

**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 September 30, 2015

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of October 28, 2015, there were 79,869,955 shares of the Registrant's Common Stock, par value \$0.001 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	September 30, 2015	June 30, 2015 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 85,584	\$ 79,551
Short-term investments	67,513	64,306
Restricted cash	3,795	3,734
Accounts receivable, net of allowance for doubtful accounts of \$745 and \$709 as of September 30, 2015 and June 30, 2015, respectively	56,636	77,727
Inventories	113,798	106,151
Prepaid expenses and other current assets	16,527	15,991
Deferred cost of revenue	6,799	6,869
Total current assets	350,652	354,329
Property and equipment, net	29,482	31,829
Goodwill	57,965	58,054
Intangible assets, net	13,576	15,564
Deferred cost of revenue	2,264	1,500
Other assets	7,863	8,695
Total assets	\$ 461,802	\$ 469,971
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 13,652	\$ 13,096
Accrued compensation	18,377	21,934
Other accrued liabilities	22,503	18,720
Short-term debt	95,134	—
Customer advances	22,949	19,385
Deferred revenue	90,719	96,780
Total current liabilities	263,334	169,915

Long-term liabilities:		
Long-term other liabilities	10,761	10,934
Deferred revenue	13,938	10,489
Long-term debt	109,639	202,853
Total liabilities	397,672	394,191
Commitment and contingencies (Note 5)		
Stockholders' Equity:		
Preferred stock, \$0.001 par value; authorized: 5,000,000 shares; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; authorized: 200,000,000 shares as of September 30, 2015 and June 30, 2015 respectively; issued and outstanding: 79,864,804 and 79,477,838 shares at September 30, 2015 and June 30, 2015, respectively	80	79
Additional paid-in capital	473,025	471,430
Accumulated other comprehensive loss	(646)	(426)
Accumulated deficit	(408,329)	(395,303)
Total stockholders' equity	64,130	75,780
Total liabilities and stockholders' equity	\$ 461,802	\$ 469,971

(1) The condensed consolidated balance sheet at June 30, 2015 has been derived from audited consolidated financial statements.

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

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

	Three Months Ended September 30,	
	2015	2014
Net revenue:		
Products	\$ 39,995	\$ 33,015
Services	49,636	49,366
Total net revenue	89,631	82,381
Cost of revenue:		
Cost of products	23,017	20,665
Cost of services	32,716	33,915
Total cost of revenue	55,733	54,580
Gross profit	33,898	27,801
Operating expenses:		
Research and development	14,296	14,149
Selling and marketing	13,417	17,974
General and administrative	13,416	10,950
Total operating expenses	41,129	43,073
Loss from operations	(7,231)	(15,272)
Other expense, net	(5,091)	(5,461)
Loss before provision for income taxes	(12,322)	(20,733)
Provision for income taxes	704	917
Net loss	\$ (13,026)	\$ (21,650)
Net loss per share — basic and diluted	\$ (0.16)	\$ (0.28)
Weighted average common shares used in computing loss per share		
Basic and diluted	79,760	77,290
Net loss	\$ (13,026)	\$ (21,650)
Foreign currency translation adjustment	(258)	(442)
Unrealized gain (loss) on investments, net of tax	38	(141)
Comprehensive loss	\$ (13,246)	\$ (22,233)

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

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Accuray Incorporated
Condensed Consolidated Statements of Cash Flows

(in thousands)
(Unaudited)

	Three Months Ended September 30,	
	2015	2014
Cash Flows From Operating Activities		
Net loss	\$ (13,026)	\$ (21,650)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,559	4,978
Share-based compensation	2,514	3,273
Amortization of debt issuance costs	403	363
Amortization and accretion of discount and premium on investments	270	266
Accretion of interest on debt	1,920	1,759
Recovery of (provision for) bad debt, net	36	(127)
Provision for write-down of inventories	424	259
Loss on disposal of property and equipment	8	—
Changes in assets and liabilities:		
Accounts receivable	20,902	17,726
Inventories	(7,193)	(13,147)
Prepaid expenses and other assets	(65)	3,233
Deferred cost of revenue	(704)	1,468
Accounts payable	710	9
Accrued liabilities	(13)	(13,237)
Customer advances	3,609	751
Deferred revenue	(2,098)	(643)
Net cash provided by (used in) operating activities	<u>12,256</u>	<u>(14,719)</u>
Cash Flows From Investing Activities		
Purchases of property and equipment, net	(1,544)	(2,691)
Purchases of investments	(15,439)	(45,739)
Sales and maturities of investments	12,000	79,470
Net cash (used in) provided by investing activities	<u>(4,983)</u>	<u>31,040</u>
Cash Flows From Financing Activities		
Proceeds from employee stock plans	1,034	1,886
Taxes paid related to net share settlement of equity awards	(1,060)	—
Net cash (used in) provided by financing activities	<u>(26)</u>	<u>1,886</u>
Effect of exchange rate changes on cash and cash equivalents	(1,214)	(3,258)
Net increase in cash and cash equivalents	6,033	14,949
Cash and cash equivalents at beginning of period	79,551	92,346
Cash and cash equivalents at end of period	<u>\$ 85,584</u>	<u>\$ 107,295</u>

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

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Accuray Incorporated
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies

Description of Business

Accuray Incorporated (together with its subsidiaries, the “Company” or “Accuray”) is incorporated in Delaware. The Company designs, develops and sells advanced radiosurgery and radiation therapy systems for the treatment of tumors throughout the body. The Company conducts its business worldwide. The Company has its headquarters in Sunnyvale, California, with additional locations worldwide.

