

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33301

**ACCURAY INCORPORATED**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**20-8370041**

(IRS Employer Identification Number)

**1310 Chesapeake Terrace  
Sunnyvale, California 94089**

(Address of Principal Executive Offices Including Zip Code)

**(408) 716-4600**

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.001 par value per share	ARAY	The Nasdaq Stock Market LLC

As of April 30, 2019, there were 88,024,096 shares of the Registrant's Common Stock, par value \$0.001 per share, outstanding.

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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®, Treatment Planning System™, QuickPlan®, TomoDirect™, TomoEdge™, TomoH®, TomoHD®, TomoHDA™, TomoHelical™, Tomo Quality Assurance™, Radixact®, Onrad™, StatRT™, and VoLO™. ImagingRing® is a registered trademark belonging to medPhoton GmbH. RayStation® is a registered trademark belonging to RaySearch Laboratories, AB.

**PART I. FINANCIAL INFORMATION**

**Item 1. Unaudited Condensed Consolidated Financial Statements**

**Accuray Incorporated**  
**Unaudited Condensed Consolidated Balance Sheets**  
(in thousands, except share amounts and par value)

	March 31, 2019	June 30, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 62,509	\$ 83,083
Restricted cash	2,103	9,830
Accounts receivable, net of allowance for doubtful accounts of \$563 and \$251 as of March 31, 2019 and June 30, 2018, respectively	99,774	65,994
Inventories	124,433	108,540
Prepaid expenses and other current assets	21,452	15,569
Deferred cost of revenue	157	1,141
Total current assets	<u>310,428</u>	<u>284,157</u>
Property and equipment, net	20,265	23,698
Goodwill	57,813	57,855
Intangible assets, net	714	821
Restricted cash	734	620
Other assets	16,180	11,576
Total assets	<u>\$ 406,134</u>	<u>\$ 378,727</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 25,392	\$ 19,694
Accrued compensation	27,082	28,992
Other accrued liabilities	26,945	22,448
Customer advances	22,822	22,896
Deferred revenue	78,833	75,404
Total current liabilities	<u>181,074</u>	<u>169,434</u>
Long-term liabilities:		
Long-term other liabilities	8,168	8,608
Deferred revenue	23,291	20,976
Long-term debt	145,957	131,077
Total liabilities	<u>358,490</u>	<u>330,095</u>
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, \$0.001 par value; authorized: 200,000,000 shares as of March 31, 2019 and June 30, 2018, respectively; issued and outstanding: 88,020,073 and 86,129,256 shares at March 31, 2019 and June 30, 2018, respectively	88	86
Additional paid-in-capital	531,207	521,738
Accumulated other comprehensive income	489	1,093
Accumulated deficit	(484,140)	(474,285)
Total stockholders' equity	<u>47,644</u>	<u>48,632</u>
Total liabilities and stockholders' equity	<u>\$ 406,134</u>	<u>\$ 378,727</u>

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

**Accuray Incorporated**  
**Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss**  
(in thousands, except per share amounts)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net revenue:				
Products	\$ 46,451	\$ 43,244	\$ 136,019	\$ 129,266
Services	56,770	56,588	165,349	161,845
Total net revenue	<u>103,221</u>	<u>99,832</u>	<u>301,368</u>	<u>291,111</u>
Cost of revenue:				
Cost of products	27,169	25,332	80,755	74,291
Cost of services	35,586	38,251	103,888	103,110
Total cost of revenue	<u>62,755</u>	<u>63,583</u>	<u>184,643</u>	<u>177,401</u>
Gross profit	40,466	36,249	116,725	113,710
Operating expenses:				
Research and development	12,913	13,906	40,442	42,663
Selling and marketing	12,903	14,612	41,078	43,241
General and administrative	11,769	11,552	37,880	34,696
Total operating expenses	<u>37,585</u>	<u>40,070</u>	<u>119,400</u>	<u>120,600</u>
Income (loss) from operations	2,881	(3,821)	(2,675)	(6,890)
Other expense, net	(3,829)	(4,465)	(11,133)	(14,774)
Loss before provision for income taxes	(948)	(8,286)	(13,808)	(21,664)
Provision for income taxes	236	566	1,222	1,289
Net loss	<u>\$ (1,184)</u>	<u>\$ (8,852)</u>	<u>\$ (15,030)</u>	<u>\$ (22,953)</u>
Net loss per share - basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.10)</u>	<u>\$ (0.17)</u>	<u>\$ (0.27)</u>
Weighted average common shares used in computing net loss per share:				
Basic and diluted	87,962	85,459	87,220	84,594
Net loss	<u>\$ (1,184)</u>	<u>\$ (8,852)</u>	<u>\$ (15,030)</u>	<u>\$ (22,953)</u>
Foreign currency translation adjustment	(270)	909	(604)	1,467
Unrealized gain on investments, net of tax	—	319	—	443
Comprehensive loss	<u>\$ (1,454)</u>	<u>\$ (7,624)</u>	<u>\$ (15,634)</u>	<u>\$ (21,043)</u>

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

**Accuray Incorporated**  
**Unaudited Condensed Consolidated Statements of Stockholders' Equity**  
(in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
<b>Balance at June 30, 2017</b>	<u>83,739,804</u>	<u>\$ 84</u>	<u>\$ 496,887</u>	<u>\$ (52)</u>	<u>\$ (450,386)</u>	<u>\$ 46,533</u>
Issuance of restricted stock	19,367	—	—	—	—	—
Retirement of common stock	(4,506)	—	(19)	—	—	(19)
Share-based compensation	—	—	2,348	—	—	2,348
Allocated transaction cost in debt issuance	—	—	8,798	—	—	8,798
Net loss	—	—	—	—	(9,382)	(9,382)
Cumulative translation adjustment	—	—	—	346	—	346
Unrealized gain on investments, net of tax	—	—	—	22	—	22
<b>Balance at September 30, 2017</b>	<u>83,754,665</u>	<u>84</u>	<u>508,014</u>	<u>316</u>	<u>(459,768)</u>	<u>48,646</u>
Exercise of stock options, net	105,200	—	423	—	—	423
Issuance of restricted stock	1,037,044	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	447,756	1	1,579	—	—	1,580
Retirement of common stock	(57,030)	—	(274)	—	—	(274)
Share-based compensation	—	—	3,141	—	—	3,141
Net loss	—	—	—	—	(4,719)	(4,719)
Cumulative translation adjustment	—	—	—	212	—	212
Unrealized gain on investments, net of tax	—	—	—	102	—	102
<b>Balance at December 31, 2017</b>	<u>85,287,635</u>	<u>85</u>	<u>512,883</u>	<u>630</u>	<u>(464,487)</u>	<u>49,111</u>
Exercise of stock options, net	3,600	—	14	—	—	14
Issuance of restricted stock	38,738	1	(1)	—	—	—
Retirement of Convertible Senior Notes	253,829	—	—	—	—	—
Share-based compensation	—	—	2,989	—	—	2,989
Allocated transaction cost in debt issuance	—	—	288	—	—	288
Net loss	—	—	—	—	(8,852)	(8,852)
Cumulative translation adjustment	—	—	—	909	—	909
Unrealized gain on investments, net of tax	—	—	—	319	—	319
<b>Balance at March 31, 2018</b>	<u>85,583,802</u>	<u>\$ 86</u>	<u>\$ 516,173</u>	<u>\$ 1,858</u>	<u>\$ (473,339)</u>	<u>\$ 44,778</u>
<b>Balance at June 30, 2018</b>	<u>86,129,256</u>	<u>\$ 86</u>	<u>\$ 521,738</u>	<u>\$ 1,093</u>	<u>\$ (474,285)</u>	<u>\$ 48,632</u>
Exercise of stock options, net	3,500	—	14	—	—	14
Issuance of restricted stock	367,504	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	—	—	—	—	—	—
Share-based compensation	—	—	2,947	—	—	2,947
Tax withholding upon vesting of restricted stock units	—	—	—	—	—	—
Adoption of new revenue recognition standard	—	—	—	—	5,114	5,114
Net loss	—	—	—	—	(9,206)	(9,206)
Cumulative translation adjustment	—	—	—	(395)	—	(395)
<b>Balance at September 30, 2018</b>	<u>86,500,260</u>	<u>86</u>	<u>524,699</u>	<u>698</u>	<u>(478,377)</u>	<u>47,106</u>
Exercise of stock options, net	14,550	—	58	—	—	58
Issuance of restricted stock	1,054,539	2	(2)	—	—	—
Issuance of common stock under employee stock purchase plan	442,051	—	1,540	—	—	1,540
Share-based compensation	—	—	1,959	—	—	1,959
Tax withholding upon vesting of restricted stock units	(125,797)	—	—	—	—	—

Adoption of new revenue recognition standard	—	—	—	—	61	61
Net loss	—	—	—	—	(4,640)	(4,640)
Cumulative translation adjustment	—	—	—	61	—	61
<b>Balance at December 31, 2018</b>	<u>87,885,603</u>	<u>88</u>	<u>528,254</u>	<u>759</u>	<u>(482,956)</u>	<u>46,145</u>
Exercise of stock options, net	96,882	—	417	—	—	417
Issuance of restricted stock	37,588	—	—	—	—	—
Share-based compensation	—	—	2,536	—	—	2,536
Net loss	—	—	—	—	(1,184)	(1,184)
Cumulative translation adjustment	—	—	—	(270)	—	(270)
<b>Balance at March 31, 2019</b>	<u>88,020,073</u>	<u>\$ 88</u>	<u>\$ 531,207</u>	<u>\$ 489</u>	<u>\$ (484,140)</u>	<u>\$ 47,644</u>

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

**Accuray Incorporated**  
**Unaudited Condensed Consolidated Statements of Cash Flows**  
(in thousands)

	Nine Months Ended March 31,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net loss	\$ (15,030)	\$ (22,953)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,088	7,387
Share-based compensation	7,779	9,074
Amortization of debt issuance costs	1,157	1,259
Amortization and accretion of discount and premium on investments	—	(15)
Accretion of interest on debt	2,489	2,589
Loss on sales of investment	—	77
Provision for (recovery of) bad debt	3,639	(74)
Provision for write-down of inventories	2,099	1,104
Loss (gain) on disposal of property and equipment	250	(8)
Loss on extinguishment of debt	—	3,452
Gain on termination of lease obligation	(1,007)	—
Changes in assets and liabilities:		
Accounts receivable	(34,971)	(8,435)
Inventories	(17,763)	(14,656)
Prepaid expenses and other assets	(7,382)	3,851
Deferred cost of revenue	520	630
Accounts payable	5,465	5,463
Accrued liabilities	1,458	(2,000)
Customer advances	107	5,321
Deferred revenues	6,375	(1,621)
Net cash used in operating activities	(38,727)	(9,555)
<b>Cash flows from investing activities</b>		
Purchases of property and equipment, net	(3,236)	(4,598)
Purchases of investments	—	(5,940)
Sales and maturities of investments	—	29,875
Net cash provided by (used in) investing activities	(3,236)	19,337
<b>Cash flows from financing activities</b>		
Proceeds from employee stock plans	3,215	2,880
Taxes paid related to net share settlement of equity awards	—	(293)
Proceeds from debt, net of costs	5,000	66,111
Payments made to note and loan holders	—	(69,797)
Net proceeds (repayments) under Revolving Credit Facility	6,498	(23,541)
Net cash provided by (used in) financing activities	14,713	(24,640)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(937)	2,533
Net decrease in cash, cash equivalents and restricted cash	(28,187)	(12,325)
Cash, cash equivalents and restricted cash at beginning of period	93,533	85,235
Cash, cash equivalents and restricted cash at end of period	\$ 65,346	\$ 72,910

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

**Accuray Incorporated**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Note 1. The Company and its Significant Accounting Policies**

**The Company**

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

**Basis of Presentation**

The unaudited condensed 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.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”), pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and note disclosures have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of the periods presented. The results for the three and nine months ended March 31, 2019 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2019, or for any other future interim period or fiscal year.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes for the fiscal year ended June 30, 2018 included in the Company’s Annual Report on Form 10-K filed with the SEC on August 24, 2018.

**Significant Accounting Policies**

The Company adopted Accounting Standard Codification (“ASC”) 606, *Revenue from Contracts with Customers* as of July 1, 2018, using the modified retrospective method. See Note 2. *Recent Accounting Pronouncements* and Note 3. *Revenue*, to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for additional details. Except for the changes in the revenue recognition policy, there have been no other material changes to the Company’s accounting policies from the information provided in Note 1. *The Company and its Significant Accounting Policies* to the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2018.

**Revenue Recognition**

The Company’s revenue is primarily derived from sales of CyberKnife and TomoTherapy Systems and services, which include post-contract customer support (“PCS”), installation services, training and other professional services.

The Company has a contract with a customer when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

The Company’s revenues are measured based on consideration specified in the contract with each customer, net of any sales incentives and amounts collected on behalf of third parties such as sales taxes, excise taxes, and VAT.

The majority of the Company’s revenue arrangements consists of multiple performance obligations, which can include system, upgrades, installation, training, services, construction, and consumables. For bundled arrangements, the Company accounts for individual products and services separately if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer.

The Company's products are generally not sold with a right of return, and the Company's contracts generally provide a fixed transaction price. However, the Company from time to time offers variable consideration such as volume discounts. The Company also from time to time offers extended payment terms beyond one year, trade-in allowance for old systems, and commissions or other forms of payment to customers. The Company applied the practical expedient to not adjust for a significant financing component if the gap between payment and delivery was expected, at the contract inception, to be less than one year.

The stand-alone selling price ("SSP") of performance obligations is determined based on observable prices at which the Company separately sells the products and services. If the SSP is not directly observable, then the Company will estimate the SSP considering market conditions, entity-specific factors, and information about the customer or class of customer that is reasonably available. The SSP is generally assessed as a percentage of the list price. The contract consideration allocation is based on the SSP at contract inception. The consideration (net of any discounts) is allocated among separate products and services in a bundle based on their individual SSP. For contract modifications that add additional goods or services or changes pricing, the most recent SSP is used for allocation to the remaining performance obligations.

The Company recognizes revenue for certain performance obligations at the point in time when control is transferred, such as delivery of products. The Company recognizes revenue for certain other performance obligations over a period of time as control of the goods or services is transferred, such as PCS and construction contracts.

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if the Company expects the benefit of those costs to be longer than one year. The Company capitalizes incremental contract acquisition costs, and amortizes such costs over the period which the Company expects to benefit, which may extend beyond the initial contract term. Most of the Company's contract costs are associated with its internal sales force compensation program and a portion of its employee bonus program. The Company amortizes capitalized bonuses and a portion of sales commissions over a period of five years commencing upon the initial transfer of control of the system to the customer. The pattern of amortization is commensurate with the pattern of transfer of control of the performance obligations to the customer. The Company elected to use the practical expedient in ASC 340-40-25-4 and expense as incurred commissions related to service renewals and upgrades because the contract term is less than a year.

## **Note 2. Recent Accounting Pronouncements**

### **Accounting Pronouncement Recently Adopted**

In June 2018, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-7, *Compensation – Stock Compensation (Topic 718) — Improvements to Nonemployee Share-Based Payment Accounting*. This guidance supersedes ASC 505-50 and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The guidance permits early adoption and was adopted by the Company in the first quarter of fiscal year 2019. The adoption of this ASU did not have any impact on the Company's consolidated financial statements and related disclosures.

In May 2017, the FASB issued 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. Modification accounting will not be applied if the following are the same immediately before and after the change: fair value, vesting conditions, and classification. The Company adopted ASU No. 2017-09 as required in the first quarter of fiscal year 2019 on a prospective basis. The adoption of this ASU did not have any impact on the Company's consolidated financial statements and related disclosures.

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. In addition, changes to the presentation of benefit costs were required to be adopted retrospectively, while changes to the capitalization of service costs into inventories were required to be adopted prospectively. The standard permits, as a practical expedient, use of the amounts disclosed in the pension plans footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation requirement. The Company adopted ASU No. 2017-07 as required in the first quarter of fiscal year 2019, and the adoption of this ASU did not have a material impact on the Company's 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. The amendments in the update provide guidance on eight specific cash flow issues. The amendments to the guidance should be applied using a retrospective transition method for each period presented and, if it is impracticable to apply all of the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company adopted ASU No. 2016-15 as required in the first quarter of fiscal year 2019. The adoption of this ASU did not have any impact on the Company's consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance 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 Company adopted this ASU No. 2016-01 as required in the first quarter of fiscal year 2019 on a required modified retrospective approach. The adoption of this ASU did not have any impact on the Company's consolidated financial statements and related disclosures.

