voting stock, liquidation or sale of Accuray not for stock) or trading of our stock is terminated. In the event of a "make-whole fundamental change" (as such term is defined in each of the indentures for the Convertible Notes), we may also be required to increase the conversion rate applicable to the Convertible Notes surrendered for conversion in connection with such make-whole fundamental change. A "make-whole fundamental change" is generally a sale of Accuray not for stock in another publicly traded company. In addition, each of the indentures for the Convertible Notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Convertible Notes.

***We have not paid dividends in the past and do not expect to pay dividends in the foreseeable future.***

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all future earnings for the operation and expansion of our business and, therefore, do not anticipate declaring or paying cash dividends in the foreseeable future. The payment of dividends will be at the

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discretion of our board of directors and will depend on our results of operations, capital requirements, financial condition, prospects, contractual arrangements, and other factors our board of directors may deem relevant. If we do not pay dividends, a return on a stockholders' investment will only occur if our stock price appreciates.

## Item 1B. UNRESOLVED STAFF COMMENTS

None.

## Item 2. PROPERTIES

### Facilities

We currently lease approximately 164,000 square feet of product development, manufacturing and administrative space in three buildings in Sunnyvale, California, as follows:

- A manufacturing building totaling approximately 50,000 square feet, which is leased to us until December 2018; and
- Two headquarters buildings that are approximately 74,000 square feet and 40,000 square feet, respectively, which are leased to us until December 2023. We have the right to renew the lease term of our headquarters office buildings for two five-year terms upon prior written notice and the fulfillment of certain conditions.

We also lease approximately 197,000 square feet of product development, manufacturing, administrative and warehouse space in five buildings in Madison, Wisconsin, as follows:

- An office building totaling approximately 61,000 square feet, which is leased to us until June 2025;
- A manufacturing facility totaling approximately 56,000 square feet, which is leased to us until June 2025; and
- Warehouse space in three buildings totaling approximately 80,000 square feet, which are leased to us through various dates until July 2020.

Our wholly owned subsidiary, Accuray International Sarl, leases two office buildings totaling approximately 15,000 square feet of administrative space in Morges, Switzerland, which are leased to Accuray International until June 2018.

In addition, our wholly-owned subsidiary, Accuray Accelerator Technology Company Limited, leases approximately 26,000 square feet of space in a manufacturing facility in Chengdu, China until July 2019.

We, directly or through our subsidiaries, also maintain offices in: Pittsburgh, Pennsylvania; Durham, North Carolina; China; Hong Kong; Japan; Spain; India; Russia; Germany; Belgium; Brazil; and the United Arab Emirates.

We believe our current facilities are adequate to meet our current needs, but additional space, including additional radiation shielded areas in which systems can be assembled and tested, may be required in the future to accommodate anticipated increases in manufacturing needs.

## Item 3. LEGAL PROCEEDINGS

Refer to Note 7, *Commitments and Contingencies*, to the Consolidated Financial Statements for a description of certain legal proceedings currently pending against the Company. From time to time we are involved in legal proceedings arising in the ordinary course of our business.

## Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

***Stock Information***

Our common stock is traded on the Nasdaq Global Select Market under the symbol "ARAY." The high and low sale prices for each quarterly period during our fiscal years ended June 30, 2017 and 2016 are as follows:

| | High | Low |
|---|---|---|
| Year ended June 30, 2017 | | |
| First Quarter | $ 6.39 | $ 4.75 |
| Second Quarter | $ 6.26 | $ 4.45 |
| Third Quarter | $ 6.00 | $ 4.55 |
| Fourth Quarter | $ 5.20 | $ 3.85 |
| Year ended June 30, 2016 | | |
| First Quarter | $ 7.37 | $ 4.87 |
| Second Quarter | $ 7.54 | $ 4.80 |
| Third Quarter | $ 6.75 | $ 4.83 |
| Fourth Quarter | $ 6.33 | $ 4.86 |

We have never paid cash dividends on our common stock. Our Board of Directors intends to use any future earnings to support operations and reinvest in the growth and development of our business. There are no current plans to pay cash dividends to common stockholders in the foreseeable future.

As of August 15, 2017, there were 217 registered stockholders of record of our common stock. Because many of our shares of common stock are held by brokers or other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders.

During the year ended June 30, 2017, there were no sales of unregistered equity securities by the Company.

The Company does not have a stock repurchase program and has not made any share repurchase, excluding repurchases to satisfy minimum tax withholdings, during the year ended June 30, 2017.

**Stock Performance Graph**

The graph set forth below compares the cumulative total stockholder return on our common stock between June 30, 2012 and June 30, 2017, with the cumulative total return of (i) the S&P Healthcare Index and (ii) the Nasdaq Composite Index, over the same period. This graph assumes the investment of $100.00 on June 30, 2012 in our common stock, the S&P Healthcare Index and the Nasdaq Composite Index, and assumes the reinvestment of dividends, if any.

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**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN***

Among Accuray Incorporated, the NASDAQ Composite Index, and the S&P Health Care Index

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* $100 invested on June 30, 2012 in stock or index, including reinvestment of dividends.

The comparisons shown in the graph above are based upon historical data. We caution that the stock price performance shown in the graph above is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from Research Data Group, a source believed to be reliable, but we are not responsible for any errors or omissions in such information.

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**Item 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data should be read in conjunction with, and are qualified by reference to, our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K. The consolidated statements of operations for the years ended June 30, 2017, 2016 and 2015, and the consolidated balance sheet data at June 30, 2017 and 2016 are derived from, and are qualified by reference to, the consolidated financial statements that have been audited by our independent registered public accounting firm, which are included elsewhere in this Form 10-K. The consolidated statements of operations data for the years ended June 30, 2014 and 2013 and the consolidated balance sheet data at June 30, 2015, 2014 and 2013 is derived from our audited consolidated financial statements not included in this Form 10-K.

| | Years Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013(1) |
| | (in thousands, except per share data) | | | | |
| **Consolidated Statements of Operations Data:** | | | | | |
| Net revenue | $ 383,414 | $ 398,800 | $ 379,801 | $ 369,419 | $ 315,974 |
| Cost of revenue | 242,073 | 240,087 | 234,399 | 226,619 | 218,334 |
| Gross profit | 141,341 | 158,713 | 145,402 | 142,800 | 97,640 |
| Operating expenses: | | | | | |
| Research and development | 49,921 | 56,652 | 55,752 | 53,724 | 66,197 |
| Selling and marketing | 57,477 | 56,812 | 62,440 | 61,885 | 54,372 |
| General and administrative | 43,766 | 50,122 | 46,379 | 45,335 | 57,726 |
| Total operating expenses | 151,164 | 163,586 | 164,571 | 160,944 | 178,295 |
| Loss from operations | (9,823) | (4,873) | (19,169) | (18,144) | (80,655) |
| Other expense, net | (18,718) | (18,295) | (18,621) | (14,216) | (13,133) |
| Loss before provision for income taxes | (28,541) | (23,168) | (37,790) | (32,360) | (93,788) |
| Provision for income taxes | 1,038 | 2,336 | 2,419 | 3,088 | 3,573 |
| Loss from continuing operations | (29,579) | (25,504) | (40,209) | (35,448) | (97,361) |
| Loss from operations of a discontinued variable interest entity | | | | | (3,505) |
| Impairment of indefinite lived intangible asset of discontinued variable interest entity | | | | | (12,200) |
| Loss from deconsolidation of a variable interest entity | | | | | (3,442) |
| Loss from discontinued operations, net of tax of $0 | | | | | (19,147) |
| Loss from discontinued operations attributable to non-controlling interest | | | | | (13,289) |
| Loss from discontinued operations attributable to stockholders | | | | | (5,858) |
| Loss attributable to stockholders | $ (29,579) | $ (25,504) | $ (40,209) | $ (35,448) | $ (103,219) |
| Loss per share attributable to stockholders | | | | | |
| Basic continuing operations | $ (0.36) | $ (0.32) | $ (0.51) | $ (0.47) | $ (1.33) |
| Diluted continuing operations | $ (0.36) | $ (0.32) | $ (0.51) | $ (0.47) | $ (1.33) |
| Basic discontinued operations | $ | $ | $ | $ | $ (0.08) |
| Diluted discontinued operations | $ | $ | $ | $ | $ (0.08) |

| | | | | | |
|---|---|---|---|---|---|
| Basic net loss | $ (0.36) | $ (0.32) | $ (0.51) | $ (0.47) | $ (1.41) |
| Diluted net loss | $ (0.36) | $ (0.32) | $ (0.51) | $ (0.47) | $ (1.41) |
| Weighted average common shares used in computing loss per share | | | | | |
| Basic | 82,495 | 80,509 | 78,277 | 75,804 | 73,281 |
| Diluted | 82,495 | 80,509 | 78,277 | 75,804 | 73,281 |

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| | As of June 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013(1) |
| | (in thousands) | | | | |
| **Consolidated Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 72,084 | $ 119,771 | $ 79,551 | $ 92,346 | $ 73,313 |
| Investments | $ 23,909 | $ 47,239 | $ 64,306 | $ 79,553 | $ 101,084 |
| Working capital | $ 24,511 | $ 151,468 | $ 184,414 | $ 179,901 | $ 180,076 |
| Total assets | $ 406,464 | $ 469,033 | $ 466,773 | $ 495,188 | $ 475,929 |
| Long-term debt | $ 51,548 | $ 170,512 | $ 199,655 | $ 195,612 | $ 198,768 |
| Total stockholders' equity | $ 46,533 | $ 59,660 | $ 75,780 | $ 98,548 | $ 106,835 |

(1) On December 21, 2012, we entered into a Purchase Agreement and Release with Compact Particle Acceleration Corporation (CPAC), under which all the equity and debt investments held by us in CPAC were purchased by CPAC for a nominal consideration. As a result of the Purchase Agreement and Release, we concluded that we were no longer the primary beneficiary of CPAC, and therefore, deconsolidated CPAC as of December 21, 2012. The results of operations of CPAC, including the loss on deconsolidation of CPAC and the losses attributable to the non-controlling interest recorded for the years ended June 30, 2013 have been reported as discontinued operations.

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## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion of our consolidated financial condition and results of operations in conjunction with the financial statements and the notes thereto included elsewhere in this report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report on Form 10-K, particularly in "Risk Factors." See "Special Note Regarding Forward-Looking Statements."*

### Overview

#### *Products and Markets*

### Company

We are a radiation oncology company that develops, manufactures, sells and supports precise, innovative treatment solutions which set the standard of care, with the aim of helping patients live longer, better lives. Our leading-edge technologies, the CyberKnife and TomoTherapy Systems, including Radixact, the next generation TomoTherapy System platform are designed to deliver advanced radiation therapy including radiosurgery, stereotactic body radiation therapy, intensity modulated radiation therapy, image-guided radiation therapy and adaptive radiation therapy tailored to the specific needs of each patient. The CyberKnife and TomoTherapy Systems are complementary offerings serving largely separate patient populations treated by the same medical specialty, radiation oncology, with advanced capabilities that offer increased treatment flexibility to meet the needs of an expanding patient population including patients requiring retreatment with radiation therapy.

#### *The CyberKnife Systems*

The CyberKnife Systems are robotic systems designed to deliver radiosurgery treatments to cancer tumors anywhere in the body. The CyberKnife Systems are the only dedicated, full-body robotic radiosurgery systems on the market. Radiosurgery is an alternative to traditional surgery for tumors and is performed on an outpatient basis in one to five treatment sessions. It enables the treatment of patients who typically might not otherwise be treated with radiation, who may not be good candidates for surgery, or who desire non-surgical treatments. The use of radiosurgery with CyberKnife Systems to treat tumors throughout the body has grown significantly in recent years, but currently only a small portion of the patients who develop tumors treatable with CyberKnife Systems are treated with these systems. A determination of when it may or may not be appropriate to use a CyberKnife System for treatment is at the discretion of the treating physician and depends on the specific patient. However, the CyberKnife Systems are generally not used to treat (1) very large tumors, which are considerably wider than the radiation beam that can be delivered by CyberKnife Systems, (2) diffuse wide-spread disease, as is often the case for late stage cancers, because they are not localized (though CyberKnife Systems might be used to treat a focal area of the disease) and (3) systemic diseases, like leukemia and lymphoma, which are not localized to an organ, but rather involve cells throughout the body.

Our CyberKnife M6 Series Systems have the option of: fixed collimator, Iris Variable Aperture Collimator and/or multi-leaf collimator, or InCise MLC. The InCise MLC is designed specifically for the M6 Series. With the addition of the InCise MLC, clinicians can deliver the same precise radiosurgery treatments they have come to expect with the CyberKnife System, faster and for a wider range of tumor types. The addition of the InCise MLC now makes it faster and more efficient to treat a wider range of tumor types with the CyberKnife M6 Series System, including larger tumors and those with multiple sites of disease.

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We believe the long term success of the CyberKnife Systems is dependent on a number of factors including the following:

- Continued adoption of our CyberKnife M6 Series Systems;
- Production and shipment of InCise MLCs that meet the standards that we, and our customers, expect in our products;
- Change in medical practice leading to utilization of stereotactic body radiosurgery more regularly as an alternative to surgery or other treatments;
- Greater awareness among doctors and patients of the benefits of radiosurgery conducted with the CyberKnife Systems;
- Continued evolution in clinical studies demonstrating the safety, efficacy and other benefits of using the CyberKnife Systems to treat tumors in various parts of the body;
- Continued advances in our technology that improve the quality of treatments and ease of use of the CyberKnife Systems;
- Receipt of regulatory approvals in various countries which are expected to improve access to radiosurgery with the CyberKnife Systems in such countries;
- Medical insurance reimbursement policies that cover CyberKnife System treatments; and
- Our ability to expand sales of CyberKnife Systems in countries throughout the world where we do not currently sell CyberKnife Systems.

***TomoTherapy Systems, including Radixact, the next generation TomoTherapy System***

The TomoTherapy Systems are advanced, fully integrated and versatile radiation therapy systems for the treatment of a wide range of cancer types. The TomoTherapy Systems are specifically designed for image-guided intensity-modulated radiation therapy (IG-IMRT). The TomoTherapy Systems include the TomoTherapy H Series Systems with configurations of TomoH, TomoHD and TomoHDA. Based on a CT scanner platform, the systems provide continuous delivery of radiation from 360 degrees around the patient, or delivery from clinician-specified beam angles. These unique features, combined with daily 3D image guidance, enable physicians to deliver highly accurate, individualized dose distributions which precisely conform to the shape of the patient's tumor while minimizing dose to normal, healthy tissue, resulting in fewer side effects for the patient. The TomoTherapy Systems are capable of treating all standard radiation therapy indications including breast, prostate, lung and head and neck cancers, in addition to complex and novel treatments such as total marrow irradiation. Radiation therapy has been widely available and used in developed countries for decades, though many developing countries do not currently have a sufficient number of radiation therapy systems to adequately treat their domestic cancer patient populations. The number of radiation therapy systems in use and sold each year is currently many times larger than the number of radiosurgery systems. The new Radixact System is the next generation TomoTherapy platform and is currently approved for sale in the US, Europe, Japan and other territories. The Radixact System is a new, smart system with integrated Accuray Precision treatment planning software and the new iDMS Data Management System. The Radixact System leverages the TomoTherapy System's efficient daily low-dose fan beam MVCT image guidance and unique ring gantry architecture, delivering precise radiation treatments for more patients, faster, with simpler, more automated workflows. We believe the Radixact System and other TomoTherapy Systems offer clinicians and patients' significant benefits over other radiation therapy systems in the market. We

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believe our ability to capture more sales will be influenced by a number of factors including the following:

- Continued adoption of our TomoTherapy Systems, including the adoption of the Radixact System in markets where it is available;
- Greater awareness among doctors and patients of the unique benefits of radiation therapy using TomoTherapy Systems because of their ring gantry architecture and ability to deliver treatment from 360 degrees around the patient;
- Advances in our technology which improves the quality of treatments and ease of use of TomoTherapy Systems;
- Greater awareness among doctors of the now-established reliability of TomoTherapy Systems; and
- Our ability to expand sales of TomoTherapy Systems in countries throughout the world; including
- Our ability to scale up commercial launch of the Radixact System in those markets where it is approved.

***Sale of Our Products***

Generating revenue from the sale of our systems is a lengthy process. Selling our systems, from first contact with a potential customer to a signed sales contract that meets our backlog criteria (as discussed below) varies significantly and generally spans between six months and two years. The length of time between receipt of a signed contract and revenue recognition is generally governed by the time required by the customer to build, renovate or prepare the treatment room for installation of the system.

In the United States, we primarily market directly to customers, including hospitals and stand-alone treatment facilities, through our sales organization and we also market to customers through sales agents and group purchasing organizations. Outside the United States, we market to customers directly and through distributors and sales agents. In addition to our offices in the United States, we have sales and service offices in Europe, Asia, and South America.

***Backlog***

For orders that cover both products and services, only the portion of the order that is recognizable as product revenue is reported as backlog. The portion of the order that is recognized as service revenue (for example, Post Contract Customer Support (PCS), installation, training and professional services) is not included in reported backlog. Product backlog totaled $452.8 million as of June 30, 2017 compared to $405.9 million as of June 30, 2016.

In order for the product portion of a system sales agreement to be counted as backlog, it must meet the following criteria:

- The contract is properly executed by both the customer and us. A customer purchase order that incorporates the terms of our contract quote will be considered equivalent to a signed and executed contract. The contract has either cleared all its contingencies or contained no contingencies when signed;
- We have received a minimum deposit or a letter of credit; or the sale is to a customer where a deposit is deemed not necessary or customary (i.e. sale to a government entity, a large hospital, group of hospitals or cancer care group that has sufficient credit, customers with trade-in of

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existing equipment, sales via tender awards, or indirect channel sales that have signed contracts with end-customers);

The specific end customer site has been identified by the customer in the written contract or written amendment; and,

Less than 2.5 years have passed since the contract met all the criteria above.

Although our backlog includes only contractual agreements with our customers for the purchase of CyberKnife Systems, TomoTherapy Systems, including the Radixact Systems and related upgrades, we cannot provide assurance that we will convert backlog into recognized revenue due primarily to factors outside of our control. The amount of backlog recognized into revenue is primarily impacted by three items: cancellations, age-outs and foreign currency fluctuations. Orders could be cancelled for reasons including, without limitation, changes in customers' needs or financial condition, changes in government or health insurance reimbursement policies, or changes to regulatory requirements. In addition to cancellations, after 2.5 years, if we have not been able to recognize revenue on a contract, we remove the revenue associated with the contract from backlog and the order is considered aged out. Contracts may age-out for many reasons, including but not limited to, inability of the customer to pay, inability of the customer to adapt their facilities to accommodate our products in a timely manner, or inability to timely obtain licenses necessary for customer facilities or operation of our equipment. Our backlog also includes amounts not denominated in U.S. Dollars and therefore fluctuations in the U.S. Dollar as compared to other currencies will impact backlog. Generally, strengthening of the U.S. Dollar will negatively impact revenue. Backlog is stated at historical foreign currency exchange rates, and revenue is released from backlog at current exchange rates, with any difference recorded as a backlog adjustment

A summary of gross orders, net orders, and order backlog is as follows (in thousands):

| | Years ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Gross orders | $ 298,348 | $ 283,853 | $ 267,777 |
| Net orders | 226,559 | 224,253 | 188,997 |
| Order backlog at the end of the period | 452,846 | 405,900 | 375,028 |

Gross orders increased by $14.5 million for the year ended June 30, 2017, as compared to the year ended June 30, 2016. Gross orders increased by $16.1 million for the year ended June 30, 2016, as compared to the year ended June 30, 2015. These increases were due to increased order volume year over year. In fiscal 2017, TomoTherapy System order volume decreased 1% year over year and CyberKnife System order volume increased 5% year over year. In fiscal 2016, TomoTherapy System order volume increased 11% year over year and CyberKnife System order volume increased 13% year over year.

Net orders increased by $2.3 million for the year ended June 30, 2017, as compared to the year ended June 30, 2016, resulting from the increase in gross orders of $14.5 million offset by a decrease of $9.2 million because of unfavorable currency impacts and decrease in net age-outs of $2.9 million.

The net age-outs of $57.6 million for the year ended June 30, 2017 include $4.7 million of age-ins which represent orders that previously aged-out but have been taken to revenue in the current period. Age-ins offset the gross amount of age-outs in a particular period. There were $12.1 million of age-ins included in net age-outs of $54.7 million for the year ended June 30, 2016.

Cancellations were $13.8 million in the years ended June 30, 2017 and 2016, respectively. Cancellations are outside of our control and difficult to forecast; however, we continue to work closely with our customers to minimize the impact of cancellations on our business.

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Currency impacts resulted in a decrease in net orders of $0.4 million and an increase of $8.9 million in the year ended June 30, 2017 and 2016, respectively. In fiscal 2017, order backlog decreased slightly because of a strengthening U.S. Dollar. Conversely, when the U.S. Dollar weakens, like it did in fiscal 2016, having contracts based in several currencies such as Euro and Japanese Yen resulted in a positive impact on net orders.

Net orders increased by $35.3 million for the year ended June 30, 2016, as compared to the year ended June 30, 2015, resulting from the increase in gross orders of $16.1 million plus an increase of $25.2 million because of favorable currency impacts partially offset by an increase in cancellations of $2.3 million and an increase in net age-outs of $3.8 million.

The net age-outs of $54.7 million for the year ended June 30, 2016 include $12.1 million of age-ins which represent orders that previously aged-out but have been taken to revenue in the current period. Age-ins offset the gross amount of age-outs in a particular period. There were $4.0 million of age-ins included in net age-outs of $50.9 million for the year ended June 30, 2015.

Cancellations were $13.8 million and $11.6 million in the years ended June 30, 2016 and 2015, respectively. Cancellations are outside of our control and difficult to forecast; however, we continue to work closely with our customers to minimize the impact of cancellations on our business.

Currency impacts resulted in an increase in net orders of $8.9 million and a decrease of $16.3 million in the year ended June 30, 2016 and 2015, respectively. In fiscal 2016, order backlog increased because of a strengthening of foreign currencies, mainly the Japanese Yen against the U.S. Dollar. Conversely, when the U.S. Dollar strengthens, such as it did in fiscal 2015, having contracts based in several currencies such as Euro and Japanese Yen resulted in a negative impact on net orders.