Basis of Presentation and Principles of Consolidation

The 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 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 months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending June 30, 2016, for any other interim period or for any future year.

These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes for the year ended June 30, 2015 included in the Company’s Annual Report on Form 10-K filed with the SEC on August 28, 2015. The Company’s significant accounting policies are described in Note 2 to those audited consolidated financial statements and there have been no material changes to such policies.

Recent Accounting Standard Update Not Yet Effective

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers: Topic 606* (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, FASB approved a one-year deferral of the effective period for ASU 2014-09. The standard will be effective for the Company for the first quarter of fiscal 2019, but entities will be permitted to early adopt the standard as of the original effective date, which would be the first quarter of fiscal 2018 for the Company. The Company may adopt 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 as defined per ASU 2014-09. The Company has not yet selected a transition method, has not yet determined whether it will select early adoption and is currently evaluating the impact of pending adoption of ASU 2014-09 on its consolidated financial statements and related disclosures.

Use of Estimates

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

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Concentration of Credit and Other Risks

The Company's cash, cash equivalents and investments are deposited with several major financial institutions. At times, deposits in these institutions exceed the amount of insurance provided on such deposits. The Company has not experienced any losses in such accounts and does not believe that it is exposed to any significant risk of loss on these balances.

For the three months ended September 30, 2015, there was one customer that represented 15% of total net revenue. For the three months ended September 30, 2014, there were no customers that represented 10% or more of total net revenue. One customer accounted for 17% and 18% of the Company's total accounts receivable as of September 30, 2015 and June 30, 2015, respectively.

Accounts receivable are typically not collateralized. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. Accounts receivable are deemed past due in accordance with the contractual terms of the agreement. Accounts are charged against the allowance for doubtful accounts once collection efforts are unsuccessful.

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

Revenue Recognition

The Company earns revenue from the sale of products and related services. The Company records its revenues net of any value added or sales tax. For arrangements with multiple elements, the Company allocates arrangement fees to products and services based upon Vendor Specific Objective Evidence ("VSOE") of fair value of the respective elements, Third-Party Evidence ("TPE"), or Best Estimate of Selling Price ("BESP"), using the relative selling price method.

Product and Service Revenue

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

The Company offers its systems with post-contract customer support ("PCS") contracts, installation services, training, and professional services. PCS contracts provide planned and corrective maintenance services, software updates, bug fixes, as well as call-center support. Service revenue is generated primarily from PCS (warranty period services and post warranty services), installation services, training, parts and upgrades that are sold under service contracts, and professional services. PCS revenue is deferred and recognized over the service period. Installation service revenue is recognized concurrent with system revenue. Training and professional service revenues that are not deemed essential to the functionality of the systems are recognized as such services are performed.

Costs associated with service revenue are expensed when incurred, except when those costs are related to parts or system upgrades where revenue recognition has been deferred. In those cases, the costs are deferred and are recognized over the period of revenue recognition.

Net Loss Per Common Share

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

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

	Three Months Ended September 30,	
	2015	2014
Numerator:		
Net loss used in computing net loss per share	\$ (13,026)	\$ (21,650)
Denominator:		
Weighted average shares used in computing basic and diluted loss per share	79,760	77,290

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The potentially dilutive shares of the Company's common stock resulting from the assumed exercise of outstanding stock options, the vesting of Restricted Stock Units (RSU), Market Stock Units (MSU) and Performance Stock Units (PSU), and the purchase of shares under the Employee Stock Purchase Program (ESPP), as determined under the treasury stock method, are excluded from the computation of diluted net loss per share because their effect would have been anti-dilutive. Additionally, the 3.75% Convertible Senior Notes due August 1, 2016 (the "3.75% Convertible Notes"), the 3.50% Convertible Senior Notes due February 1, 2018 (the "3.50% Convertible Notes") and the 3.50% Series A Convertible Notes (the "3.50% Series A Convertible Notes") due February 1, 2018 (together, the "Convertible Notes") are included in the calculation of diluted net income per share only if their inclusion is dilutive. For the three months ended September 30, 2015 and 2014, the potentially dilutive shares under the Convertible Notes were excluded from the calculation of diluted net loss per share as their inclusion would have been anti-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 September 30,	
	2015	2014
Stock options	2,458	3,032
RSUs, PSUs and MSUs	4,095	4,024
3.50% Convertible Notes	8,378	8,378
3.50% Series A Convertible Notes	—	3,352
	<u>14,931</u>	<u>18,786</u>

Outstanding Convertible Notes—Diluted Share Impact

The 3.75% Convertible Notes and 3.50% Series A Convertible Notes have an optional physical (share), cash or combination settlement feature and contain certain conditional conversion features. Due to the optional cash settlement feature and management's intent to settle the principal amount thereof in cash, the conversion shares underlying the outstanding principal amount of the 3.75% Convertible Notes and 3.50% Series A Convertible Notes, totaling approximately 10.6 million shares and 13.2 million shares, respectively, were not included in the potentially diluted share count table above. The Company's average stock price did not exceed the conversion price of the 3.75% Convertible Notes as of September 30, 2015 and 2014. The zero and 3.4 million potentially dilutive shares of the 3.50% Series A Convertible Notes as of September 30, 2015 and 2014, respectively, included in the table above represent the premium over the principal amount due to the higher average share price above the conversion price. The number of premium shares included in the Company's diluted share count will vary with fluctuations in the Company's share price. Higher actual share prices result in a greater number of premium shares.