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 simplifies the measurement of goodwill by eliminating the Step 2 impairment test. The new guidance requires companies to perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. This guidance will be effective for the Company beginning in its first quarter of fiscal 2021. The amendment is required to be adopted prospectively. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted this guidance in the first quarter of fiscal year 2019 and adoption of this ASU did not have any impact 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)*, to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenue 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) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures. The Company adopted the new revenue standards as of July 1, 2018, using the modified retrospective transition method applied to those contracts which were not completed as of that date.

The Company completed its assessment of the impact this guidance has on its consolidated financial statements and related disclosures. Based on that assessment, the Company concluded the significant impact areas were the capitalization and amortization of incremental costs of obtaining a contract, primarily related to certain bonuses and sales commissions, change in SSP and the removal of software revenue recognition rules along with the elimination of revenue deferral for cash basis customers. Under the new standards, the Company capitalizes incremental contract acquisition costs, such as certain bonuses and sales commissions, and amortizes such costs over the period which the Company benefits, as estimated by management, which may extend beyond the initial contract term. The Company amortizes capitalized bonuses and sales commissions over a period of five years commencing upon the initial transfer of control of the system to the customer. The pattern of amortization is commensurate with the pattern of transfer of control of the performance obligations to the customer. The Company elected to use the practical expedient in ASC 340-40-25-4 and expense commissions related to service renewals and upgrades with a renewal contract term of one year or less as incurred. The Company recorded a net reduction to opening accumulated deficit of \$5.1 million, net of tax, as of July 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact primarily related to the deferral of incremental costs to obtain contracts.

Under ASC 606, product revenue for direct sales are accelerated to reflect transfer of control upon delivery while an element of installation is deferred until performed. Prior to the adoption of ASC 606, the Company deferred revenue until installation had occurred. The revenue recognition method for indirect sales and service revenues is unchanged under the new guidance.

Refer to Note 3, *Revenue*, to the Unaudited Condensed Consolidated Financial Statement on this Quarterly report for the detailed impact of adopting ASC 606.

## Accounting Pronouncements Not Yet Effective

In February 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, that allows companies to reclassify from Accumulated Other Comprehensive Income to Retained Earnings stranded tax effects resulting from the enactment of the Tax Cuts and Jobs Act (the "Tax Act"). The guidance will be effective for the Company in its first quarter of fiscal 2020. Early adoption is permitted. The guidance should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company has not yet selected a transition method, 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 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging*. This guidance simplifies the application and administration of hedge accounting. The guidance amends the presentation and disclosure requirements and changes how companies assess effectiveness. The guidance is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance will be effective for the Company in its first quarter of fiscal 2020. Early adoption is permitted. The guidance is required to be adopted on a prospective basis. The Company will not early adopt and does not believe the adoption of this standard will have a material impact on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires measurement and recognition of expected credit losses for financial assets held. This guidance will be effective for the Company in the first quarter of fiscal 2021 and must be adopted using a modified retrospective approach, with certain exceptions. Early adoption is permitted beginning in the first quarter of fiscal 2020. The Company has not yet decided whether it will early adopt and is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. 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 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. This guidance will be effective for the Company in the first quarter of fiscal 2020 and early adoption is permitted. In July 2018, the FASB issued ASU No. 2018-11, *Targeted Improvements*, which provides another transition method in addition to the existing modified retrospective transition approach. Accordingly, the new method allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company intends to adopt the transition method allowed under ASU 2018-11, but will not elect early adoption, and is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures. Upon adoption, the Company expects to record right-of-use assets and lease liabilities for operating leases on its consolidated balance sheets.

## Note 3. Revenue

On July 1, 2018, the Company adopted ASC 606 electing the modified retrospective method for contracts that were still open as of July 1, 2018. Results for reporting periods after July 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with legacy accounting guidance under ASC 605.

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

<u>(Dollars in thousands)</u>	<u>Balance at July 1, 2018</u>	<u>Adjustment Due to ASC 606</u>	<u>Balance as Reported at June 30, 2018</u>
<b>Assets:</b>			
Account receivable, net	\$ 66,251	\$ 257	\$ 65,994
Deferred cost of revenue - current	677	(464)	1,141
Prepaid expenses and other current assets	16,239	670	15,569
Other assets	17,416	5,840	11,576
<b>Liabilities and Stockholders' Equity:</b>			
Other accrued liabilities	23,059	611	22,448
Deferred revenue - current	75,515	111	75,404
Long-term other liabilities	9,075	467	8,608
Accumulated deficit	(469,171)	5,114	(474,285)

Select unaudited condensed consolidated balance sheets line items, which reflect the adoption of ASC 606 are as follows:

(Dollars in thousands)	March 31, 2019		
	As Reported	Adjustments	Balances Without Adoption
<b>Assets:</b>			
Account receivable, net	\$ 99,774	\$ 5,698	\$ 94,076
Deferred cost of revenue - current	157	(7,301)	7,458
Prepaid expenses and other current assets	21,452	2,262	19,190
Other assets	16,180	6,666	9,514
<b>Liabilities and Stockholders' Equity:</b>			
Other accrued liabilities	26,945	760	26,185
Deferred revenue - current	78,833	(8,553)	87,386
Long-term other liabilities	8,168	1,857	6,311
Accumulated deficit	(484,140)	13,261	(497,401)

Select unaudited condensed consolidated statements of operations and comprehensive loss line items for the three and nine months ended March 31, 2019, which reflect the adoption of ASC 606 are as follows:

(Dollars in thousands)	Three Months Ended March 31, 2019			Nine Months Ended March 31, 2019		
	As Reported	Adjustments	Balances Without Adoption	As Reported	Adjustments	Balances Without Adoption
Net revenue	\$ 103,221	\$ (10,491)	\$ 113,712	\$ 301,368	\$ 13,352	\$ 288,016
Cost of goods sold	62,755	(5,101)	67,856	184,643	6,605	178,038
Other expense, net	3,829	(190)	4,019	11,133	(449)	11,582
Research and development	12,913	(43)	12,956	40,442	(179)	40,621
Selling and marketing	12,903	(98)	13,001	41,078	(557)	41,635
General and administrative	11,769	(94)	11,863	37,880	(383)	38,263
Provision for income taxes	236	198	38	1,222	168	1,054
Net loss	(1,184)	(5,163)	3,979	(15,030)	8,147	(23,177)
Net loss per share - basic and diluted	\$ (0.01)	\$ (0.06)	\$ 0.05	\$ (0.17)	\$ 0.09	\$ (0.27)

The adoption of ASC 606 had no impact to net cash from or used in operating, investing or financing activities in the Company's unaudited condensed consolidated statements of cash flows.

#### Contract Balances

The timing of revenue recognition, billings, and cash collections results in trade, unbilled receivables, and deferred revenues on the unaudited condensed consolidated statement of balance sheets. The Company may offer longer or extended payments of more than one year for qualified customers in some circumstances. At times, revenue recognition occurs before the billing, resulting in an unbilled receivable, which represents a contract asset. The contract asset is a component of accounts receivable and other assets for the current and non-current portions, respectively.

When the Company receives advances or deposits from customers before revenue is recognized, this results in a contract liability. It can take up to two and half years from the time of order to revenue recognition due to the Company's long sales cycle.

Changes in the contract assets and contract liabilities are as follows:

(Dollars in thousands)	March 31, 2019	July 1, 2018	Change	
	Amount	Amount	\$	%
<b>Assets:</b>				
Unbilled accounts receivable – current (1)	\$ 8,016	\$ 3,218	4,798	60
Interest receivable – current (2)	239	—	239	100
Long-term accounts receivable (3)	3,949	6,833	(2,884)	(73)
Interest receivable – non-current (3)	1,232	611	621	50
<b>Liabilities:</b>				
Customer advances	22,822	22,896	(74)	—
Deferred revenue – current	78,833	75,515	3,318	4
Deferred revenue – non-current	23,291	20,976	2,315	10

- (1) Included in accounts receivable on consolidated balance sheets  
(2) Included in prepaid expenses and other current assets on consolidated balance sheets  
(3) Included in other assets on consolidated balance sheets

Changes in deferred revenue from contracts with customers are as follows:

(Dollars in thousands)	Three Months Ended March 31, 2019	Nine Months Ended March 31, 2019
	Balance at beginning of period	\$ 96,132
New billings	109,213	307,001
Recognition of deferred revenue	(103,221)	(301,368)
Balance at end of period	\$ 102,124	\$ 102,124

During the three months ended March 31, 2019, the Company recognized revenues of \$14.7 million, which were included in the deferred revenues balance at December 31, 2018. During the nine months ended March 31, 2019, the Company recognized revenues of \$57.8 million, which were included in the deferred revenues balance at June 31, 2018.

#### Remaining Performance Obligations

Remaining performance obligations represent deferred revenue from open contracts for which performance has already started and the transaction price from signed contracts for which performance has not yet started. Service contracts in general are considered month-to-month contracts, and the Company has elected the practical expedient available in the guidance related to ASC 606, to not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less.

As of March 31, 2019, total remaining performance obligations amounted to \$830.1 million. Of this total amount, \$72.0 million related to long-term warranty and service, which is expected to be recognized over the remaining warranty period for systems that have been delivered. For systems that have been delivered but not yet installed, management estimates the timing of installation since warranty starts upon installation.

The following table represents the Company's remaining performance obligations related to long-term warranty and service as of March 31, 2019 and the estimated revenue expected to be recognized:

(Dollars in thousands)	Fiscal years of revenue recognition			
	2019	2020	2021	Thereafter
Long-term warranty and service	\$ 8,597	\$ 29,187	\$ 21,144	\$ 13,113

For the remaining \$758.1 million of performance obligations, the Company estimates 25% to 35% will be recognized in the next 12 months, and the remaining 65% to 75% will be recognized in the 30 months thereafter. The Company's historical experience indicates that some of its customers will cancel or renegotiate contracts as economic conditions change or when product offerings change during the long sales cycle. As such, about 15% to 25% of the Company's contracts may never result in revenue due to cancellation.

The time bands reflect management's best estimate of when the Company will transfer control to the customer and may change based on timing of shipment, readiness of customers' facilities for installation, installation requirements, and availability of products.

## Capitalized Contract Costs

The Company capitalizes and amortizes the incremental costs of obtaining a contract, primarily related to certain bonuses and sales commissions. The capitalized bonuses and sales commissions are amortized over a period of five years commencing upon the initial transfer of control of the system to the customer. The pattern of amortization is commensurate with the pattern of transfer of control of the performance obligations to the customer.

The opening balance of capitalized costs to obtain a contract was \$5.9 million as of July 1, 2018. As of March 31, 2019, the balance of capitalized costs to obtain a contract was \$7.3 million. The Company has classified the capitalized costs to obtain a contract as a component of prepaid expenses and other current assets and other assets with respect to the current and non-current portions of capitalized costs, respectively, on the consolidated balance sheets. The Company incurred a de minimis impairment loss for the periods presented. During the three and nine months ended March 31, 2019, the Company recognized \$0.5 million and \$1.8 million, respectively, in expense related to the amortization of the capitalized contract costs.

## Note 4. Supplemental Financial Information

### Balance Sheet Components

#### 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 on 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 \$3.8 million and \$6.9 million at March 31, 2019 and June 30, 2018, respectively, and are included in other assets in the unaudited condensed consolidated balance sheets. The Company evaluates the credit quality of an obligor at lease or contract 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 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. 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. The Company performed an assessment of the allowance for credit losses related to its financing receivables as of March 31, 2019 and June 30, 2018. Based upon such assessment, the Company recorded a \$3.3 million and zero adjustment to the allowance for credit losses related to such financing receivables as of March 31, 2019 and as of June 30, 2018, respectively.

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

<u>March 31, 2019</u>	<u>Lease Receivables</u>	<u>Financed Service Contracts and Other</u>	<u>Total</u>
Gross	\$ —	\$ 12,677	\$ 12,677
Unearned income	—	(1,474)	(1,474)
Allowance for credit loss	—	(3,327)	(3,327)
Total, net	<u>\$ —</u>	<u>\$ 7,876</u>	<u>\$ 7,876</u>
Reported as:			
Current	\$ —	\$ 4,068	4,068
Non-current	—	3,808	3,808
Total, net	<u>\$ —</u>	<u>\$ 7,876</u>	<u>\$ 7,876</u>

June 30, 2018	Lease Receivables	Financed Service Contracts and Other	Total
Gross	\$ 1,588	\$ 8,009	\$ 9,597
Unearned income	(137)	—	(137)
Allowance for credit loss	—	—	—
Total, net	<u>\$ 1,451</u>	<u>\$ 8,009</u>	<u>\$ 9,460</u>
Reported as:			
Current	\$ 432	\$ 2,139	\$ 2,571
Non-current	1,019	5,870	6,889
Total, net	<u>\$ 1,451</u>	<u>\$ 8,009</u>	<u>\$ 9,460</u>

Actual cash collections may differ from the contracted maturities due to early customer buyouts, refinancing, or defaults. In December 2018, one customer bought out the last system that was on lease. As a result, there was no lease receivables as of March 31, 2019.

## Inventories

Inventories consisted of the following (in thousands):

	March 31, 2019	June 30, 2018
Raw materials	\$ 46,585	\$ 37,144
Work-in-process	18,846	17,703
Finished goods	59,002	53,693
Inventories	<u>\$ 124,433</u>	<u>\$ 108,540</u>

## Property and equipment, net

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

	March 31, 2019	June 30, 2018
Furniture and fixtures	\$ 2,958	\$ 2,927
Computer and office equipment	11,084	11,315
Software	11,201	11,307
Leasehold improvements	25,594	25,423
Machinery and equipment	43,169	47,065
Construction in progress	5,394	5,629
	<u>99,400</u>	<u>103,666</u>
Less: Accumulated depreciation	(79,135)	(79,968)
Property and equipment, net	<u>\$ 20,265</u>	<u>\$ 23,698</u>

Depreciation expense related to property and equipment for the three and nine months ended March 31, 2019 was \$1.9 million and \$6.0 million, respectively. Depreciation expense related to property and equipment for the three and nine months ended March 31, 2018 was \$2.3 million and \$7.3 million, respectively.

## Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income are excluded from earnings and reported as a component of stockholders' equity. The foreign currency translation adjustment results from those subsidiaries not using the U.S. 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 to the U.S. Dollar at the current exchange rates at the end of each period. Revenues and expenses are translated at average exchange rates in effect during the period.

The components of accumulated other comprehensive income in the equity section of the balance sheets are as follows (in thousands):

	March 31, 2019	June 30, 2018
Cumulative foreign currency translation adjustment	\$ 633	\$ 1,237
Defined benefit pension obligation	(144)	(144)
Accumulated other comprehensive income	<u>\$ 489</u>	<u>\$ 1,093</u>

## Note 5. Goodwill and Intangible Assets

### Goodwill

Activity related to goodwill consisted of the following (in thousands):

	March 31, 2019	June 30, 2018
Balance at the beginning of the period	\$ 57,855	\$ 57,812
Currency translation	(42)	43
Balance at the end of the period	<u>\$ 57,813</u>	<u>\$ 57,855</u>

In the second quarter of fiscal 2019, the Company performed its annual goodwill impairment test. Based on this analysis, the Company determined that there was no impairment to goodwill. The Company will continue to monitor its recorded goodwill for indicators of impairment.

### Intangible Assets

The Company's carrying amount of acquired intangible assets, net, is as follows (in thousands):

	Useful Lives (in years)	March 31, 2019			June 30, 2018		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Patent license	7	\$ 1,000	\$ (286)	\$ 714	\$ 1,000	\$ (179)	\$ 821

The Company did not identify any triggering events that would indicate potential impairment of its definite-lived intangible and long-lived assets as of March 31, 2019 and June 30, 2018.

Amortization expense related to intangible assets for the three and nine months ended March 31, 2019 was \$0.03 million and \$0.10 million, respectively. Amortization expense related to intangible assets for the three and nine months ended March 31, 2018 was \$0.04 million and \$0.11 million, respectively.

The estimated future amortization expense of acquired intangible assets as of March 31, 2019 is as follows (in thousands):

Year Ending June 30,	Amount
2019 (remaining 3 months)	\$ 36
2020	143
2021	143
2022	143
2023	143
Thereafter	106
	<u>\$ 714</u>

## Note 6. Investments

The Company considers all highly liquid investments held at major banks, 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 management intends that these investments are available for current operations and includes these investments on its balance sheet as short-term investments. Investments with original maturities longer than three months include commercial paper, U.S. agency securities, non-U.S. government securities and investment-grade 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, a component of stockholders' equity. Realized gains and losses are recorded based on specific identification of each security's cost basis.

The Company sold all of its investments in fiscal 2018 and as such, no investments were outstanding as of March 31, 2019 and June 30, 2018.