Currently, we expect age-outs in the first quarter of fiscal 2018 to improve sequentially as compared to the age-outs experienced in the fourth fiscal quarter of 2017.

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**Results of Operations**

***Fiscal 2017 results compared to 2016 (in thousands, except percentages)***

| | Years Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 - 2016 |
| | Amount | %(a) | Amount | %(a) | % change |
| Products | $ 179,611 | 47% | $ 193,299 | 48% | (7)% |
| Services | 203,803 | 53 | 205,501 | 52 | (1) |
| Net revenue | $ 383,414 | 100% | $ 398,800 | 100% | (4)% |
| Gross profit | $ 141,341 | 37% | $ 158,713 | 40% | (11)% |
| Products gross profit | 66,254 | 37 | 84,628 | 44 | (22) |
| Services gross profit | 75,087 | 37 | 74,085 | 36 | 1 |
| Research and development expenses | 49,921 | 13 | 56,652 | 14 | (12) |
| Selling and marketing expenses | 57,477 | 15 | 56,812 | 14 | 1 |
| General and administrative expenses | 43,766 | 11 | 50,122 | 13 | (13) |
| Other expense, net | 18,718 | 5 | 18,295 | 5 | 2 |
| Provision for income taxes | 1,038 | 1 | 2,336 | 1 | (56) |
| Net loss | $ (29,579) | (8)% | $ (25,504) | (6)% | 16% |

(a) Expressed as a percentage of total net revenue, except for product and services gross profits which are expressed as a percentage of related product and services revenue.

**Net revenue**

Product net revenue decreased by $13.7 million for the year ended June 30, 2017 as compared to the year ended June 30, 2016 primarily due to a decrease of $12.4 million in revenue from system sales resulting from fewer number of CyberKnife Systems taken to revenue as compared to the prior year as well as a reduction in the average revenue per system. In addition, the decrease in revenue is attributable to a slower revenue conversion process mainly resulting from a higher percentage of order growth in our distributor channels which results in less control over the timing of revenue. There was also a decrease of $1.2 million in upgrade and other revenue as compared to the prior year. From time to time, we may amend sales agreements for system orders in backlog between Accuray and our distributors in order to shift responsibility of the installation of the system from us to the distributor. In such cases, the total purchase price of the system will be reduced accordingly as negotiated with the distributor on a case by case basis. This may result in us recognizing revenue for such systems earlier than previously anticipated. The total revenue recognized under such amendments was insignificant for fiscal year 2017.

Services net revenue decreased by $1.7 million for the year ended June 30, 2017 as compared to the year ended June 30, 2016. The decrease was driven by decreases in spare parts revenue of $2.0 million, installation revenue of $1.8 million and training revenue of $0.9 million. The decrease was partially offset by an increase in PCS revenue of $3.0 million due to an expanding installed base.

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Net revenue by geographic region, based on the shipping location of our customer, is as follows (in thousands, except percentages):

| | Years ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Net revenue | $ 383,414 | $ 398,800 |
| Americas | 40% | 40% |
| Europe, Middle East, India and Africa | 27% | 35% |
| Asia Pacific (excluding Japan and India) | 15% | 16% |
| Japan | 18% | 9% |

**Gross profit**

The overall gross profit margin for the year ended June 30, 2017 was 37% as compared to 40% for the year ended June 30, 2016, representing a decrease of 3% due primarily to increased product and headcount related costs as compared to the prior year. Product gross margin was 37% for the year ended June 30, 2017 as compared to 44% for the year ended June 30, 2016, representing a decrease of 7% primarily due to higher costs of manufacturing the systems as well as overhead costs. Service gross margin for the year ended June 30, 2017 was 37% as compared to 36% for the year ended June 30, 2016, representing a slight increase of 1% due mainly due to lower parts consumption on the installed base.

**Research and development expenses**

Research and development expenses were $49.9 million for the year ended June 30, 2017 as compared to $56.7 million for the year ended June 30, 2016, which represents a decrease of $6.8 million, or 12%. The decrease was primarily due to $4.4 million lower project related spending as a result of completion of the roadmap development projects and completion of Radixact testing as well as decreased employee compensation related expenses of $0.6 million due to lower headcount and delays in hiring as compared to the prior year. Additionally, there was a decrease of $1.7 million in technology and facilities related costs as compared to the prior year.

We anticipate that research and development expenses in fiscal 2018 will be higher than fiscal 2017 due to expected investment in development projects based on our current roadmap.

**Selling and marketing expenses**

Selling and marketing expenses for the year ended June 30, 2017 were $57.5 million as compared to $56.8 million for the year ended June 30, 2016, which represents an increase of $0.7 million, or 1%. The increase was partially due to higher consulting services of $0.7 million related to new sales and marketing projects and $0.2 million in higher technology and facilities related costs. The increases were offset by lower travel and tradeshow related expenses of $0.2 million each as compared to the prior year.

We anticipate selling and marketing expenses in fiscal 2018 will be slightly higher compared to fiscal 2017 due to higher expenses related to new product launches and incremental headcount.

**General and administrative expenses**

General and administrative expenses for the year ended June 30, 2017 were $43.8 million as compared to $50.1 million for the year ended June 30, 2016, which represents a decrease of $6.3 million, or 13%. This decrease was primarily attributable to $9.4 million of lower legal fees associated with litigation settlements in the prior fiscal year and $0.3 million of lower insurance expenses and bank fees. This decrease was partially offset by increased employee compensation

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expenses of $0.9 million and higher technology and facilities related costs of $2.5 million as compared to the prior year.

We anticipate general and administrative expenses in fiscal 2018 to be relatively flat as compared with fiscal 2017.

**Other expense, net**

Other expense, net for the year ended June 30, 2017 was $18.7 million as compared to $18.3 million for the year ended June 30, 2016, which represents a decrease of $0.4 million. This decrease was primarily attributable to $0.7 million of lower foreign exchange losses during fiscal 2017 as compared to fiscal 2016 as well as lower interest related charges of $0.2 million. This was offset by higher other income of $1.2 million in fiscal 2016 from a new licensing agreement which did not recur in fiscal 2017.

**Provision for income taxes**

The provision for income taxes was lower in fiscal 2017 as compared to fiscal 2016 mainly due to lower foreign earnings and a benefit of approximately $1.4 million in the first quarter of fiscal 2017 as a result of the completion of tax audits by the Swiss authorities for the period from fiscal 2011 through fiscal 2015.

At June 30, 2017, we had federal and state net operating loss carryforwards of $329.8 million and $154.5 million, respectively. These federal and state net operating loss carryforwards are available to offset future taxable income, if any, in varying amounts and will begin to expire in 2019 for federal and 2018 for state purposes, respectively. Such net operating loss carryforwards include tax benefits from employee stock option exercises in excess of the share-based compensation expense that has been recognized for these awards. We will record approximately $0.9 million as a credit to additional paid-in capital if and when such excess benefits are ultimately realized. We also had federal and state research and development tax credit carryforwards of approximately $18.6 million and $18.7 million, respectively. If not utilized, the federal research credits will begin to expire in 2019, the California research credits have no expiration date and the other state research credits begin to expire in 2018. Realization of the deferred tax assets, among other factors, is dependent on our ability to generate sufficient taxable income prior to the expiration of the carryforwards. Because of the inconsistent history of net operating income as adjusted for permanent differences, we cannot conclude that the net domestic deferred tax assets will more likely than not be realized. Accordingly, we have recorded a full valuation allowance against our domestic net deferred tax assets.

At June 30, 2017, there was no provision for U.S. income tax for undistributed earnings of our foreign subsidiaries as it is currently our intention to reinvest these earnings indefinitely in operations outside the U.S. The cumulative amount of such undistributed earnings upon which no U.S. income tax has been provided as of June 30, 2017 was $26.5 million. If repatriated, these earnings could result in a tax expense at the current U.S. Federal statutory tax rate of 35%, subject to available net operating losses and other factors. Subject to limitation, tax on undistributed earnings may also be reduced by foreign tax credits that may be generated in connection with the repatriation of earnings.

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***Fiscal 2016 results compared to 2015 (in thousands, except percentages)***

| | Years Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 - 2015 |
| | Amount | %(a) | Amount | %(a) | % change |
| Products | $ 193,299 | 48% | $ 178,710 | 47% | 8% |
| Services | 205,501 | 52 | 201,091 | 53 | 2 |
| Net revenue | $ 398,800 | 100% | $ 379,801 | 100% | 5% |
| Gross profit | $ 158,713 | 40% | $ 145,402 | 38% | 9% |
| Products gross profit | 84,628 | 44 | 74,161 | 41 | 14 |
| Services gross profit | 74,085 | 36 | 71,241 | 35 | 4 |
| Research and development expenses | 56,652 | 14 | 55,752 | 15 | 2 |
| Selling and marketing expenses | 56,812 | 14 | 62,440 | 16 | (9) |
| General and administrative expenses | 50,122 | 13 | 46,379 | 12 | 8 |
| Other expense, net | 18,295 | 5 | 18,621 | 5 | (2) |
| Provision for income taxes | 2,336 | 1 | 2419 | 1 | (3) |
| Net loss | $ (25,504) | (6)% | $ (40,209) | (11)% | (37)% |

(a) Expressed as a percentage of total net revenue, except for product and services gross profits which are expressed as a percentage of related product and services revenue.

**Net revenue**

Product net revenue increased by $14.6 million for the year ended June 30, 2016 as compared to the year ended June 30, 2015. Product net revenue increased primarily due to a higher number of units sold and product mix, partially offset by $1.4 million of foreign currency impacts due to the strengthening of the U.S Dollar mainly relative to the Euro. The number of units sold in fiscal 2016 increased by 13% as compared to fiscal 2015 for both the CyberKnife Systems and TomoTherapy Systems, the increase in net revenue was mainly driven by the increase of CyberKnife Systems recognized into revenue as these systems generally have a higher average selling price. This increase was partially offset by product revenue upgrades and other, which decreased by $3.7 million in fiscal 2016. There were increases in upgrades related to CyberKnife Systems for the InCise MLC option; whereas, there was a decline in upgrade revenue related to TomoTherapy System due to the timing of customer upgrade cycles.

Services net revenue increased by $4.4 million for the year ended June 30, 2016 as compared to the year ended June 30, 2015. Additionally, the increase was attributable to an increase in training revenue because of the expiration and utilization of offered training; however, we do not expect training revenue from expired contracts to be at this volume going forward. There were also increases in installation revenue because of the increase in the units sold in fiscal 2016 as compared to prior year. This was partially offset by $3.4 million of foreign currency impacts due to the strengthening of the U.S. Dollar mainly relative to the Euro.

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Net revenue by geographic region, based on the shipping location of our customer, is as follows (in thousands, except percentages):

| | Years ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Net revenue | $ 398,800 | $ 379,801 |
| Americas | 40% | 46% |
| Europe, Middle East, India and Africa | 35% | 29% |
| Asia Pacific (excluding Japan and India) | 16% | 15% |
| Japan | 9% | 10% |

**Gross profit**

The overall gross profit margin for the year ended June 30, 2016 was 40% as compared to 38% for the year ended June 30, 2015, representing an increase of 2% due primarily to increased product sales volume and headcount related cost savings compared to the prior year. Product gross margin was 44% for the year ended June 30, 2016 as compared to 42% for the year ended June 30, 2015, representing an increase of 2% because of the increased sales volume as well as some favorability in the costs of sales due to overhead absorption in fiscal 2016 being lower than in the prior year. Service gross margin for the year ended June 30, 2016 was 36% as compared to 35% for the year ended June 30, 2015, representing a slight increase of 1% due mainly to continued revenue growth from the increase in installed base and increased training revenue recognized.

**Research and development expenses**

Research and development expenses were $56.7 million for the year ended June 30, 2016 as compared to $55.8 million for the year ended June 30, 2015, which represents an increase of $0.9 million, or 2%. The increase was primarily due to higher consulting fees associated with quality and validation testing for new products and an on-going development project that resulted in an increase of $3.9 million compared to prior year. The increase in consulting expenses was partially offset by decreased compensation expenses of $2.3 million driven by $1.2 million in lower headcount related to terminations that were completed in the fourth quarter of the prior fiscal year as well as a $1.1 million reduction in incentive-based and stock-based compensation expenses.

**Selling and marketing expenses**

Selling and marketing expenses for the year ended June 30, 2016 were $56.8 million as compared to $62.4 million for the year ended June 30, 2015, which represents a decrease of $5.6 million, or 9%. The decrease was partially attributable to a $4.4 million decrease in compensation and compensation-related expenses, which consisted mainly of lower commission expense of $3.0 million because of fewer sales in fiscal 2016 with high commission rates and a $1.5 million decrease in salaries and benefits expenses because of decreased headcount, and a $0.3 million decrease in share-based compensation expense mainly as a result of fewer grants of equity awards. These decreases were partially offset by an increase of $0.5 million in severance-related expenses in the fourth quarter of fiscal year 2016.

**General and administrative expenses**

General and administrative expenses for the year ended June 30, 2016 were $50.1 million as compared to $46.4 million for the year ended June 30, 2015, which represents an increase of $3.7 million, or 8%. This increase was primarily related to higher legal expenses of $3.0 million due to ongoing defense of and response to legal matters, primarily related to the Cowealth Medical matters which was described in Note 7 to the financial statements in our fiscal 2016 Form 10-K. In addition,

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there was an increase of $0.4 million in severance-related expenses in the fourth quarter of fiscal year 2016.

**Other expense, net**

Other expense, net for the year ended June 30, 2016 was $18.3 million as compared to $18.6 million for the year ended June 30, 2015, which represents a decrease of $0.3 million. This decrease was primarily attributable to an increase in other income of $1.2 million because of a new licensing agreement in the third quarter of fiscal 2016. Foreign currency losses decreased by $0.5 million, from $2.5 million in fiscal 2015 to $2.0 million in fiscal 2016, primarily because of the strengthening of the U.S. Dollar against the Euro and the appreciation of the Japanese Yen against the U.S. Dollar. In addition, there was an increase in interest income of $0.3 million as compared to the prior year because of changes in the investment portfolio comprising of higher yield securities. The increases in the interest and other income and reduction in foreign exchange losses were partially offset by higher interest expenses of $0.9 million, primarily the result of higher accretion of debt discount and amortization of debt offering costs as compared to fiscal 2015 on our 3.75% Convertible Senior Notes due August 2016 (the "3.75% Convertible Notes"), the 3.50% Convertible Notes, the 3.50% Series A Convertible Notes and our secured term loan with Cerberus Business Finance, LLC. Additionally, $1.0 million of non-cash debt extinguishment loss was incurred in fiscal 2016 because of the extinguishment of $63.4 million of the 3.75% Convertible Notes.

**Provision for income taxes**

The provision for income taxes was lower in fiscal 2016 compared to fiscal 2015 mainly due to the activities in international locations  reduction of benefits related to uncertain tax positions and decreased foreign earnings.

At June 30, 2016, we had federal and state net operating loss carryforwards of $325.3 million and $145.6 million, respectively. These federal and state net operating loss carryforwards are available to offset future taxable income, if any, in varying amounts and will begin to expire in 2019 for federal and 2017 for state purposes, respectively. Such net operating loss carryforwards include tax benefits from employee stock option exercises in excess of the share-based compensation expense that has been recognized for these awards. We will record approximately $3.8 million as a credit to additional paid-in capital if and when such excess benefits are ultimately realized. We also had federal and state research and development tax credit carryforwards of approximately $17.9 million and $17.6 million, respectively. If not utilized, the federal research credits will begin to expire in 2019, the California research credits have no expiration date and the other state research credits begin to expire in 2017. Realization of the deferred tax assets, among other factors, is dependent on our ability to generate sufficient taxable income prior to the expiration of the carryforwards. Because of the inconsistent history of net operating income as adjusted for permanent differences, we cannot conclude that the net domestic deferred tax assets will more likely than not be realized. Accordingly, we have recorded a full valuation allowance against our domestic net deferred tax assets.

**Share-based Compensation Expense**

In fiscal 2017, 2016 and 2015, we recorded share-based compensation expense of $13.6 million, $12.6 million and $13.9 million, respectively, related to awards under our incentive stock plans. Share-based compensation expense was recorded net of estimated forfeitures. As of June 30, 2017, we had approximately $28.3 million of unrecognized compensation expense, net of estimated forfeitures, related to unvested stock options, Employee Stock Purchase Plan, or ESPP shares, restricted stock units, or RSUs, and market stock units, or MSUs, which we expect to recognize over a weighted average period from 0.6 to 3.4 years.

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**Liquidity and Capital Resources**

At June 30, 2017, we had $72.1 million in cash and cash equivalents and $23.9 million in investments. Cash from operations could be affected by various risks and uncertainties, including, but not limited to the risks included in Part I, Item 1A titled "Risk Factors." Also refer to Note 12, "Debt" to the consolidated financial statements for discussion of the Revolving Credit Facility and our Convertible Notes outstanding as of June 30, 2017. Based on our current business plan and revenue prospects, we believe that we will have sufficient cash resources and anticipated cash flows to fund our operations for at least the next 12 months.

In addition, the undistributed earnings of our foreign subsidiaries at June 30, 2017, are considered to be indefinitely reinvested and unavailable for distribution in the form of dividends or otherwise. Accordingly, no provisions for U.S. income taxes have been provided thereon. We anticipate that we have adequate liquidity and capital resources and would not need to repatriate earnings. As of June 30, 2017, we had approximately $48.4 million of cash and cash equivalents at our foreign subsidiaries.

**Cash Flows**

| | Years ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Net cash provided by (used in) operating activities | $ (380) | $ 30,925 | $ (14,409) |
| Net cash provided by investing activities | 17,823 | 8,262 | 3,689 |
| Net cash provided by (used in) financing activities | (54,538) | (757) | 5,895 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 197 | (1,006) | (5,757) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | $ (36,898) | $ 37,424 | $ (10,582) |

**Operating Activities**

Net cash used in operating activities was $0.4 million in fiscal 2017 and consisted of a net loss of $29.6 million, non-cash items of $41.7 million, and a net change in operating assets and liabilities of $12.5 million. Non-cash items consisted primarily of depreciation and amortization expense of $18.0 million, stock-based compensation expense of $13.6 million; non-cash interest expenses on debt of $7.8 million and write down of inventories of $2.3 million. The significant items in the change in operating assets and liabilities include cash used resulting from increases in accounts receivable of $15.7 million and other current and non-current assets of $4.4 million. These uses of cash were offset in part by an increase in accounts payable of $2.2 million and accrued liabilities of $8.3 million, which was offset by a decrease in deferred revenue of $8.7 million and customer advances of $5.2 million as well as a decrease in inventories of $7.7 million. The increase in accounts receivable is a function of the timing of payments from customers driven by longer payment terms offered.

Net cash provided by operating activities was $30.9 million in fiscal 2016 and consisted of a net loss of $25.5 million, non-cash items of $43.1 million, and a net change in operating assets and liabilities of $13.4 million. Non-cash items consisted primarily of depreciation and amortization expense of $18.3 million, stock-based compensation expense of $12.6 million and non-cash interest expenses on debt of $8.0 million. The significant items in the change in operating assets and liabilities include cash provided from decreases in accounts receivable of $17.0 million, and accounts payable, accrued liabilities, customer advances and deferred revenue of $5.4 million. These provisions of cash were offset in part by an increase in inventories of $10.5 million, and other current and non-current assets as well as deferred cost of revenue of $1.5 million. The decrease in accounts receivable is a function of the timing of cash collections from customers in fiscal 2016.

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Net cash used in operating activities was $14.4 million in fiscal 2015 and consisted of a net loss of $40.2 million, non-cash items of $45.4 million, and a net change in operating assets and liabilities of $19.6 million. Non-cash items consisted primarily of depreciation and amortization expense of $19.5 million, stock-based compensation expense of $13.9 million and non-cash interest expenses on debt of $8.7 million. The significant items in the change in operating assets and liabilities include cash used resulting from increases in inventories of $21.1 million and accounts receivable of $7.2 million. These uses of cash were offset in part by a decrease in deferred revenue and associated costs of $17.4 million and decreases in accounts payable and accrued liabilities $10.4 million. The increase in inventories was due to purchases to support future sales and accounts receivable was the result of increased sales in fiscal 2015.

**Cash Flows From Investing Activities**

Net cash provided by investing activities was $17.8 million in fiscal 2017, which primarily consisted of sales and maturities of short-term investments of $38.2 million, offset by purchases of investments of $15.0 million, purchases of property and equipment of $5.0 million and purchase of intangible assets of $0.3 million.

Net cash provided by investing activities was $8.3 million in fiscal 2016, which primarily consisted of sales and maturities of short-term investments of $80.7 million, offset by purchases of property and equipment of $8.1 million and purchases of investments of $64.3 million.

Net cash provided by investing activities was $3.7 million in fiscal 2015, which primarily consisted of sales and maturities of short-term investments of $121.3 million, offset by purchases of property and equipment of $10.4 million and purchases of investments of $107.2 million.

**Cash Flows From Financing Activities**

Net cash used in financing activities during fiscal 2017 was $54.5 million, primarily attributable to $105.2 million in payments to convertible note holders and in connection with our term-loan with Cerberus Business Finance, LLC, and $1.4 million of taxes paid related to net share settlement of equity awards, offset by $48.3 million proceeds from new Revolving Credit Facility and $3.8 million from proceeds from employee stock plans.

Net cash used in financing activities during fiscal 2016 was $0.8 million, primarily attributable to $66.4 million of payments to convertible note holders and $2.8 million of taxes paid related to net share settlement of equity awards, partially offset by $64.6 million of proceeds from our term-loan with Cerberus Business Finance, LLC. and $3.8 million proceeds from employee stock plans.

Net cash provided by financing activities during fiscal 2015 was $5.9 million, attributable to $6.6 million from proceeds from employee stock plans, partially offset by $0.7 million of taxes paid related to net share settlement of equity awards.

***Operating Capital and Capital Expenditure Requirements***

Our future capital requirements depend on numerous factors. These factors include but are not limited to the following:

- Revenue generated by sales of our products and service plans;
- Costs associated with our sales and marketing initiatives and manufacturing activities;
- Facilities, equipment and IT systems required to support current and future operations;
- Rate of progress and cost of our research and development activities;
- Costs of obtaining and maintaining FDA and other regulatory clearances of our products;

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Effects of competing technological and market developments; and

Number and timing of acquisitions and other strategic transactions.