Segment Information

The Company has determined that it operates in only one segment, as it only reports profit and loss information on an aggregate basis to its chief operating decision maker. Revenue by geographic region is based on the shipping addresses of the Company's customers. The following summarizes revenue by geographic region (in thousands):

	Three Months Ended September 30,	
	2015	2014
Americas	\$ 45,290	\$ 38,478
Europe, Middle East, India and Africa	23,034	30,937
Asia-Pacific (excluding Japan and India)	16,982	4,882
Japan	4,325	8,084
Total	<u>\$ 89,631</u>	<u>\$ 82,381</u>

Information regarding geographic areas in which the Company has long lived tangible assets is as follows (in thousands):

	September 30, 2015	June 30, 2015
Americas	\$ 25,980	\$ 28,182
Europe, Middle East, India and Africa	793	929
Asia-Pacific (excluding Japan and India)	527	455
Japan	2,182	2,263
Total	<u>\$ 29,482</u>	<u>\$ 31,829</u>

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2. 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 in the Company's balance sheet. The Company's financing receivables, consisting of its accounts receivable with contractual maturities of more than one year, totaled \$2.0 million and \$1.6 million at September 30, 2015 and June 30, 2015, respectively and are included in Other Assets in the consolidated balance sheets. There was no balance in the allowance for doubtful accounts related to such financing receivables as of September 30, 2015 and June 30, 2015, respectively, as revenue is recognized on a cash basis for these receivables.

Inventories

Inventories consisted of the following (in thousands):

	September 30, 2015	June 30, 2015
Raw materials	\$ 50,336	\$ 46,356
Work-in-process	17,802	15,445
Finished goods	45,660	44,350
Inventories	<u>\$ 113,798</u>	<u>\$ 106,151</u>

Property and equipment, net

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

	September 30, 2015	June 30, 2015
Furniture and fixtures	\$ 4,677	\$ 4,674
Computer and office equipment	12,085	11,808
Software	11,088	10,992
Leasehold improvements	20,898	19,428
Machinery and equipment	48,750	47,031
Construction in progress	4,097	8,273
	<u>101,595</u>	<u>102,206</u>
Less: Accumulated depreciation	(72,113)	(70,377)
Property and equipment, net	<u>\$ 29,482</u>	<u>\$ 31,829</u>

Depreciation expense related to property and equipment for the three months ended September 30, 2015 and 2014 was \$2.6 million and \$3.0 million, respectively.

3. Goodwill and Intangible Assets

Goodwill

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

	Three Months Ended September 30, 2015	Year Ended June 30, 2015
Balance at the beginning of the period	\$ 58,054	\$ 58,091
Currency translation	(89)	(37)
Balance at the end of the period	<u>\$ 57,965</u>	<u>\$ 58,054</u>

In the second quarter of fiscal 2015, 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. In the three months ended September 30, 2015, there were no indicators of impairment.

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Intangible Assets

The Company's unamortized intangible assets associated with completed acquisitions at September 30, 2015 and June 30, 2015 are as follows (in thousands):

	Useful Lives (in years)	September 30, 2015			June 30, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Developed technology	5 — 6	\$ 46,746	\$ (33,170)	\$ 13,576	\$ 46,700	\$ (31,136)	\$ 15,564

The Company did not identify any triggering events that would indicate potential impairment of its definite-lived intangible and long-lived assets as of September 30, 2015 and June 30, 2015.

Amortization expense related to intangible assets for the three months ended September 30, 2015 and 2014 was \$2.0 million and \$2.0 million, respectively.

The estimated future amortization expense of purchased intangible assets as of September 30, 2015 is as follows (in thousands):

Year Ending June 30,	Amount
2016 (remaining 9 months)	\$ 5,965
2017	7,568
2018	43
	<u>\$ 13,576</u>

4. Financial Instruments

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 it is management's intent 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 (loss), a component of stockholders' equity. Realized gains and losses are recorded based on specific identification of each security's cost basis.

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy contains three levels of inputs that may be used to measure fair value, as follows:

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

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

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

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

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

	September 30, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value	
				Cash and Cash Equivalents	Short-term Investments
Cash	\$ 84,458	\$ —	\$ —	\$ 84,458	\$ —
Level 1					
Money market funds	1,126	—	—	1,126	—
	<u>1,126</u>	<u>—</u>	<u>—</u>	<u>1,126</u>	<u>—</u>
Level 2					
Commercial paper	11,991	—	—	—	11,991
U.S. Agency securities	25,000	6	(2)	—	25,004
Non-U.S. government securities	1,500	—	—	—	1,500
Corporate notes	29,060	3	(45)	—	29,018
	<u>67,551</u>	<u>9</u>	<u>(47)</u>	<u>—</u>	<u>67,513</u>
Total	<u>\$ 153,135</u>	<u>\$ 9</u>	<u>\$ (47)</u>	<u>\$ 85,584</u>	<u>\$ 67,513</u>

	June 30, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value	
				Cash and Cash Equivalents	Short-term Investments
Cash	\$ 73,444	\$ —	\$ —	\$ 73,444	\$ —
Level 1					
Money market funds	6,107	—	—	6,107	—
	<u>6,107</u>	<u>—</u>	<u>—</u>	<u>6,107</u>	<u>—</u>
Level 2					
Commercial paper	11,989	—	—	—	11,989
U.S. Agency securities	21,999	6	(14)	—	21,991
Non-U.S. government securities	1,504	—	(3)	—	1,501
Corporate notes	28,891	—	(66)	—	28,825
	<u>64,383</u>	<u>6</u>	<u>(83)</u>	<u>—</u>	<u>64,306</u>

Total	\$	143,934	\$	6	\$	(83)	\$	79,551	\$	64,306
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The Company's Level 2 investments in the table above are classified as Level 2 items because quoted prices in an active market are not readily accessible for those specific financial assets, or the Company may have relied on alternative pricing methods that do not rely exclusively on quoted prices to determine the fair value of the investments.