## Note 7. Derivative Financial Instruments

The Company manages some of its foreign currency risk through the purchase of foreign currency forward contracts that hedge against the short-term effect of currency fluctuations. These foreign currency forward contracts have a monthly maturity that mitigates the effect of rate fluctuations on certain local currency denominated intercompany balances, cash, and customer receivables. 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. There were no outstanding foreign currency forward contracts at the end of March 31, 2019 and June 30, 2018.

The following table provides information about gain (loss) associated with the Company's derivative financial instruments (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Foreign currency exchange gain (loss) on foreign contracts	\$ (157)	\$ 726	\$ (4)	\$ (1,712)
Foreign currency transactions gain (loss)	(28)	(1,047)	(639)	1,477

## Note 8. Fair Value Measurements

Fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability 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 require 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.

The Company does not carry any investments, and its cash balance was \$62.5 million and \$83.1 million at March 31, 2019 and June 30, 2018, respectively.

### Liabilities That Are Measured at Fair Value on a Nonrecurring Basis

The Company's convertible 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 3.75% Convertible Notes (as defined below) is not readily available. The Revolving Credit Facility (as defined below) and the Term Loan (as defined below) (collectively the "Credit Facilities") are valued at market interest rates, which it considers to be a level 2 fair value measurement. The carrying value of these financial instruments approximate its estimated fair value as there have not been significant changes in the Company's credit quality or capital markets that would suggest changes in interest rates since the Credit Facilities were issued or amended in December 2018.

The following table summarizes the carrying value and estimated fair value of the Credit Facilities and the 3.75% Convertible Notes (in thousands):

	March 31, 2019		June 30, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
3.75% Convertible Notes	\$ 71,871	\$ 92,786	\$ 69,382	\$ 70,742
Term Loan Facility	43,589	43,589	38,010	38,010
Revolving Credit Facility	30,497	30,497	23,685	23,685
Total	<u>\$ 145,957</u>	<u>\$ 166,872</u>	<u>\$ 131,077</u>	<u>\$ 132,437</u>

### Note 9. Commitments and Contingencies

#### 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 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.

#### 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 them. 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 March 31, 2019.

#### Facility Lease Termination

In the third quarter of fiscal 2019, the Company amended a facility lease agreement with the landlord, which reduced the leased space by approximately 39,678 square feet, effective February 28, 2019. Upon termination, the Company removed the deferred rent balance associated with the previously leased space and recorded a \$1.0 million credit in the statement of operations.

## Note 10. Debt

### *3.50% Convertible Senior Notes due February 2018*

In February 2013, the Company issued 3.50% Convertible Senior Notes due 2018 (the “3.50% Convertible Notes”) 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 were entitled to convert their notes at any time until the close of the business day immediately preceding the maturity date of February 1, 2018. The 3.50% Convertible Notes were convertible into common stock of the Company at an initial conversion rate equal to 187.6877 shares of common stock per \$1,000 principal amount, which was equivalent to a conversion price of approximately \$5.33 per share of common stock, subject to adjustment.

On January 30, 2018, the Company entered into exchange agreements (the “Exchange Agreements”) with the holders of the 3.50% Convertible Notes, which amended the original settlement terms of the notes and allowed the Company to settle the then outstanding \$13.0 million principal balance of the 3.50% Convertible Notes and accrued interest in cash at maturity, and any excess equity value over the original conversion price in shares. In exchange for the agreement to settle in cash, the Company agreed to pay a \$0.3 million exchange premium. The \$0.3 million exchange premium was accounted for as debt extinguishment and included in other expense, net.

On February 1, 2018, pursuant to the Exchange Agreements, the Company paid \$13.2 million in cash to settle outstanding principal and accrued interest, and on February 7, 2018 issued 253,000 shares of the Company’s common stock to the holders of the 3.50% Convertible Notes. The total number of shares was determined using a three-day volume weighted averaging price period and based on a prescribed formula in the Exchange Agreements. As a result, the 3.50% Convertible Notes were repaid in full in fiscal year 2018.

### *3.50% Series A Convertible Senior Notes due February 2018*

In April 2014, the Company issued 3.50% Series A Convertible Senior Notes due 2018 (the “3.50% Series A Convertible Notes”) 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 were entitled to convert their notes at any time on or after November 1, 2017 until the close of business on the business day immediately preceding the maturity date of February 1, 2018. The initial conversion rate was 187.6877 shares of the Company’s common stock per \$1,000 principal amount, which represented an initial conversion price of approximately \$5.33 per share of the Company’s common stock.

Pursuant to the original settlement terms, the Company made an irrevocable net share settlement election and paid cash for principal plus accrued interest upon maturity to holders who did not elect to convert. Prior to maturity, one note holder elected to convert its notes and receive a combination of cash and shares at settlement. The number of shares was determined based on a prescribed formula in the indenture. On February 1, 2018, the Company paid an aggregate amount of \$27.0 million in cash and delivered 1,252 shares of its common stock to settle the 3.50% Series A Convertible Notes. As a result, the 3.50% Series A Convertible Notes were repaid in full in fiscal year 2018.

### *3.75% Convertible Senior Notes due July 2022*

In August 2017, the Company issued \$85.0 million aggregate principal amount of its 3.75% Convertible Senior Notes due 2022 (the “3.75% Convertible Notes”) under an indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. \$53.0 million aggregate principal amount of the 3.75% Convertible Notes were issued to certain holders of the Company’s outstanding 3.50% Convertible Notes and 3.50% Series A Convertible Notes (together, the “Existing Notes”) in exchange for approximately \$47.0 million aggregate principal amount of the Existing Notes (the “Exchange”), and \$32.0 million aggregate principal amount of the 3.75% Convertible Notes were issued to certain other qualified new investors for cash. The net proceeds of the cash issuance were used to repurchase approximately \$28.0 million of Existing Notes (the “Repurchase”).

Holders of the 3.75% Convertible Notes may convert their notes at any time on or after April 15, 2022 until the close of the business day immediately preceding the maturity date. Prior to April 15, 2022, holders of the 3.75% Convertible Notes may convert their notes only under certain circumstances.

Upon conversion, the Company will have the right to pay cash, or deliver shares of common stock of the Company or a combination thereof, at the Company’s election. The initial conversion rate is 174.8252 shares of the Company’s common stock per \$1,000 principal amount (which represents an initial conversion price of approximately \$5.72 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 3.75% 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 3.75% Convertible Notes may require the Company to purchase all or a portion of their note at a fundamental change repurchase price equal to 100% of the principal amount of the 3.75% Convertible

Notes, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date. As of March 31, 2019, \$85.0 million of aggregate principal amount was outstanding.

#### *Revolving Credit Facility*

On June 14, 2017, the Company entered into a credit and security agreement with a lender (the “Credit Agreement”). The Credit Agreement provides the Company with a revolving credit facility in the initial amount of \$52.0 million (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 Company’s eligible accounts receivable and eligible inventory, and the Company is required to maintain a minimum drawn balance of at least 30% of such availability. 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 plus 4.50% and had an initial maturity date of June 14, 2021.

In December 2017, concurrently with the Term Loan Agreement described below, the Company entered into an amendment to the Credit Agreement (the “Amendment” and, collectively with the Credit Agreement, the “Amended Credit Agreement”). The Amendment reduced the maximum borrowings under the Revolving Credit Facility to \$32.0 million and extended the maturity date of the Revolving Credit Facility to December 15, 2022.

The Amended Credit Agreement contains restrictions and covenants applicable to the Company. Among other requirements, the Company may not permit the Fixed Charge Coverage Ratio (as defined in the Amended Credit Agreement) to be less than a certain specified ratio for each fiscal quarter during the term of the Revolving Credit Facility. In addition, the Amended Credit Agreement contains customary restrictive covenants that limit, among other things, the ability of the Company and its subsidiaries to (i) incur additional 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.

In July 2018, the Company amended both the Amended Credit Agreement and the Term Loan Agreement (as defined below). The amendments provide for, among other things, adjustments to the Fixed Charge Coverage Ratio such that in the case of the Defined Periods (as defined in the Amended Credit Agreement and the Term Loan Agreement) for (a) the fiscal quarter ending June 30, 2018 as well as (b) the fiscal quarter ending March 31, 2019, the Fixed Charge Coverage Ratio is not less than 0.75 to 1.00 and 0.50 to 1.00, respectively. Other significant terms remain unchanged.

In December 2018, the Company further amended the Amended Credit Agreement (“Amendment 3”) which, among other things, updated the calculation of the deferred revolving loan origination fee such that it is based on the amount of time elapsed from the effective date of Amendment 3. Other significant terms remain unchanged.

The Company was in compliance with the covenants under the Amended Credit Agreement as of March 31, 2019. As of March 31, 2019, approximately \$30.5 million of aggregate principal amount was outstanding under the Revolving Credit Facility, and \$1.2 million of unamortized debt costs associated with the Debt Agreement was included in other assets on the condensed consolidated balance sheet.

#### *Term Loan*

In December 2017, the Company entered into a credit and security agreement with a lender (the “Term Loan Agreement”). The Term Loan Agreement provides for an initial term loan of \$40.0 million with an additional tranche of \$20.0 million available through December 31, 2018, if specified conditions are met (the “Term Loan”). In connection with the Amendment, the Company used a portion of the net proceeds from the initial advance to repay a portion of the outstanding borrowings under the Revolving Credit Facility. Interest on the Term Loan is payable monthly in arrears at an annual interest rate of 6.75% plus 90-day LIBOR. The Term Loan Agreement matures December 15, 2022 and, if prepaid, has fees equal to 3%, 2%, and 1% of the prepayment amount if such termination occurs within the first year, the second year, and the third year of funding, respectively. The term of the loan is 60 months with interest only for the first 24 months followed by straight-line amortization of principal for the remaining months. At the Company’s option, the interest-only period can be extended an additional 12 months, provided revenues for the previous four quarters is \$400 million or greater. In addition, the Company will pay an annual administrative fee of 0.25% and a final payment of 4.0% of the Term Loan amount.

In December 2018, the Company drew an additional \$5.0 million under the Term Loan Agreement and in connection therewith entered into the second amendment to the Term Loan Agreement (“Amendment 2”) which, among other things, (i) extended the term loan tranche 2 commitment termination date for the remaining \$15.0 million unfunded commitment from December 31, 2018 to June 30, 2019; (ii) provided that term loan tranche 2 may be drawn in two separate advances; and (iii) updated the calculation of the prepayment fee such that it is based on the amount of time elapsed from the effective date of Amendment 2. The Company was in

compliance with the covenants under the Term Loan Agreement as of March 31, 2019. As of March 31, 2019, \$45.0 million of aggregate principal amount was outstanding.

The following table presents the carrying value of the Credit Facilities and 3.75% Convertible Notes (in thousands):

<u>As of March 31, 2019</u>	<u>Revolving Credit Facility</u>	<u>3.75% Convertible Notes</u>	<u>Term Loan Facility</u>	<u>Total</u>
Carrying amount of equity conversion component	\$ —	\$ 14,650	\$ —	\$ 14,650
Principal amount of the Notes	\$ 30,497	\$ 85,000	\$ 45,000	\$ 160,497
Unamortized debt costs	—	(2,860)	(1,320)	\$ (4,180)
Unamortized debt discount	—	(10,269)	(91)	\$ (10,360)
Net carrying amount	<u>\$ 30,497</u>	<u>\$ 71,871</u>	<u>\$ 43,589</u>	<u>\$ 145,957</u>
<b>Reported as:</b>				
Short-term debt				\$ —
Long-term debt				145,957
Total debt				<u>\$ 145,957</u>

<u>As of June 30, 2018</u>	<u>Revolving Credit Facility</u>	<u>3.75% Convertible Notes</u>	<u>Term Loan Facility</u>	<u>Total</u>
Carrying amount of equity conversion component	\$ —	\$ 14,650	\$ —	\$ 14,650
Principal amount of the Notes	\$ 23,685	\$ 85,000	\$ 40,000	\$ 148,685
Unamortized debt costs	—	(3,351)	(1,721)	(5,072)
Unamortized debt discount	—	(12,267)	(269)	(12,536)
Net carrying amount	<u>\$ 23,685</u>	<u>\$ 69,382</u>	<u>\$ 38,010</u>	<u>\$ 131,077</u>
<b>Reported as:</b>				
Short-term debt				\$ —
Long-term debt				131,077
Total debt				<u>\$ 131,077</u>

A summary of interest expense on the 3.50% Convertible Notes, the 3.50% Series A Convertible Notes, and the 3.75% Convertible Notes (collectively, “Notes”) and Credit Facilities is as follows (in thousands):

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Interest expense related to contractual interest coupon	\$ 2,489	\$ 2,608	\$ 7,119	\$ 7,444
Interest expense related to amortization of debt discount	863	862	2,488	2,589
Interest expense related to amortization of debt issuance costs	392	391	1,157	1,259
	<u>\$ 3,744</u>	<u>\$ 3,861</u>	<u>\$ 10,764</u>	<u>\$ 11,292</u>

#### Note 11. Share-Based Compensation

The following table presents details of share-based compensation expenses by functional line item (in thousands):

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Cost of revenue	\$ 423	\$ 442	\$ 1,234	\$ 1,410
Research and development	429	577	1,330	1,842
Selling and marketing	516	496	1,534	863
General and administrative	1,512	1,689	3,681	4,959
	<u>\$ 2,880</u>	<u>\$ 3,204</u>	<u>\$ 7,779</u>	<u>\$ 9,074</u>

## Note 12. Net Loss Per Common Share

The Company reports both basic and diluted loss per share, which is based on the weighted average number of common shares outstanding during the period.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
<b>Numerator:</b>				
Net loss used to compute basic and diluted loss per share	\$ (1,184)	\$ (8,852)	\$ (15,030)	\$ (22,953)
<b>Denominator:</b>				
Weighted average shares used to compute basic and diluted loss per share	87,962	85,459	87,220	84,594

The potentially dilutive shares of the Company's common stock resulting from the assumed exercise of outstanding stock options, the settlement of vested Restricted Stock Units ("RSUs"), Market Stock Units ("MSUs") and Performance Stock Units ("PSUs"), and the purchase of shares under the Company's 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. Additionally, the 3.50% 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 March 31,	
	2019	2018
Stock options	5,199	2,672
RSUs, PSUs and MSUs	3,744	5,202
	8,943	7,874

### 3.75% Convertible Notes—Diluted Share Impact

The 3.75% Convertible Notes have, and the 3.50% Series A Convertible Notes had, an optional physical (share), cash or combination settlement feature and contain certain conditional conversion features. The 3.50% Series A Convertible Notes were retired in February 2018. Due to the optional cash settlement feature and management's intent to settle the principal amount thereof in cash, the shares of our common stock issuable upon conversion of the outstanding principal amount of the 3.75% Convertible Notes as of March 31, 2019 and 2018, totaling approximately 14.9 million shares of our common stock, were not included in the basic and diluted net loss per common share table above.

## Note 13. Segment Information

The Company operates in one reportable segment (oncology systems group), which develops, manufactures and markets proprietary medical devices used in radiation therapy and radiosurgery 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.

### Disaggregation of Revenues

The Company disaggregates its revenues from contracts by geographic region, as the Company believes this best depicts how the nature, amount, timing and uncertainty of revenues and cash flows are affected by economic factors. Additionally, the Company typically recognizes revenue at a point in time for product revenue and recognizes revenue over time for service revenue.

The following tables present net revenue and long-lived asset information based on geographic region. Net revenue is based on the destination of the shipments and long-lived assets are based on the physical location of the assets (in thousands):

Net Revenue	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Americas	\$ 31,616	\$ 41,767	\$ 92,559	\$ 115,544
Europe, India, Middle East, and Africa	32,943	28,635	110,919	95,789
Asia Pacific	17,070	14,731	47,922	39,399
Japan	21,592	14,699	49,968	40,379
Total	\$ 103,221	\$ 99,832	\$ 301,368	\$ 291,111

Property and equipment, net	March 31, 2019	June 30, 2018
Americas	\$ 16,640	\$ 19,698
Europe, India, Middle East, and Africa	609	569
Asia Pacific	1,632	1,635
Japan	1,384	1,796
Total	\$ 20,265	\$ 23,698

#### Note 14. Income Tax

On a quarterly basis, the Company provides for income taxes based upon an estimated annual effective income tax rate. The Company recognized an income tax expense of \$0.2 million and \$0.6 million for the three months ended March 31, 2019 and March 31, 2018, respectively. The decrease in income tax expense was due to recognition of an income tax benefit of approximately \$0.4 million in the third quarter of this fiscal year as a result of the final assessment from the Swiss authorities for the fiscal year 2017.

The Company recognized an income tax expense of \$1.2 million and \$1.3 million for the nine months ended March 31, 2019 and 2018, respectively. The decrease in income tax expense was driven by lower annual effective income tax rate on foreign profits for the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year.