We believe that our current cash, cash equivalents and investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least 12 months. If these sources of cash, cash equivalents and investments are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity or convertible debt securities could result in dilution to our stockholders. If additional funds are raised through the issuance of debt securities, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. Additional financing may not be available at all, or in amounts or on terms acceptable to us. If we are unable to obtain this additional financing, we may be required to reduce the scope of our planned product development and marketing efforts.

**Contractual Obligations and Commitments**

The following is a schedule summarizing our obligations to make future payments under contractual obligations as of June 30, 2017 with the effects of convertible notes issued in August 2017. Refer to Note 18 in Notes to the Consolidated Financial Statements in Item 8, Part II, of this report on Form 10-K (in thousands):

| | | Payments due by period | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
| Notes and Revolver Credit Facility(1) | $ 177,000 | $ 40,000 | $ | $ 52,000 | $ 85,000 |
| Interest on Notes and Revolver Credit Facility(2) | 35,173 | 7,597 | 13,655 | 13,655 | 266 |
| Operating leases | 48,500 | 9,290 | 14,413 | 12,155 | 12,642 |
| Total | $ 260,673 | $ 56,887 | $ 28,068 | $ 77,810 | $ 97,908 |

(1) Any conversion, redemption or purchase of our Notes would impact our cash payments noted in the preceding table. Please see Note 12, *Debt*, to the consolidated financial statements for further information. Amounts presented are for principal only.

(2) Interest on the Revolver Credit Facility is accrued at 7% per annum that may vary in subsequent periods based upon LIBOR.

Our purchase commitments and obligations include all open purchase orders and contractual obligations in the ordinary course of business, including commitments with contract manufacturers and suppliers, for which we have not received the goods or services and acquisition and licensing of intellectual property. A majority of these purchase obligations are due within a year. Although open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to the delivery of goods or performance of services, and hence, have not been included in the table above.

**Off Balance Sheet Arrangements**

We do not have any off balance sheet arrangements for the years ended June 30, 2017, 2016, or 2015.

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**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as revenue and expenses during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Actual results could therefore differ materially from those estimates if actual conditions differ from our assumptions.

All of our significant accounting policies and methods used in the preparation of our consolidated financial statements are described in Note 2, *Summary of Significant Accounting Policies,* to the consolidated financial statements. The methods, estimates and judgments that we use in applying our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. Management believes the critical accounting policies and estimates are those related to revenue recognition, business combinations and assessment of recoverability of goodwill and intangible assets, valuation of inventories, share-based compensation expense, convertible notes, income taxes, allowance for doubtful accounts and loss contingencies.

***Revenue Recognition***

We frequently enter into sales arrangements with customers that contain multiple elements or deliverables and we have to make a number of reasoned judgments with respect to elements of these sales arrangements, including how to allocate the proceeds received from an arrangement, whether there are multiple elements in the arrangement, whether any undelivered elements are essential to the functionality of the delivered elements and the appropriate timing of revenue recognition with respect to these arrangements. For sale arrangements that contain multiple elements, we allocate the arrangement consideration to each element based on the relative selling price method, whereby the relative selling price of each deliverable is determined using vendor specific objective evidence (VSOE), of fair value, if it exists. VSOE of fair value for each element is based on our standard rates charged for the product or service when such product or service is sold separately or based upon the price established by the Company's pricing committee when that product or service is not yet being sold separately. When we are not able to establish VSOE for all deliverables in an arrangement with multiple elements, which may be due to us infrequently selling each element separately, not pricing products within a narrow range, or only having a limited sales history, we attempt to determine the selling price of each element based on third-party evidence of selling price (TPE), as determined based on competitors' or third-party vendors' prices for similar deliverables when sold separately. TPE typically is difficult to establish due to the proprietary differences of competitive products and difficulty in obtaining reliable competitive standalone pricing information. When we are not able to establish selling price using VSOE or TPE, we use our best estimate of selling price (BESP), in the allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. We determine BESP for a product or service by considering multiple factors including, but not limited to, pricing practices, internal costs, geographies and gross margin. The determination of BESP is made through annual analysis of our pricing practices and adjusted if necessary.

Revenue recognition also depends on all or a combination of the following: timing of shipment, completion of installation, customer acceptance and the readiness of customers' facilities. If shipments

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are not made on scheduled timelines, installation schedules are delayed or if the products are not accepted by the customer in a timely manner, our reported revenues may differ materially from expectations.

***Assessment of Recoverability of Goodwill and Intangible Assets***

Goodwill represents the excess of the purchase price over the fair value of tangible and identified intangible net assets of businesses acquired. Goodwill is not amortized, but is evaluated for impairment on an annual basis and when impairment indicators are present. We have one operating segment and one reporting unit. Therefore, our consolidated net assets, including existing goodwill and other intangible assets, are considered to be the carrying value of the reporting unit. We estimate the fair value of the reporting unit based on the closing price of our common stock on the trading day closest to the annual review date multiplied by the outstanding shares on that date. If the carrying value of the reporting unit is in excess of its fair value, an impairment may exist, and we must perform the second step of the analysis, in which the implied fair value of the goodwill is compared to its carrying value to determine the impairment charge, if any. If the estimated fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and no further analysis is required.

We make judgments about the recoverability of purchased intangible assets with finite lives whenever events or changes in circumstances indicate that impairment may exist. Recoverability of purchased intangible assets with finite lives is measured by comparing the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. Impairment, if any, is measured as the amount by which the carrying value exceeds the fair value of the impaired asset. We review indefinite-lived intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying value may not be recoverable. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Assumptions and estimates about future values and remaining useful lives of our purchased intangible assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends and internal factors such as changes in our business strategy and our internal forecasts.

***Valuation of Inventories***

The valuation of inventory requires us to estimate obsolete or excess inventory as well as damaged inventory. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. We regularly review inventory quantities on hand and adjust for excess and obsolete inventory based primarily on historical usage rates and our estimates of product demand to support future sales and service. If our demand forecast for specific products is greater than actual demand and we fail to reduce purchasing and manufacturing output accordingly, we could be required to write off inventory beyond the current reserve, which would negatively impact our gross margin.

***Share-Based Compensation Expense***

We use the Black-Scholes option valuation model to estimate the fair value of stock options and ESPP shares. This valuation model requires the input of highly subjective assumptions, the most significant of which is our estimates of expected volatility and the expected term of the award. Our expected volatility is derived from the historical volatilities of our common stock. We estimate the expected term of stock option by taking the average of the vesting term and the contractual term of the option, as illustrated by the simplified method. We use the Monte-Carlo simulation model to estimate the fair value of Market Stock Units (MSUs). The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve

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inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future.

We recognize compensation cost for only those shares expected to vest over the requisite service period of the award. We estimate our forfeiture rate based on an analysis of our actual forfeitures and will continue to evaluate the appropriateness of the forfeiture rate based on recent forfeiture activity and expected future employee turnover. Changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed.

***Convertible Notes***

We account for convertible notes in accordance with ASC 470-20 *Debt with Conversion and Other Options*. ASC 470-20 clarifies the accounting for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement at our election. ASC 470-20 specifies that an issuer of such instruments should separately account for the liability and equity component of the conversion option. The amount recorded as debt is based on the fair value of the debt component as a standalone instrument, determined using an average interest rate for similar nonconvertible debt issued by entities with credit ratings comparable to ours at the time of issuance. The difference between the debt recorded at inception and its principal amount is accreted to principal during the estimated life of the note.

***Income Taxes***

We determine our current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in our income tax returns filed during the subsequent year. We record adjustments based on filed returns when we have identified and finalized them, which is generally in the fourth quarter of the subsequent year for U.S. federal and state provisions. We have placed a full valuation allowance on all net U.S. deferred tax assets because realization of these tax benefits through future taxable income cannot be reasonably assured. We intend to maintain the valuation allowance until sufficient positive evidence exists to support the reversal of the valuation allowance. Any decision to reverse part or all of the valuation allowance would be based on our estimate of future profitability. If our estimate were to be wrong, we could be required to charge potentially significant amounts to income tax expense to establish a new valuation allowance.

Our effective tax rate includes the impact of certain undistributed foreign earnings for which we have not provided U.S. taxes because we plan to reinvest such earnings indefinitely outside the United States. We plan foreign earnings remittance amounts based on projected cash flow needs as well as the working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. Material changes in our estimates of cash, working capital and long-term investment requirements in the various jurisdictions in which we do business could impact our effective tax rate. We are subject to income taxes in the United States and certain foreign countries, and we are subject to corporate income tax audits in some of these jurisdictions. We believe that our tax return positions are fully supported, but tax authorities are likely to challenge certain positions, which may not be fully sustained. However, our income tax expense includes amounts intended to satisfy income tax assessments that result from these challenges. Determining the income tax expense for these potential assessments and recording the related assets and liabilities requires management judgments and estimates. We evaluate our uncertain tax positions in accordance with the guidance for accounting for uncertainty in income taxes. We believe that our reserve for uncertain tax positions is adequate. We review our reserves quarterly, and we may adjust such reserves because of proposed assessments by tax authorities, changes in facts and circumstances, issuance of new regulations or new case law, previously unavailable information obtained during the course of an examination, negotiations between tax

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authorities of different countries concerning our transfer prices, or the expiration of statutes of limitations.

***Allowance for Doubtful Accounts***

We evaluate the creditworthiness of our customers prior to authorizing shipment for all major sale transactions. On a quarterly basis, we evaluate aged items in the accounts receivable aging report and provide an allowance in an amount we deem adequate for doubtful accounts. If our evaluation of our customers' financial conditions does not reflect our future ability to collect outstanding receivables, additional provisions may be needed and our operating results could be negatively affected.

***Loss Contingencies***

As discussed in Note 7, *Commitments and Contingencies*, to the consolidated financial statements, we are involved in various lawsuits, claims and proceedings that arise in the ordinary course of business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred and the amount can be reasonably estimated. We provide disclosure if it is reasonably possible that a loss has been incurred and a range of loss or possible loss can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. We review these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. Litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, we could incur significant charges related to legal matters which could have a material impact on our results of operations, financial position and cash flows.

## Item 7A. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not utilize derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions.

***Foreign Currency Exchange Rate Risk***

A portion of our net sales are denominated in foreign currencies, most notably the Euro and the Japanese Yen. Future fluctuations in the value of the U.S. Dollar may affect the price competitiveness of our products outside the United States. For direct sales outside the United States, we sell in both U.S. Dollars and local currencies, which could expose us to additional foreign currency risks, including changes in currency exchange rates. Our operating expenses in countries outside the United States, are payable in foreign currencies and therefore expose us to currency risk. To the extent that management can predict the timing of payments under sales contracts or for operating expenses that are denominated in foreign currencies, we may engage in hedging transactions to mitigate such risks in the future. We expect the changes in the fair value of the net foreign currency assets arising from fluctuations in foreign currency exchange rates to be materially offset by the changes in the fair value of the forward contracts. As of June 30, 2017, we had no open forward contracts and all open positions had been settled.

The purpose of these forward contracts is to minimize the risk associated with foreign exchange rate fluctuations. We have developed a foreign exchange policy to govern our forward contracts. These foreign currency forward contracts do not qualify as cash flow hedges and all changes in fair value are reported in earnings as part of other expenses, net. We have not entered into any other types of derivative financial instruments for trading or speculative purpose. Our foreign currency forward contract valuation inputs are based on quoted prices and quoted pricing intervals from public data and do not involve management judgment.

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***Interest Rate Risk***

We maintain an investment portfolio of various holdings, types, and maturities. These securities are generally classified as available for sale and consequently, are recorded on the balance sheet at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income. At any time, a sharp rise or decline in interest rates could have an adverse impact on the fair value of our investment portfolio. Likewise, increases and decreases in interest rates could have a material impact on interest earnings for our portfolio. The following table presents the hypothetical change in fair values in the financial instruments we held at June 30, 2017, that are sensitive to changes in interest rates. The modeling technique used measures the change in fair values arising from selected potential changes in interest rates on our investment portfolio, which had a fair value of $23.9 million at June 30, 2017. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 100, 75, 50 and 25 basis points.

| | Decrease in interest rates | | | | Increase in interest rates | | | |
|---|---|---|---|---|---|---|---|---|
| Change in interest rate | 100 BPS | 75 BPS | 50 BPS | 25 BPS | 25 BPS | 50 BPS | 75 BPS | 100 BPS |
| Unrealized gain (loss) | $ 192 | $ 144 | $ 96 | $ 48 | $ (48) | $ (96) | $ (144) | $ (192) |

***Equity Price Risk***

On April 24, 2014, we issued approximately $70.3 million aggregate principal amount of 3.50% Series A Convertible Notes. Upon conversion, we can settle the obligation by issuing our common stock, cash or a combination thereof at an initial conversion rate equal to 187.6877 shares of common stock per $1,000 principal amount of the 3.50% Series A Convertible Notes, which is equivalent to a conversion price of approximately $5.33 per share of common stock, subject to adjustment. There is no equity price risk if the share price of our common stock is below $5.33 upon conversion of the 3.50% Series A Convertible Notes. For every $1 that the share price of our common stock exceeds $5.33, we expect to issue an additional $13.2 million in cash or shares of our common stock, or a combination thereof, if all of the 3.50% Series A Convertible Notes are converted.

On August 7, 2017, we issued approximately $85.0 million aggregate principal amount of our 3.75% Convertible Senior Notes. Upon conversion, we can settle the obligation by issuing our common stock, cash or a combination thereof at an initial conversion rate equal to 174.8252 shares of common stock per $1,000 principal amount of the 3.75% Convertible Senior Notes, which is equivalent to a conversion price of approximately $5.72 per share of common stock, subject to adjustment. There is no equity price risk if the share price of our common stock is below $5.72 upon conversion of the 3.75% Convertible Senior Notes. For every $1 that the share price of our common stock exceeds $5.72, we expect to issue an additional $14.9 million in cash or shares of our common stock, or a combination thereof, if all of the 3.75% Convertible Senior Notes are converted.

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**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**ACCURAY INCORPORATED**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**


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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

Accuray Incorporated

We have audited the accompanying consolidated balance sheets of Accuray Incorporated (a Delaware Corporation) and subsidiaries (the "Company") as of June 30, 2017 and 2016, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2017. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Accuray Incorporated and subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2017, based on criteria established in the 2013 Internal Control  Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 25, 2017, expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

San Jose, California

August 25, 2017

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**Accuray Incorporated**

**Consolidated Balance Sheets**

**(in thousands, except share and per share amounts)**

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 72,084 | $ 119,771 |
| Short-term investments | 23,909 | 47,239 |
| Restricted cash | 12,829 | 891 |
| Accounts receivable, net of allowance for doubtful accounts of $420 and $826 as of June 30, 2017 and June 30, 2016, respectively | 72,789 | 56,810 |
| Inventories | 105,054 | 115,987 |
| Prepaid expenses and other current assets | 18,988 | 16,098 |
| Deferred cost of revenue | 3,350 | 4,884 |
| Total current assets | 309,003 | 361,680 |
| Property and equipment, net | 23,062 | 27,878 |
| Goodwill | 57,812 | 57,848 |
| Intangible assets, net | 964 | 7,611 |
| Deferred cost of revenue | 206 | 1,996 |
| Restricted cash | 322 | 1,471 |
| Other assets | 15,095 | 10,549 |
| Total assets | $ 406,464 | $ 469,033 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 17,486 | $ 15,229 |
| Accrued compensation | 25,402 | 18,725 |
| Other accrued liabilities | 23,870 | 22,184 |
| Short-term debt | 113,023 | 39,900 |
| Customer advances | 16,926 | 22,123 |
| Deferred revenue | 87,785 | 92,051 |
| Total current liabilities | 284,492 | 210,212 |
| Long-term liabilities: | | |
| Long-term other liabilities | 10,068 | 10,984 |
| Deferred revenue | 13,823 | 17,665 |
| Long-term debt | 51,548 | 170,512 |
| Total liabilities | 359,931 | 409,373 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Preferred stock, $0.001 par value; authorized: 5,000,000 shares; no shares issued and outstanding | | |
| Common stock, $0.001 par value; authorized: 200,000,000 shares as of June 30, 2017 and June 30, 2016, respectively; issued and outstanding: 83,739,804 and 81,378,208 shares at June 30, 2017 and June 30, 2016, respectively | 84 | 81 |
| Additional paid-in-capital | 496,887 | 481,346 |

| | | |
|---|---|---|
| Accumulated other comprehensive loss | (52) | (960) |
| Accumulated deficit | (450,386) | (420,807) |
| Total stockholders' equity | 46,533 | 59,660 |
| Total liabilities and stockholders' equity | $ 406,464 | $ 469,033 |

The accompanying notes are an integral part of these consolidated financial statements.

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**Accuray Incorporated**

**Consolidated Statements of Operations and Comprehensive Loss**

**(in thousands, except per share amounts)**

| | Years Ended June 30, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| Net revenue: | | | |
| Products | $ 179,611 | $ 193,299 | $ 178,710 |
| Services | 203,803 | 205,501 | 201,091 |
| Total net revenue | 383,414 | 398,800 | 379,801 |
| Cost of revenue: | | | |
| Cost of products | 113,357 | 108,671 | 104,549 |
| Cost of services | 128,716 | 131,416 | 129,850 |
| Total cost of revenue | 242,073 | 240,087 | 234,399 |
| Gross profit | 141,341 | 158,713 | 145,402 |
| Operating expenses: | | | |
| Research and development | 49,921 | 56,652 | 55,752 |
| Selling and marketing | 57,477 | 56,812 | 62,440 |
| General and administrative | 43,766 | 50,122 | 46,379 |
| Total operating expenses | 151,164 | 163,586 | 164,571 |
| Loss from operations | (9,823) | (4,873) | (19,169) |
| Other expense, net | (18,718) | (18,295) | (18,621) |
| Loss before provision for income taxes | (28,541) | (23,168) | (37,790) |
| Provision for income taxes | 1,038 | 2,336 | 2,419 |
| Net loss | $ (29,579) | $ (25,504) | $ (40,209) |
| Net loss per share  basic and diluted | $ (0.36) | $ (0.32) | $ (0.51) |
| Weighted average common shares used in computing net loss per share: | | | |
| Basic and diluted | 82,495 | 80,509 | 78,277 |
| Net loss | $ (29,579) | $ (25,504) | $ (40,209) |
| Foreign currency translation adjustment | 33 | (47) | (1,196) |
| Unrealized gain (loss) on investments, net of tax | (74) | 62 | (95) |
| Change in defined benefit pension obligation | 949 | (549) | (950) |

| | | | |
|---|---|---|---|
| Comprehensive loss | $ (28,671) | $ (26,038) | $ (42,450) |

The accompanying notes are an integral part of these consolidated financial statements.

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**Accuray Incorporated**

**Consolidated Statement of Stockholders' Equity**

**(in thousands, except share amounts)**

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance at June 30, 2014** | 77,178,365 | $ 77 | $ 451,750 | $ 1,815 | $ (355,094) | $ 98,548 |
| Exercise of Stock options, net | 529,331 | | 2,563 | | | 2,563 |
| Issuance of restricted stock | 1,174,531 | 1 | (1) | | | |
| Issuance of common stock under employee stock purchase plan | 719,279 | 1 | 4,032 | | | 4,033 |
| Share-based compensation | | | 13,746 | | | 13,746 |
| Tax withholding upon vesting of restricted stock units | (123,668) | | (660) | | | (660) |
| Net loss | | | | | (40,209) | (40,209) |
| Cumulative translation adjustment | | | | (1,196) | | (1,196) |
| Unrealized (loss) on investments, net of tax | | | | (95) | | (95) |
| Change in defined benefit pension obligation | | | | (950) | | (950) |
| **Balance at June 30, 2015** | 79,477,838 | $ 79 | $ 471,430 | $ (426) | $ (395,303) | $ 75,780 |
| Exercise of Stock options, net | 58,279 | | 285 | | | 285 |
| Issuance of restricted stock | 1,570,577 | 2 | (2) | | | |
| Issuance of common stock under employee stock purchase plan | 729,259 | | 3,588 | | | 3,588 |
| Share-based compensation | | | 12,396 | | | 12,396 |
| Unamortized Convertible Senior Note issuance costs reclassified to equity | | | (3,519) | | | (3,519) |
| Tax withholding upon vesting of restricted stock units | (457,745) | | (2,832) | | | (2,832) |
| Net loss | | | | | (25,504) | (25,504) |
| Cumulative translation adjustment | | | | (48) | | (48) |
| Unrealized gain on investments, net of tax | | | | 63 | | 63 |
| Change in defined benefit pension obligation | | | | (549) | | (549) |
| **Balance at June 30, 2016** | 81,378,208 | $ 81 | $ 481,346 | $ (960) | $ (420,807) | $ 59,660 |
| Exercise of Stock options, net | 112,482 | | 463 | | | 463 |
| Issuance of restricted stock | 1,709,957 | 2 | (2) | | | |
| Issuance of common stock under employee stock purchase plan | 870,037 | 1 | 3,345 | | | 3,346 |
| Share-based compensation | | | 13,154 | | | 13,154 |
| Tax withholding upon vesting of restricted stock units | (330,880) | | (1,419) | | | (1,419) |
| Net loss | | | | | (29,579) | (29,579) |
| Cumulative translation adjustment | | | | 33 | | 33 |
| Unrealized (loss) on investments, net of tax | | | | (74) | | (74) |
| Change in defined benefit pension obligation | | | | 949 | | 949 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Balance at June 30, 2017** | 83,739,804 | $ 84 | $ 496,887 | $ (52) | $ (450,386) | $ 46,533 |

The accompanying notes are an integral part of these consolidated financial statements.