The Company had investments that were in an unrealized loss position as of September 30, 2015. The Company determined that (i) it does not have the intent to sell any of these investments and (ii) it is not likely that it will be required to sell any of these investments before recovery of the entire amortized cost basis. The Company reviews its investments quarterly to identify and evaluate investments that have an indication of possible impairment. As of September 30, 2015, the Company anticipates that it will recover the entire carrying value of such investments and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three months ended September 30, 2015.

Contractual maturities of available-for-sale securities at September 30, 2015 were as follows (in thousands):

	September 30, 2015	
	Amortized Cost	Fair Value
Due in 1 year or less	\$ 55,551	\$ 55,529
Due in 1-2 years	12,000	11,984
Due in 2-3 years	—	—
Total	<u>\$ 67,551</u>	<u>\$ 67,513</u>

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The following table summarizes the carrying values and estimated fair values of our short-term and long-term debt (in thousands):

	September 30, 2015		June 30, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
3.75% Convertible Notes	\$ 95,134	\$ 100,910	\$ 93,739	\$ 102,645
3.50% Convertible Notes	44,654	49,424	44,654	65,230
3.50% Series A Convertible Notes	64,985	77,861	64,460	102,760
Total	<u>\$ 204,773</u>	<u>\$ 228,195</u>	<u>\$ 202,853</u>	<u>\$ 270,635</u>

The short-term and long-term 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 Convertible Notes is not readily available.

5. Commitments and Contingencies

The Company's contractual obligations were presented in the Annual Report on Form 10-K for the previous annual reporting period ended June 30, 2015. There have been no material changes outside of the ordinary course of business in those obligations during the three months ended September 30, 2015.

Litigation

From time to time, the Company is involved in legal proceedings arising in the ordinary course of its business. The Company records a provision for a loss when it believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. Currently, management believes the Company does not have any probable and estimable losses related to any current legal proceedings and claims. Although occasional adverse decisions or settlements may occur, except as described in the matters below, 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. For certain legal proceedings, management believes that there is a reasonable possibility that material losses may be incurred; however, the Company is unable to reasonably estimate a range of reasonably possible losses with respect to these matters. 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.

Rotary Systems

On April 28, 2011, a former supplier to TomoTherapy, Rotary Systems Incorporated ("Rotary Systems"), filed suit in Minnesota state court, Tenth Judicial District, Anoka County, against TomoTherapy alleging misappropriation of trade secrets, as well as several other counts alleging various theories of injury. Rotary Systems alleges TomoTherapy misappropriated Rotary Systems' trade secrets pertaining to a component previously purchased from Rotary Systems, which component TomoTherapy now purchases from a different supplier. The suit alleges TomoTherapy improperly supplied the alleged trade secrets to its present supplier, Dynamic Sealing Technologies Inc. (also a named defendant in the suit). Rotary Systems has made an unspecified claim for damages of greater than \$50,000. TomoTherapy moved to dismiss the case and, on August 29, 2011, the court granted the motion to dismiss with respect to all counts other than the count alleging misappropriation of trade secrets. On May 21, 2012, the court gave Rotary Systems sixty days to identify the alleged trade secrets with specificity or face dismissal of its claim with prejudice. The court held a hearing on September 20, 2012 to review Rotary Systems' amended complaint. TomoTherapy filed a motion for summary judgment on the trade secret claim, the court ruled in favor of TomoTherapy on December 5, 2013, and Rotary Systems appealed. On December 22, 2014, the Minnesota Court of Appeals reversed the district court's dismissal of Rotary Systems' trade secrets claim and remanded it to the district court but affirmed the dismissal of Rotary Systems' other claims. In late October 2015, a final scheduling order was confirmed for the remanded claims.

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On February 27, 2014, Cowealth Medical Holding Co., Ltd. (“Cowealth”), Accuray’s former distributor in China, submitted a request for binding arbitration with the International Chamber of Commerce International Court of Arbitration (“ICC”) alleging, among other matters, that Accuray breached its distributor agreement with Cowealth by wrongfully terminating Cowealth as its distributor and misappropriated certain of Cowealth’s confidential information. Cowealth is seeking damages of approximately \$170.0 million and injunctive relief. Accuray has filed counterclaims for damages of approximately \$35.0 million. Accuray’s answer and counterclaim were submitted to the ICC on May 12, 2014, and Cowealth served its reply on June 27, 2014. A hearing was held in Hong Kong between January 26, 2015 and February 6, 2015. The parties filed closing submissions and reply closing submissions in March 2015. On October 29, 2015, the ICC ruled that Accuray was liable for certain damages and awarded Cowealth approximately \$3.4 million. Interest on this amount will accrue at a rate of 5% per annum starting 30 days after the date of the award until payment. Accordingly, management has recorded a charge of \$3.4 million for the first fiscal quarter ending September 30, 2015. The ICC will subsequently issue a separate ruling as to legal costs and associated expenses; however, management does not believe the likelihood of an award of legal fees to Cowealth is probable or estimable as of September 30, 2015, so no additional amount has been recorded. Prior to the ruling of the ICC, no accrual was established in the Company’s consolidated financial statements because management did not believe the likelihood of an award of damages to Cowealth was probable or estimable. In addition, the Company won several of its counterclaims including the right to be assigned the existing service contracts between Cowealth and Accuray customers, transfer to Accuray any regulatory clearances, licenses or permits obtained and held for the purposes of selling the CyberKnife System in China and deliver any consigned parts in their possession.