The Tax Act has a requirement that certain income earned by controlled foreign corporations (“CFCs”) must be included currently in the gross income of the CFC’s U.S. shareholder. The income required to be included in gross income is referred to as global intangible low tax income (“GILTI”) and is as defined under Internal Revenue Code (“IRC”) Section 951A as is the excess of the shareholder’s net CFC tested income over the net deemed tangible income return. The GILTI inclusion amount is expected to be fully absorbed by net operating losses and is not expected to cause the Company to be in a U.S. taxable income position for fiscal year 2019. The Company has made a policy decision to record GILTI tax as a current-period expense when incurred.

In addition to the GILTI provision, the Tax Act also enacted the Base Erosion and Anti-Abuse Tax (“BEAT”). The BEAT minimum tax under IRC Section 59A is applicable to the extent that the BEAT tax amount is greater than the regular corporate tax for a given year. This tax is applicable to companies with prior 3-year average annual gross receipts exceeding \$500 million. The Company does not currently meet this threshold since its current average annual gross receipts are less than \$500 million.

#### Note 15. Joint Venture

In January 2019, the Company’s wholly-owned subsidiary, Accuray Asia Limited (“Accuray Asia”), entered into an agreement with CNNC High Energy Equipment (Tianjin) Co., Ltd. (the “CIRC Subsidiary”), a wholly-owned subsidiary of China Isotope & Radiation Corporation, to form a joint venture, CNNC Accuray (Tianjin) Medical Technology Co. Ltd. (the “JV”), to manufacture and sell radiation oncology systems in China. Accuray Asia initially has a 49% ownership interest in the joint venture and the CIRC Subsidiary initially has a 51% ownership interest in the joint venture. The JV was granted a business license in April 2019. For the three and nine months ended March 31, 2019, no JV business activities took place as the business license was not yet issued.

In exchange for the initial 49% equity interest in the JV, the Company, through Accuray Asia, expects to make its initial capital contributions to the JV by December 31, 2019 in the form of in-kind contributions consisting of components for two full radiation oncology systems from the Company’s inventory. Any remaining amount of capital contributions due, if not satisfied by such in-kind contributions, will be made by the Company, through Accuray Asia, in accordance with the schedule set by the board of directors of the JV.

The Company is assessing the accounting treatment of its investment in the JV and expects to apply the equity method of accounting to the ownership interest in the JV as it has the ability to exercise significant influence over the JV but lacks controlling financial interest and is not the primary beneficiary. The Company will recognize the 49% proportionate share of the JV income or loss on a one-quarter lag due to the timing of the availability of the JV's financial records.

**Note 16. Restructuring and Other Related Charges**

On October 29, 2018, the Company informed affected employees of a cost saving initiative designed to reduce operating costs through the elimination of approximately 5 percent of its global workforce. The Company recorded restructuring and other related charges of \$0.0 and \$1.0 million for the three and nine months ended March 31, 2019, which was mostly due to severance and related costs, of which \$0.2 million and \$1.0 million was paid out in the same periods, respectively.

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

The following discussion and analysis of our financial condition as of March 31, 2019 and results of operations for the three and nine months ended March 31, 2019 and 2018 should be read together with our unaudited condensed consolidated financial statements and related notes included in this report. Statements made in this Form 10-Q report that are not statements of historical fact are forward-looking statements that are subject to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this report relate, but are not limited, to: our future results of operations and financial position, including the sufficiency of cash resources and expected cash flows to fund future operations, including the next 12 months; our backlog and expectations regarding age-outs, cancellations of contracts and foreign currency impacts; the anticipated drivers of our future capital requirements; our expectations regarding the improvements in efficiency made by the multi-leaf collimator, or InCise MLC, and the VOLO Optimizer software upgrade on the CyberKnife Systems, and their impact on our business; our expectations regarding the improvements Synchrony motion tracking provides for the Radixact System and timing of its commercialization and shipment; our expectations regarding the factors that will impact long-term success, sales, competitive positioning and long-term success for our CyberKnife and TomoTherapy Systems, including Radixact System; our belief that TomoTherapy and Radixact Systems offer clinicians and patients significant benefits over other radiation therapy systems in the market; expectations regarding the strategy, timing, income, and impact of our China joint venture on our business; the anticipated risks associated with our foreign operations and fluctuations in the U.S. Dollar and foreign currencies as well as our ability to mitigate such risks; tariffs and trade policies; the sufficiency of our cash, cash flow equivalents and investments to meet our anticipated cash needs for working capital and capital expenditures and our business strategy, plans and objectives. Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “may,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements involve risks and uncertainties. If any of these risks or uncertainties materialize, or if any of our assumptions prove incorrect, actual results could differ materially from the results expressed or implied by these forward-looking statements. These risks and uncertainties include, those discussed in this quarterly report, in particular under the heading “Risk Factors” in Part II, Item 1A as well as the risks detailed in Part I, Item 1A of our annual report on Form 10-K for fiscal year 2018, and other filings we make with the Securities and Exchange Commission. Forward-looking statements speak only as of the date the statements are made and are based on information available to us at the time those statements are made and/or management’s good faith belief as of that time with respect to future events. We assume no obligation to update forward-looking statements to reflect actual performance or results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. Accordingly, investors should not place undue reliance on any forward-looking statements.

In this report, “Accuray,” the “Company,” “we,” “us,” and “our” refer to Accuray Incorporated and its subsidiaries.

### Overview

#### Products and Markets

We are a radiation oncology company that develops, manufactures, sells and supports precise, innovative treatment solutions that 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 Systems, the next generation TomoTherapy 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. Both systems have advanced capabilities that offer increased treatment flexibility to meet the needs of an expanding patient population including patients requiring retreatment with radiation therapy. We also offer comprehensive software solutions to enable and enhance the precise and efficient radiosurgery and radiotherapy treatment with our CyberKnife and TomoTherapy Systems. In addition to these products, we also provide services, which include post-contract customer support (warranty period services and post warranty services), installation services, training, and other professional services.

#### 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 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 than prior CyberKnife Systems. The InCise MLC 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.

Most recently, we introduced the VOLO Optimizer software upgrade for the CyberKnife System. The VOLO facilitates the development of clinically optimal treatment plans up to 90 percent faster than before and the delivery of the treatment up to an estimated 50 percent faster than before, allowing CyberKnife treatments to be performed in 15 to 30 minutes.

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;
- 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;
- Change in medical practice leading to utilization of stereotactic body radiosurgery more regularly as an alternative to surgery or other treatments;
- 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 or have not historically sold a significant number of CyberKnife Systems.

## ***TomoTherapy Systems, including Radixact, the next generation TomoTherapy platform***

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. The Radixact System, the next generation TomoTherapy platform, includes our integrated Accuray Precision treatment planning software and 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.

Most recently, Accuray launched its Synchrony motion tracking and correction technology for the Radixact System. This feature adds intrafraction motion synchronization capabilities to the Radixact System, enabling real-time tracking, visualization and correction for tumor motion during treatment, with the goal of improving dose accuracy and treatment times compared to conventional radiation therapy systems. We expect to begin shipping the Synchrony technology commercially by the end of calendar year 2019.

We believe the Radixact System and other TomoTherapy Systems offer clinicians and patients significant benefits over other radiation therapy systems in the market. We 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 Radixact Systems 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 that improve 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 where we do not currently sell or have not historically sold a significant number of TomoTherapy Systems.

## **Adoption of ASC 606**

At the beginning of our fiscal year 2019, we adopted the new revenue recognition standard ASC 606, *Revenues from Contracts with Customers* and applied the modified retrospective method. All financial statements and disclosures have been adjusted to comply with ASC 606. See Note 1. *The Company and its Significant Accounting Policies*, Note 2. *Recent Accounting Pronouncements*, and Note 3. *Revenue* of the Notes to the unaudited condensed consolidated financial statements, for additional information.

## **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.

## **Joint Venture**

In January 2019, our wholly-owned subsidiary, Accuray Asia Limited (“Accuray Asia”), entered into an agreement with CNNC High Energy Equipment (Tianjin) Co., Ltd. (the “CIRC Subsidiary”), a wholly-owned subsidiary of China Isotope & Radiation

Corporation, to form a joint venture, CNNC Accuray (TianJin) Medical Technology Co. Ltd. (the “JV”), to manufacture and sell radiation oncology systems in China. The JV aims to be uniquely positioned to serve China, the world’s largest growth market for radiation oncology systems. China represents a significantly underserved market based on the country’s population and cancer incidence rates on both an absolute and relative country basis. Accuray Asia initially has a 49% ownership interest in the joint venture and the CIRC Subsidiary initially has a 51% ownership interest in the joint venture.

In exchange for the initial 49% equity interest in the JV, we, through Accuray Asia, expect to make our initial capital contribution to the JV by December 31, 2019 in the form of in-kind contributions consisting of components for two full radiation oncology systems from our inventory. Any remaining amount of capital contributions due, if not satisfied by such in-kind contributions, will be made by us, through Accuray Asia, in accordance with the schedule set by the board of directors of the JV.

In April 2019, the JV was granted its initial business license to do business in China. With this license, the JV can begin to apply for its radiation safety permit, together with any other required permits and licenses, and is expected to begin hiring employees. The radiation safety permit is expected to be received during the summer of 2019, which would help enable the JV to sell and take orders.

While the JV is in the process of receiving the necessary permits and licenses to operate, we expect to continue to working with our current distributor to sell our products in China. Once the JV is fully operational, we anticipate transitioning away from our current distributor and for the JV to begin selling products in China, much like a distributor. In the long term, we anticipate that the JV will manufacture and sell a locally branded “Made in China” radiotherapy device in the Class B license category, which would replace our current offering in that category. We believe this strategy will allow us to best maximize both near and longer-term opportunities in China.

We are assessing the accounting treatment of our investment in the JV and expect to apply the equity method of accounting to the ownership interest in the JV as we have the ability to exercise significant influence over the JV but lack controlling financial interest and are not the primary beneficiary. We will recognize the 49% proportionate share of the JV income or loss on a one-quarter lag due to the timing of the availability of the JV’s financial records. We expect to recognize our share of JV business income or loss related to the quarter ending June 30, 2019 in the first quarter of fiscal 2020, which ends September 30, 2020.

### **Backlog**

Effective at the beginning of our fiscal year 2019, we updated our backlog policy to include certain upgrades sold through service contracts. As a result, the portion of the order that is recognizable as product revenue and upgrades sold on service contracts are reported as backlog. The portion of the order that is recognized as other service revenue (for example, Post-Contract Customer Support (PCS), installation, training and professional services) is not included in reported backlog. As of March 31, 2019, backlog totaled \$493.9 million, of which \$1.1 million represented upgrades sold through service contracts. As of June 30, 2018, backlog totaled \$478.5 million.

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 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 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 revenue. 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):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Gross orders	\$ 83,571	\$ 74,906	\$ 245,154	\$ 208,460
Net age-outs	(15,158)	(25,917)	(71,364)	(51,393)
Cancellations	(7,360)	(7,070)	(15,708)	(10,199)
Currency impacts and other	(1,268)	(1,039)	(4,183)	(2,301)
Net orders	\$ 59,785	\$ 40,880	\$ 153,899	\$ 144,567
Order backlog at the end of the period	\$ 493,870	\$ 468,147	\$ 493,870	\$ 468,147

### Gross Orders

Gross orders are defined as the sum of new orders recorded during the period adjusted for any revisions to existing orders during the period.

Gross orders increased by \$8.7 million for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018. This was a result of an increase in new system order volume compared to the same prior year period, primarily related to a \$10.4 million increase in CyberKnife System orders, offset by a \$4.0 million decrease in TomoTherapy System orders.

Gross orders increased by \$36.7 million for the nine months ended March 31, 2019, as compared to the nine months ended March 31, 2018. This was mainly a result of an increase of \$33.3 million in new system order volume compared to the same prior year period, related to a \$30.0 million and \$3.3 million increase in CyberKnife System and TomoTherapy System orders, respectively. The gross order growth was driven by demand in China stemming from the Ministry of Health's announcement of new Class A user license quotas for radiation systems in October 2018. In addition, there was a \$4.2 million net increase in upgrade orders as compared to the same prior year period, driven by the inclusion of upgrades from service contracts beginning July 1, 2018.

### Net Orders

Net orders are defined as gross orders less cancellations, age-outs, foreign exchange and other adjustments during the period.

Net orders increased by \$18.9 million for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, resulting from an increase in gross orders of \$8.7 million and a decrease in net age-outs of \$10.7 million, offset by an increase in cancellations of \$0.3 million, and an unfavorable currency impact of \$0.2 million.

- The net age-outs for the three months ended March 31, 2019 were \$15.2 million. There was \$ 20.8 million gross amount of age-outs which was partially offset by \$5.6 million in age-ins. Age-ins represent orders that previously aged-out but have been taken to revenue in the current period.
- There were \$7.4 million and \$7.1 million in cancellations in the three months ended March 31, 2019 and March 31, 2018, respectively. Cancellations are difficult to forecast; however, we continue to work closely with our customers to minimize the impact of cancellations on our business.
- Foreign currency impacts and other adjustments decreased net orders by \$1.3 million for the three months ended March 31, 2019 and the adjustments decreased net orders by \$1.0 million for the three months ended March 31, 2018.

Net orders increased by \$9.3 million for the nine months ended March 31, 2019, as compared to the nine months ended March 31, 2018, resulting from an increase in gross orders of \$36.7 million, offset by an increase in net age-outs of \$20.0 million, an increase in cancellations of \$5.5 million and negative adjustments for foreign currency and the adoption of ASC 606 of \$1.9 million.

- The net age-outs for the nine months ended March 31, 2019 were \$71.4 million. There was \$79.3 million gross amount of age-outs which was partially offset by \$7.8 million age-ins.
- There were \$15.7 million and \$10.2 million in cancellations in the nine months ended March 31, 2019 and March 31, 2018, respectively. Cancellations are difficult to forecast; however, we continue to work closely with our customers to minimize the impact of cancellations on our business.
- ASC 606 adjustments and foreign currency impacts decreased net orders by \$4.2 million for the nine months ended March 31, 2019 while other adjustments and foreign currency impacts decreased net orders by \$2.3 million for the nine months ended March 31, 2018.

## Results of Operations — Three and nine months ended March 31, 2019 and 2018

(Dollars in thousands)	Three Months Ended March 31,				Nine Months Ended March 31,			
	2019	2018	Change		2019	2018	Change	
	Amount	Amount	\$	%	Amount	Amount	\$	%
Products	\$ 46,451	\$ 43,244	3,207	7	\$ 136,019	\$ 129,266	6,753	5
Services	56,770	56,588	182	0	165,349	161,845	3,504	2
Net revenue	103,221	99,832	3,389	3	301,368	291,111	10,257	4
Gross profit	40,466	36,249	4,217	12	116,725	113,710	3,015	3
Products gross profit	19,282	17,912	1,370	8	55,264	54,975	289	1
Services gross profit	21,184	18,337	2,847	16	61,461	58,735	2,726	5
Research and development expenses	12,913	13,906	(993)	(7)	40,442	42,663	(2,221)	(5)
Selling and marketing expenses	12,903	14,612	(1,709)	(12)	41,078	43,241	(2,163)	(5)
General and administrative expenses	11,769	11,552	217	2	37,880	34,696	3,184	9
Other expense, net	3,829	4,465	(636)	(14)	11,133	14,774	(3,641)	(25)
Provision for (benefit from) income taxes	236	566	(330)	(58)	1,222	1,289	(67)	(5)
Net loss	\$ (1,184)	\$ (8,852)	7,668	87	\$ (15,030)	\$ (22,953)	7,923	(35)

## Net Revenue

### Product Net Revenue

Product net revenue increased by \$3.2 million for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, primarily due to a \$3.3 million increase in unit volume sales, offset by a \$0.1 million decrease in upgrade and other revenue as compared to the prior year period.

Product net revenue increased by \$6.8 million for the nine months ended March 31, 2019, as compared to the nine months ended March 31, 2018, primarily due to a \$7.8 million increase in unit volume sales, offset by a \$1.0 million decrease in upgrade and other revenue as compared to the prior year period.

### Services Net Revenue

Services net revenue increased by \$0.2 million for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, primarily due to an increase of \$2.0 million from our system installed base growth, and spare part sales, offset by a decrease of \$1.8 million in upgrade and installation revenue.

Services net revenue increased by \$3.5 million for the nine months ended March 31, 2019, as compared to the nine months ended March 31, 2018, primarily due to an increase of \$4.8 million related to upgrade revenue, increased system installed base, and spare part sales, offset by a decrease of \$1.3 million in training and installation revenue.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net revenue	\$ 103,221	\$ 99,832	\$ 301,368	\$ 291,111
Americas	31%	42%	31%	40%
Europe, India, Middle East, and Africa	32%	29%	37%	33%
Asia Pacific	16%	15%	16%	13%
Japan	21%	14%	16%	14%

Revenue derived from sales outside of the Americas region as a percentage of our total net revenue increased for the three and nine-month periods ended March 31, 2019 as compared to the same periods in the prior fiscal year. For the three months ended March 31, 2019, the changes were primarily due to revenue growth in the Europe, India, Middle East, and Africa (“EIMEA”) region. For the nine months ended March 31, 2019, the changes were primarily due to revenue growth in the EIMEA and Japan regions.