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**Accuray Incorporated**

**Consolidated Statements of Cash Flows**

**(in thousands)**

| | Years Ended June 30, | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| **Cash flows from operating activities** | | | |
| Net loss | $ (29,579) | $ (25,504) | $ (40,209) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 18,043 | 18,296 | 19,493 |
| Share-based compensation | 13,629 | 12,638 | 13,930 |
| Amortization of debt issuance costs | 3,785 | 1,728 | 1,503 |
| Amortization and accretion of discount and premium on investments | 67 | 801 | 1,018 |
| Accretion of interest on debt | 4,052 | 6,321 | 7,241 |
| Provision for (recovery of) bad debt, net | 119 | 127 | (14) |
| Provision for write-down of inventories | 2,253 | 2,444 | 1,507 |
| Loss on disposal of property and equipment | 8 | 153 | 62 |
| Loss on extinguishment of debt | | 965 | |
| Provision (benefit) for deferred income taxes | (268) | (404) | 664 |
| Changes in assets and liabilities: | | | |
| Accounts receivable, short and long-term | (15,732) | 16,994 | (7,172) |
| Inventories | 7,675 | (10,502) | (21,094) |
| Prepaid expenses and other assets | (4,437) | 16 | 1,083 |
| Deferred cost of revenue | 3,321 | 1,452 | 7,776 |
| Accounts payable | 2,189 | 2,404 | (1,822) |
| Accrued liabilities | 8,316 | (1,944) | (8,614) |
| Customer advances | (5,158) | 2,578 | 577 |
| Deferred revenues | (8,663) | 2,362 | 9,662 |
| Net cash provided by (used in) operating activities | (380) | 30,925 | (14,409) |
| **Cash flows from investing activities** | | | |
| Purchases of property and equipment, net | (5,031) | (8,066) | (10,445) |
| Purchase of intangible assets | (333) | | |
| Purchases of investments | (14,992) | (64,356) | (107,162) |
| Sales and maturities of investments | 38,179 | 80,684 | 121,296 |
| Net cash provided by investing activities | 17,823 | 8,262 | 3,689 |
| **Cash flows from financing activities** | | | |
| Proceeds from employee stock plans | 3,786 | 3,849 | 6,555 |
| Taxes paid related to net share settlement of equity awards | (1,419) | (2,832) | (660) |
| Payments made to note and loan holders | (105,158) | (66,406) | |
| Proceeds from debt, net of costs | 48,253 | 64,632 | |
| Net cash provided by (used in) financing activities | (54,538) | (757) | 5,895 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 197 | (1,006) | (5,757) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (36,898) | 37,424 | (10,582) |
| Cash, cash equivalents and restricted cash at beginning of period | 122,133 | 84,709 | 95,291 |
| Cash, cash equivalents and restricted cash at end of period | $ 85,235 | $ 122,133 | $ 84,709 |

| | | | |
|---|---|---|---|
| **Supplemental Disclosure of Cash Flow Information** | | | |
| Cash paid for income taxes | $ 4,458 | $ 1,026 | $ 3,184 |
| Cash paid for interest | $ 9,927 | $ 10,340 | $ 7,207 |
| Non-cash financing activity: | | | |
| Purchases of property and equipment recorded in accounts payable and accrued liabilities | $ 210 | $ 218 | $ 638 |
| Purchase of intangible assets in accrued liabilities | $ 667 | $ | $ |
| Transfers of equipment to inventory | $ 1,395 | $ 1,660 | $ |

The accompanying notes are an integral part of these consolidated financial statements.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements**

**1. Description of Business**

**Organization**

Accuray Incorporated (together with its subsidiaries, the "Company" or "Accuray") is incorporated in Delaware and has its principal place of business in Sunnyvale, California. The Company designs, develops and sells advanced radiosurgery and radiation therapy systems for the treatment of tumors throughout the body. The Company has offices in the United States, Switzerland, China, Hong Kong and Japan and conducts its business worldwide.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation and Principles of Consolidation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation. Long-term accounts receivable that were previously reported in prepaid expenses and other assets in prior year's consolidated statements of cash flows have been reclassified to accounts receivable, short and long-term to conform to the current year's presentation. These reclassifications had no impact on previously reported net cash provided by (used in) operating activities in consolidated statements of cash flows for the years ended June 30, 2016 and 2015.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements. Key estimates and assumptions made by the Company relate to revenue recognition, assessment of recoverability of goodwill and intangible assets, valuation of inventories, share-based compensation expense, convertible notes, income taxes, allowance for doubtful accounts and loss contingencies. Actual results could differ materially from those estimates.

**Foreign Currency**

The Company's international subsidiaries use their local currencies as their functional currencies. For those subsidiaries, assets and liabilities are translated at exchange rates in effect at the balance sheet date and income and expense accounts at the average exchange rate. Resulting translation adjustments are excluded from the determination of net loss and are recorded in accumulated other comprehensive loss as a separate component of stockholders' equity. Net foreign currency exchange transaction gains or losses are included as a component of other expense, net, in the Company's consolidated statements of operations and comprehensive loss.

**Fair Value Measurements**

The carrying values of the Company's financial instruments including cash equivalents, restricted cash, accounts receivable and accounts payable are approximately equal to their respective fair values

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

due to the relatively short-term nature of these instruments. Also refer to Note 5, *Financial Instruments,* for further details.

**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. Cash and cash equivalents are held in various financial institutions in the United States and internationally.

**Investments**

The Company classifies all its investments as available-for-sale at the time of purchase since it is management's intent that these investments be available for current operations, and as such, includes these investments as short-term investments on its balance sheets. These investments primarily consist of commercial paper, U.S. treasury securities, and U.S. government agency and corporate debt securities. Short-term investments classified as available-for-sale are recorded at fair market value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), as a separate component of stockholders' equity. Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis. The Company regularly reviews its investment portfolio to determine if any security is other-than-temporarily impaired, which would require it to record an impairment charge in the period any such determination is made. In making this judgment, management evaluates, among other things, the duration and extent to which the fair value of a security is less than its cost, the financial condition of the issuer and any changes thereto, and management's intent to sell, or whether it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. Other expense, net, includes interest, dividends, amortization of purchase premiums and discounts, realized gains and losses on sales of securities and other-than-temporary declines in the fair value of securities, if any.

**Concentration of Credit Risk and Other Risks and Uncertainties**

The Company's cash and cash equivalents are mainly deposited with several major financial institutions. At times, deposits in these institutions exceed the amount of insurance provided on such deposits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant risk on these balances. The Company has placed its investments with high-credit quality issuers. The Company does not invest an amount exceeding 5% of its combined cash, cash equivalents and investments in the securities of any one obligor or maker, except for obligations of the United States government, obligations of United States government agencies and money market accounts.

One customer represented more than 10% of total net revenue for the year ended June 30, 2016 and no customer represented 10% or more of total net revenue for the years ended June 30, 2017 and 2015. Two customers accounted for 30% of accounts receivable, net as at June 30, 2017 and one customer accounted for 18% of accounts receivable, net at June 30, 2016.

The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. Accounts receivable are deemed past due in accordance with the contractual terms of the agreement. Accounts are charged against the allowance for doubtful accounts once

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

collection efforts are unsuccessful. Historically, such losses have been within management's expectations.

Single-source suppliers presently provide the Company with several components. In most cases, if a supplier was unable to deliver these components, the Company believes that it would be able to find other sources for these components subject to any regulatory qualifications, if required.

**Restricted Cash**

Restricted cash primarily consists of cash that is temporarily held in bank accounts which are under the control of the lender to the Revolving Credit Facility, certificates of deposit held as guarantees in connection with customer contracts and corporate leases as well as funds held as guarantees for Value-Added Tax (VAT) obligations in a foreign jurisdiction.

**Inventories**

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market value. Excess and obsolete inventories are written down based on historical sales and forecasted demand, as judged by management.

**Revenue Recognition**

The Company's revenue is primarily derived from sales of CyberKnife and TomoTherapy Systems and services, which include post-contract customer support or PCS, installation services, training and other professional services. The Company records its revenues net of any value added or sales tax. In all sales arrangements, the Company recognizes revenues when there is persuasive evidence of an arrangement, the fee is fixed or determinable, collection of the fee is reasonably assured and delivery has occurred. Payments received in advance of system shipment are recorded as customer advances and are recognized as revenue or deferred revenue upon product shipment or installation. The Company assesses the probability of collection based on a number of factors, including past transaction history with the customer and credit-worthiness of the customer. The Company generally does not request collateral from its customers. If the Company determines that collection is not reasonably assured, the Company will defer the fee and recognize revenue upon receipt of cash.

The Company frequently enters into sales arrangements that contain multiple elements or deliverables. For sale arrangements that contain multiple elements, the Company allocates the arrangement consideration to each element based on the relative selling price method, whereby the relative selling price of each deliverable is determined using vendor specific objective evidence (VSOE) of fair value, if it exists. VSOE of fair value for each element is based on the Company's standard rates charged for the product or service when such product or service is sold separately or based upon the price established by the Company's pricing committee when that product or service is not yet being sold separately. When the Company is not able to establish VSOE for all deliverables in an arrangement with multiple elements, which may be due to the Company infrequently selling each element separately, not pricing products within a narrow range, or only having a limited sales history, the Company attempts to estimate the selling price of each element based on third-party evidence of selling price (TPE), as determined based on competitors' or third-party vendors' prices for similar deliverables when sold separately. When the Company is not able to establish selling price using VSOE or TPE, the Company uses its best estimate of selling price (BESP), in its allocation of arrangement

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company determines BESP for a product or service by considering multiple factors including, but not limited to, pricing practices, internal costs, geographies and gross margin. The determination of BESP is made through annual analysis of the Company's pricing practices and adjusted if necessary.

The Company has a limited number of software offerings which are not required to deliver its systems' essential functionality and can be sold separately. The Company accounts for the separate sale of its software products in accordance with the applicable guidance for software revenue recognition. The Company's multiple-element arrangements may also include software deliverables that are subject to the software revenue recognition guidance; and in these cases, the revenue for these multiple-element arrangements is allocated to the software deliverable and the non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement using VSOE, TPE or BESP.

The Company regularly reviews VSOE, TPE and BESP for all of its products and services. As the Company's go-to-market strategies and other factors change, the Company may modify its pricing practices in the future, which may impact the selling prices of systems and services as well as VSOE, TPE and BESP of systems and services. As a result, the Company's future revenue recognition for multiple element arrangements could differ materially from that recorded in the current period.

*Product Revenue*

The majority of product revenue is generated from sales of CyberKnife and TomoTherapy systems. If the Company is responsible for installation, the Company recognizes revenue after installation and acceptance of the system. Otherwise, revenue is generally recognized upon delivery, assuming all other revenue recognition criteria are met.

The Company could sell its systems with PCS contracts, installation services, training, and at times, professional services. PCS contracts provide planned and corrective maintenance services, software updates, bug fixes, as well as call-center support.

The Company records revenues from sales of systems, product upgrades and accessories to distributors depending on the terms of the distribution agreement as well as terms and conditions executed for each sale, and once all revenue recognition criteria have been met.

The Company's agreements with customers and distributors for system sales generally do not contain product return rights. Certain distributor agreements include parts inventory buy-back provisions upon distributorship termination. The Company accrues an inventory buy-back liability when and if such distributorship termination is expected and the liability can be estimated.

*Service Revenue*

Service revenue is generated primarily from PCS (warranty period services and post warranty services), installation services, training, and professional services. Service revenue is recognized either ratably over the contractual period or when service is performed, depending on specific terms and conditions in agreements with customers.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

Costs associated with service revenue are expensed when incurred, except when those costs are related to system upgrades purchased within a service contract. In those cases, the costs of such upgrades are recognized at the time the upgrade revenue is recognized.

**Deferred Revenue and Deferred Cost of Revenue**

Deferred revenue consists of deferred product revenue and deferred service revenue. Deferred product revenue arises from timing differences between the shipment of product and satisfaction of all revenue recognition criteria consistent with the Company's revenue recognition policy. Deferred service revenue results from the advance payment for services to be delivered over a period of time. Deferred cost of revenue consists of the direct costs associated with the manufacturing of units and direct service upgrade costs for which the revenue has been deferred in accordance with the Company's revenue recognition policies. Deferred revenue and associated deferred cost of revenue expected to be realized within one year are classified as current liabilities and current assets, respectively.

**Customer Advances**

Customer advances represent payments made by customers in advance of product shipment.

**Property and Equipment**

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are depreciated on a straight-line basis over the remaining term of the lease or the estimated useful life of the asset, whichever is shorter. Machinery and equipment are depreciated over five years. Furniture and fixtures are depreciated over four years. Computer and office equipment and computer software are depreciated over three years. Repairs and maintenance costs, which are not considered improvements and do not extend the useful life of the property and equipment, are expensed as incurred.

**Software Capitalization 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.

**Impairment of Long-Lived Assets**

The Company reviews long-lived assets, including intangible assets, property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable using pretax undiscounted cash flows. Impairment, if any, is measured as the amount by which the carrying value of a long-lived asset exceeds its fair value.

**Goodwill and Purchased Intangible Assets**

Goodwill is not amortized, but is evaluated for impairment on an annual basis and when impairment indicators are present. The Company has assessed that it has one operating segment and

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

one reporting unit, and the consolidated net assets, including existing goodwill and other intangible assets, are considered to be the carrying value of the reporting unit. The Company estimates the fair value of the reporting unit based on the Company's closing stock price on the trading day closest to the annual review date multiplied by the outstanding shares on that date. If the carrying value of the reporting unit is in excess of its fair value, an impairment may exist, and the Company must perform the second step of the analysis, in which the implied fair value of the goodwill is compared to its carrying value to determine the impairment charge, if any. If the estimated fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and no further analysis is required. There was no impairment of goodwill identified in the fiscal years ended June 30, 2017, 2016 and 2015.

Purchased intangible assets other than goodwill, including developed technology are amortized on a straight-line basis over their estimated useful lives unless their lives are determined to be indefinite. Purchased intangible assets are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets which range from approximately one to seven years.

Acquisition-related expenses and restructuring costs are recognized separately from the business combination and are expensed as incurred.

**Shipping and Handling**

The Company's billings for shipping and handling for product shipments to customers are included in cost of products. Shipping and handling costs incurred for inventory purchases are capitalized in inventory and expensed in cost of products.

**Advertising Expenses**

The Company expenses the costs of advertising and promoting its products and services as incurred. Advertising expenses were approximately $0.4 million, $0.3 million and $0.5 million for the years ended June 30, 2017, 2016 and 2015, respectively.

**Research and Development Costs**

Costs related to research, design and development of products are charged to research and development expense as incurred. These costs include direct compensation, benefits, and other headcount related costs for research and development personnel; costs for materials used in research and development activities; costs for outside services and allocated portions of facilities and other corporate costs. The Company has entered into research and clinical study arrangements with selected hospitals, cancer treatment centers, academic institutions and research institutions worldwide. These agreements support the Company's internal research and development capabilities.

**Share-Based Compensation**

The Company issues stock-based compensation awards to employees and directors in the form of stock options, restricted stock units (RSUs), performance stock units (PSUs), market stock units (MSUs) and employee stock purchase plan (ESPP) awards (collectively, awards).

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

The Company measures and recognizes compensation expense for all stock-based awards based on the awards' fair value. Share-based compensation for RSUs and PSUs is measured based on the value of the Company's common stock on the grant date. The Company uses the Monte-Carlo simulation model to estimate the fair value of MSUs. Share-based compensation for employee stock options and ESPP awards are measured on the date of grant using a Black-Scholes option pricing model.

Awards vest either on a graded schedule or in a lump sum. The Company determines the fair value of each award as a single award and recognizes the expense on a straight-line basis over the service period of the award, which is generally the vesting period. The exercise price of stock options granted is equal to the fair market value of the Company's common stock on the date of grant. Stock options expire ten years from the date of grant.

Share-based compensation expense for stock options, RSUs, PSUs and the ESPP is based on awards ultimately expected to vest, and the expense is recorded net of estimated forfeitures. The Company recognizes expense for MSUs net of estimated forfeitures and does not adjust the expense for subsequent changes in the expected outcome of the market-based vesting conditions.

**Loss Contingencies**

The Company is involved in various lawsuits, claims and proceedings that arise in the ordinary course of business. The Company records a provision for a liability when it believes that it is both probable that a liability has been incurred and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. The Company reviews these provisions quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information.

**Net Loss Per Common Share**

Basic and diluted net loss per share is computed by dividing net loss attributable to stockholders by the weighted average number of common shares outstanding during the year.

A reconciliation of the numerator and denominator used in the calculation of basic and diluted net loss per share attributable to stockholders follows (in thousands):

| | Years ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **Numerator:** | | | |
| Net loss used to compute basic and diluted loss per share | $ (29,579) | $ (25,504) | $ (40,209) |
| **Denominator:** | | | |
| Weighted average shares used to compute basic and diluted loss per share | 82,495 | 80,509 | 78,277 |

The potentially dilutive shares of the Company's common stock resulting from the assumed exercise of outstanding stock options, the vesting of Restricted Stock Units (RSU), Market Stock Units (MSU) and Performance Stock Units (PSU), and the purchase of shares under the Employee Stock Purchase Program (ESPP), as determined under the treasury stock method, are excluded from the computation of diluted net loss per share because their effect would have been anti-dilutive.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

Additionally, the 3.75% Convertible Senior Notes due August 2016 (the "3.75% Convertible Notes"), the 3.50% Convertible Senior Notes due February 1, 2018 (the "3.50% Convertible Notes"), the 3.50% Series A Convertible Notes (the "3.50% Series A Convertible Notes") due February 1, 2018 (together, the "Existing Convertible Notes") are included in the calculation of diluted net income per share only if their inclusion is dilutive.

The following table sets forth all potentially dilutive securities excluded from the computation in the table above because their effect would have been anti-dilutive (in thousands):

| | As of June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Stock options | 2,463 | 2,377 | 2,537 |
| RSUs, PSUs and MSUs | 5,227 | 5,467 | 4,483 |
| 3.50% Convertible Notes | 8,378 | 8,378 | 8,378 |
| 3.50% Series A Convertible Notes | | | 2,896 |
| | 16,068 | 16,222 | 18,294 |

***Outstanding Convertibles Notes  Diluted Share Impact***

The 3.75% Convertible Notes and 3.50% Series A Convertible Notes have an optional physical (share), cash or combination settlement feature and contain certain conditional conversion features. Due to the optional cash settlement feature and management's intent to settle the principal amount thereof in cash, the conversion shares underlying the outstanding principal amount of the 3.75% Convertible Notes and 3.50% Series A Convertible Notes, totaling approximately 3.9 million shares and 13.2 million shares, respectively, were not included in the potentially diluted share count table above. The Company's average stock price did not exceed the conversion price of the 3.75% Convertible Notes as of June 30, 2016 and 2015. The number of premium shares included in the Company's diluted share count will vary with fluctuations in the Company's share price. Higher actual share prices result in a greater number of premium shares.

**Income Taxes**

The Company is required to estimate its income taxes in each of the tax jurisdictions in which it operates prior to the completion and filing of tax returns for such periods. This process involves estimating actual current tax expense together with assessing temporary differences in the treatment of items for tax purposes versus financial accounting purposes that may create net deferred tax assets and liabilities. The Company accounts for income taxes under the asset and liability method, which requires, among other things, that deferred income taxes be provided for temporary differences between the tax bases of the Company's assets and liabilities and their financial statement reported amounts. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses, research and development credit carryforwards and other deferred tax assets.

The Company records a valuation allowance to reduce its deferred tax assets to the amount the Company believes is more likely than not to be realized. Because of the uncertainty of the realization of the deferred tax assets, the Company has recorded a full valuation allowance against its domestic and certain foreign net deferred tax assets.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses the Company's tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business. The Company anticipates that except for $0.1 million in uncertain tax positions that may be reduced related to the lapse of various statutes of limitation, there will be no material changes in uncertain tax positions in the next 12 months.

**Accumulated Other Comprehensive Loss**

The components of comprehensive loss consist of net loss, unrealized gains and losses on available-for-sale investments, changes in foreign currency exchange rate translation and net changes related to a defined benefit pension plan. The unrealized gains and losses on available-for-sale investments, changes in foreign currency exchange rate translation and net changes related to the defined benefit pension plan are excluded from earnings and reported as a component of stockholders' equity. The foreign currency translation adjustment results from those subsidiaries not using the United States dollar as their functional currency since the majority of their economic activities are primarily denominated in their applicable local currency. Accordingly, all assets and liabilities related to these operations are translated at the current exchange rates at the end of each period. The resulting cumulative translation adjustments are recorded directly to the accumulated other comprehensive loss account in stockholders' equity. Revenues and expenses are translated at average exchange rates in effect during the period.

**Recent Accounting Standards Update Not Yet Effective**

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-09, *Compensation Stock Compensation (Topic 718) Scope of Modification Accounting.* This guidance redefines which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting for a share-based payment. This guidance will be effective for the Company in the first quarter if its fiscal year 2019 and early adoption is permitted in any interim reporting period. The Company has not yet determined whether it will elect early adoption and has determined that the adoption of this standard will not have a significant impact on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* This guidance revises the presentation of employer-sponsored defined benefit pension and other postretirement plans for the net periodic benefit cost in the statement of operations and requires that the service cost component of net periodic benefit be presented in the same income statement line items as other employee compensation costs for services rendered during the period. The other components of the net benefit costs are required to be presented in the statement of operations separately from the service cost component and outside the subtotal of income from operations. This guidance allows only the service cost component of net periodic benefit costs to be eligible for capitalization. The guidance will be effective for the Company in the first quarter of its fiscal year 2019 and early adoption is permitted as of the beginning of an annual reporting period. The Company has not yet determined whether it will elect early adoption and is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles Goodwill and Other Topics (Topic 350) Simplifying the Test for Goodwill Impairment.* This guidance eliminates the requirement to calculate the implied fair value of goodwill of a reporting unit by determining the fair value of its assets and liabilities (including unrecognized assets and liabilities) to measure a goodwill impairment charge. Instead, an entity will record an impairment charge based on the excess of the reporting unit's carrying amount over its fair value. The ASU will be effective for the Company in the first quarter of its fiscal year 2021 on a prospective basis and earlier adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The Company has not yet determined whether it will elect early adoption and is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This ASU will be effective for the Company in the first quarter of its fiscal year 2019 and early adoption is permitted. The Company has not yet determined whether it will elect early adoption and is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 (ASU 2016-13) *Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires measurement and recognition of expected credit losses for financial assets held. This guidance will become effective for the Company beginning in the third quarter of fiscal year 2020 and must be adopted using a modified retrospective approach, with certain exceptions. Early adoption is permitted beginning in the third quarter of fiscal year 2019. The Company has not yet determined whether it will elect early adoption and is evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting (Topic 718)* (ASU 2016-09). The new guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this standard are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. Effective July 1, 2017, the Company has elected to continue the use of its forfeiture estimation method for share-based payment awards. The Company's adoption of this guidance will not have a significant impact on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). Under the new guidance, a lessee will be required to recognize assets and liabilities for all leases with lease terms of more than 12 months. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. ASU 2016-02 requires additional disclosures. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. ASU 2016-02 requires adoption based upon a modified retrospective transition approach. Early adoption is permitted. The Company is currently evaluating the impact of the pending adoption of ASU 2016-02 on its consolidated financial statements and related disclosures.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

In January 2016, the FASB issued ASU No. 2016-01 (ASU 2016-01) *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 changes accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. In addition, it clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The guidance will become effective for the Company beginning in the third quarter of fiscal year 2018 and must be adopted using a modified retrospective approach, with certain exceptions. Early adoption is permitted for certain provisions. The Company is evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is required to be adopted, using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) modified retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures. In August 2015, the FASB approved a one year deferral of the effective period of ASU 2014-09. The standard will be effective for the Company in the first quarter of its fiscal year 2019, but early adoption is permitted starting in the first quarter of fiscal year 2018. The FASB issued supplemental adoption guidance and clarification to ASU 2014-09 in 2016 and 2017. The Company intends to adopt the new standard in the first quarter of fiscal year 2019 using the modified retrospective method. Based upon the Company's preliminary assessment, certain portions of its product revenue will be accelerated to reflect consideration upon delivery and an element of installation will be deferred until performed. Revenue policies for indirect sales and service revenues are expected to be unchanged under the new guidance. The Company also expects to capitalize incremental contract acquisition costs, such as sales commissions, and amortize over the economic life of its product or contractual relationship with the customer. The Company's current practice is to defer sales commissions until revenue is recognized. The Company currently does not expect the application of this guidance to have a significant impact on its consolidated financial statements; however, the Company's assessment may change as it continues its evaluation and analysis of this ASU.