Software License Indemnity

Under the terms of the Company’s software license agreements with its customers, the Company agrees that in the event the software sold infringes upon any patent, copyright, trademark, or any other proprietary right of a third-party, it will indemnify its customer licensees against any loss, expense, or liability from any damages that may be awarded against its customer. The Company includes this infringement indemnification in all of its software license agreements and selected managed services arrangements. In the event the customer cannot use the software or service due to infringement and the Company cannot obtain the right to use, replace or modify the license or service in a commercially feasible manner so that it no longer infringes, then the Company may terminate the license and provide the customer a refund of the fees paid by the customer for the infringing license or service. The Company has not recorded any liability associated with this indemnification, as it is not aware of any pending or threatened actions that represent probable losses as of September 30, 2015.

6. Share-Based Compensation

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

	Three Months Ended September	
	30,	
	2015	2014
Cost of revenue	\$ 389	\$ 395
Research and development	549	894
Selling and marketing	644	651
General and administrative	932	1,333
	<u>\$ 2,514</u>	<u>\$ 3,273</u>

7. Debt

3.75% Convertible Senior Notes due August 2016

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

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

in excess of the aggregate principal amount of the 3.75% Convertible Notes being converted. The initial conversion rate is 105.5548 shares of the Company's common stock per \$1,000 principal amount of 3.75% Convertible Notes (which represents an initial conversion price of approximately \$9.47 per share of the Company's common stock). The conversion rate, and thus the conversion price, are subject to adjustment as further described below.

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

Prior to the maturity date, the Company may redeem for cash all or a portion of the 3.75% Convertible Notes if the closing sale price of its common stock exceeds 130% of the applicable conversion price (the initial conversion price is approximately \$9.47 per share of common stock) of such 3.75% Convertible Notes for at least 20 trading days during any consecutive 30 trading-day period (including the last trading day of such period).

In accordance with ASC 470-20, *Debt with Conversion and Other Options*, the Company separately accounts for the liability and equity conversion components of the 3.75% Convertible Notes. The principal amount of the liability component of the 3.75% Convertible Notes was \$75.9 million as of the date of issuance based on the present value of its cash flows using a discount rate of 10%, our approximate borrowing rate at the date of the issuance for a similar debt instrument without the conversion feature. The carrying value of the equity conversion component was \$24.1 million. A portion of the initial purchaser's discount and commission and the offering costs totaling \$0.9 million was allocated to the equity conversion component. The liability component is being accreted to the principal amount of the 3.75% Convertible Notes using the effective interest method over five years.

3.50% Convertible Senior Notes due February 2018

In February 2013, the Company issued \$115.0 million aggregate principal amount of its 3.50% Convertible Notes to certain QIBs. The 3.50% Convertible Notes were offered and sold to the QIBs pursuant to Rule 144A. The net proceeds from the offering, after deducting the initial purchaser's discount and commission and the related offering costs, were approximately \$110.5 million. The offering costs and the initial purchaser's discount and commission (which are recorded in Other Assets) are both being amortized to interest expense using the effective interest method over five years. The 3.50% Convertible Notes bear interest at a rate of 3.50% per year, payable semi-annually in arrears in cash on February 1 and August 1 of each year, which began on August 1, 2013. The 3.50% Convertible Notes will mature on February 1, 2018, unless earlier repurchased, redeemed or converted.

In April 2014, through a series of transactions, the Company refinanced approximately \$70.3 million aggregate principal amount of the 3.50% Convertible Notes with approximately \$70.3 million aggregate principal amount of the Company's new 3.50% Series A Convertible Senior Notes due 2018 (the "3.50% Series A Convertible Notes").

The 3.50% Convertible Notes were issued under an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Holders of the 3.50% Convertible Notes may convert their 3.50% Convertible Notes at any time until the close of business on the business day immediately preceding the maturity date. The 3.50% Convertible Notes are convertible, as described below into common stock of the Company at an initial conversion rate equal to 187.6877 shares of common stock per \$1,000 principal amount of the 3.50% Convertible Notes, which is equivalent to a conversion price of approximately \$5.33 per share of common stock, subject to adjustment.

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Holder of the 3.50% Convertible Notes who convert their 3.50% Convertible Notes in connection with a "make-whole fundamental change", as defined in the Indenture, may be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, in the event of a "fundamental change," as defined in the Indenture, holders of the 3.50% Convertible Notes may require the Company to purchase all or a portion of their 3.50% Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of 3.50% Convertible Notes, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date.

In accordance with guidance in ASC 470-20, *Debt with Conversion and Other Options* and ASC 815-15, *Embedded Derivatives*, the Company determined that the embedded conversion components of the 3.50% Convertible Note do not require bifurcation and separate accounting. The remaining \$44.7 million principal amount of the 3.50% Convertible Note has been recorded in Long-term Debt on the consolidated balance sheet as of September 30, 2015.