#### Gross Profit

Overall gross profit for the three months ended March 31, 2019 increased by \$4.2 million, or 12%, as compared to the three months ended March 31, 2018, due to an increase in product gross profit of \$1.4 million, or 8%, and an increase in service gross profit of \$2.8 million, or 16%. The increase in product gross profit was mostly due to increased sales volume attributable to the TomoTherapy platform in the third quarter of fiscal year 2019. The increase in service gross profit was primarily due to decreased service part consumption in the three months ended March 31, 2019.

Overall gross profit for the nine months ended March 31, 2019 increased by \$3.0 million, or 3%, as compared to the nine months ended March 31, 2018, due to an increase in product gross profit of \$0.3 million, or 1%, and an increase in service gross profit of \$2.7 million, or 5%. The increase in product gross profit was primarily due to increased sales volume attributable to the TomoTherapy platform in the nine months ended March 31, 2019. The increase in service gross profit was primarily due to contract revenue from our higher install base and lower headcount-related compensation expenses.

#### Research and Development

Research and development expenses decreased by \$1.0 million, or 7%, for the three months ended March 31, 2019, as compared to the same period in the prior year. The decrease was the result of lower headcount and a \$0.4 million benefit from the reversal of deferred rent related to the termination of a facility lease.

Research and development expenses decreased by \$2.2 million, or 5%, for the nine months ended March 31, 2019, as compared to the same period in the prior year. The decrease was the result of lower headcount and a \$0.4 million benefit from the reversal of deferred rent related to the termination of a facility lease.

#### Selling and Marketing

Selling and marketing expenses decreased by \$1.7 million, or 12%, for the three months ended March 31, 2019, as compared to the same period in the prior year. The decrease was primarily due to a \$0.7 million decrease in commissions, driven by the product revenue mix, a \$0.7 million decrease in recruiting and travel costs, and a \$0.2 million benefit from the reversal of deferred rent related to the termination of a facility lease.

Selling and marketing expenses decreased by \$2.2 million, or 5%, for the nine months ended March 31, 2019, as compared to the same period in the prior year. The decrease was primarily due to a \$1.8 million decrease in commissions, driven by the product revenue mix, and a \$1.4 million decrease resulting from lower headcount and a decrease in recruiting and travel costs.

#### General and Administrative

General and administrative expenses increased by \$0.2 million, or 2%, for the three months ended March 31, 2019, as compared to the same period in the prior year. The increase was primarily due to an increase in consulting expenses related to strategic business development, partially offset by lower headcount costs.

General and administrative expenses increased by \$3.2 million, or 9%, for the nine months ended March 31, 2019, as compared to the same period in the prior year. The increase was primarily due to \$3.5 million of bad debt expense and a \$1.4 million increase in

consulting expenses related to strategic business development, partially offset by a \$1.7 million decrease in compensation and travel expenses driven by lower headcount.

### **Other Expense, net**

Other expense, net decreased by \$0.6 million, or 14%, for the three months ended March 31, 2019, as compared to the same period in the prior year. The decrease was primarily due to a \$0.3 million debt extinguishment expense in the prior year that did not occur this year, and \$0.1 million decrease in foreign exchange loss.

Other expense, net decreased by \$3.6 million, or 25%, for the nine months ended March 31, 2019, as compared to the same period in the prior year. The decrease in other expense, net was primarily due to a \$3.2 million loss on extinguishment of debt in the prior year that did not occur this year, and \$0.2 million decrease in interest expense related to outstanding debt.

### **Provision for Income Taxes**

On a quarterly basis, we provide for income taxes based upon an estimated annual effective income tax rate. We recognized income tax expense of \$0.2 million and \$0.6 million for the three months ended March 31, 2019 and 2018, respectively. The decrease in income tax expense was due to recognition of an income tax benefit of approximately \$0.4 million in the third quarter of this fiscal year as a result of final assessment from the Swiss authorities for the fiscal year 2017.

We recognized income tax expense of \$1.2 million and \$1.3 million for the nine months ended March 31, 2019 and 2018, respectively. The decrease in income tax expense was driven by a lower annual effective rate on foreign profits for the nine months ended March 31, 2019 as compared to the same period in the prior fiscal year.

The 2017 Tax Act has a requirement that certain income earned by controlled foreign corporations (“CFCs”) must be included currently in the gross income of the CFC’s U.S. shareholder. The income required to be included in gross income is referred to as global intangible low tax income (“GILTI”) and is as defined under IRC Section 951A as is the excess of the shareholder’s net CFC tested income over the net deemed tangible income return. The GILTI inclusion amount is expected to be fully absorbed by net operating losses and is not expected to cause us to be in a U.S. taxable income position for fiscal year 2019. We have made a policy decision to record GILTI tax as a current-period expense when incurred.

In addition to the GILTI provision, the Tax Act also enacted the Base Erosion and Anti-Abuse Tax (“BEAT”). The BEAT minimum tax under IRC Section 59A is applicable to the extent that the BEAT tax amount is greater than the regular corporate tax for a given year. This tax is applicable to companies with prior 3-year average annual gross receipts exceeding \$500 million. We do not currently meet this threshold since its current average annual gross receipts are less than \$500 million.

### **Liquidity and Capital Resources**

At March 31, 2019, we had \$62.5 million in cash and cash equivalents. Refer to Note 10. *Debt* to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for discussion of the Term Loan, the Revolving Credit Facility, and our Convertible Notes outstanding as of March 31, 2019. Based on our cash and cash equivalents balance, available debt facilities, including \$15.0 million available to borrow under our Term Loan, 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 January 2018, we sold available-for-sale investments for proceeds of \$23.9 million. In February 2018, we used the net proceeds of the Term Loan, combined with existing cash on hand, to repay in full the \$13.0 million outstanding principal amount of our 3.50% Convertible Notes pursuant to an irrevocable net share settlement election. We also repaid in full the \$26.6 million outstanding principal amount of our 3.50% Series A Convertible Notes.

As of March 31, 2019, we had approximately \$33.5 million of cash and cash equivalents in our foreign subsidiaries. There could be additional foreign tax withholdings that would be due depending on the country from which the funds were repatriated. Our foreign earnings are deemed to be indefinitely invested outside the U.S.

In January 2019, Accuray Asia Limited, one of our wholly-owned subsidiaries, entered into a joint venture contract with CNNC High Energy Equipment (Tianjin) Co., Ltd., a wholly-owned subsidiary of China Isotope & Radiation Corporation, to form a joint venture in China. We do not anticipate the JV will have a material impact on our working capital needs in the next 12 months.

Our cash flows for the nine months ended March 31, 2019 and 2018 are summarized as follows (in thousands):

	Nine Months Ended March 31,	
	2019	2018
Net cash used in operating activities	\$ (38,727)	\$ (9,555)
Net cash provided by (used in) investing activities	(3,236)	19,337
Net cash provided by (used in) financing activities	14,713	(24,640)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(937)	2,533
Net decrease in cash, cash equivalents and restricted cash	<u>\$ (28,187)</u>	<u>\$ (12,325)</u>

### Cash Flows from Operating Activities

Net cash used in operating activities was \$38.7 million during the nine months ended March 31, 2019, resulting primarily from a net loss of \$15.0 million and a net change in operating assets and liabilities of \$46.2 million that was offset by non-cash items of \$22.5 million.

- Non-cash items primarily consisted of stock-based compensation expense of \$7.8 million, depreciation and amortization expense of \$6.1 million, bad debt expense of \$3.6 million, non-cash interest expense on debt of \$2.5 million, and inventories write-down of \$2.1 million;
- The net change in operating assets and liabilities was primarily due to an increase in account receivables of \$35.0 million due to the timing of receivable collections, an increase in inventories of \$17.8 million to support anticipated product shipments in future periods, an increase in prepaid expenses and other assets of \$7.4 million, offset by an increase in deferred revenues of \$6.4 million and an increase in accounts payable of \$5.5 million due to the timing of payments to vendors.

Net cash used in operating activities was \$9.6 million during the nine months ended March 31, 2018, primarily due to a net loss of \$22.9 million and a net change in operating assets and liabilities of \$11.4 million that was offset by non-cash items of \$24.8 million.

### Cash Flows from Investing Activities

Net cash used in investing activities was \$3.2 million for the nine months ended March 31, 2019 for the purchase of property and equipment.

Net cash provided by investing activities was \$19.3 million for the nine months ended March 31, 2018, which was primarily generated by \$23.9 million net sales of our short-term investments, partially offset by \$4.6 million of property and equipment purchases.

### Cash Flows from Financing Activities

Net cash provided by financing activities during the nine months ended March 31, 2019 was \$14.7 million, which was due to \$5.0 million drawn from the second tranche of our Term Loan, \$6.5 million in net borrowings from the Revolving Credit Facility, and \$3.2 million in proceeds from employee stock plans.

Net cash used in financing activities during the nine months ended March 31, 2018 was \$24.6 million, which was primarily due to \$69.8 million paid to repurchase and retire our 3.50% Convertible Notes and 3.50% Series A Convertible Notes, and \$23.5 million used to pay down the Revolving Credit Facility. These expenses were offset by \$66.1 million of net debt proceeds related to the Term Loan and the 3.75% Convertible Notes and \$2.6 million in net proceeds from employee stock plans.

### 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 research and development, sales and marketing initiatives and manufacturing activities;

- Facilities, equipment and information technology systems required to support current and future operations;
- Timing and ability to introduce new products;
- Costs of obtaining and maintaining U.S. Food and Drug Administration (the “FDA”) and other regulatory clearances of our products;
- Effects of competing technological and market developments; and
- Number and timing of acquisitions and other strategic transactions.

We believe that our current cash and cash equivalents will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. If these sources of cash and cash equivalents are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or enter into 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**

We presented our contractual obligations in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018. Our contractual obligations consist of debt, operating leases, purchase commitments, and other contractual obligations. There have been no material changes to these obligations outside the ordinary course of business during the nine months ended March 31, 2019 as compared to the contractual obligations disclosed in MD&A of our Annual Report on Form 10-K for the year ended June 30, 2018.

### **Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of March 31, 2019.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these unaudited condensed 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.

During the nine months ended March 31, 2019, we considered our estimated corporate bonus accrual to be a critical accounting estimate. Our bonus accrual for each quarter is based on our performance against individual and defined corporate metrics: net revenue, adjusted EBITDA and gross orders to backlog. Our financial results are affected by the selection and application of accounting policies and methods. In the nine months ended March 31, 2019, there were changes to the application of critical accounting policies previously disclosed in our most recent Annual Report on Form 10-K related to the adoption of ASC 606, *Revenue from Contracts with Customers* on July 1, 2018. There have been no other changes to the critical accounting policies and estimates, which we believe are those related to assessment of recoverability of goodwill and intangible assets, valuation of inventories, share-based compensation expense, income taxes, allowance for doubtful accounts and loss contingencies.

### **Concentration of Credit and Other Risks**

Our cash and cash equivalents are deposited with several major financial institutions. At times, deposits in these institutions exceed the amount of insurance provided on such deposits. We have not experienced any losses in such accounts and do not believe that we are exposed to any significant risk of loss on these balances.

For the three months ended March 31, 2019 and 2018, there was one and no customers, respectively, that represented 10% or more of total net revenue. For the nine months ended March 31, 2019 and 2018, there were no customers that represented 10% or more of total net revenue. We had one and no customers, respectively, that accounted for more than 10% of our total accounts receivable, net as of March 31, 2019 and June 30, 2018.

We perform ongoing credit evaluations of our customers and maintain reserves for potential credit losses. Accounts receivable are deemed past due in accordance with the contractual terms of the agreement. Accounts receivable balances are charged against the allowance for doubtful accounts once collection efforts are unsuccessful.

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

## **Revenue Recognition**

Our revenue is primarily derived from sales of CyberKnife and TomoTherapy Systems and services, which include PCS, installation services, training and other professional services. We record our revenue net of any value added or sales tax. We recognize revenue for certain performance obligations at the point in time when control is transferred, such as delivery of products. We recognize revenue for certain other performance obligations over a period of time as control of the goods or services is transferred, such as PCS and construction contracts. 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. We assess the probability of collection based on a number of factors, including past transaction history with the customer and credit-worthiness of the customer. We generally do not request collateral from our customers.

We frequently enter into sales arrangements that contain multiple elements or deliverables. For sale arrangements that contain multiple elements, we account for individual products and services separately if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The stand-alone selling price (“SSP”) is determined based on observable prices at which we separately sell the products and services. If an SSP is not directly observable, then we will estimate the SSP considering market conditions, entity-specific factors, and information about the customer or class of customer that is reasonably available.

### *Product Revenue*

The majority of product revenue is generated from sales of CyberKnife and TomoTherapy Systems, including Radixact Systems. Revenue is generally recognized upon delivery, once the performance obligations are satisfied by transferring control of the product to a customer.

We record revenue from sales of systems, product upgrades and accessories to distributors depending on the terms of the distribution agreement as the well as terms and conditions executed for each sale, and once the performance obligations are satisfied by transferring control of the product to a customer.

Our 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. We accrue 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 contracts (warranty period services and post warranty services), installation services, training and professional services. Service revenue is recognized either ratably over the contractual period as control and benefit transfer to the customer or when service is performed, depending on specific terms and conditions in agreements with customers.

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.

Refer to Note 2. *Recent Accounting Pronouncements* and Note 3. *Revenue* to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information on our adoption of ASC 606.

### **Item 3. Quantitative and 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 March 31, 2019, 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.

#### ***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 a material 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. We do not currently carry investments that are sensitive to interest rate risk.

Our debt obligations consist of a variety of financial instruments that expose us to interest rate risk, including, but not limited to the Credit Facilities and the Notes. The interest rates on the Notes are fixed and the interest rate on the Credit Facilities are at variable rates, which are tied to a "prime rate" and LIBOR. As of March 31, 2019, borrowings under the Term Loan totaled \$45.0 million with an annual interest rate of 6.75% plus 90-day LIBOR, and borrowings under the Revolving Credit Facility totaled \$30.5 million with an annual interest rate of 4.50% plus 90-day LIBOR. If the amount outstanding under the Credit Facilities remained at this level for the next 12 months and interest rates increased or decreased by 50 basis point change, our annual interest expense would increase or decrease, respectively, approximately \$0.4 million. Refer to Note 10. *Debt* to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a discussion regarding our debt obligations.

#### ***Equity Price Risk***

On August 7, 2017, we issued approximately \$85.0 million aggregate principal amount of 3.75% 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 174.8252 shares of common stock per \$1,000 principal amount of the 3.75% Convertible 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 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 Notes are converted.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission'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 for timely decisions regarding required disclosure.

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 of March 31, 2019. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2019 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 Securities and Exchange Commission'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.

### *Changes in Internal Control Over Financial Reporting*

There were no significant changes in our internal control over financial reporting that occurred during the third quarter of fiscal year 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### *Inherent Limitations of Internal Control Over Financial Reporting*

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 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. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The information set forth in Note 9. *Commitments and Contingencies—Litigation*, to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q is incorporated herein by reference.

### Item 1A. Risk Factors.

*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-Q, 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-Q 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.*

#### 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. Further, physicians may be slow to adopt new or updated versions of our CyberKnife and TomoTherapy Systems because of the perceived liability risks arising from the use of new products and the uncertainty of reimbursement from third-party payors, particularly in light of ongoing health care reform initiatives and the evolving U.S. health care environment.

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 must also increase awareness among potential patients, who are increasingly educated about treatment options and therefore impact adoption of new technologies by clinicians. 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 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.

***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 March 31, 2019, we had an accumulated deficit of \$484.1 million. We may incur net losses in the future, particularly as selling and marketing activities increase ahead of any expected revenue. 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 and even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. 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 inventory costs and liabilities for excess inventory resulting from inventory held in excess of forecasted demand;
- 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;
- changes to U.S. and foreign trade policies, including enactments of tariffs on goods imported into the U.S. and any retaliatory tariffs imposed by other countries on U.S. goods, including our products; 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.