**Accounting Standards Update Recently Adopted**

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash,* which provides amendments to current guidance to address the classification and presentation of changes in restricted cash in the statement of cash flows. The Company early adopted this ASU in its fiscal year 2017 third quarter and retrospectively applied the change to the statement of cash flows for the fiscal years ended June 30, 2016 and 2015. The Company disclosed its restricted cash

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

on its consolidated balance sheets for the years presented. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements and related disclosures.

**3. Balance Sheet Components**

**Cash and Cash Equivalents**

The following is a summary of cash and cash equivalents (in thousands):

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Cash | $ 70,515 | $ 95,906 |
| Money market funds | 1,569 | 13,362 |
| Commercial paper | | 8,938 |
| Municipal government securities | | 1,565 |
| Total cash and cash equivalents | $ 72,084 | $ 119,771 |

**Accounts receivable, net**

Accounts receivable, net consisted of the following (in thousands):

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Accounts receivable | $ 70,394 | $ 54,974 |
| Unbilled fees and services | 2,815 | 2,662 |
| | 73,209 | 57,636 |
| Less: Allowance for doubtful accounts | (420) | (826) |
| Accounts receivable, net | $ 72,789 | $ 56,810 |

The Company received payment or had credits of $0.1 million, added $0.2 million and wrote off $0.5 million from the allowance for doubtful accounts in fiscal 2017. The Company received payment or had credits of $0.2 million, added $0.3 million and wrote off $0.01 million from the allowance for doubtful accounts in fiscal 2016.

**Financing receivables**

A financing receivable is a contractual right to receive money, on demand or on fixed or determinable dates, that is recognized as an asset in the Company's balance sheet. The Company's financing receivables, consisting of its accounts receivable with contractual maturities of more than one year and sales-type leases, totaled $7.4 million and $7.6 million at June 30, 2017 and 2016, respectively, and are included in Other Assets in the consolidated balance sheets. Of the $7.4 million in financing receivables at June 30, 2017, $2.8 million related to sales-type leases with customers while the remaining $4.6 million related to contractual maturities of more than one year. Of the $7.6 million in financing receivables at June 30, 2016, $3.5 million related to sales-type leases with customers while the remaining $4.1 million related to contractual maturities of more than one year. Due to the homogenous nature of the leasing transactions, the Company manages them on an aggregate basis

when assessing

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**3. Balance Sheet Components (Continued)**

and monitoring credit risk. The Company evaluates the credit quality of an obligor at lease inception and monitors credit quality over the term of the underlying transactions. The Company performs a credit analysis for all new customers and reviews payment history, current order backlog, financial performance of the customers and other variables that augment or mitigate the inherent credit risk of a particular transaction. Such variables include the underlying value and liquidity of the collateral, the essential use of the equipment, the term of the lease and the inclusion of credit enhancements, such as guarantees, letters of credit or security deposits. Accounts rated as low risk typically have the equivalent of a Moody's rating of Baa3 or higher, while accounts rated as moderate risk generally have the equivalent of a Ba1 or lower. The Company classifies accounts as high risk when it considers the financing receivable to be impaired or when management believes there is a significant near-term risk of non-payment. As of June 30, 2017, the sales-type lease portion of the financing receivables was rated at a moderate risk. The Company performed an assessment of the allowance for credit losses related to its financing receivables as of June 30, 2017. Based upon such assessment, the Company recorded an allowance for credit losses related to such financing receivables as of June 30, 2017 and did not record any allowance for credit losses as of June 30, 2016.

A summary of the Company's financing receivables is presented as follows (in thousands):

| June 30, 2017 | Lease Receivables | Financed Service Contracts and Other | Total |
|---|---|---|---|
| Gross | $ 4,030 | $ 6,268 | $ 10,298 |
| Residual value | | | |
| Unearned income | (433) | | (433) |
| Allowance for credit loss | (39) | | (39) |
| Total, net | $ 3,558 | $ 6,268 | $ 9,826 |
| Reported as: | | | |
| Current | $ 720 | $ 1,677 | $ 2,397 |
| Non-current | 2,838 | 4,591 | 7,429 |
| Total, net | $ 3,558 | $ 6,268 | $ 9,826 |

| June 30, 2016 | Lease Receivables | Financed Service Contracts and Other | Total |
|---|---|---|---|
| Gross | $ 4,998 | $ 5,840 | $ 10,838 |
| Residual value | | | |
| Unearned income | (623) | | (623) |
| Allowance for credit loss | | | |
| Total, net | $ 4,375 | $ 5,840 | $ 10,215 |

Reported as:

| | | | |
|---|---|---|---|
| Current | $ 840 | $ 1,778 | $ 2,618 |
| Non-current | 3,535 | 4,062 | 7,597 |
| Total, net | $ 4,375 | $ 5,840 | $ 10,215 |

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**3. Balance Sheet Components (Continued)**

Actual cash collections may differ from the contracted maturities due to early customer buyouts, refinancing, or defaults. Future minimum lease payments to be received as of June 30, 2017 are presented as follows (in thousands):

| Year Ending June 30, | Amount |
|---|---|
| 2018 | $ 930 |
| 2019 | 930 |
| 2020 | 930 |
| 2021 | 930 |
| 2022 | 310 |
| Total | $ 4,030 |

**Inventories**

Inventories consisted of the following (in thousands):

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Raw materials | $ 38,803 | $ 49,618 |
| Work-in-process | 15,471 | 20,175 |
| Finished goods | 50,780 | 46,194 |
| Inventories | $ 105,054 | $ 115,987 |

The Company reclassified $0.9 million between raw materials and finished good as of June 30, 2016 to conform to current year's presentation of inventories.

**Property and Equipment, net**

Property and equipment consisted of the following (in thousands):

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Furniture and fixtures | $ 4,364 | $ 4,527 |
| Computer and office equipment | 11,802 | 11,485 |
| Software | 11,457 | 11,104 |
| Leasehold improvements | 23,164 | 21,632 |
| Machinery and equipment | 48,742 | 47,171 |
| Construction in progress | 3,533 | 4,412 |
| | 103,062 | 100,331 |
| Less: Accumulated depreciation | (80,000) | (72,453) |
| Property and equipment, net | $ 23,062 | $ 27,878 |

Depreciation and amortization expense related to property and equipment for the years ended June 30, 2017, 2016 and 2015 was $10.3 million, $10.3 million and $11.6 million, respectively.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**3. Balance Sheet Components (Continued)**

**Accumulated Other Comprehensive Income (Loss)**

The following table summarizes the changes in accumulated other comprehensive income (loss) by component (in thousands):

| | Foreign Currency Items | Unrealized Gains and (Losses) on Available-for-Sale Securities | Change in Defined Pension Benefit Obligation | Total |
|---|---|---|---|---|
| **Balance at June 30, 2015** | $ 1,168 | $ (77) | $ (1,517) | $ (426) |
| Other comprehensive income (loss) before reclassifications | (47) | 63 | (549) | (533) |
| Amounts reclassified from accumulated other comprehensive loss | | (1) | | (1) |
| Net current period other comprehensive income (loss) | (47) | 62 | (549) | (534) |
| **Balance at June 30, 2016** | 1,121 | (15) | (2,066) | (960) |
| Other comprehensive income (loss) | 33 | (74) | 949 | 908 |
| **Balance at June 30, 2017** | $ 1,154 | $ (89) | $ (1,117) | $ (52) |

**4. Foreign Exchange Instruments**

The Company utilizes foreign currency forward contracts with well-known financial institutions to manage its exposure of fluctuations in foreign currency exchange rates on certain intercompany balances and foreign currency denominated cash, customer receivables and liabilities. The Company does not use derivative financial instruments for speculative or trading purposes. These forward contracts are not designated as hedging instruments for accounting purposes. Principal hedged currencies include the Euro, Japanese Yen, Swiss Franc, and U.S. Dollar. The periods of these forward contracts range up to approximately three months and the notional amounts are intended to be consistent with changes in the underlying exposures. The Company intends to exchange foreign currencies for U.S. Dollars at maturity. There were no outstanding foreign currency forward contracts at the end of fiscal years 2017 and 2016.

The following table shows the effect of forward contracts not designated as hedging instruments and foreign currency transactions gains and losses, which were included in "Other expense, net" on the consolidated statements of operations in fiscal years (in thousands):

| | Years ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Foreign currency exchange gain (loss) on foreign contracts | $ (1,322) | $ (4,155) | $ (1,355) |
| Foreign currency transactions gain (loss) | 55 | 2,141 | (1,196) |

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**5. Financial Instruments**

The Company considers all highly liquid investments held with various financial institutions, certificates of deposit and other securities with original maturities of three months or less to be cash equivalents.

The Company classifies all of its investments as available-for-sale at the time of purchase because it is management's intent that these investments are available for current operations and includes these investments on its balance sheets as short-term investments. Investments with original maturities longer than three months include commercial paper and investment- grade agency and corporate debt securities. Investments classified as available-for-sale are recorded at fair market value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity. Realized gains and losses are recorded based on specific identification of each security's cost basis.

The Company defines fair value as the price that would be received to sell 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 on the measurement date. The fair value hierarchy contains three levels of inputs that may be used to measure fair value, as follows:

*Level 1* Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

*Level 2* Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets in non-active markets;

Inputs other than quoted prices that are observable for the asset or liability; and

Inputs that are derived principally from or corroborated by other observable market data.

*Level 3* Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**5. Financial Instruments (Continued)**

The following tables summarize the amortized cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category for cash, cash equivalents and short-term investments (in thousands):

| | June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | | | | Estimated Fair Value | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Cash and Cash Equivalents | Short-term Investments |
| Cash | $ 70,515 | $ | $ | $ 70,515 | $ |
| Level 1 | | | | | |
| Money market funds | 1,569 | | | 1,569 | |
| Level 2 | | | | | |
| U.S. government agency securities | 23,998 | | (89) | | 23,909 |
| **Total** | $ 96,082 | $ | $ (89) | $ 72,084 | $ 23,909 |

| | June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | | | | Estimated Fair Value | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Cash and Cash Equivalents | Short-term Investments |
| Cash | $ 95,906 | $ | $ | $ 95,906 | $ |
| Level 1 | | | | | |
| Money market funds | 13,362 | | | 13,362 | |
| | 13,362 | | | 13,362 | |
| Level 2 | | | | | |
| Commercial paper | 14,704 | | | 8,938 | 5,766 |
| U.S. government agency securities | 28,000 | 7 | (17) | | 27,990 |
| U. S. treasury securities | 3,997 | 1 | | | 3,998 |
| Municipal debt securities | 1,565 | | | 1,565 | |
| Corporate debt securities | 9,491 | | (6) | | 9,485 |
| | 57,757 | 8 | (23) | 10,503 | 47,239 |
| **Total** | $ 167,025 | $ 8 | $ (23) | $ 119,771 | $ 47,239 |

The Company's Level 2 investments in the table above are classified as Level 2 items because quoted prices in an active market are not readily accessible for those specific financial assets, or the Company may have relied on alternative pricing methods that do not rely exclusively on quoted prices to determine the fair value of the investments.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**5. Financial Instruments (Continued)**

Contractual maturities of available-for-sale securities at June 30, 2017 were as follows (in thousands):

| | June 30, 2017 | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| Due in 1 year or less | $ 12,000 | $ 11,970 |
| Due in 1 - 2 years | 11,998 | 11,939 |
| Total | $ 23,998 | $ 23,909 |

The following table summarizes our available-for-sale debt securities that were in a continuous unrealized loss position, but were not deemed to be other-than-temporarily impaired (in thousands):

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value |
| ***June 30, 2017*** | | | | | | |
| Debt Securities: | | | | | | |
| U. S. government agency securities | $ (31) | $ 11,970 | $ (58) | $ 11,939 | $ (89) | $ 23,909 |
| Total | $ (31) | $ 11,970 | $ (58) | $ 11,939 | $ (89) | $ 23,909 |
| ***June 30, 2016*** | | | | | | |
| Debt Securities: | | | | | | |
| Corporate debt securities | $ (3) | $ 6,325 | $ (3) | $ 3,160 | $ (6) | $ 9,485 |
| U. S. government agency securities | | | (17) | 19,988 | (17) | 19,988 |
| Total | $ (3) | $ 6,325 | $ (20) | $ 23,148 | $ (23) | $ 29,473 |

The Company held a total of 8 positions as of June 30, 2017 and 11 positions as of June 30, 2016 that were in an unrealized loss position. Based on the Company's review of these securities, the Company believes it had no other-than-temporary impairments on these securities as of June 30, 2017 and 2016 because it does not intend to sell these securities and believes it is not more likely than not that it will be required to sell these securities before the recovery of their amortized cost basis. Gross realized gains and gross realized losses were insignificant for the years ended June 30, 2017, 2016 and 2015.

*Assets and Liabilities That Are Measured at Fair Value on a Nonrecurring Basis*

The Company's non-marketable equity investments and non-financial assets, such as goodwill, intangible assets, and property, plant, and equipment (measured at fair value if a write-down is recognized) are evaluated for impairment annually or when indicators of impairment exist. The fair value measurement of non-marketable equity investments is performed by a third-party analyst using Level 3 inputs. Non-financial

assets such as identified intangible assets acquired in connection with an acquisition are measured at fair value using Level 3 inputs, which include discounted cash flow methodologies, or similar techniques, when there is limited market activity and the determination of fair value requires significant judgment and estimates. In addition, in evaluating the fair value of

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**5. Financial Instruments (Continued)**

goodwill impairment, further corroboration is obtained using our market capitalization. The Company did not record any impairment charges for non-marketable equity investments and non-financial asset in the fiscal years ended June 30, 2017, 2016, and 2015.

The debt is measured on a non-recurring basis using Level 2 inputs based upon observable inputs of the Company's underlying stock price and the time value of the conversion option, since an observable quoted price of the Existing 3.50% Convertible Notes is not readily available. The Company's Revolver Credit Facility and its Secured Loan are valued at market interest rates, which it considers to be a level 2 fair value measurement. Therefore, the Company's carrying value of these financial instruments approximate their fair value.

The following table summarizes the carrying values and estimated fair values of the Company's Existing 3.50% Convertible Notes and other non-convertible debt (in thousands):

| | June 30, 2017 | | June 30, 2016 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| 3.75% Convertible Notes | $ | $ | $ 36,400 | $ 36,487 |
| 3.50% Convertible Notes | 44,099 | 48,146 | 43,195 | 51,450 |
| 3.50% Series A Convertible Notes | 68,924 | 74,982 | 66,613 | 81,053 |
| Secured Loan | | | 64,204 | 64,204 |
| Revolver Credit Facility | 51,548 | 51,548 | | |
| **Total** | $ 164,571 | $ 174,676 | $ 210,412 | $ 233,194 |

**6. Goodwill and Purchased Intangible Assets**

*Goodwill*

Goodwill as of June 30, 2017 and 2016 and changes in the carrying amount of goodwill for the respective periods are as follows (in thousands):

| | As of June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Balance at the beginning of the period | $ 57,848 | $ 58,054 |
| Currency translation | (36) | (206) |
| Balance at the end of the period | $ 57,812 | $ 57,848 |

In fiscal 2017 the Company performed its annual goodwill impairment test and determined that there was no impairment to goodwill. The Company will continue to monitor its recorded goodwill for indicators of impairment.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**6. Goodwill and Purchased Intangible Assets (Continued)**

*Purchased Intangible Assets*

The Company's intangible assets associated with completed acquisitions and purchased patent license are as follows (in thousands):

| | | As of June 30, 2017 | | | As of June 30, 2016 | | |
|---|---|---|---|---|---|---|---|
| | Useful Lives (in years) | Gross Carrying Amount | Accumulated Amortization | Net Amount | Gross Carrying Amount | Accumulated Amortization | Net Amount |
| Developed technology | 5 - 6 | $ 46,700 | $ (46,700) | $ | $ 46,743 | $ (39,132) | $ 7,611 |
| Patent license | 7 | 1,000 | (36) | 964 | | | |
| Total intangible assets | | $ 47,700 | $ (46,736) | $ 964 | $ 46,743 | $ (39,132) | $ 7,611 |

During fiscal year 2017, the Company purchased a patent license with a useful life of seven years. The Company did not identify any triggering events that would indicate potential impairment of its definite-lived intangible and long-lived assets as of June 30, 2017 and 2016.

Amortization expense related to purchased intangible assets was $7.7 million, $8.0 million and $7.9 million for the years ended June 30, 2017, 2016 and 2015, respectively.

The estimated future amortization expense of purchased intangible assets as of June 30, 2017 is as follows (in thousands):

| Year Ending June 30, | Amount |
|---|---|
| 2018 | $ 143 |
| 2019 | 143 |
| 2020 | 143 |
| 2021 | 143 |
| 2022 | 143 |
| Thereafter | 249 |
| | $ 964 |

**7. Commitments and Contingencies**

**Operating Lease Agreements and Long-term Debt**

The Company leases office and manufacturing space under non-cancelable operating leases with various expiration dates through June 2025. Rent expense was $8.6 million, $8.3 million and $8.0 million for the years ended June 30, 2017, 2016 and 2015, respectively. The terms of some of the facility leases provide for rental payments on a graduated scale. For these leases, the Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

The Company is also required to make semi-annual interest payments on the Existing 3.50% Convertible Notes and monthly interest

payments on the Revolver Credit Facility. See Note 12, *Debt*, for details.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**7. Commitments and Contingencies (Continued)**

Future minimum lease payments under non-cancelable operating lease agreements and short-term principal and interest on the Existing 3.50% Convertible Notes and Revolving Credit Facility as of June 30, 2017 are as follows including the effects of the subsequent debt financing as reported in Note 18 (in thousands):

| Year Ending June 30, | Operating Leases | Long-Term Debt(1) |
|---|---|---|
| 2018 | $ 9,290 | $ 47,597 |
| 2019 | 7,569 | 6,827 |
| 2020 | 6,844 | 6,828 |
| 2021 | 6,062 | 6,828 |
| 2022 | 6,093 | 58,827 |
| Thereafter | 12,642 | 85,266 |
| Total | $ 48,500 | $ 212,173 |

(1) These amounts represent principal and interest cash payments over the contractual life of the debt obligations, including anticipated interest payments that are not recorded on the Company's consolidated balance sheet. Any conversion, premium, redemption or purchase of Convertible Notes would impact cash payments noted in the preceding table.

The Company's purchase commitments and obligations include all open purchase orders and contractual obligations in the ordinary course of business, including commitments with contract manufacturers and suppliers, for which the Company has not received the goods or services and acquisition and licensing of intellectual property. A majority of these purchase obligations are due within a year. Although open purchase orders are considered enforceable and legally binding, the terms generally allows the Company the option to cancel, reschedule, and adjust its requirements based on the Company's business needs prior to the delivery of goods or performance of services, and hence, have not been included in the table above.

The Company enters into standard indemnification agreements with its landlords and all superior mortgagees and their respective directors, officers' agents, and employees in the ordinary course of business. Pursuant to these agreements, the Company will indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the landlords, in connection with any loss, accident, injury, or damage by any third-party with respect to the leased facilities. The term of these indemnification agreements is from the commencement of the lease agreements until termination of the lease agreements. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, historically the Company has not incurred claims or costs to defend lawsuits or settle claims related to these indemnification agreements. The Company has not recorded any liability associated with its indemnification agreements as it is not aware of any pending or threatened actions that represent probable losses as of June 30, 2017.

**Royalty Agreement**

The Company has an exclusive license agreement with the Wisconsin Alumni Research Foundation (WARF), to make, use, sell and otherwise distribute products under certain of WARF's patents

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**7. Commitments and Contingencies (Continued)**

anywhere in the world. The Company is required to pay WARF a royalty for each TomoTherapy System sold that includes the licensed technology. The license agreement expires upon expiration of the patents and may be terminated earlier if the Company so elects. WARF has the right to terminate the license agreement if the Company does not meet the minimum royalty obligation of $0.3 million per year, or if the Company commits any breach of the license agreement's covenants. The Company recorded royalty costs of $0.5 million, $0.6 million and $0.6 million for the years ended June 30, 2017, 2016 and 2015, respectively, which were recorded in cost of revenue or deferred cost of revenue. The Company had accrued liabilities of approximately $0.2 million and $0.2 million at June 30, 2017 and 2016, respectively, related to this agreement.