3.50% Series A Convertible Senior Notes due February 2018

On April 17, 2014, the Company entered into note exchange agreements with certain holders (the "Participating Holders") of the 3.50% Convertible Notes to refinance approximately \$70.3 million aggregate principal amount of the 3.50% Convertible Notes with approximately \$70.3 million aggregate principal amount of the 3.50% Series A Convertible Notes. Pursuant to the note exchange agreements, the Company also paid the Participating Holders an aggregate of approximately \$0.4 million in cash in connection with such transactions. The principal amount of 3.50% Convertible Notes refinanced for each \$1,000 principal amount of the 3.50% Series A Convertible Notes was \$1,000 and the amount in cash paid per \$1,000 principal amount of such 3.50% Convertible Notes delivered was determined in individual negotiations between the Company and each Participating Holder. The Series A Convertible Notes have the same interest rate, maturity and other terms as the 3.50% Convertible Notes, except that the 3.50% Series A Convertible Notes are convertible into cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's option.

The 3.50% Series A Convertible Notes were issued under an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Holders of the 3.50% Series A Convertible Notes may convert their Securities at any time on or after November 1, 2017 until the close of business on the business day immediately preceding the maturity date. Prior to November 1, 2017, holders of the 3.50% Series A Convertible Notes may convert their Securities only under the following circumstances: (1) during any calendar quarter after the calendar quarter ending September 30, 2014, and only during such calendar quarter, if the closing sale price of the Company's common stock for each of 20 or more trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) during the five consecutive business days immediately after any five consecutive trading-day period (such five consecutive trading-day period, the "Note Measurement Period") in which the trading price per \$1,000 principal amount of 3.50% Series A Convertible Notes for each trading day of that Securities Measurement Period was equal to or less than 98% of the product of the closing sale price of shares of the Company's

common stock and the applicable conversion rate for such trading day; or (3) upon the occurrence of specified corporate transactions as described in the Indenture. Upon conversion by holders of the 3.50% Series A Convertible Notes, the Company will have the right to pay or deliver, as the case may be, cash, shares of common stock of the Company or a combination thereof, at the Company's election. At any time on or prior to the 17th business day immediately preceding the maturity date, the Company may irrevocably elect to (a) deliver solely shares of common stock of the Company in respect of the Company's conversion obligation or (b) pay cash up to the aggregate principal amount of the 3.50% Series A Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of common stock of the Company or a combination thereof in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the 3.50% Series A Convertible Notes being converted. The initial conversion rate is 187.6877 shares of the Company's common stock per \$1,000 principal amount of 3.50% Series A Convertible Notes (which represents an initial conversion price of approximately \$5.33 per share of the Company's common stock). The conversion rate, and thus the conversion price, are subject to adjustment as further described below.

Holders of the 3.50% Series A Convertible Notes who convert their Notes in connection with a "make-whole fundamental change", as defined in the Indenture, may be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, in the event of a "fundamental change," as defined in the Indenture, holders of the 3.50% Series A Convertible Notes may require the Company to purchase all or a portion of their 3.50% Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 3.50% Series A Convertible Notes, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date.

In accordance with Accounting Standards Codification, or ASC 470-20, *Debt with Conversion and Other Options*, the Company separately accounts for the liability and equity conversion components of the 3.50% Series A Convertible Notes. The principal amount of the liability component of the 3.50% Series A Convertible Notes was \$62.5 million as of the date of issuance based on the present value of its cash flows using a discount rate of 7%, our approximate borrowing rate at the date of the issuance for a similar debt instrument without the conversion feature. The carrying value of the equity conversion component was \$7.9 million. In addition, the portion of the cash amount paid to the Participating Holders totaling \$0.4 million was allocated to the debt discount with the remaining \$47,000 to the equity component. The liability component is being accreted to the principal amount of the 3.50% Series A Convertible Notes using the effective interest method through the maturity in February 2018.

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The following table presents the carrying values of all Convertible Notes as of September 30, 2015 (in thousands):

	<u>3.75% Notes</u>	<u>3.50% Notes</u>	<u>3.50% Series A Notes</u>	<u>TOTAL</u>
Carrying amount of the equity conversion component	\$ 23,189	\$ —	\$ 7,844	\$ 31,033
Principal amount of the Convertible Notes	\$ 100,000	\$ 44,654	\$ 70,346	\$ 215,000
Unamortized debt discount	(4,866)	—	(5,361)	(10,227)
Net carrying amount	<u>\$ 95,134</u>	<u>\$ 44,654</u>	<u>\$ 64,985</u>	<u>\$ 204,773</u>

A summary of interest expense on the Convertible Notes is as follows (in thousands):

	Three months ended September 30,	
	<u>2015</u>	<u>2014</u>
Interest expense related to contractual interest coupon	\$ 1,945	\$ 1,943
Interest expense related to amortization of debt discount	1,920	1,759
Interest expense related to amortization of debt issuance costs	403	363
	<u>\$ 4,268</u>	<u>\$ 4,065</u>

8. Accumulated Other Comprehensive Loss

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

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

	<u>September 30, 2015</u>	<u>June 30, 2014</u>
Net unrealized loss on short-term investments	\$ (38)	\$ (77)
Cumulative foreign currency translation gain	909	1,168
Defined benefit pension obligation	(1,517)	(1,517)
Accumulated other comprehensive loss	<u>\$ (646)</u>	<u>\$ (426)</u>

9. Subsequent Event

In February of 2014, Cowealth submitted a request for binding arbitration with the ICC alleging, among other matters, that Accuray breached its distributor agreement with Cowealth by wrongfully terminating Cowealth as its distributor and misappropriated certain of Cowealth's confidential information. Cowealth was seeking damages of approximately \$170.0 million and injunctive relief.