***We have outstanding indebtedness in the form of our 3.75% Convertible Notes, Revolving Credit Facility and Term Loan and may incur other debt in the future, which may adversely affect our financial condition and future financial results.***

In August 2017, we issued \$85.0 million aggregate principal amount of our 3.75% Convertible Senior Notes due 2022 (the “3.75% Convertible Notes”). As our debt matures, we anticipate having to expend significant resources to either repay or refinance the 3.75% Convertible Notes. For example, in August 2017, in connection with the issuance of the 3.75% Convertible Notes, we (i) exchanged approximately \$47.0 million aggregate principal amount of our then-outstanding 3.50% Convertible Senior Notes due 2018 and 3.50% Series A Convertible Senior Notes due 2018 (collectively, the “Existing Notes”) for \$53.0 million aggregate principal amount of 3.75% Convertible Notes and (ii) repurchased approximately \$28.0 million of Existing Notes. If we decide to refinance the 3.75% Convertible Notes in the future, we may be required to do so on different or less favorable terms or we may be unable to refinance the 3.75% Convertible Notes at all, both of which may adversely affect our financial condition.

In June 2017, we entered into a credit and security agreement that provided us with an initial revolving credit facility (the “Revolving Credit Facility”) of \$52.0 million, which was amended in December 2017 to reduce the Revolving Credit Facility to \$32.0 million. In December 2017, we also entered into a credit and security agreement that provides for an initial term loan of \$40.0 million with a second tranche of \$20.0 million available for draw until December 31, 2018 if specified conditions are met (the “Term Loan” and, together with the Revolving Credit Facility, the “Credit Facilities”). In July 2018, we also further amended the credit and security agreements with respect to the Credit Facilities to provide for, among other things, adjustments to the Fixed Charge Coverage Ratio. In December 2018, we amended the Term Loan to, among other things, provide that the second tranche may be drawn in two separate advances and extend the availability of the second tranche from December 31, 2018 until June 30, 2019, subject to certain specified conditions being met.

As of March 31, 2019, we had total consolidated liabilities of approximately \$358.5 million; including long-term liability components of the 3.75% Convertible Notes of \$71.9 million, and the Revolving Credit Facility of \$30.5 million and the Term Loan of \$43.6 million. Our existing and future levels of indebtedness could have important consequences to stockholders and note holders and may adversely affect our financial conditions and future financial results by, among other things:

- affecting our ability to satisfy our obligations under the 3.75% Convertible Notes and Credit Facilities;
- requiring a substantial portion of our cash flows from operations 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;
- impairing our ability to obtain additional financing in the future;
- limiting our flexibility in planning for, or reacting to, changes in our business and industry; and
- increasing our vulnerability to downturns in our business, our industry or the economy in general.

The credit and security agreements governing the Credit Facilities also includes certain restrictive covenants that limit, among other things, our ability and our subsidiaries’ ability 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. In addition, such agreements require us to meet certain financial covenants, including a “Fixed Charge Coverage Ratio” and minimum consolidated “Net Revenue,” both as defined in the applicable credit and security agreement governing the Credit Facilities. These restrictions could adversely affect our ability to finance our future operations or capital needs, withstand a future downturn in our business or the economy in general, engage in business activities, including future opportunities that may be in our interest, and plan for or react to market conditions or otherwise execute our business strategies. Our ability to comply with the covenants and other terms governing the Credit Facilities will depend in part on our future operating performance. If we fail to comply with such covenants and terms, we may be in default and the maturity of the related debt could be accelerated and become immediately due and payable. In addition, because our assets are pledged as a security under the Credit Facilities, if we are not able to cure any default or repay outstanding borrowings, our assets are subject to the risk of foreclosure by our lenders. From time to time to we may not be in compliance with such covenants or other terms governing the Credit Facilities and we may be required to obtain waivers or amendments to the applicable credit and security agreement from our lenders in order to maintain compliance and there can be no certainty that any such waiver or amendment will be available, or what the cost of such waiver or amendment, if obtained, would be. If we are unable to obtain necessary waivers and the debt under such credit facility is accelerated, we would be required to obtain replacement financing at prevailing market rates. Additionally, a default on indebtedness could result in a default under the terms of the indenture governing our 3.75% Convertible Notes. There is no guarantee that we would be able to satisfy our obligations if any of our indebtedness is accelerated.

***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, the timing of regulatory approvals 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 a volatile economic environment where we have had customers delay or cancel 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 and shifts in sales or installation from one quarter to another may have significant effects. For example, multi-system sales or sales involving negotiations with integrated delivery networks involve additional complexities that require a longer timeline to finalize the sale, which make it more difficult to predict the quarter in which the sale will occur.

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;
- delays in the customer obtaining or inability of the customer to obtain funding or financing;
- delays in construction at the customer site and delays in installation;
- delays in the customer obtaining or inability of the customer to obtain local or foreign regulatory approvals, such as certificates of need in certain states or Class A or Class B 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 or Class B 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
- the timing and level of expenditures associated with our financing activities;
- the effects of foreign currency adjustments;
- changes in accounting principles, such as those related to revenue recognition, or in the interpretation or the application thereof; and
- fluctuations in our gross margins and the factors that contribute to such fluctuations, as described in 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. We cannot assure you that our backlog will result in revenue on a timely basis or at all, or that any cancelled contracts will be replaced.

***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 Medical Systems, Inc. (“Varian”), Elekta AB (“Elekta”), BrainLAB AG and ViewRay, Inc. 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 For example, Varian announced in 2012 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 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. In addition, some of our competitors may compete by changing their pricing model or by lowering the price of their products. If we are unable to maintain or increase our selling prices, our revenue and gross margins may suffer. Our success will depend in large part on our ability to maintain a competitive position with our technologies.

***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 64% in 2018 and 60% in both 2017 and 2016. 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 resulting from the pending United Kingdom (the “UK”) exit from the European Union (the “EU”), or Brexit;
- 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;
- inability of customers to obtain requisite government approvals, such as customers in China obtaining one of the limited number of Class A or Class B user licenses available in order to purchase our products;
- effective compliance with privacy, data protection and information security laws, such as the European Union General Data Protection Regulation (“GDPR”);
- 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;
- U.S. trade and economic sanctions policies that are in effect from time to time and the possibility that foreign countries may impose additional taxes, tariffs or other restrictions on foreign trade;
- trade restrictions that are in effect from time to time, including U.S. prohibitions and restrictions on exports of certain products and technologies to certain nations and customers;
- the unfamiliarity of shipping companies and other logistics providers with U.S. export control laws, which may lead to their unwillingness to ship, or delays in shipping, our products to certain nations and customers despite such shipments being permitted under such laws;
- U.S. relations with the governments of the foreign countries in which we operate;
- the inability to obtain required export or import licenses or approvals;
- 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.

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, trade restrictions or trade prohibitions could materially harm our business.

***Enhanced international tariffs, including potential tariffs imposed by the United States and China that affect our products or components within our products, other trade barriers or a global trade war could increase our costs and materially and adversely affect our business operations and financial condition.***

Our global business could be negatively affected by trade barriers and other governmental protectionist measures, any of which can be imposed suddenly and unpredictably. There is currently significant uncertainty about the future relationship between the United States and various other countries, most significantly China, with respect to trade policies, treaties, government regulations and tariffs.

Since the beginning of 2018, there has been increasing public threats and, in some cases, legislative or executive action, from United States and foreign leaders regarding instituting tariffs against foreign imports of certain materials. During the last half of calendar 2018, the federal government imposed a series of tariffs ranging from 10% to 25% on a variety of imports from China. These tariffs affect certain components, including the linear accelerator for our CyberKnife Systems, which we manufacture in China and import into the United States, as well as other components that we import into the United States from our suppliers. China has responded to these tariffs with retaliatory tariffs ranging from 5% to 25% on a wide range of products from the United States, which include certain of our products. If these tariffs continue, additional tariffs are placed on certain of our components or products, or any related counter-measures are taken by China or the United States, our business, financial condition and results of operations may be materially harmed.

The imposition of tariffs could also increase our costs and require us to raise prices on our products, which may negatively impact the demand for our products in the affected market. If we are not successful in offsetting the impact of any such tariffs, our revenue, gross margins, and operating results may be adversely affected.

These tariffs have been recently announced and are subject to a number of uncertainties as they are implemented, including future adjustments and changes. The ultimate reaction of other countries and the impact of these tariffs or other actions on the United States, China, the global economy and our business, financial condition and results of operations, cannot be predicted at this time, nor can we predict the impact of any other developments with respect to global trade. Further, the imposition of additional tariffs by the United States could result in the adoption of additional tariffs by China and other countries, as well as further retaliatory actions by any affected country. Any resulting trade war could negatively impact the global market for medical devices, including radiation therapy devices, and could have a significant adverse effect on our business. These developments may have a material adverse effect on global economic conditions and the stability of global financial markets, and they may significantly reduce global trade and, in particular, trade between China and the United States. Any of these factors could depress economic activity, restrict our access to customers and have a material adverse effect on our business, financial condition and results of operations.

***We face risks related to the current global economic environment, which could adversely affect our business, financial condition and results of operations by, among other things, delaying or preventing our customers from obtaining financing to purchase the CyberKnife and TomoTherapy Systems and implement the required facilities to house our systems.***

Our business and results of operations are materially affected by conditions in the global markets and the economy generally. Concerns over the economic stability, 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, inflation levels, interest rates, trade relations, energy costs and geopolitical uncertainty have contributed to increased volatility and diminished expectations for the economy and the markets.

Further, the U.S. federal government has called for, or enacted, substantial changes to healthcare, trade, fiscal, and tax policies, which may include changes to existing trade agreements and may have a significant impact on our operations. For example, the current administration has initiated the imposition of tariffs on certain foreign products, including from China, that have resulted in and may result in future retaliatory tariffs on U.S. goods and products. We cannot predict the impact, if any, that these changes could have on our business. If economic conditions worsen or new legislation is passed related to the healthcare system, trade, fiscal or tax policies, customer demand may not materialize to levels we require to achieve our anticipated financial results, which could have a material adverse effect on our business, financial condition and results of operations.

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 by factors such as reduced demand for our products resulting from a slow-down or volatility 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 pending implementation of Brexit has caused, and may continue to cause, uncertainty in the global markets. If implemented, Brexit 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 UK law that could affect our operations, such as labor policies, financial planning, product manufacturing, and product distribution.

***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 Quality System Regulations ("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 International Organization for Standardization ("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 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.

***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 inability to develop, gain regulatory approval for or supply competitive products to the market as quickly and effectively as our competitors could limit market acceptance of our products and reduce our sales.

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.

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.

***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 into new and growing markets as well as expand our manufacturing capacities and 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 and any expansion of our systems and infrastructure may require us to commit significant additional financial, operational and management resources. If we cannot manage our growth effectively, our business will 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, sale, installation, servicing, and support 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 that may not be covered by insurance and be time-consuming to defend. We may also be subject to claims for personal injury, 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. Adverse publicity related to any product liability actions may cause patients to be less receptive to radiation therapy generally or our products specifically and could also result in additional regulation that could adversely affect our ability to promote, manufacture and sell 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, supplied parts, 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 one recall for the TomoTherapy System in fiscal year 2018 that has been requested for closure with the FDA. In fiscal year 2019, as of March 31, 2019, we have voluntarily opened two recalls involving the CyberKnife System. We are committed to the safety and precision of our products and 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 or that similar or more significant product recalls will not occur in the future. 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 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. The disruption or termination of the supply of components could cause a significant increase in the costs of these components, which could affect our results of operations. 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 face significant competition for key personnel and other employees, particularly in the San Francisco Bay Area where our headquarters is located, from other medical equipment and software manufacturers, technology companies, universities, and research institutions. As a result, we may not be able to retain our existing employees or hire new employees quickly enough to meet our needs. At the same time, we may face high turnover, requiring us to expend time and resources to source, train and integrate new employees. The challenging markets in which we compete for talent may also require us to invest significant amounts of cash and equity to attract and retain employees. In addition, 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 key and other employees and recruit additional qualified personnel and we may have to pay additional compensation to employees to incentivize them to join or stay with us. We do not maintain, and do not currently intend to obtain, key employee life insurance on any of our personnel. If we fail to hire and retain key personnel and other employees, 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., Health Insurance Portability and Accountability Act (“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 (“GDPR”) requires us to manage individually identifiable information in the E.U. and, in the event of violations, may impose significant fines of up to the greater of 4% of worldwide annual revenue or €20 million. In the United Kingdom, a Data Protection Bill that substantially implements the GDPR became law in May 2018. In June 2018, California passed the California Consumer Privacy Act of 2018 (“CCPA”), which will become effective on January 1, 2020. CCPA imposes stringent data privacy and data protection requirements for the data of California residents, and provides for penalties for noncompliance of up to \$7,500 per violation. 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. In addition, U.S. and international laws that have been applied to protect user privacy (including laws regarding unfair and deceptive practices in the U.S. and GDPR in the EU) may be subject to evolving interpretations or applications in light of privacy developments. Data protection legislation around the world is comprehensive and complex and there has been a recent trend towards more stringent enforcement of requirements regarding protection and confidentiality of personal data. The restrictions imposed by such laws and regulations may limit the use and adoption of our products and services, reduce overall demand for our products and services, require us to modify our data handling practices, and impose additional costs and burdens. With increasing enforcement of privacy, data protection and cyber security laws and regulations, there is no guarantee that we will not be subject to 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 from errors, malfeasance or misconduct by employees, contractors or others with permitted access to our systems may pose a risk that sensitive data, including individually identifiable data, may be exposed to unauthorized person or to the public and compromise our security systems. There can be no assurance that any efforts we make to prevent against such privacy breaches will prevent breakdowns or breaches in our systems that could adversely affect our business. Third-parties may also attempt to fraudulently induce employees or customers into disclosing user names, passwords or other sensitive information, which may in turn be used to access our information technology systems. For example, our employees have received “phishing” e-mails attempting to induce them to divulge sensitive information. In addition, unauthorized persons may attempt to hack into our products or systems to obtain personal data relating to patients or employees, our confidential or proprietary information or confidential information we hold on behalf of third-parties, which, if successful, could pose a risk of loss of data, risk to patient safety and risk of product recall. As the techniques used to obtain unauthorized access to our systems change frequently and may be difficult to detect, we may not be able to anticipate and prevent these intrusions or mitigate them when they occur. 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 loss of information, indemnity obligations, 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 and increase market acceptance of our products 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 revenue may decline, 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.

Centers for Medicare and Medicaid Services (“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. Further, outside of the U.S., reimbursement practices vary significantly by country. Market acceptance of our products may depend on the availability and level of coverage and reimbursement in any country within a particular time.

***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 System 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 systems. 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 Systems. If future patient studies or clinical experience do not support our beliefs that the TomoTherapy Systems offer a more advantageous treatment for a wide variety of cancer types, use of the systems 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 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 U.S. 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, and 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 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 such 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. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. 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. In addition, patent reform legislation or precedent could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents.

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 U.S. and in foreign countries protecting aspects of the CyberKnife and TomoTherapy Systems, our pending U.S. 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. In addition, many countries limit the enforceability of patents against certain third-parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit. Patent protection must ultimately be sought on a country-by-country basis, which is an expensive and time consuming process with uncertain outcomes. Accordingly, we may choose not to seek patent protection in certain countries, and we will not have the benefit of patent protection in such countries.

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, such as China where our newly announced joint venture will operate, may not protect our intellectual property rights to the same extent as do the laws of the United States and, even if they do, uneven enforcement and procedural barriers may exist in such countries. In the event a competitor or other third-party infringes upon our patent or other intellectual property rights or otherwise misappropriates such 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. Damage awards resulting from successful litigation in foreign jurisdictions may not be in amounts commensurate with damage awards in the U.S. 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.

Additionally, we have written agreements with collaborators regarding the ownership of intellectual property arising from our collaborations. These agreements generally provide that we must negotiate certain commercial rights with collaborators with respect to joint inventions or inventions made by our collaborators that arise from the results of the collaboration. In some instances, there may not be adequate written provisions to address clearly the resolution of intellectual property rights that may arise from a collaboration. If we cannot successfully negotiate sufficient ownership and commercial rights to the inventions that result from our use of a third-party collaborator's materials where required, or if disputes otherwise arise with respect to the intellectual property developed with the use of a collaborator's technology, we may be limited in our ability to utilize these intellectual property rights. In addition, we may face claims by third-parties that our agreements with employees, contractors or consultants obligating them to assign intellectual property to us are ineffective or in conflict with prior or competing contractual obligations of assignment, which could result in ownership disputes regarding intellectual property we have developed or will develop and interfere with our ability to capture the commercial value of such intellectual property. Litigation may be necessary to resolve an ownership dispute, and if we are not successful, we may be precluded from using certain intellectual property or may lose our exclusive rights in that intellectual property. Either outcome could harm our business.

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 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. Further, legal proceedings, and any adverse resolution thereof, can result in adverse publicity and damage to our reputation, which could adversely impact our business.