**Software License Indemnity**

Under the terms of the Company's software license agreements with its customers, the Company agrees that in the event the software sold infringes upon any patent, copyright, trademark, or any other proprietary right of a third-party, it will indemnify its customer licensees against any loss, expense, or liability from any damages that may be awarded against its customer. The Company includes this infringement indemnification in all of its software license agreements and selected managed services arrangements. In the event the customer cannot use the software or service due to infringement and the Company cannot obtain the right to use, replace or modify the license or service in a commercially feasible manner so that it no longer infringes, then the Company may terminate the license and provide the customer a refund of the fees paid by the customer for the infringing license or service. The Company has not recorded any liability associated with this indemnification, as it is not aware of any pending or threatened actions that represent probable losses as of June 30, 2017.

**Litigation**

From time to time, the Company is involved in legal proceedings arising in the ordinary course of its business. The Company records a provision for a loss when it believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. Currently, management believes the Company does not have any probable and estimable losses related to any current legal proceedings and claims. Although occasional adverse decisions or settlements may occur management does not believe that an adverse determination with respect to any of these claims would individually or in the aggregate materially and adversely affect the Company's financial condition or operating results. Litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond the Company's control. Should any of these estimates and assumptions change or prove to have been incorrect, the Company could incur significant charges related to legal matters that could have a material impact on its results of operations, financial position and cash flows.

**8. Stockholders' Equity**

At June 30, 2017, the Company had 13.2 million shares of common stock reserved for future issuance to the holders of the 3.50% Convertible Senior Notes and had 7.7 million shares of common stock reserved for issuance under the stock incentive plans and the employee stock purchase plan.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**9. Stock Incentive Plan and Employee Stock Purchase Plan**

As of June 30, 2017, the Company had three outstanding stock incentive plans: the 2016 Equity Incentive Plan, or the 2016 Plan; the 2007 Incentive Award Plan, or the 2007 Plan; and the 1998 Stock Incentive Plan, or the 1998 Plan. The 2016 Plan permits the granting of stock options, stock appreciation rights, restricted stock awards, performance shares, performance units, and restricted stock units, or RSUs. The vesting of RSUs granted under the 2016 Plan are primarily service-based (over the requisite service period) while the vesting of performance units granted under the 2016 Plan are primarily performance-based, or PSUs, or market-based, or MSUs. Only employees of the Company are eligible to receive incentive stock options. Non-employees may be granted non-qualified stock options.

Stock options granted under the 2016 Plan have an exercise price of at least 100% of the fair market value of the underlying stock on the grant date. The stock options have 10 year contractual terms and generally become exercisable for 25% of the option shares one year from the date of grant and then ratably over the following 36 months. Service-based RSUs granted under the equity plans generally vest 25% of the share units covered by the grant on each of the first through fourth anniversaries of the date of the grant, subject to the continued service of the grantee through each such date. However, certain of the outstanding RSUs under our equity plans vest 50% upon the first anniversary year of the grant date, and 50% upon the second anniversary year of the grant date. The Board of Directors has the discretion to use different vesting schedules.

As of June 30, 2017, the 2007 plan and the 1998 Plan each continued to remain in effect; however, the Company can no longer grant equity awards under such plans.

The following table summarizes the share-based compensation charges included in the Company's consolidated statements of operations and comprehensive loss (in thousands):

| | Years ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Cost of revenue | $ 1,991 | $ 1,677 | $ 1,874 |
| Research and development | 2,490 | 2,564 | 2,971 |
| Selling and marketing | 2,827 | 2,633 | 2,945 |
| General and administrative | 6,321 | 5,764 | 6,140 |
| Total | $ 13,629 | $ 12,638 | $ 13,930 |

The amount of capitalized share-based compensation costs as components of inventory for the years ended June 30, 2017, 2016 and 2015 was insignificant.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**9. Stock Incentive Plan and Employee Stock Purchase Plan (Continued)**

***Stock Options***

The fair value of each option is estimated at the date of grant using the Black-Scholes option pricing formula with the following assumptions:

| | Years Ended June 30, | | |
|---|---|---|---|
| | **2017** | **2016(1)** | **2015(1)** |
| Risk-free interest rate | 1.76% | % | % |
| Dividend yield | % | % | % |
| Expected term | 5.12 | | |
| Expected volatility | 46.4% | % | % |

(1) The Company did not issue any stock options for the years ended June 30, 2016 and 2015.

***Determining Fair Value of Stock Options***

The fair value of each grant of stock options was determined by the Company using the methods and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment to determine.

*Valuation and Amortization Method* The Company estimates the fair value of its stock options using the Black-Scholes option-pricing model. This fair value is then amortized over the requisite service periods of the awards.

*Expected Term* The Company estimates the expected term of stock option by taking the average of the vesting term and the contractual term of the option, as illustrated by the simplified method.

*Expected Volatility* The expected volatility is derived from the Company's historical stock volatility over a period approximately equal to the expected term of the options.

*Risk-Free Interest Rate* The risk-free interest rate is based on the U.S. Treasury yield curve on the date of grant.

*Dividend Yield* The dividend yield assumption is based on the Company's history and expectation of no dividend payouts.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**9. Stock Incentive Plan and Employee Stock Purchase Plan (Continued)**

A summary of option activity under the Company's Incentive Plan during the fiscal years is presented below (in thousands except per share and term amounts):

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (In Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance at June 30, 2014 | 3,209 | $ 7.44 | 5.38 | $ 8,251 |
| Options granted | | | | |
| Options exercised | (529) | 4.84 | | |
| Options forfeited/expired | (143) | 8.72 | | |
| Balance at June 30, 2015 | 2,537 | 7.91 | 5.10 | $ 1,862 |
| Options granted | | | | |
| Options exercised | (59) | 4.89 | | |
| Options forfeited/expired | (101) | 7.53 | | |
| Balance at June 30, 2016 | 2,377 | 8.00 | 3.97 | $ 452 |
| Options granted | 760 | 5.05 | | |
| Options exercised | (113) | 5.18 | | |
| Options forfeited/expired | (561) | 13.38 | | |
| Balance at June 30, 2017 | 2,463 | 6.05 | 5.42 | $ 191 |
| Vested or Expected to vest at June 30, 2017 | 2,463 | 6.05 | 5.42 | $ 191 |
| Exercisable at June 30, 2017 | 1,703 | $ 6.49 | 3.64 | $ 191 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the fair value of the Company's common stock on June 30, 2017 of $4.75 and the exercise price of the options that would have been received by option holders if all options exercisable had been exercised on June 30, 2017. The total intrinsic value of options exercised in the years ended June 30, 2017, 2016 and 2015 was approximately $0.1 million, $0.1 million and $1.4 million, respectively.

During the years ended June 30, 2017, 2016 and 2015, the Company recognized $0.5 million, $0.8 million and $1.1 million, respectively, of share-based compensation expense for stock options granted to employees.

Tax benefits from tax deductions for exercised options and disqualifying dispositions in excess of the deferred tax asset attributable to stock compensation costs for such options are credited to additional paid-in capital. Realized excess tax benefits related to stock options exercises was zero for each of the years ended June 30, 2017, 2016 and 2015.

As of June 30, 2017, there was approximately $1.4 million of unrecognized compensation cost net of estimated forfeitures, related to unvested stock options, which is expected to be recognized over a weighted average period of 3.42 years.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**9. Stock Incentive Plan and Employee Stock Purchase Plan (Continued)**

The following table summarizes information about outstanding and exercisable options at June 30, 2017 (in thousands, except years and exercise price):

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighte Average Exercise Price | Number Outstanding | Weighted Average Exercise Price |
| $4.00 - 4.01 | 248 | 4.35 | $ 4.01 | 248 | $ 4.01 |
| $4.23 - 4.94 | 61 | 1.83 | 4.66 | 61 | 4.66 |
| $5.05 - 5.05 | 760 | 9.42 | 5.05 | | |
| $5.38 - 5.68 | 266 | 2.54 | 5.65 | 266 | 5.65 |
| $5.74 - 6.28 | 394 | 4.45 | 6.16 | 394 | 6.16 |
| $6.32 - 6.63 | 247 | 2.97 | 6.50 | 247 | 6.50 |
| $6.75 - 6.82 | 14 | 4.22 | 6.77 | 14 | 6.77 |
| $6.96 - 6.96 | 276 | 5.25 | 6.96 | 276 | 6.96 |
| $7.06 - 13.45 | 143 | 2.20 | 9.74 | 143 | 9.74 |
| $15.22 - 15.22 | 54 | 0.50 | 15.22 | 54 | 15.22 |
| Total Outstanding | 2,463 | 5.42 | $ 6.05 | 1,703 | $ 6.49 |

***Restricted Stock***

The following table summarizes the activity of RSUs, PSUs and MSUs (in thousands, except fair value per share):

| Unvested Resstricted Stock | Restricted Stock Units | Performance Stock Units | Market Stock Units | Total Number of Shares Underlying Stock Awards | Weighted Average Grant Date Fair Value Per Share |
|---|---|---|---|---|---|
| Unvested at June 30, 2014 | 3,116 | 25 | 806 | 3,947 | $ 6.24 |
| Granted | 1,679 | 20 | 513 | 2,212 | 6.77 |
| Vested | (1,150) | (25) | | (1,175) | 6.73 |
| Cancelled/Forfeited | (320) | | (181) | (501) | 6.20 |
| Unvested at June 30, 2015 | 3,325 | 20 | 1,138 | 4,483 | 6.86 |
| Granted | 2,563 | | 585 | 3,148 | 6.12 |
| Vested | (1,138) | (20) | (413) | (1,571) | 6.81 |
| Cancelled/Forfeited | (546) | | (148) | (694) | 6.59 |
| Unvested at June 30, 2016 | 4,204 | | 1,162 | 5,366 | 6.48 |
| Granted | 1,622 | 10 | 708 | 2,340 | 5.03 |
| Vested | (1,534) | | (176) | (1,710) | 4.99 |
| Cancelled/Forfeited | (408) | | (361) | (769) | 5.86 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Unvested at June 30, 2017 | 3,884 | 10 | 1,333 | 5,227 | $ | 5.75 |

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**9. Stock Incentive Plan and Employee Stock Purchase Plan (Continued)**

As of June 30, 2017, there was approximately $26.3 million of unrecognized compensation cost, net of estimated forfeitures, related to restricted stock, which is expected to be recognized over a weighted average period of 2.13 years.

*Restricted Stock Units*

The Company recognized $9.5 million, $7.6 million and $7.9 million of share-based compensation expense, net of estimated forfeitures, related to RSUs during the years ended June 30, 2017, 2016 and 2015. The weighted average grant date fair value per share of RSUs was $5.03, $6.01 and $6.79 for the years ended June 30, 2017, 2016 and 2015, respectively. The aggregate fair market value of RSUs that vested during the year ended June 30, 2017 was $7.6 million.

*Performance Stock Units*

The Compensation Committee approved the grant of 10,000, zero and 20,000 PSUs to select employees of the Company in the years ended June 30, 2017, 2016 and 2015, respectively. Of these PSUs, zero, 20,000 and 25,000 vested in the years ended June 30, 2017, 2016 and 2015, respectively, due to the achievement of the requisite performance targets while none were cancelled in the years ended June 30, 2017, 2016 and 2015, respectively.

The Company recognized zero, $0.04 million, and $0.2 million of share-based compensation expense, net of estimated forfeitures, related to PSUs during the years ended June 30, 2017, 2016, and 2015, respectively.

*Market Stock Units*

The Compensation Committee approved the performance equity program, referred to as the market stock unit program, or MSU program, in October 2012. The Company's MSU Program uses the Russell 2000 index as a performance benchmark and requires that the Company's total stockholder return match or exceed that of the Russell 2000. Based on a sliding scale of how much the Company's total stockholder return outperforms the Russell 2000 benchmark, the participating executives can earn up to a maximum of 150% of the target number of shares over two measurement periods. The Company uses a Monte-Carlo simulation to calculate the fair value of the award on the grant date. The Compensation Committee approved the grant of 0.7 million, 0.6 million and 0.5 million MSUs to select employees of the Company in the years ended June 30, 2017, 2016 and 2015, respectively. Of these MSUs, 0.2 million, 0.4 million and 0.5 million vested in the years ending June 30, 2017, 2016 and 2015, respectively, due to the Company's total stockholder return performance against the Russell 2000 index while 0.4 million, 0.1 million and 0.2 million MSUs were cancelled in the years ended June 30, 2017, 2016 and 2015, respectively.

The Company recognized $2.5 million, $3.0 million and $3.4 million of share-based compensation expense, net of estimated forfeitures, related to MSUs during the years ended June 30, 2017, 2016 and 2015, respectively. The weighted average grant date fair value per share of MSUs was $5.20, $6.61 and $6.64 for the years ended June 30, 2017, 2016 and 2015, respectively. As of June 30, 2017, there was approximately $2.6 million of unrecognized compensation cost, net of estimated forfeitures, related to MSUs.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**9. Stock Incentive Plan and Employee Stock Purchase Plan (Continued)**

*Employee Stock Purchase Plan*

Under the Company's Amended and Restated 2007 Employee Stock Purchase Plan, or ESPP, qualified employees are permitted to purchase the Company's common stock at 85% of the lower of the fair market value of the common stock on the commencement date of each offering period or the fair market value on the specified purchase date. The ESPP is deemed compensatory and compensation costs are accounted for under ASC 718, *Stock Compensation*. Employees' payroll deductions may not exceed 10% of their salaries. Employees may purchase up to 2,500 shares per period provided that the value of the shares purchased in any calendar year may not exceed $25,000, as calculated pursuant to the purchase plan.

The Company estimates the fair value of ESPP shares at the date of grant using the Black-Scholes option pricing model. The weighted average assumptions were as follows:

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Risk-free interest rate | 0.49% - 0.70% | 0.51% - 0.70% | 0.07% - 0.26% |
| Dividend yield | % | % | % |
| Expected term | 0.5 - 1.0 | 0.5 - 1.0 | 0.5 - 1.0 |
| Expected volatility | 24.6% - 42.0% | 33.3% - 49.1% | 27.1% - 41.3% |

The risk-free rate for the expected term of the ESPP option was based on the U.S. Treasury Constant Maturity rate for each offering period; expected volatility was based on the historical volatility of the Company's common stock; and the expected term was based upon the offering period of the ESPP. For the years ended June 30, 2017, 2016 and 2015, the Company recognized $1.2 million, $1.3 million and $1.3 million, respectively, of compensation expense related to its ESPP.

The Company issued 0.9 million and 0.7 million shares under the ESPP in fiscal 2017 and 2016, respectively, at a weighted average price per share of $3.84 and $4.92, respectively. As of June 30, 2017, total unrecognized compensation cost related to the ESPP plan was $0.6 million, which the Company expects to recognize over a weighted average period of 0.6 years.

**10. Income Taxes**

Loss before provision for income taxes on the accompanying statements of operations and comprehensive loss included the following components (in thousands):

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Domestic | $ (35,227) | $ (32,710) | $ (46,178) |
| Foreign | 6,686 | 9,542 | 8,388 |
| Total worldwide | $ (28,541) | $ (23,168) | $ (37,790) |

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**10. Income Taxes (Continued)**

The provision for income taxes consisted of the following (in thousands):

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **Current:** | | | |
| Federal | $ | $ | $ |
| State | 14 | 17 | 33 |
| Foreign | 1,292 | 2,723 | 1,722 |
| Total current | $ 1,306 | $ 2,740 | $ 1,755 |
| **Deferred:** | | | |
| Federal | | | |
| State | | | |
| Foreign | (268) | (404) | 664 |
| Total deferred | (268) | (404) | 664 |
| Total provision for income taxes | $ 1,038 | $ 2,336 | $ 2,419 |

Income tax payable was $1.2 million, $2.3 million and $0.4 million at June 30, 2017, 2016 and 2015, respectively. A reconciliation of income taxes at the statutory federal income tax rate to the provision for income taxes included in the accompanying consolidated statements of operations and comprehensive loss is as follows (in thousands):

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **U.S. federal taxes (benefit):** | | | |
| At federal statutory rate | $ (9,988) | $ (8,108) | $ (13,226) |
| State tax, net of federal benefit | 14 | 17 | 33 |
| Share-based compensation expense | 802 | 701 | 579 |
| Debt extinguishment | | 338 | |
| Other non-deductible permanent items | 771 | 877 | 779 |
| Change in valuation allowance | 11,070 | 10,370 | 14,744 |
| Credits | (359) | (795) | (79) |
| Other | 83 | 20 | |
| Foreign taxes | (1,355) | (1,084) | (411) |
| Total | $ 1,038 | $ 2,336 | $ 2,419 |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**10. Income Taxes (Continued)**

purposes. Significant components of the Company's net deferred tax assets were as follows (in thousands):

| | June 30, | |
|---|---|---|
| | **2017** | **2016** |
| **Deferred tax assets:** | | |
| Federal and state net operating losses | $ 122,465 | $ 117,524 |
| Accrued expenses and reserves | 8,374 | 6,392 |
| Deferred revenue | 5,095 | 4,853 |
| Credits | 18,862 | 18,168 |
| Share-based compensation expense | 5,460 | 6,323 |
| Capitalized research and development | 7,441 | 5,882 |
| Unicap | 2,456 | 2,666 |
| Fixed assets/intangibles | 2,451 | (961) |
| Other | 1,334 | 859 |
| Total deferred tax assets | 173,938 | 161,706 |
| **Deferred tax liabilities:** | | |
| Debt discount | (494) | (1,805) |
| Section 481 adjustment | (768) | (1,140) |
| Total deferred tax liabilities | (1,262) | (2,945) |
| Valuation allowance | (171,733) | (158,264) |
| Net deferred tax assets | $ 943 | $ 497 |

The Company has not provided for U.S. income taxes on undistributed earnings of its foreign subsidiaries because it intends to permanently re-invest these earnings outside the U.S. The cumulative amount of such undistributed earnings upon which no U.S. income taxes have been provided as of June 30, 2017 was $26.5 million. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be repatriated to the U.S.

As of June 30, 2017, the Company had approximately $329.8 million and $154.5 million in federal and state net operating loss carryforwards, respectively. The federal and state carryforwards expire in varying amounts beginning in 2019 for federal and 2018 for state purposes. Such net operating loss carryforwards include excess tax benefits from employee stock option exercises which, in accordance with guidance for income tax accounting, have not been recorded within the Company's deferred tax asset balances. The Company will record approximately $0.9 million as a credit to additional paid-in capital as and when such excess benefits are ultimately realized.

In addition, as of June 30, 2017, the Company had federal and state research and development tax credits of approximately $18.6 million and $18.7 million, respectively. The federal research credits will begin to expire in 2019, the California research credits have no expiration date, and the other state research credits began to expire in 2018.

Under the Internal Revenue Code ("IRC") Sections 382 and 383, annual use of our net operating loss and research tax credit carryforwards to offset taxable income may be limited based on cumulative changes in ownership. An analysis of the impact of this provision through March 31, 2016 has been

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**10. Income Taxes (Continued)**

performed and it was determined that, although ownership changes had occurred, the carryovers should be available for utilization by the Company before they expire, provided we generate sufficient future taxable income. There were no equity financings in the current fiscal year that would result in an ownership change under Section 382. The Company will continue to monitor the changes in equity that would affect the tax attributes as reported.

Based on the available objective evidence and history of losses, the Company has established a 100% valuation allowance against the combined domestic net deferred tax assets of Accuray and TomoTherapy because of uncertainty surrounding the realization of such deferred tax assets.

The aggregate changes in the balance of gross unrecognized tax benefits were as follows (in thousands):

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **Balance at beginning of year** | $ 16,643 | $ 17,023 | $ 17,169 |
| Tax positions related to current year: | | | |
| Additions | 1,190 | 1,811 | 726 |
| Tax positions related to prior years: | | | |
| Additions | 299 | 449 | 29 |
| Reductions | (2,313) | (2,640) | (901) |
| **Balance at end of year** | $ 15,819 | $ 16,643 | $ 17,023 |

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses the Company's tax positions in respect to legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business. The reduction in prior year's tax positions primarily relates to lapses of applicable statutes of limitations. The Company anticipates that except for $0.1 million in uncertain tax positions that may be reduced related to the lapse of various statutes of limitation and completion of tax examinations there will be no material changes in uncertain tax positions in the next 12 months. As of June 30, 2017, the amount of gross unrecognized tax benefits was $15.8 million of which $11.9 million would affect the Company's effective tax rate if realized.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of June 30, 2017 and 2016, the Company had approximately $0.2 million and $0.5 million, respectively, of accrued interest and penalties related to uncertain tax positions.

The Company files income tax returns in the United States federal, various states and foreign jurisdictions. Due to tax attributes being carried forward and utilized during open years, the statute of limitations remains open for the U.S. federal jurisdiction and domestic states for tax years from 1999 and forward. In the foreign jurisdictions where the Company files income tax returns, the statutes of limitations with respect to these jurisdictions vary from jurisdiction to jurisdiction and range from 4 to 10 years. The material foreign jurisdictions are France, Switzerland, and Japan, whose tax years remain open from 2013, 2008, and 2010, respectively.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**10. Income Taxes (Continued)**

The Company is also subject to periodic examination of its income tax returns by the Internal Revenue Service (IRS) and other tax authorities, and in some cases the Company has received additional tax assessments which have not been significant. During fiscal year 2017, the Company received tax assessments from the Swiss Vaud Canton tax administration for the 2013, 2015 and 2016 tax periods. The Swiss total assessment of $0.1 million was settled in 2017.

**11. Other Expense, Net**

Other expense, net consisted of the following (in thousands):

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Interest expense on debt | $ (17,302) | $ (17,460) | $ (16,518) |
| Foreign currency transaction loss | (1,267) | (2,014) | (2,551) |
| Other (expense) income(1) | (149) | 1,179 | 448 |
| Total other expense, net | $ (18,718) | $ (18,295) | $ (18,621) |

(1) Other (expense) income consists of interest income, investment gains and losses, other miscellaneous income and expenses related to extinguishment of debt.

**12. Debt**

*MidCap Revolving Credit Facility*

On June 14, 2017, the Company entered into a credit and security agreement (the "Credit Agreement") by and among the Company, as borrower, TomoTherapy Incorporated, a direct, wholly-owned subsidiary of the Company, as borrower ("TomoTherapy," and together with the Company, the "Borrowers"), any additional borrower that may be added thereto, MidCap Financial Trust ("MidCap"), individually as a lender and as agent ("Agent"), and the other lenders from time to time parties thereto (together with MidCap as a lender, the "Lenders"). The Credit Agreement provides for a revolving credit facility in the initial amount of $52.0 million, which the Company may request be increased by up to $33.0 million to a new total of $85.0 million through additional tranches, each with a $1.0 million minimum (the "Facility"). Neither Agent nor the Lenders have any obligation to consent to activation of an additional tranche. Availability for borrowings under the Facility is subject to a borrowing base that is calculated as a function of the value of the Borrowers' eligible accounts receivable and eligible inventory, and the Borrowers are required to maintain a minimum drawn balance of at least 30% of such availability.