On October 29, 2015, the ICC ruled that Accuray was liable for certain damages and awarded Cowealth approximately \$3.4 million, while denying Cowealth's claim for injunctive relief. As the legal matter arose before September 30, 2015, management recorded a charge of \$3.4 million into accrued

liabilities and general and administrative expenses. No accrual had been recorded previously in the Company's consolidated financial statements because management did not believe the likelihood of an award of damages to Cowealth was probable or estimable. Under the terms of the ICC Rules of Arbitration all awards are binding and cannot be appealed by either party. Further issues remain to be finalized in the arbitration, none of which will affect the binding outcome under the interim award. The ICC will subsequently issue a separate ruling as to legal costs and associated expenses; however, management does not believe the likelihood of an award of legal fees to Cowealth is probable or estimable as of the date of the financials, so no additional amount has been recorded.

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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 September 30, 2015 and results of operations for the three months ended September 30, 2015 and 2014 should be read together with our condensed consolidated financial statements and related notes included elsewhere in this report. Statements made in this Form 10-Q report that are not statements of historical fact are forward-looking statements and 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 and cancellations of contracts, the effects of our process improvements on age-outs, backlog and revenue; expected uses of cash during fiscal 2016; the anticipated drivers of our future capital requirements; the anticipated successful introduction of the MLC for the CyberKnife Systems, the timing of its release and its impact on our business; our expectations regarding the factors that will impact sales, competitive positioning and long-term success for our CyberKnife and TomoTherapy Systems; our belief that TomoTherapy Systems offer clinicians and patients significant benefits over other radiation therapy systems in the market; 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; 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. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from expectations, including those risks 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 the Company's annual report on Form 10-K for fiscal year 2015 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 the Company at the time those statements are made and/or management's good faith belief as of that time with respect to future events. The Company assumes 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 which set the standard of care, with the aim of helping patients live longer, better lives. Our leading edge technologies, the CyberKnife® and TomoTherapy Systems®, 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 separate patient populations treated by the same medical specialty, radiation oncology, with advanced capabilities that offer increased treatment flexibility to meet the needs of an expanding patient population.

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 otherwise would not 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. The addition of the multi-leaf collimator, or InCise MLC, now makes it faster and more efficient to treat a wider range of tumor types with the CyberKnife M6, including larger tumors and those with multiple sites of disease.

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Our CyberKnife M6 Series Systems have the option of: fixed collimator, iris collimator, and/or InCise MLC. The InCise MLC is designed specifically for the M6 Series. With the addition of the InCise MLC, clinicians can deliver the same precise radiosurgery treatments they have come to expect with the CyberKnife System, faster and for a wider range of tumor types. The InCise MLC was commercially launched in the third fiscal quarter of 2015.

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

- Continued adoption of our CyberKnife M6 Series Systems;
- Production and shipment of MLC that meets the standards that we, and our customers, expect in our products;

- Change in medical practice leading to utilization of stereotactic body radiosurgery more regularly as an alternative to surgery or other treatments;
- Greater awareness among doctors and patients of the benefits of radiosurgery with the CyberKnife Systems;
- Continued evolution in clinical studies demonstrating the safety, efficacy and other benefits of using the CyberKnife Systems to treat tumors in various parts of the body;
- Continued advances in technology that improve the quality of treatments and ease of use of the CyberKnife Systems;
- Improved access to radiosurgery with the CyberKnife Systems in various countries through regulatory approvals;
- Medical insurance reimbursement policies that cover CyberKnife System treatments; and
- Expansion of sales of CyberKnife Systems in countries throughout the world.

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 the only radiation therapy systems designed for image-guided intensity-modulated radiation therapy (IG-IMRT). The TomoTherapy H Series Systems come in 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 patients. The TomoTherapy Systems are capable of treating all standard radiation therapy indications including breast, prostate, lung and head and neck cancers, in addition to complex treatments such as total marrow irradiation. Radiation therapy has been widely available and used in developed countries for decades, though many developing countries do not currently have a sufficient number of radiation therapy systems to adequately treat their domestic cancer patient populations. The number of radiation therapy systems in use and sold each year is currently many times larger than the number of radiosurgery systems. We believe the 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 H Series Systems;
- Greater awareness among doctors and patients of the benefits of radiation therapy using TomoTherapy Systems;
- Advances in technology which 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
- Expansion of TomoTherapy System sales in countries throughout the world.

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 six months to two years. The time from receipt of a signed contract to revenue recognition is governed generally by the time required by the customer to build, renovate or prepare the treatment room for installation of the system.

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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 some sales agents. We have sales and service offices in many countries in Europe, Japan and other countries in Asia, South America, and throughout the world.

Backlog

For orders that cover both products and services, only the portion of the order that is recognizable as product revenue is reported as backlog. The portion of the order that is recognized as service revenue (for example, Post Contract Customer Support (PCS), installation, training and professional services) is not included in reported backlog. Product backlog totaled \$379.8 million as of September 30, 2015.