***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. In addition, sales to some of our customers are subject to competitive bidding or public tender processes. These approval and bidding processes can be lengthy. 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 U.S. 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 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 recognize revenue attributable to a CyberKnife or TomoTherapy System purchase when control is transferred upon delivery while an element of installation is deferred until performed. 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 delivery and installation of CyberKnife and TomoTherapy Systems or customer cancellations that could affect our ability to recognize revenue, 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 our distributors could become insolvent or otherwise become unable to pay amounts owed to us when due. If any of these distributor relationships end and are not replaced, our revenues from product sales or the ability to service our products in the territories serviced by these distributors could be 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 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, reduced cash flows in a particular period and greater payment defaults.***

We offer longer or extended payment terms for qualified customers in some circumstances. As of March 31, 2019, customer contracts with extended payment terms of more than one year amounted to approximately 5% 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. Any increase in days sales outstanding could also negatively affect our cash flow.

***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 two manufacturing facilities, each of which is equipped to manufacture unique components of our products. The manufacturing facilities are located in 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 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. In addition, concerns about terrorism, the effects of a terrorist attack, political turmoil or an epidemic outbreak could have a negative effect on our operations, those of our suppliers and customers and the ability to travel, which could harm our business, financial condition and results of operations.

***We may attempt to acquire new businesses, products, or technologies, or enter into strategic collaborations or alliances, including forming joint ventures, 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, products, or technologies, or through collaborating with complementary businesses, including forming joint ventures, such as our recently announced joint venture in China, rather than through internal development. The identification of suitable acquisition, alliance, and joint venture partner candidates can be difficult, time consuming, and costly, and we may not be able to successfully complete identified acquisitions, alliances, or joint ventures. Other companies may compete with us for these strategic opportunities. In addition, even if we successfully complete an acquisition, alliance, or joint venture, we may not be able to successfully integrate newly acquired organizations, products, or technologies into our operations or timely and effectively commence operations of any joint venture or other alliance, and the process of integration could be expensive, time consuming, and may strain our resources. Furthermore, the products and technologies that we acquire, jointly develop, 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 not be in a position to exercise sole decision making authority regarding any strategic collaboration, alliance, or joint venture, which could result in impasses on decisions or decisions made by our partners, and our partners in such collaborations, alliances, or joint ventures may have economic or business interests that are, or may become, inconsistent with our interests. Collaborations, alliances, and joint ventures can be difficult to manage and may involve significant expense and divert the focus and attention of our management and other key personnel. With respect to any acquisition, 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. In addition, with respect to joint ventures, we may not be able to attract qualified employees, acquire customers, or develop reliable supply, distribution, or other partnerships. Future acquisitions or alliances could also 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. Further, acquisition targets, alliance partners, and joint ventures may also operate in foreign jurisdictions with laws and regulations with which we have limited familiarity, which could adversely impact our ability to comply with such laws and regulations. Such laws may also offer us inadequate or less intellectual property protection relative to U.S. laws, which may impact our ability, as well as the ability of the acquisition target, alliance partner, and joint venture, to safeguard our respective intellectual property from infringement and misappropriation. As a result of these and other factors, we may not realize the expected benefits of any acquisition, collaboration, joint venture, or strategic alliance, or such benefits may not be realized at expected levels or within the expected time period. The failure to successfully consummate such strategic transactions and effectively integrate and execute following such consummation may have an adverse impact on our growth, profitability, financial position, and results of operations.

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

As of June 30, 2018, we had approximately \$329.7 million and \$146.8 million in federal and state net operating loss carry forwards, respectively. The federal and state carryforwards began to expire in varying amounts beginning in 2019 for both federal and state purposes. In addition, as of June 30, 2018, we had federal and state research and development tax credit carryforwards of approximately \$18.9 million and \$19.2 million, respectively. The federal research credits began to expire in 2019, the California research credits have no expiration date, and the other state research credits began to expire in 2014. 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. Future changes in our stock ownership, including future offerings, as well as changes that may be outside of our control, could result in an ownership change under Section 382 of the Internal Revenue Code. However, none of the federal and state net operating loss carryforwards are expected to expire as a result of the ownership change limitation.

***The Tax Act could adversely affect our business and financial condition.***

In December 2017, the Tax Act was enacted into law, which significantly amends the Internal Revenue Code of 1986. The Tax Act, among other things, reduces the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limits the tax deduction for interest expense to 30% of adjusted earnings, eliminates net operating loss carrybacks, imposes a one-time tax on offshore earnings at reduced rates regardless of whether they are repatriated, allows immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifies or repeals many business deductions and credits. The ongoing and future impact on our business will continue to be assessed due to the complexity and interdependency of the legislative provisions, as well as any other new or proposed Treasury regulations, which have yet to be issued. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the Tax Act is uncertain and our business and financial condition could be adversely affected.

***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 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, upon adoption of ASC 606, we now recognize system revenue upon transfer of control, which is generally at time of delivery. Under the previous accounting guidance, we recognized system revenue upon acceptance when and if we have installation responsibilities. If circumstances change over time or interpretation of the revenue recognition rules change, we could be required to adjust the timing of recognizing revenue and our financial results could suffer.

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

At March 31, 2019, we had \$62.5 million in cash and cash equivalents. 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. To date, we have experienced no material realized losses on or lack of access to our invested cash or cash equivalents; 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 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 and cash equivalents 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 depending on the state of economic and capital markets environments at the time, as well as the state of our business, operating results and financial condition. 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 or desired, 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) 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. Additionally, outside of the United States, our products are subject to clearances and approvals by foreign governmental agencies similar to the FDA. In order to market our products internationally, we must obtain clearances or approvals from these governmental agencies, which could include local requirements and safety standards, which can be time consuming, burdensome and uncertain. 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 or any foreign governmental agency 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 QSR, compliance with which is necessary to receive FDA clearance or approval to market new products and is necessary for us to be able to continue to market a cleared or approved product in the United States. After a product is placed in the market, we are also subject to regulations by the FDA and Federal Trade Commission related to the advertising and promotion of our products to ensure our claims are consistent with our regulatory clearances, that there is scientific data to substantiate our claims and that our advertising is not false or misleading. 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, 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 and regulations applicable to our operations, the violation of which could result in substantial penalties and harm our business.***

In addition to regulation by the FDA and similar governmental authorities in other countries, our operations are subject to other laws and regulations, such as laws and rules governing interactions with healthcare providers, anti-corruption laws, privacy rules and transparency laws. In order to maintain compliance with these laws and requirements, we must continually keep abreast of any changes or developments to be able to integrate compliance protocols into the development and regulatory documentation of our products. Failure to maintain compliance could result in substantial penalties to us 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 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 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 Health Information Technology for Economic and Clinical Health Act, 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.

***Regulations related to “conflict minerals” may force us to incur additional expenses, may result in damage to our business reputation and may adversely impact our ability to conduct our business.***

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 face reputational harm if we determine that certain of our components contain minerals not determined to be conflict free or if we are unable to alter our processes or sources of supply to avoid using such materials. Additionally, 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 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.

In addition to laws and regulations regarding medical devices, we are subject to a variety of environmental laws and regulations around the world 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. Although we follow procedures intended to comply with existing environmental laws and regulations, risk of accidental contamination or injury can never be fully eliminated. In the event of an accident, state or federal or other applicable authorities may curtail our use of these materials and interrupt our business operations. In addition, future changes in these laws and regulations could also increase our costs of doing business. We must continually keep abreast of these standards and requirements and integrate our compliance into the development and regulatory documentation for our products. Failure to meet these standards could limit our ability to market our products in those regions that require compliance to such standards. For example, the European Union has adopted directives that may lead to restrictions on the use of certain hazardous substances or other regulated substances in some of our products sold there, unless such products are eligible for an exemption. While we believe that certain of our products are exempt, there can be no guarantee that such determination would not be challenged or that the regulations would not change in a way that would subject our products to such regulation. These directives, along with other laws and regulations that may be adopted by other countries, could increase our operating costs in order to maintain access to certain markets, which could adversely affect our business.

***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, known as the Affordable Care Act (“ACA”), and the Health Care and Education Reconciliation Act of 2010 were signed into law. The 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 and was recently further suspended through December 31, 2019. If and when enacted, 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. We do not yet know the full impact that the ACA will have on our business. The taxes imposed by the ACA and the expansion in the government's role in the U.S. healthcare industry may result in decreased profits to us, lower reimbursement by third-party payors for our products, or reduced volume of medical procedures conducted with our products, all of which could have a material adverse effect on our business, financial condition and results of operations. The federal government may take further action regarding the ACA, including, but not limited to, repeal or replacement. Most recently, the Tax Act was signed into law in December 2017, which, among other things, removed penalties for not complying with the individual mandate to carry health insurance. Additionally, all or a portion of the ACA and related subsequent legislation may be modified, repealed or otherwise invalidated through judicial challenge, which could result in lower numbers of insured individuals, reduced coverage for insured individuals and adversely affect our business.

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, under which payment for adjunctive and secondary items, services and procedures are packaged into the most costly primary procedure at the claim level. 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, Oncology Care Model, and Specialty Practitioners Payment Model Opportunities.

Furthermore, the Patient Access and Medicare Protection Act of 2015 froze payment for some radiation therapy delivery and related services, and requires CMS to provide a report to the U.S. 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;
- changes in analysts’ estimates, investors’ perceptions, recommendations by securities analysts or our failure to achieve analysts’ and our own estimates;
- recruitment or departure of key personnel;

- the performance of our competitors and investor perception of the markets and industries in which we compete;
- announcement of strategic transactions or capital raising activities; and
- market conditions in our industry, the industries of our customers and the economy as a whole.

***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 August 2017, we issued \$85.0 million aggregate principal amount of our 3.75% Convertible Senior Notes due 2022 (the “3.75% Convertible Notes”) under an indenture between us and The Bank of New York Mellon Trust Company, N.A., as trustee. \$53.0 million aggregate principal amount of the 3.75% Convertible Notes were issued to certain holders of our outstanding Existing Notes in exchange for approximately \$47.0 million aggregate principal amount of the Existing Notes (the “Exchange”) and \$32.0 million aggregate principal amount of the 3.75% Convertible Notes were issued to certain other qualified new investors for cash. The net proceeds of the cash issuance were used to repurchase approximately \$28.0 million of Existing Notes (the “Repurchase”). In February 2018, we paid \$40.2 million in cash to settle outstanding principal and accrued interest, and issued 254,000 shares of our common stock to retire the Existing Notes. To the extent we issue common stock upon conversion of any outstanding convertible notes, that conversion would dilute the ownership interests of our stockholders.

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

In the event the conditional conversion features of the 3.75% Convertible Notes are triggered, holders of the 3.75% Convertible 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.

***Provisions in the indenture for the 3.75% Convertible Notes, the credit agreement for our Revolving Credit Facility, 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<sup>2</sup>/<sub>3</sub>% 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 indenture of the 3.75% Convertible Notes) occurs, holders of the 3.75% 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 in another publicly traded company) 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 indenture for the 3.75% Convertible Notes), we may also be required to increase the conversion rate applicable to the 3.75% 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 indenture for the 3.75% Convertible Notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the 3.75% 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 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 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1	<a href="#">Ninth Amendment to Lease by and between Google LLC and Accuray Incorporated, dated March 4, 2019.</a>	—	—	—	—	X
31.1	<a href="#">Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</a>	—	—	—	—	X
31.2	<a href="#">Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</a>	—	—	—	—	X
32.1*	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. 1350.</a>	—	—	—	—	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
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

\* The certification attached as Exhibit 32.1 that accompanies this Quarterly Report on Form 10-Q 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 or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

ACCURAY INCORPORATED

Date: May 9, 2019

By: /s/ Joshua H. Levine  
Joshua H. Levine  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Shig Hamamatsu  
Shig Hamamatsu  
Chief Financial Officer  
(Principal Financial Officer)

**NINTH AMENDMENT TO LEASE**

THIS NINTH AMENDMENT TO LEASE (this "**Amendment**") is made and entered into effective as of March 4, 2019 (the "**Effective Date**"), by and between GOOGLE LLC, a Delaware limited liability company ("**Landlord**" or "**Lessor**"), and ACCURAY INCORPORATED, a Delaware corporation ("**Tenant**" or "**Lessee**").

**RECITALS:**

- A. Landlord and Tenant are parties to that certain Lease (as defined below), pursuant to which Landlord is currently leasing to Tenant, and Tenant is currently leasing from Landlord, certain space containing approximately 73,938 rentable square feet located in that certain building (the "**1310-1314 Building**") addressed as 1310-1314 Chesapeake Terrace, Sunnyvale, California (the "**1310-1314 Premises**"), and approximately 39,678 rentable square feet located in that certain building (the "**1320 Building**" and together with the 1310-1314 Building, collectively referred to herein individually as, the "**Building**" and collectively as, the "**Buildings**"), addressed as 1320 Chesapeake Terrace, Sunnyvale, California (the "**Termination Premises**" and together with the 1310-1314 Premises, collectively referred to herein as the "**Existing Premises**"). As used herein, "**Lease**" shall mean and refer, collectively, to the following document(s):
- i. Industrial Complex Lease dated as of July 9, 2003 (the "**Original Lease**"), between MP Caribbean, Inc., a Delaware corporation (as predecessor-in-interest to Landlord) ("**MP Caribbean**"), and Accuray Incorporated, a California corporation (as predecessor-in-interest to Tenant) ("**Original Tenant**"); and
  - ii. First Amendment to Industrial Complex Lease dated as of December 9, 2004 (the "**First Amendment**"), between MP Caribbean and Original Tenant; and
  - iii. Second Amendment to Industrial Complex Lease dated as of September 24, 2006 (the "**Second Amendment**"), between BRCP Caribbean Portfolio, LLC, a Delaware limited liability company (as successor-in-interest to MP Caribbean) ("**BRCP**"), and Original Tenant; and
  - iv. Third Amendment to Industrial Complex Lease dated as of January 16, 2007 (the "**Third Amendment**"), between BRCP and Original Tenant; and

- v. Fourth Amendment to Industrial Complex Lease dated as of September 18, 2007 (the "**Fourth Amendment**"), between BRCP and Tenant; and
- vi. Fifth Amendment to Industrial Complex Lease dated as of April 1, 2008 (the "**Fifth Amendment**"), between BRCP and Tenant; and
- vii. Sixth Amendment to Lease dated as of December 18, 2009 (the "**Sixth Amendment**"), between I&G Caribbean, Inc., a Delaware corporation (as successor-in-interest to BRCP) ("**I&G**"), and Tenant; and
- viii. Seventh Amendment to Lease dated as of December 18, 2009 (the "**Seventh Amendment**"), between I&G and Tenant; and
- ix. Eighth Amendment to Lease dated as of October 31, 2014 (the "**Eighth Amendment**"), between DWF III Caribbean, LLC, a Delaware limited liability company (as successor-in-interest to I&G), and Tenant.

B. Landlord and Tenant now desire to amend the Lease (i) to cause the term of the Lease, with respect to the Termination Premises only, to expire early, and (ii) to modify various terms and provisions of the Lease, all as hereinafter provided.

A G R E E M E N T :

NOW THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Capitalized Terms. All capitalized terms when used herein shall have the same meanings given such terms in the Lease unless expressly superseded by the terms of this Amendment.

2. Early Expiration of Termination Premises.

2.1 Partial Termination. Notwithstanding anything to the contrary contained in the Lease, with respect to the Termination Premises only, Landlord and Tenant hereby acknowledge and agree that the "New Expiration Date," as that term is defined in Section 1 of the Seventh Amendment, shall be February 28, 2019 (the "**Partial Termination Date**") (not December 31, 2023). Notwithstanding anything contained herein to the contrary, for avoidance of doubt, the New Expiration Date with respect to the 1310-1314 Premises shall remain December 31, 2023. Effective as of the Partial Termination Date, the Lease shall terminate with respect to only the Termination Premises, and the Existing Premises leased by Tenant from Landlord under the Lease, as hereby amended, shall no longer include the Termination Premises. Therefore, for purposes of the Lease, as hereby amended, after the Partial Termination Date, the 1310-1314 Premises shall be referred to as the "**Demised Premises**" (and all references in the Lease, as hereby amended, to the "Demised Premises" shall mean and refer to the "1310-1314 Premises"). Notwithstanding the termination of the Lease with respect to the Termination Premises as provided hereinabove, Tenant shall remain liable for (A) all of its obligations as

tenant under the Lease, as hereby amended, with respect to the Termination Premises arising prior to and including the Partial Termination Date, and (B) all of Tenant's indemnification and other obligations with respect to the Termination Premises which expressly survive the expiration or termination of the Lease, as hereby amended.