The Facility's stated maturity date is June 14, 2021, but the Facility may mature earlier than the stated maturity date if certain conditions set forth in the Credit Agreement are not met, including conditions related to the Company's Existing 3.50% Convertible Notes maturing February 1, 2018.

The Borrowers' obligations under the Credit Agreement are secured by first-priority liens on substantially all the assets of the Borrowers, subject to certain exceptions.

Interest on the borrowings under the Facility is payable monthly in arrears at an annual interest rate of reserve-adjusted, 90-day LIBOR (subject to a 1.00% floor) plus 4.50%. The Credit Agreement

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**12. Debt (Continued)**

requires the Borrowers to pay Agent a collateral management fee of 0.10% per month on the outstanding balance of the Facility. The Credit Agreement also requires the Borrowers to pay the Lenders an unused line fee equal to 0.5% per annum of the average unused portion of the Facility. If all or a portion of the Lenders' funding obligations under the Credit Agreement terminate for any reason other than as a result of a refinancing of 100% of the loans made under the Facility by Agent and the Lenders, then the Company will be required to pay a fee equal to 3% of the commitment amount terminated if such termination occurs within the first year, 2% of the commitment amount terminated if such termination occurs within the second year, and 1% of the commitment amount terminated if such termination occurs after the second year.

The Credit Agreement contains restrictions and covenants applicable to the Company and its subsidiaries. Among other requirements, the Company may not permit the Fixed Charge Coverage Ratio (as defined in the Credit Agreement) to be less than a certain specified ratio for each fiscal quarter during the term of the Facility.

The Credit Agreement also contains customary covenants that limit, among other things, the ability of the Company and its subsidiaries to (i) incur indebtedness, (ii) incur liens on their property, (iii) pay dividends or make other distributions, (iv) sell their assets, (v) make certain loans or investments, (vi) merge or consolidate, (vii) voluntarily repay or prepay certain indebtedness and (viii) enter into transactions with affiliates, in each case subject to certain exceptions. The Credit Agreement contains customary representations and warranties and events of default.

*First Lien Senior Secured Term Loan due January 2021 (Secured Loan)*

On January 11, 2016, the Company closed a $70.0 million first lien senior secured debt financing agreement with Cerberus Business Finance, LLC, an affiliate of Cerberus Capital Management, L.P (the "Secured Loan"). The proceeds of the loan were to be used to retire the 3.75% Convertible Notes at the earlier of August 2016 or when otherwise redeemed. The Secured Loan bore interest at a variable rate per annum equal to, at the Company's option, (i) the LIBOR Rate for one month plus an applicable margin of 7.00% (subject to a LIBOR Rate floor of 1.00% per annum), or (ii) a Reference Rate, which is the higher of 1) 3.25%, 2) Federal Funds Rate plus 0.5%, 3) the LIBOR rate for 1 month plus 1%, and 4) the US Prime Rate as published in the Wall Street Journal, plus an applicable margin of 4.75% per annum. The loan was repayable in consecutive quarterly installments of $875,000 with the final payment due on the final maturity date. The Secured Loan was to mature on the earlier of: (i) January 11, 2021 and (ii) the date that is 120 days prior to the scheduled maturity date of the 3.50% Convertible Notes maturing February 1, 2018 unless the Company had set aside specifically identifiable funds raised from new common equity or new debt equal to the then-outstanding principal amount of the 3.50% Convertible Notes. The net proceeds from the offering, after deducting the initial purchaser's discount and commission and the related offering costs, were approximately $65.5 million. The offering costs of $3.1 million and the initial purchaser's discount and commission of $1.4 million (both of which are recorded in Long-term Debt) were being amortized to interest expense using the effective interest method over five years. The Secured Loan is secured by first-priority liens on substantially all the assets of the Company.

The Company could, at its election, repay the Secured Loan at any time and if so, the Company would be required to pay a prepayment premium of 2% if the Secured Loan was repaid or accelerated within the first year on the amount repaid and 1% if the Secured Loan was repaid or accelerated

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**12. Debt (Continued)**

within the second year on the amount repaid. In June 2017, the Company elected to repay the outstanding balance of the Secured Loan in the amount of $60.6 million plus accrued interest of $0.2 million and a prepayment premium of $0.6 million. The remaining offering costs and discount of approximately $2.2 million and $1.3 million, respectively, were charged to interest expense. Accordingly, the Secured Loan was terminated.

*3.75% Convertible Senior Notes due August 2016*

On August 1, 2011, the Company issued the 3.75% Convertible Notes to certain qualified institutional buyers or QIBs. The 3.75% Convertible Notes were offered and sold to the QIBs pursuant to Rule 144A under the Securities Act of 1933, as amended or Rule 144A. The net proceeds from the $100 million offering, after deducting the initial purchaser's discount and commission and the related offering costs, were approximately $96.1 million. The offering costs and the initial purchaser's discount and commission (which are recorded in Other Assets) were both being amortized to interest expense using the effective interest method over five years. The 3.75% Convertible Notes bore interest at a rate of 3.75% per year, payable semi-annually in arrears in cash on February 1 and August 1 of each year, beginning on February 1, 2012. The 3.75% Convertible Notes would mature on August 1, 2016, unless earlier repurchased, redeemed or converted.

The 3.75% Convertible Notes were issued under an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Holders of the 3.75% Convertible Notes could convert their 3.75% Convertible Notes at any time on or after May 1, 2016 until the close of business on the business day immediately preceding the maturity date. Prior to May 1, 2016, holders of the 3.75% Convertible Notes could convert their 3.75% Convertible Notes only under the following circumstances: (1) during any calendar quarter after the calendar quarter ending September 30, 2011, and only during such calendar quarter, if the closing sale price of the Company's common stock for each of 20 or more trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) during the five consecutive business days immediately after any five consecutive trading-day period (such five consecutive trading-day period, the "Note Measurement Period") in which the trading price per $1,000 principal amount of 3.75% Convertible Notes for each trading day of that Note Measurement Period was equal to or less than 98% of the product of the closing sale price of shares of the Company's common stock and the applicable conversion rate for such trading day; (3) if the Company called any or all of the 3.75% Convertible Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate transactions as described in the Indenture. Upon conversion by holders of the 3.75% Convertible Notes, the Company would have the right to pay or deliver, as the case may be, cash, shares of common stock of the Company or a combination thereof, at the Company's election. At any time on or prior to the 33rd business day immediately preceding the maturity date, the Company could irrevocably elect to (a) deliver solely shares of common stock of the Company in respect of the Company's conversion obligation or (b) pay cash up to the aggregate principal amount of the 3.75% Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of common stock of the Company or a combination thereof in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the 3.75% Convertible Notes being converted. The initial conversion rate was 105.5548 shares of the Company's common stock per $1,000 principal

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**12. Debt (Continued)**

amount of 3.75% Convertible Notes (which represented an initial conversion price of approximately $9.47 per share of the Company's common stock). The conversion rate, and thus the conversion price, was subject to adjustment as further described below.

Holders of the 3.75% Convertible Notes who converted their 3.75% Convertible Notes in connection with a "make-whole fundamental change," as defined in the Indenture, could be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, in the event of a "fundamental change," as defined in the Indenture, holders of the 3.75% Convertible Notes could require the Company to purchase all or a portion of their 3.75% Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of 3.75% Convertible Notes, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date.

Prior to the maturity date, the Company could redeem for cash all or a portion of the 3.75% Convertible Notes if the closing sale price of its common stock exceeded 130% of the applicable conversion price (the initial conversion price is approximately $9.47 per share of common stock) of such 3.75% Convertible Notes for at least 20 trading days during any consecutive 30 trading-day period (including the last trading day of such period).

In accordance with ASC 470-20, the Company separately accounted for the liability and equity conversion components of the 3.75% Convertible Notes. The principal amount of the liability component of the 3.75% Convertible Notes was $75.9 million as of the date of issuance based on the present value of its cash flows using a discount rate of 10%, our approximate borrowing rate at the date of the issuance for a similar debt instrument without the conversion feature. The carrying value of the equity conversion component was $24.1 million. A portion of the initial purchaser's discount and commission and the offering costs totaling $0.9 million was allocated to the equity conversion component. The liability component was being accreted to the principal amount of the 3.75% Convertible Notes using the effective interest method over five years.

In January 2016, the Company repurchased approximately $63.4 million in aggregate principal amount of its 3.75% Convertible Senior Notes due August 2016 for $66.6 million in cash. As $63.4 million of the 3.75% Convertible Senior Notes were settled in cash, a total of 6.7 million potentially dilutive shares were no longer potentially outstanding from a net loss per share perspective, these shares were already noted in Note 2 above as being excluded due to being anti-dilutive in the fiscal year 2016. The Company recorded a charge in the third quarter of fiscal 2016 of approximately $1.0 million associated with the repurchase of the notes. In August 2016, the Company settled the remaining 3.75% Convertible Senior Notes for approximately $36.6 million aggregate principal amount and $0.7 million accrued interest for approximately $37.3 million in cash.

*3.50% Convertible Senior Notes due February 2018*

In February 2013, the Company issued $115.0 million aggregate principal amount of its 3.50% Convertible Notes to certain QIBs. The 3.50% Convertible Notes were offered and sold to the QIBs pursuant to Rule 144A. The net proceeds from the offering, after deducting the initial purchaser's discount and commission and the related offering costs, were approximately $110.5 million. The offering costs and the initial purchaser's discount and commission (which are recorded in Other Assets) are both being amortized to interest expense using the effective interest method over five years. The 3.50% Convertible Notes bear interest at a rate of 3.50% per year, payable semi-annually in arrears in

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**12. Debt (Continued)**

cash on February 1 and August 1 of each year, which began on August 1, 2013. The 3.50% Convertible Notes will mature on February 1, 2018, unless earlier repurchased, redeemed or converted.

In April 2014, through a series of transactions, the Company refinanced approximately $70.3 million aggregate principal amount of the 3.50% Convertible Notes with approximately $70.3 million aggregate principal amount of the Company's new 3.50% Series A Convertible Senior Notes due 2018 (the "3.50% Series A Convertible Notes").

The 3.50% Convertible Notes were issued under an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Holders of the 3.50% Convertible Notes may convert their 3.50% Convertible Notes at any time until the close of business on the business day immediately preceding the maturity date. The 3.50% Convertible Notes are convertible, as described below into common stock of the Company at an initial conversion rate equal to 187.6877 shares of common stock per $1,000 principal amount of the 3.50% Convertible Notes, which is equivalent to a conversion price of approximately $5.33 per share of common stock, subject to adjustment.

Holders of the 3.50% Convertible Notes who convert their 3.50% Convertible Notes in connection with a "make-whole fundamental change", as defined in the Indenture, may be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, in the event of a "fundamental change," as defined in the Indenture, holders of the 3.50% Convertible Notes may require the Company to purchase all or a portion of their 3.50% Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of 3.50% Convertible Notes, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date.

In accordance with guidance in ASC 470-20, *Debt with Conversion and Other Options* and ASC 815-15, *Embedded Derivatives*, the Company determined that the embedded conversion components of the 3.50% Convertible Note do not require bifurcation and separate accounting. The remaining $44.7 million principal amount of the 3.50% Convertible Notes has been recorded in short-term debt on the consolidated balance sheet as of June 30, 2017.

*3.50% Series A Convertible Senior Notes due February 2018*

On April 17, 2014, the Company entered into note exchange agreements with certain holders (the "Participating Holders") of the 3.50% Convertible Notes to refinance approximately $70.3 million aggregate principal amount of the 3.50% Convertible Notes with approximately $70.3 million aggregate principal amount of the 3.50% Series A Convertible Notes. Pursuant to the note exchange agreements, the Company also paid the Participating Holders an aggregate of approximately $0.4 million in cash in connection with such transactions. The principal amount of 3.50% Convertible Notes refinanced for each $1,000 principal amount of the 3.50% Series A Convertible Notes was $1,000 and the amount in cash paid per $1,000 principal amount of such 3.50% Convertible Notes delivered was determined in individual negotiations between the Company and each Participating Holder. The Series A Convertible Notes have the same interest rate, maturity and other terms as the 3.50% Convertible Notes, except that the 3.50% Series A Convertible Notes are convertible into cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's option.

The 3.50% Series A Convertible Notes were issued under an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Holders of the 3.50% Series A Convertible Notes may convert their Securities at any time on or after November 1, 2017 until the

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**12. Debt (Continued)**

close of business on the business day immediately preceding the maturity date. Prior to November 1, 2017, holders of the 3.50% Series A Convertible Notes may convert their Securities only under the following circumstances: (1) during any calendar quarter after the calendar quarter ending September 30, 2014, and only during such calendar quarter, if the closing sale price of the Company's common stock for each of 20 or more trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) during the five consecutive business days immediately after any five consecutive trading-day period (such five consecutive trading-day period, the "Note Measurement Period") in which the trading price per $1,000 principal amount of 3.50% Series A Convertible Notes for each trading day of that Securities Measurement Period was equal to or less than 98% of the product of the closing sale price of shares of the Company's common stock and the applicable conversion rate for such trading day; or (3) upon the occurrence of specified corporate transactions as described in the Indenture. Upon conversion by holders of the 3.50% Series A Convertible Notes, the Company will have the right to pay or deliver, as the case may be, cash, shares of common stock of the Company or a combination thereof, at the Company's election. At any time on or prior to the 17th business day immediately preceding the maturity date, the Company may irrevocably elect to (a) deliver solely shares of common stock of the Company in respect of the Company's conversion obligation or (b) pay cash up to the aggregate principal amount of the 3.50% Series A Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of common stock of the Company or a combination thereof in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the 3.50% Series A Convertible Notes being converted. The initial conversion rate is 187.6877 shares of the Company's common stock per $1,000 principal amount of 3.50% Series A Convertible Notes (which represents an initial conversion price of approximately $5.33 per share of the Company's common stock). The conversion rate, and thus the conversion price, is subject to adjustment as further described below.

Holders of the 3.50% Series A Convertible Notes who convert their Notes in connection with a "make-whole fundamental change", as defined in the Indenture, may be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, in the event of a "fundamental change," as defined in the Indenture, holders of the 3.50% Series A Convertible Notes may require the Company to purchase all or a portion of their 3.50% Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 3.50% Series A Convertible Notes, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date.

In accordance with Accounting Standards Codification, or ASC 470-20, *Debt with Conversion and Other Options*, the Company separately accounts for the liability and equity conversion components of the 3.50% Series A Convertible Notes. The principal amount of the liability component of the 3.50% Series A Convertible Notes was $62.5 million as of the date of issuance based on the present value of its cash flows using a discount rate of 7%, our approximate borrowing rate at the date of the issuance for a similar debt instrument without the conversion feature. The carrying value of the equity conversion component was $7.9 million. In addition, the portion of the cash amount paid to the Participating Holders totaling $0.4 million was allocated to the debt discount with the remaining $47,000 to the equity component. The liability component is being accreted to the principal amount of

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**Notes to Consolidated Financial Statements (Continued)**

**12. Debt (Continued)**

the 3.50% Series A Convertible Notes using the effective interest method through the maturity in February 2018.

The following table presents the carrying values of all Convertible Notes and notes issued pursuant to the Revolving Credit Facility (collectively, "Notes") as of June 30, 2017 (in thousands):

| | Revolving Loan | 3.50% Convertible Notes | 3.50% Series A Convertible Notes | Total |
|---|---|---|---|---|
| Carrying amount of equity conversion component | $ | $ | $ 7,844 | $ 7,844 |
| Principal amount of the Notes | $ 51,548 | $ 44,654 | $ 70,346 | $ 166,548 |
| Unamortized debt costs | | (555) | | (555) |
| Unamortized debt discount | | | (1,422) | (1,422) |
| Net carrying amount | $ 51,548 | $ 44,099 | $ 68,924 | $ 164,571 |

As of June 30, 2017, the remaining period over which the unamortized debt discount of the of the 3.50% Series A Convertible Notes is 7 months using an effective interest rate of 7.10%.

A summary of interest expense on the Notes is as follows (in thousands):

| | Year ended June 30, | | |
|---|---|---|---|
| | 2017(1) | 2016 | 2015 |
| Interest expense related to contractual interest coupon | $ 9,465 | $ 9,411 | $ 7,774 |
| Interest expense related to amortization of debt discount | 4,052 | 6,321 | 7,241 |
| Interest expense related to amortization of debt issuance costs | 3,785 | 1,728 | 1,503 |
| Total | $ 17,302 | $ 17,460 | $ 16,518 |

(1) Debt issuance costs were higher in fiscal year 2017 due to the repayment of the Secured Loan and the write-off of the related debt issuance costs.

**13. Employee Benefit Plan**

The Company's employee savings and retirement plan is qualified under Section 401(k) of the United States Internal Revenue Code. Employees may make voluntary, tax-deferred contributions to the 401(k) Plan up to the statutorily prescribed annual limit. The Company makes discretionary matching contributions to the 401(k) Plan on behalf of employees up to the limit determined by the Board of Directors. The Company contributed $2.0 million, $2.1 million and $2.3 million to the 401(k) Plan during the years ended June 30, 2017, 2016 and 2015,

respectively.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**14. Defined Benefit Pension Obligation**

The Company has established a defined pension plan for its employees in its Switzerland subsidiary. The plan provides benefits to employees upon retirement, death or disability. The Company uses June 30 as the year-end measurement date for this plan. The unfunded liability of $2.7 million was recognized in long-term other liabilities in the accompanying balance sheet as of June 30, 2017. Actuarial gain of $0.9 million was recognized in other comprehensive loss in fiscal 2017.

*Obligations and Funded Status*

The following table presents the funded status of the defined benefit pension plan (in thousands):

| | June 30, | |
|---|---|---|
| | 2017 | 2016 |
| **Change in benefit obligation:** | | |
| Benefit obligation beginning of fiscal year | $ 12,435 | $ 8,861 |
| Service cost | 1,996 | 1,903 |
| Interest cost | 49 | 76 |
| Plan participants' contributions | 1,945 | 2,239 |
| Plan amendment | | (490) |
| Actuarial (gain) loss | (846) | 1,163 |
| Foreign currency changes | 265 | (347) |
| Benefit and expense payments | (1,865) | (970) |
| Benefit obligation end of fiscal year | $ 13,979 | $ 12,435 |
| **Change in plan assets:** | | |
| Plan assets beginning of fiscal year | $ 9,572 | $ 7,184 |
| Employer contributions | 1,283 | 1,226 |
| Actual return on plan assets | 137 | 176 |
| Plan participants' contributions | 1,945 | 2,239 |
| Foreign currency changes | 221 | (283) |
| Benefit and expense payments | (1,865) | (970) |
| Plan assets end of fiscal year | $ 11,293 | $ 9,572 |
| Funded status | $ (2,686) | $ (2,863) |
| **Amounts recognized within the consolidated balance sheets:** | | |
| Assets | $ | $ |
| Long-term other liabilities | (2,686) | (2,863) |
| Net amount recognized | $ (2,686) | $ (2,863) |

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**14. Defined Benefit Pension Obligation (Continued)**

The following table presents the amounts recognized in accumulated other comprehensive loss (before tax) for the defined benefit pension plan (in thousands):

| | June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Net loss | $ (2,066) | $ (1,517) |
| Prior service cost (credit) | 949 | (549) |
| Accumulated other comprehensive loss | $ (1,117) | $ (2,066) |

The following table presents the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for this defined benefit pension plan where accumulated benefit obligation exceeded the fair value of plan assets (in thousands):

| | June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Projected benefit obligation | $ 13,979 | $ 12,435 |
| Accumulated benefit obligation | $ 11,293 | $ 9,572 |
| Fair value of plan assets | $ 11,293 | $ 9,572 |

*Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Loss*

The following table shows the components of the Company's net periodic benefit costs and the other amounts recognized in other comprehensive loss, before tax, related to the Company's defined benefit pension plan (in thousands):

| | Year ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **Net Periodic Benefit Costs:** | | | |
| Service cost | $ 1,996 | $ 1,903 | $ 980 |
| Interest cost | 49 | 76 | 107 |
| Expected returns on assets | (132) | (102) | (92) |
| Amortization of prior service cost (credit) | (46) | | |
| Amortization of net loss | 114 | 53 | 3 |
| Net periodic benefit costs | 1,981 | 1,930 | 998 |
| **Other Amounts Recognized in Other Comprehensive Loss:** | | | |
| Net (gain) loss arising during the year | (881) | 1,093 | 953 |
| Prior service cost (credit) | 46 | (491) | |
| Amortization of net (gain) loss | (114) | (53) | (3) |
| Total recognized in other comprehensive loss | (949) | 549 | 950 |
| Total recognized in net periodic benefit costs and other comprehensive loss | $ 1,032 | $ 2,479 | $ 1,948 |

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**14. Defined Benefit Pension Obligation (Continued)**

The amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit cost during fiscal year 2018 related to the Company's defined benefit pension plan are as follows (in thousands):

| | 2018 |
|---|---|
| Net loss | $ 1,582 |
| Prior service cost (credit) | (429) |
| Accumulated other comprehensive loss | $ 1,153 |

*Assumptions*

The assumptions used to determine net periodic benefit cost and to compute the expected long-term return on assets for the Company's defined benefit pension plan were as follows:

| | Fiscal Years | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **Net Periodic Benefit Costs:** | | | |
| Discount rate | 0.70% | 0.40% | 0.90% |
| Rate of compensation increase | 2.00% | 2.00% | 2.00% |
| Expected long-term return on assets | 1.40% | 1.40% | 1.50% |

The assumptions used to measure the benefit obligation for the Company's defined benefit pension plan were as follows:

| | June 30, | |
|---|---|---|
| | 2017 | 2016 |
| **Benefit Obligation:** | | |
| Discount rate | 1.40% | 1.40% |
| Rate of compensation increase | 2.00% | 2.00% |

*Estimated Contributions and Future Benefit Payments*

The Company made contributions of approximately $1.3 million, $1.2 million and $1.2 million to the defined benefit pension plan during fiscal years 2017, 2016 and 2015 respectively. The Company expects total contributions to the defined benefit pension plan for fiscal year 2018 will be approximately $1.2 million.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**14. Defined Benefit Pension Obligation (Continued)**

Estimated future benefit payments to the defined benefit pension plan at June 30, 2017 were as follows (in thousands):

| Year Ending June 30, | Future Benefits |
|---|---|
| 2018 | $ 1,048 |
| 2019 | 965 |
| 2020 | 905 |
| 2021 | 858 |
| 2022 | 819 |
| Thereafter | 4,283 |
| Total | $ 8,878 |

**Plan Assets**

The plan assets are invested in insurance contracts with Swiss Life Foundation BVG (BVG) insurance company based in Zurich, Switzerland at the end of fiscal year 2016 and 2017 and are expected to be invested 100% in insurance contracts in fiscal 2018, which are reinsured by Swiss Life Ltd (SLL). SLL invests the vested pension capital and provides a 100% capital and interest rate guarantee as negotiated by the Company. In 2017, the Company negotiated a guaranteed interest rate of 1.25% for mandatory retirement savings and 0.75% for supplementary retirement savings. The pension plan is entitled to an annual bonus from the SLL comprising the effective savings, risk and cost results. The technical administration and management of the savings account are guaranteed by the SLL on behalf of BVG. Insurance benefits due are paid directly to the entitled persons by the SLL in the name of and for the account of the collective foundation. The Company has committed itself to pay the annual contributions and costs due under the pension fund regulations.