2.2

Surrender of Termination Premises. Tenant covenants to vacate, surrender and deliver exclusive possession of the Termination Premises to Landlord on or prior to the Partial Termination Date in accordance with the applicable surrender provisions of the Lease, as hereby amended. Without limiting the generality of the foregoing, on or before the Partial Termination Date, Tenant shall, at Tenant's sole cost and expense, remove or cause to be removed from the Termination Premises any and all furniture, trade fixtures and equipment, free-standing cabinet work, all telephone, computer, data and other cabling and wiring, and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Termination Premises, and such similar articles of any other persons claiming under Tenant, as well as any improvements and/or alterations required to be removed by Tenant under the terms of the Lease, as hereby amended, upon the expiration or earlier termination of the Lease, and deliver the Termination Premises to Landlord in a broom-clean condition, reasonable wear and tear excepted; provided, however, notwithstanding the foregoing to the contrary, Tenant shall not be required to remove any alterations which Landlord's predecessor-in-interest expressly confirmed (in accordance with the terms and conditions of Section 11.1 of the Original Lease) that Tenant would not be required to so remove at the expiration or earlier termination of the Lease, so long as Tenant provides Landlord with written evidence reasonably satisfactory to Landlord of such written confirmation by Landlord's predecessor-in-interest. If Tenant fails to complete such removal and/or repair all damage to the Termination Premises the Buildings and/or the Industrial Complex caused by such removal, Landlord may (but shall not be obligated to) do so, and may charge the reasonable and actual costs incurred by Landlord in connection therewith to Tenant, which costs shall be reimbursed by Tenant to Landlord within thirty (30) days after Tenant's receipt of invoice therefor from Landlord. If Tenant does not vacate, surrender and deliver exclusive possession of the Termination Premises to Landlord on or prior to the Partial Termination Date, then Tenant shall be deemed to be in holdover of the Termination Premises subject to and in accordance with the applicable holdover provisions of the Lease, as hereby amended, except that the second grammatical sentence of Section 24.1 of the Original Lease shall not apply with respect to such holdover of the Termination Premises.

2.3

Disposition of Personal Property. Any furniture, trade fixtures, equipment or other personal property that remains in or about the Termination Premises after the Partial Termination Date shall be deemed abandoned by Tenant ("**Abandoned Personal Property**"), and may be retained, stored, transferred, sold, or disposed of by Landlord, at its sole discretion, with no duty to account to Tenant or to any third party therefor. Landlord may charge all costs incurred by Landlord in connection with such storage, transfer or disposal of such Abandoned Personal Property to Tenant and recover all or a portion of such costs from the remaining, unapplied balance of the security deposit then held by Landlord under the Lease, as hereby amended. Tenant hereby waives any and all rights Tenant may have to notice under California Civil Code Sections 1993 et seq. with respect to such Abandoned Personal Property. Notwithstanding anything to the contrary contained in this Section 2.3, Landlord acknowledges that Tenant and Cepheid, a California corporation (the "**New Tenant**"), which proposed New Tenant intends to lease the Terminated Premises have a separate arrangement in which New

Tenant intends to take possession of those certain furniture, trade fixtures, equipment and other personal property of Tenant currently located in the Terminated Premises as of the Effective Date (the "**Approved FF&E**"), which Approved FF&E are described in **Exhibit A** attached hereto. Landlord acknowledges and agrees that, notwithstanding the surrender provisions contained in the Lease, but subject to Landlord's approval of New Tenant's lease of the Terminated Premises (on terms and conditions acceptable to Landlord in its sole discretion), Tenant shall not be required to remove the Approved FF&E from the Termination Premises on the Partial Termination Date.

2.4 Representations of Tenant. Tenant represents and warrants to Landlord that: (i) Tenant

has not heretofore assigned or sublet all or any portion of its interest in the Lease, as hereby amended; (ii) no other person, firm or entity has any right, title or interest in the Lease, as hereby amended; (iii) Tenant has the full right, legal power and actual authority to enter into this Amendment and to terminate the Lease with respect to the Termination Premises without the consent of any person, firm or entity; and (iv) Tenant has the full right, legal power and actual authority to bind Tenant to the terms and conditions hereof. Tenant further represents and warrants to Landlord that as of the Effective Date there are no, and as of the Partial Termination Date there shall not be any, mechanics' liens and/or other liens encumbering all or any portion of the Existing Premises, by virtue of any act or omission on the part of Tenant, its predecessors, contractors, agents, employees, successors and/or assigns.

3. Release of Liability. Except for the obligations, duties and rights of the parties as set forth in this Amendment, including Tenant's representations and warranties as set forth in Section 2.4 above and Tenant's continuing liability as set forth in this Amendment below, and conditioned on the performance by the parties of the provisions of this Amendment, with respect to the Termination Premises only:

3.1 Landlord and Tenant shall, as of the Partial Termination Date, be fully and

unconditionally released and discharged from their respective obligations arising after the Partial Termination Date from or connected with the provisions of the Lease, specifically including, without limitation, any right Tenant may have to audit or review Landlord's books or records or to contest any operating expenses and other expenses billed to Tenant as additional rent under the Lease; and

3.2 this Amendment shall fully and finally settle all demands, charges, claims, accounts,

guarantees or causes of action of any nature, including, without limitation, both known and unknown claims and causes of action that may arise out of or in connection with the obligations of the parties under the Lease with respect to the Termination Premises only after the Partial Termination Date.

With respect to the releases set forth hereinabove, each of the parties hereby acknowledge that it has been advised by legal counsel and is familiar with the provisions of California Civil Code Section 1542, which provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR  
RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER  
FAVOR AT

THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

EACH OF THE UNDERSIGNED, BEING AWARE OF SAID CODE SECTION, HEREBY EXPRESSLY WAIVES ALL RIGHTS IT MAY HAVE THEREUNDER, AS WELL AS ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT PERTAINING TO THE RELEASES SET FORTH HEREIN. EACH PARTY ACKNOWLEDGES THAT IT HAS RECEIVED THE ADVICE OF LEGAL COUNSEL WITH RESPECT TO THE AFOREMENTIONED WAIVER AND UNDERSTANDS THE TERMS THEREOF.

4. Continuing Liability. Notwithstanding the termination of the Lease with respect to the Termination Premises only and the release of liability with respect thereto provided for herein, Tenant shall remain liable, with respect to the period of its tenancy relative to the Termination Premises prior to and including the Partial Termination Date, for: (i) the performance of all of its obligations under the Lease, as amended hereby (including, without limitation, Tenant's payment of reconciliation of operating expenses and other expenses to Landlord); and (ii) all of Tenant's indemnification and other obligations which expressly survive the termination of the Lease, as amended hereby, and Landlord shall have all the rights and remedies with respect to such obligations as set forth in the Lease, as amended hereby. In the event that Tenant retains possession of the Termination Premises or any part thereof after the Partial Termination Date, then the applicable holdover provisions of the Lease shall apply.
5. Attorneys' Fees. Should any dispute arise between the parties hereto or their legal representatives, successors and assigns concerning any provision of this Amendment or the rights and duties of any person in relation thereto, the party prevailing in such dispute shall be entitled, in addition to such other relief that may be granted, to recover reasonable attorneys' fees and legal costs in connection with such dispute.
6. Minimum Guaranteed Rent; Common Area Charges. With respect to the Termination Premises, the minimum guaranteed rental payable by Tenant, and Tenant's obligation to pay Tenant's Proportionate Share of real estate charges, insurance expenses and Common Area Charges, shall each continue to be as set forth in the Lease through the Partial Termination Date of February 28, 2019. With respect to the 1310-1314 Premises, Tenant's obligation to pay Tenant's Proportionate Share of real estate charges, insurance expenses and Common Area Charges, shall each continue to be as set forth in the Lease through the New Expiration Date (i.e., December 31, 2023), and, starting as the day immediately following the Partial Termination Date, Tenant shall pay minimum guaranteed rental to Landlord for the 1310-1314 Premises as set forth in the following schedule:

Period of Lease Term	Annual Minimum Guaranteed Rental	Monthly Minimum Guaranteed Rental
03/01/19 – 05/31/19	\$2,326,868.61	\$193,905.72
06/01/19 – 05/31/20	\$2,396,674.66	\$199,722.89
06/01/20 – 05/31/21	\$2,468,574.91	\$205,714.58
06/01/21 – 05/31/22	\$2,542,632.16	\$211,886.01
06/01/22 – 05/31/23	\$2,618,911.14	\$218,242.59
06/01/23 – 12/31/23	\$2,697,478.46	\$224,789.87

7. Condition of Existing Premises. Tenant is currently in possession of the Existing Premises and shall continue to accept and occupy the Existing Premises and the Buildings in their current "AS IS" condition as of the Effective Date without any agreements, representations, understandings or obligations on the part of Landlord to perform or pay for any alterations, repairs or improvements to the Existing Premises, except as otherwise expressly set forth in the Lease, as hereby amended.

8. California Statutory CASp Disclosure. For purposes of Section 1938(a) of the California Civil Code, Landlord hereby discloses to Tenant, and Tenant hereby acknowledges, that the Existing Premises have not undergone inspection by a Certified Access Specialist (CASp). In addition, the following notice is hereby provided pursuant to Section 1938(e) of the California Civil Code: "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises." In furtherance of and in connection with such notice: (i) Tenant, having read such notice and understanding Tenant's right to request and obtain a CASp inspection and with advice of counsel, hereby elects not to obtain such CASp inspection and forever waives its rights to obtain a CASp inspection with respect to the Existing Premises, the Buildings and/or the Industrial Complex to the extent permitted by applicable laws now or hereafter in effect; and (ii) if the waiver set forth in clause (i) hereinabove is not enforceable pursuant to applicable laws now or hereafter in effect, then Landlord and Tenant hereby agree as follows (which constitute the mutual agreement of the parties as to the matters described in the last sentence of the foregoing notice): (A) Tenant shall have the one-time right to request for and obtain a CASp inspection, which request must be made, if at all, in a written notice delivered by Tenant to Landlord on or before the date which is ten (10) days following the Effective Date; (B) any CASp inspection timely requested by Tenant

shall be conducted (1) between the hours of 9:00 a.m. and 5:00 p.m. on any business day, (2) only after ten (10) days' prior written notice to Landlord of the date of such CASp inspection, (3) in a professional manner by a CASp designated by Landlord and without any testing that would damage the Existing Premises, the Buildings, or the Industrial Complex in any way, (4) in accordance with all of the provisions of the Lease applicable to Tenant contracts for construction, and (5) at Tenant's sole cost and expense, including, without limitation, Tenant's payment of the fee for such CASp inspection, the fee for any reports and/or certificates prepared by the CASp in connection with such CASp inspection (collectively, the "**CASp Reports**") and all other costs and expenses in connection therewith; (C) Landlord shall be an express third party beneficiary of Tenant's contract with the CASp, and any CASp Reports shall be addressed to both Landlord and Tenant; (D) Tenant shall deliver a copy of any CASp Reports to Landlord within two (2) business days after Tenant's receipt thereof; (E) any information generated by the CASp inspection and/or contained in the CASp Reports shall not be disclosed by Tenant to anyone other than (I) contractors, subcontractors and/or consultants of Tenant, in each instance who have a need to know such information and who agree in writing not to further disclose such information, or (II) any governmental entity, agency or other person, in each instance to whom disclosure is required by law or by regulatory or judicial process; (F) Tenant, at its sole cost and expense, shall be responsible for making any improvements, alterations, modifications and/or repairs to or within the Existing Premises to correct violations of construction-related accessibility standards, including, without limitation, any violations disclosed by such CASp inspection; and (G) if such CASp inspection identifies any improvements, alterations, modifications and/or repairs necessary to correct violations of construction-related accessibility standards relating to those items of the Buildings and/or the Industrial Complex located outside the Existing Premises that are Landlord's obligation to repair as set forth in the Lease, then Landlord shall perform such improvements, alterations, modifications and/or repairs as and to the extent required by applicable laws to correct such violations, and Tenant shall reimburse Landlord for the cost of such improvements, alterations, modifications and/or repairs within ten (10) business days after Tenant's receipt of an invoice therefor from Landlord.

9. Brokers. Landlord and Tenant each hereby represents and warrants to the other that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Amendment, except for CBRE, Inc., representing Landlord (the "**Broker**"), and that it knows of no other real estate broker or agent who is entitled to a commission in connection with this Amendment. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, and costs and expenses (including, without limitation, reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing on account of any breach of the foregoing representation and warranty by the indemnifying party in connection with this Amendment.
10. Authority. If Tenant is a corporation, trust, limited liability company or partnership, each individual executing this Amendment on behalf of Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Amendment and that each person signing on behalf of Tenant is authorized to do so. In such event, Tenant shall, within ten (10) days after Landlord's written request, deliver to Landlord satisfactory evidence of such authority, and, upon demand by Landlord, Tenant shall also deliver to Landlord

satisfactory evidence of: (i) good standing in Tenant's state of formation; and (ii) qualification to do business in California.

11. Counterparts. This Amendment may be executed in any number of counterparts, which may be delivered electronically, via facsimile or by other means. Each party may rely upon signatures delivered electronically or via facsimile as if such signatures were originals. Each counterpart of this Amendment shall be deemed to be an original, and all such counterparts (including those delivered electronically or via facsimile), when taken together, shall be deemed to constitute one and the same instrument.
12. No Options. Notwithstanding anything to the contrary contained in the Lease, as hereby amended, Tenant hereby acknowledges and agrees that except as otherwise expressly set forth above in this Amendment: (i) Tenant has no (A) options to extend or renew the Lease except as expressly set forth below, (B) early termination options, (C) options or rights to expand the Existing Premises or to lease additional space in the real property of which the Existing Premises are a part, (D) rights of first offer and/or rights of first refusal to lease any space in the real property of which the Existing Premises are a part, and (E) options or preferential rights to purchase all or any portion of the Existing Premises or the real property of which the Existing Premises are a part nor any other rights or interests with respect to the Existing Premises or the real property of which the Existing Premises are a part, other than as "Tenant" under the Lease; and (ii) Tenant is not entitled to any improvement allowance, free or abated rent or any other concessions under the Lease. Without limiting the generality of the foregoing, the provisions of Section 11 of the First Amendment, and Section 5 of the Seventh Amendment are hereby deleted in their entirety and shall be of no further force and effect. Tenant shall continue to have two (2) options to renew the Lease as to the Existing Premises only in accordance with Section 6 of the Sixth Amendment (as amended by Section 6 of the Seventh Amendment).
13. No Further Modification. Except as set forth in this Amendment, all of the terms and provisions of the Lease are hereby ratified and confirmed and shall remain unmodified and in full force and effect. In the event of any conflict between the terms and conditions of the Lease and the terms and conditions of this Amendment, the terms and conditions of this Amendment shall prevail.

[SIGNATURES CONTAINED ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed by their duly authorized representatives as of the date first above written.

"LANDLORD":

GOOGLE LLC,  
a Delaware limited liability company

By: /s/ David Radcliffe

Name: David Radcliffe

Title: VP, Real Estate

"TENANT":

ACCURAY INCORPORATED,  
a Delaware corporation

By: /s/ Shig Hamamatsu

Name: Shig Hamamatsu

Title: SVP, CFO

By: /s/ Patrick Spine

Name: Patrick Spine

Title: SVP, CAO

**Exhibit A**

**Approved FF&E**

ITEM	Description	Qty
1	Board Room Set up; 27' table, 30 chairs, (2) 6 ft credenzas	1
2	Medium Conference Room Set-up: 8' - 12' table, 6 -10 chairs, whiteboard.	7
3	Small Conference Room setup: small table/desk, (4) chairs.	2
4	Executive Office Setup: U shaped wood/laminate desk, meeting table, task chair, 2 - 4 visitor chairs, bookcase.	5
5	Standard Office Set-up: wood/laminate desk, small round table, task chair, 2 visitor chairs.	11
6	Cubicles (8' x 8') equivalents: Partitions, worksurfaces, task chair	55
7	Reception Setup: L shaped desk, display cabinet, couch and side chair	1
8	Honeywell Camera system: DVR and (9) cameras.	1
9	Honeywell/Stanley Security Carder Reader system; panels and 16 card readers.	1
10	Standard household side-by-side refrigerator/freezer.	1
11	Café Setup: 6 tables, 19 chairs	1

**Certification**

I, Joshua H. Levine, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Accuray Incorporated, a Delaware corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2019

/s/ Joshua H. Levine

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Joshua H. Levine

President and Chief Executive Officer  
(Principal Executive Officer)

## Certification

I, Shig Hamamatsu, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Accuray Incorporated, a Delaware corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2019

/s/ Shig Hamamatsu  
\_\_\_\_\_  
Shig Hamamatsu  
Chief Financial Officer  
(Principal Financial Officer)

**Certification of Chief Executive Officer and Chief Financial Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of Accuray Incorporated, a Delaware corporation (the “*Company*”) hereby certify, to such officers’ knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the three months ended March 31, 2019 (the “*Report*”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2019

/s/ Joshua H. Levine

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Joshua H. Levine  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Shig Hamamatsu

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Shig Hamamatsu  
Chief Financial Officer  
(Principal Financial Officer)