The contract of affiliation between the Company and BVG can be terminated by either side. In the event of a termination, recipients of retirement and survivors' benefits would remain with the collective foundation. The Company commits itself to transfer its active insured members and recipients of disability benefits to the new employee benefits institution, thus releasing BVG from all obligations.

**15. Segment Disclosure**

The Company has one operating and reporting segment (oncology systems group), which develops, manufactures and markets proprietary medical devices used in radiation therapy for the treatment of cancer patients. The Company's Chief Executive Officer, its Chief Operating Decision Maker, reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. The Company does not assess the performance of its individual product lines on measures of profit or loss, or asset based metrics. Therefore, the information below is presented only for revenues and long-lived tangible assets by geographic areas.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**15. Segment Disclosure (Continued)**

Revenues attributed to a country or region is based on the shipping addresses of the Company's customers. The following summarizes revenue by geographic region (in thousands):

| | Years ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Americas | $ 151,442 | $ 159,517 | $ 174,000 |
| Europe, Middle East, India and Africa | 104,026 | 138,877 | 110,534 |
| Asia Pacific | 59,278 | 62,888 | 57,618 |
| Japan | 68,668 | 37,518 | 37,649 |
| Total | $ 383,414 | $ 398,800 | $ 379,801 |

Information regarding geographic areas in which the Company has long-lived tangible assets is as follows (in thousands):

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Americas | $ 18,435 | $ 23,842 |
| Europe, Middle East, India and Africa | 730 | 551 |
| Asia Pacific (excluding Japan and India) | 1,533 | 1,342 |
| Japan | 2,364 | 2,143 |
| Total | $ 23,062 | $ 27,878 |

**16. Restructuring Charges**

As part of the Company's plan to enhance operational performance through productivity initiatives, the Company implemented a re-alignment of its workforce during the fourth quarter of fiscal year 2016. The re-alignment affected approximately 3% of the Company's total workforce. The Company incurred approximately zero, $2.5 million and $1.4 million in restructuring charges in connection with its workforce re-alignment for the years ended June 30, 2017, 2016, and 2015. These restructuring charges are included in cost of goods sold and operating expenses in the consolidated statements of operations. The Company had no accrued restructuring charges in the consolidated balance sheets as of June 30, 2017. As of June 30, 2016, the Company had approximately $2.5 million in accrued restructuring charges included in accrued compensation in the consolidated balance sheets.

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**Accuray Incorporated**

**Notes to Consolidated Financial Statements (Continued)**

**17. Quarterly Financial Data (unaudited)**

The following table provides the selected quarterly financial data for fiscal 2017 and 2016 (in thousands, except net income (loss) per share amounts:

| | Quarters ended | | | |
|---|---|---|---|---|
| | September 30, 2016 | December 31, 2016 | March 31, 2017 | June 30, 2017 |
| Net revenue | $ 86,506 | $ 87,502 | $ 97,312 | $ 112,094 |
| Gross profit | $ 31,344 | $ 31,387 | $ 35,425 | $ 43,185 |
| Net loss | $ (9,926) | $ (9,369) | $ (5,029) | $ (5,255) |
| Net loss per share basic and diluted | $ (0.12) | $ (0.11) | $ (0.06) | $ (0.06) |
| Shares used in basic and diluted per share calculation | 81,576 | 82,328 | 82,913 | 83,179 |

| | Quarters ended | | | |
|---|---|---|---|---|
| | September 30, 2015 | December 31, 2015 | March 31, 2016 | June 30, 2016 |
| Net revenue | $ 89,631 | $ 108,912 | $ 105,284 | $ 94,973 |
| Gross profit | $ 33,898 | $ 42,571 | $ 44,944 | $ 37,300 |
| Net income (loss) | $ (13,026) | $ (6,027) | $ 756 | $ (7,207) |
| Net income (loss) per share basic | $ (0.16) | $ (0.08) | $ 0.01 | $ (0.09) |
| Net income (loss) per share diluted | $ (0.16) | $ (0.08) | $ 0.01 | $ (0.09) |
| Shares used in basic per share calculation | 79,760 | 80,346 | 80,860 | 81,081 |
| Shares used in diluted per share calculation | 79,760 | 80,346 | 82,071 | 81,081 |

**18. Subsequent Event**

On August 7, 2017, the Company issued $85.0 million aggregate principal amount of 3.75% Convertible Senior Notes consisting of (i) $53.0 million aggregate principal amount of 3.75% Convertible Senior Notes to certain holders of the Company's outstanding Existing 3.50% Convertible Notes (the "Exchange Participants") in exchange for approximately $47.0 million aggregate principal amount of such holders' Existing 3.50% Convertible Notes and (ii) $32.0 million aggregate principal amount of 3.75% Convertible Senior Notes to certain other qualified new investors for cash. The net proceeds of the cash issuance were used to repurchase approximately $28.0 million of additional Existing 3.50% Convertible Notes from the Exchange Participants. Immediately following such transactions, approximately $40.0 million aggregate principal amount of the Existing 3.50% Convertible Notes remained outstanding.

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**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of June 30, 2017.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by our Annual Report on Form 10-K, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**(b) Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the guidelines established in Internal Control  Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013.

Based on this evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2017, based upon the guidelines established in Internal Control  Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013.

Grant Thornton LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of the audit, has issued a report, included in Item 8 of this Annual Report on Form 10-K, on the effectiveness of our internal control over financial reporting as of June 30, 2017.

**(c) Changes in Internal Control over Financial Reporting**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated any changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2017, and has concluded that there was no change during such quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

*Inherent Limitations of Internal Controls*

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a

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risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

**Item 9B. OTHER INFORMATION**

None.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

Accuray Incorporated

We have audited the internal control over financial reporting of Accuray Incorporated (a Delaware Corporation) and subsidiaries (the "Company") as of June 30, 2017, based on criteria established in the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on criteria established in the 2013 Internal Control Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended June 30, 2017, and our report dated August 25, 2017 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

San Jose, California

August 25, 2017

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## PART III

### Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

**Directors, Executive Officers and Corporate Governance**

The information in our 2017 Proxy Statement regarding directors and executive officers appearing under the headings "Proposal One Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

In addition, the information in our 2017 Proxy Statement regarding the director nomination process, the Audit Committee financial expert and the identification of the Audit Committee members appearing under the heading "Corporate Governance and Board of Directors Matters" is incorporated herein by reference.

There have been no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors.

**Code of Conduct and Ethics**

We have adopted a Code of Conduct and Ethics that applies to all employees including our principal executive officer and principal financial officer. The full texts of our codes of business conduct and ethics are posted on our website at *www.accuray.com* under the Investor Relations section. We intend to disclose future amendments to certain provisions of our codes, or waivers of such provisions granted to executive officers and directors, on our website within four business days following the date of such amendment or waiver. The inclusion of our web site address in this report does not include or incorporate by reference the information on our web site into this report.

### Item 11. EXECUTIVE COMPENSATION

The information in our 2017 Proxy Statement appearing under the headings "Executive Compensation," "Compensation Committee Report," "Compensation Discussion and Analysis," "Compensation of Non-Employee Directors" and "Compensation Committee Interlocks and Insider Information" is incorporated herein by reference.

### Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in our 2017 Proxy Statement appearing under the heading "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" is incorporated herein by reference.

### Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in our 2017 Proxy Statement appearing under the headings "Certain Relationships and Related Party Transactions" and "Corporate Governance Director Independence" is incorporated herein by reference.

### Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information in our 2017 Proxy Statement appearing under the headings "Proposal Four Ratification of Appointment of Independent Registered Public Accounting Firm Audit and Non-Audit Services" and "Proposal Four Ratification of Appointment of Independent Registered Public Accounting Firm Audit Committee Pre-Approval Policies and Procedures" is incorporated herein by reference.

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## PART IV

### Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

We have the filed the following documents as part of this report:

1.

**Consolidated Financial Statements** (as set forth in Item 8)


| | Page No. |
|---|---|
| Report of Independent Registered Public Accounting Firm | 82 |
| Consolidated Balance Sheets | 83 |
| Consolidated Statements of Operations and Comprehensive Loss | 84 |
| Consolidated Statements of Stockholders' Equity | 85 |
| Consolidated Statements of Cash Flows | 86 |
| Notes to Consolidated Financial Statements | 87 |


2.

**Consolidated Financial Statement Schedules**

The financial statement schedule of the Registrant and its subsidiaries for fiscal years 2017 2016 and 2015 is filed as a part of this report and should be read in conjunction with the Consolidated Financial Statements of the Registrant and its subsidiaries.

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto included in this Form 10-K.

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**Exhibits**

The following exhibits are incorporated by reference or filed herewith.

| | | Incorporated by Reference | | | | | |
|---|---|---|---|---|---|---|---|
| Exhibit No. | Exhibit Description | Filer (ARAY/ TOMO) | Form | File No. | Exhibit | Filing Date | Furnished or Filed Herewith |
| 3.1 | Amended and Restated Certificate of Incorporation of Registrant. | ARAY | 8-K | 001-33301 | 3.1 | 02/06/2013 | |
| 3.2 | Amended and Restated Bylaws of Registrant. | ARAY | 8-K | 001-33301 | 3.1 | 03/23/2016 | |
| 4.1 | Indenture by and between Registrant and the Bank of New York Mellon Trust Company, N.A., dated as of August 1, 2011. | ARAY | 10-Q | 001-33301 | 10.1 | 11/08/2011 | |
| 4.2 | Indenture by and between Registrant and the Bank of New York Mellon Trust Company, N.A., dated as of February 13, 2013. | ARAY | 10-Q | 001-33301 | 4.1 | 05/09/2013 | |
| 4.3 | Indenture by and between Registrant and the Bank of New York Mellon Trust Company, N.A., dated as of April 24, 2014. | ARAY | 8-K | 001-33301 | 4.1 | 04/25/2014 | |
| 4.4 | Form of Common Stock Certificate. | ARAY | S-1/A | 333-138622 | 4.3 | 02/05/2007 | |

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| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | | Furnished or Filed Herewith |
|---|---|---|---|---|---|---|---|
| | | Filer (ARAY/ TOMO) | Form | File No. | Exhibit | Filing Date | |
| 10.1 | Industrial Complex Lease by and between Registrant and MP Caribbean, Inc., dated July 14, 2003, as amended by the First Amendment to Industrial Complex Lease effective as of December 9, 2004 and the Second Amendment to Industrial Complex Lease effective as of September 25, 2006. | ARAY | S-1 | 333-138622 | 10.1 | 11/13/2006 | |
| 10.2 | Third Amendment to Industrial Complex Lease dated January 16, 2007. | ARAY | 10-K | 001-33301 | 10.1(a) | 09/04/2007 | |
| 10.3 | Fourth Amendment to Industrial Complex Lease by and between the Registrant and BRCP Caribbean Portfolio, LLC, dated September 18, 2007. | ARAY | 10-Q | 001-33301 | 10.3 | 02/04/2010 | |
| 10.4 | Fifth Amendment to Industrial Complex Lease by and between the Registrant and BRCP Caribbean Portfolio, LLC, dated April 1, 2008. | ARAY | 10-Q | 001-33301 | 10.4 | 02/04/2010 | |
| 10.5 | Sixth Amendment to Industrial Complex Lease by and between the Registrant and I & G Caribbean, Inc., dated December 18, 2009. | ARAY | 10-Q | 001-33301 | 10.5 | 02/04/2010 | |
| 10.6 | Seventh Amendment to Lease by and between the Registrant and DWF III Caribbean, LLC, dated June 20, 2014. | ARAY | 8-K | 001-33301 | 10.1 | 06/24/2014 | |
| 10.7 | Eighth Amendment to Lease by and between the Registrant and DWF III Caribbean, LLC, dated October 31, 2014. | ARAY | 10-Q | 011-33301 | 10.1 | 02/06/2015 | |
| 10.8* | Accuray Incorporated 1998 Equity Incentive Plan and forms of agreements relating thereto. | ARAY | S-1 | 333-138622 | 10.4 | 11/13/2006 | |
| 10.9* | Accuray Incorporated 2007 Incentive Award Plan. | ARAY | 10-K | 001-33301 | 10.8 | 09/19/2011 | |
| 10.10* | Form of Performance Stock Unit Grant Notice and Performance Stock Unit Agreement. | ARAY | 8-K | 001-33301 | 99.2 | 09/02/2014 | |
| 10.11* | Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement. | ARAY | 8-K | 001-33301 | 99.1 | 09/02/2014 | |
| 10.12* | Form of Stock Option Grant Notice and Stock Option Agreement. | ARAY | 8-K | 001-33301 | 99.3 | 11/23/2011 | |

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| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | | Furnished or Filed Herewith |
|---|---|---|---|---|---|---|---|
| | | Filer (ARAY/ TOMO) | Form | File No. | Exhibit | Filing Date | |
| 10.13* | Form of Market Stock Unit Grant Notice and Award Agreement. | ARAY | 8-K | 001-33301 | 99.1 | 10/17/2012 | |
| 10.14* | Form of 2015 Market Stock Unit Grant Notice and Award Agreement | ARAY | 8-K | 001-33301 | 99.3 | 09/02/2014 | |
| 10.15* | Form of 2016 Market Stock Unit Grant Notice and Award Agreement | ARAY | 8-K | 001-33301 | 99.1 | 10/02/2015 | |
| 10.16* | Accuray Incorporated 2016 Equity Incentive Plan and forms of award agreements thereunder. | ARAY | 8-K | 001-33301 | 10.1 | 12/6/16 | |
| 10.17* | Amended and Restated 2007 Employee Stock Purchase Plan | ARAY | DEF14A | 001-33301 | Appendix B | 10/7/16 | |
| 10.18* | Accuray Incorporated Performance Bonus Plan, as amended on September 29, 2015. | ARAY | 10-Q | 001-33301 | 10.5 | 11/05/2015 | |
| 10.19* | Performance Bonus Plan | ARAY | DEF14A | 001-33301 | Appendix C | 10/7/16 | |
| 10.20* | TomoTherapy Incorporated 2000 Stock Option Plan, as amended, and forms of option agreements thereunder. | ARAY | S-8 | 333-174952 | 99.1 | 06/17/2011 | |
| 10.21* | TomoTherapy Incorporated 2002 Stock Option Plan, as amended, and forms of option agreements thereunder. | ARAY | S-8 | 333-174952 | 99.2 | 06/17/2011 | |
| 10.22* | TomoTherapy Incorporated 2007 Equity Incentive Plan, as amended, and forms of option agreements thereunder. | ARAY | S-8 | 333-174952 | 99.3 | 06/17/2011 | |
| 10.23* | Form of Indemnification Agreement by and between Registrant and each of its directors and executive officers. | ARAY | 10-Q | 001-33301 | 10.7 | 05/10/2011 | |
| 10.24 | Nonexclusive End-User Software License Agreement by and between Registrant and The Regents of the University of California, dated September 9, 2005. | ARAY | S-1 | 333-138622 | 10.18 | 11/13/2006 | |
| 10.25 | License Agreement by and between Registrant and The Board of Trustees of the Leland Stanford Junior University, effective as of July 9, 1997. | ARAY | S-1 | 333-138622 | 10.19 | 11/13/2006 | |

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| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | | Furnished or Filed Herewith |
|---|---|---|---|---|---|---|---|
| | | Filer (ARAY/ TOMO) | Form | File No. | Exhibit | Filing Date | |
| 10.26 | Development and OEM Supply Agreement by and between TomoTherapy Incorporated and Analogic Corporation, dated January 27, 2003. | TOMO | S-1/A | 333-140600 | 10.11 | 04/16/2007 | |
| 10.27* | Renewal Executive Employment Agreement by and between the Registrant and Joshua H. Levine, dated January 1, 2017. | ARAY | 10-Q | 001-33301 | 10.1 | 05/05/2017 | |
| 10.28* | Renewal Executive Employment Agreement by and between the Registrant and Kelly Londy, dated January 1, 2017. | ARAY | 10-Q | 001-33301 | 10.2 | 05/05/2017 | |
| 10.29* | Separation Agreement and General Release by and between the Registrant and Kelly Londy, dated July 15, 2017 | | | | | | X |
| 10.30* | Renewal Executive Employment Agreement by and between the Registrant and Alaleh Nouri, dated January 1, 2017. | ARAY | 10-Q | 001-33301 | 10.4 | 05/05/2017 | |
| 10.31* | Renewal Executive Employment Agreement by and between Registrant and Kevin Waters, dated January 1, 2017 | ARAY | 10-Q | 001-33301 | 10.3 | 05/05/2017 | |
| 10.32* | Renewal Executive Employment Agreement by and between Registrant and Andrew J. Kirkpatrick, dated January 1, 2017 | | | | | | X |
| 10.33* | Executive Employment Agreement by and between Accuray International Sarl and Lionel Hadjadjeba, dated May 18, 2017 | | | | | | X |
| 10.34 | Financing Agreement by and among Registrant, certain subsidiaries of the Registrant, the lenders from time to time party thereto, and Cerberus Business Finance, LLC, as collateral agent and administrative agent for the lenders dated January 11, 2016. | ARAY | 10-Q | 001-33301 | 10.1 | 04/29/2016 | |
| 10.35 | Amendment No. 1 to Financing Agreement by and among the Registrant, certain subsidiaries of the Registrant, the lenders from time to time party thereto, and Cerberus Business Finance, LLC, as collateral agent and administrative agent for the lenders, dated November 4, 2016. | ARAY | 10-Q | 001-33301 | 10.1 | 02/03/2017 | |

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| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | | Furnished or Filed Herewith |
|---|---|---|---|---|---|---|---|
| | | Filer (ARAY/ TOMO) | Form | File No. | Exhibit | Filing Date | |
| 10.36 | Amendment No. 2 to Financing Agreement by and among the Registrant, certain subsidiaries of the Registrant, the lenders from time to time party thereto, and Cerberus Business Finance, LLC, as collateral agent and administrative agent for the lenders, dated March 10, 2017. | ARAY | 10-Q | 001-33301 | 10.5 | 05/05/2017 | |
| 10.37 | Credit and Security Agreement by and among the Registrant, TomoTherapy Incorporated, any additional borrowers that may be added thereto, MidCap Financial Trust, individually as a lender and as agent, and the other lenders from time to time parties thereto, dated June 14, 2017 | | | | | | X |
| 10.38 | Form of Note Exchange Agreement. | ARAY | 8-K | 001-33301 | 10.1 | 04/18/2014 | |
| 21.1 | List of subsidiaries. | | | | | | X |
| 23.1 | Consent of Grant Thornton LLP, independent registered public accounting firm. | | | | | | X |
| 24.1 | Power of Attorney (incorporated by reference to the signature page of this annual report on Form 10-K). | | | | | | X |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | | X |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | | X |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | | | X |
| 101.INS | XBRL Instance Document | | | | | | X |
| 101.SCH | XBRL Taxonomy Extension Schema Document | | | | | | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | | | | | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | | | | | X |

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| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | | Furnished or Filed Herewith |
|---|---|---|---|---|---|---|---|
| | | Filer (ARAY/ TOMO) | Form | File No. | Exhibit | Filing Date | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | | | | | | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | | | | X |

*

Management contract or compensatory plan or arrangement.

Portions of the exhibit have been omitted pursuant to a request for confidential treatment. The omitted information has been filed separately with the Securities and Exchange Commission.

The certification attached as Exhibit 32.1 that accompanies this Annual Report on Form 10-K is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Accuray Incorporated under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing. Form 10-K, irrespective of any general incorporation language contained in such filing.

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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, in the City of Sunnyvale, State of California, on the 25th day of August 2017.

**ACCURAY INCORPORATED**

By: /s/ JOSHUA H. LEVINE

Joshua H. Levine
*President and Chief Executive Officer*

By: /s/ KEVIN M. WATERS

Kevin M. Waters
*Senior Vice President and Chief Financial Officer*

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Joshua H. Levine and Kevin M. Waters, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys- in- fact and agents, and any of them or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

| Signature | Title | Date |
|---|---|---|
| /s/ JOSHUA H. LEVINE<br>Joshua H. Levine | President and Chief Executive Officer and Director (Principal Executive Officer) | August 25, 2017 |
| /s/ KEVIN M. WATERS<br>Kevin M. Waters | Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | August 25, 2017 |
| Louis J. Lavigne, Jr. | Chairperson of the Board and Director | August 25, 2017 |

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| Signature | Title | Date |
|---|---|---|
| /s/ ELIZABETH DÁVILA<br>Elizabeth Dávila | Vice Chairperson of the Board and Director | August 25, 2017 |
| /s/ JACK GOLDSTEIN, PH.D.<br>Jack Goldstein, Ph.D. | Director | August 25, 2017 |
| /s/ RICHARD R. PETTINGILL<br>Richard R. Pettingill | Director | August 25, 2017 |
| /s/ ROBERT S. WEISS<br>Robert S. Weiss | Director | August 25, 2017 |
| Dennis Winger | Director | August 25, 2017 |