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

- The contract is signed and properly executed by both the customer and us. A customer purchase order that is signed and incorporates the terms of our contract quote will be considered equivalent to a signed and executed contract;
- The contract is non-contingent - it either has cleared all its contingencies or contains no contingencies when signed;
- We have received a minimum deposit or a letter of credit; the sale is a direct channel sale to a government entity, or the product has shipped to a customer with credit sufficient to cover the minimum deposit;
- The specific end customer site has been identified by the customer in the written contract or written amendment;
- For orders in our Latin America region, unless the system has already shipped and collection is reasonably assured, we request supporting evidence that the end customer has commenced construction to place our products if a site does not already exist; 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 and related upgrades, due to factors outside of our control, we cannot provide assurance that we will convert backlog into recognized revenue. 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, changes to regulatory requirements, or other reasons. 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 inability of the customer to pay, inability of the customer to adapt their facilities to accommodate our products in a timely manner, inability to timely obtain licenses necessary for customer facilities or operation of our equipment among other reasons for delays. Our backlog also includes amounts not denominated in U.S. Dollars and therefore fluctuations in the U.S. Dollar as compared to other currencies will impact backlog. Generally, strengthening in the U.S. Dollar will negatively impact backlog.

Gross orders are defined as the sum of new orders recorded during the period adjusted for any revisions to existing orders during the period. Net product orders are defined as gross product orders less cancellations, age-outs and foreign exchange adjustments.

(Dollars in thousands)	Three months ended September 30,	
	2015	2014
Gross orders	\$ 64,928	\$ 58,763
Net orders	44,799	32,282
Order backlog at the end of the period	379,792	364,007

Gross orders increased by \$6.2 million for the three months ended September 30, 2015, as compared to the three months ended September 30, 2014. This was a result of increased order volume; in the three months ended September 30, 2015, TomoTherapy System order volume increased 7% compared to the same prior year period and CyberKnife System order volume increased 40% compared to the same prior year period.

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Net orders increased by \$12.5 million for the three months ended September 30, 2015, as compared to the three months ended September 30, 2014, resulting from the increase in gross orders of \$6.2 million plus an increase of \$7.4 million due to foreign currency impacts. Cancellations and age-outs were similar in the three months ended September 30, 2015 as the same period in prior year.

- Age-outs were \$18.5 million and \$17.8 million in the three months ended September 30, 2015 and 2014, respectively. The age-outs of \$18.5 million for the three months ended September 30, 2015 includes \$5.3 million of age-ins which represent orders that previously aged-out but have been taken to revenue in the current period. There were no age-ins included in the age-out number for the three months ended September 30, 2014.
- Cancellations were \$3.0 million and \$2.6 million in the three months ended September 30, 2015 and 2014, respectively. Cancellations are outside of our control and difficult to forecast; however, we continue to work closely with our customers to minimize this impact to our business.
- Currency impact was \$7.4 million as order backlog was increased due to foreign currency impacts by \$1.3 million in the three months ended September 30, 2015; whereas, foreign currency impacts resulted in decreased backlog of \$6.1 million in the three months ended September 30, 2014.

Currently, we expect age-outs in the second quarter of this fiscal year to be consistent with prior year at a range of \$15.0 to \$19.0 million as compared to the \$18.1 million in age-outs recorded during the three months ended December 31, 2014. Between fiscal 2013 and 2015, we made changes to our order taking process, including increased oversight responsibility for and management of distributors and changes in timing as to when we enter some of our distributor orders into backlog. We believe these changes will improve the quality of backlog over time and reduce the level of age-outs.

Results of Operations — Three months ended September 30, 2015 and 2014

(Dollars in thousands except percentages)	Three Months Ended September 30,					
	2015		2014		2015-2014	
	Amount	% (a)	Amount	% (a)	% change	
Products	\$ 39,995	45%	\$ 33,015	40%	21%	
Services	49,636	55	49,366	60	1	
Net revenue	\$ 89,631	100%	\$ 82,381	100%	9%	
Gross profit	\$ 33,898	38%	\$ 27,801	34%	22%	
Products gross profit	16,978	42	12,350	37	37	
Services gross profit	16,920	34	15,451	31	10	
Research and development expenses	14,296	16	14,149	17	1	
Selling and marketing expenses	13,417	15	17,974	22	(25)	
General and administrative expenses	13,416	15	10,950	13	23	
Other expense, net	5,091	6	5,461	7	(7)	
Provision for income taxes	704	1	917	1	(23)	
Net loss	\$ (13,026)	15%	\$ (21,650)	26%	(40)%	

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

Net Revenue

Product Net Revenue. Product net revenue increased by \$7.0 million for the three months ended September 30, 2015, as compared to the three months ended September 30, 2014, primarily due to an increase of \$5.1 million in the number of CyberKnife and TomoTherapy systems taken to revenue in the current period as compared to prior year period. In addition, upgrade and other revenue increased \$1.9 million from the prior year period driven heavily by the demand for CyberKnife MLC upgrades.

Services Net Revenue. Services net revenue increased by \$0.3 million for the three months ended September 30, 2015, as compared to the three months ended September 30, 2014. The increase in services net revenue was primarily attributable to an increase in spare parts revenue.

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

	Three Months Ended September 30,	
	2015	2014
Net revenue	\$ 89,631	\$ 82,381
Americas	50%	47%
Europe, Middle East, India and Africa	26%	37%
Asia-Pacific (excluding Japan and India)	19%	6%
Japan	5%	10%

Revenue derived from sales outside of the Americas region was \$44.3 million and \$43.9 million for the three months ended September 30, 2015 and 2014, respectively, and represented 50% and 53% of our net revenue during these periods.

Gross Profit

Overall gross profit for the three months ended September 30, 2015, increased \$6.1 million, or 22%, as compared to the three months ended September 30, 2014. Product gross profit increased 37%, or \$4.6 million, primarily due to the increase in systems taken to revenue resulting in a higher profit margin due to increased leveraging of certain fixed costs. Service gross profit increased 10%, or \$1.5 million, which was caused by a combination of higher service revenues of \$0.3 million and decreased service costs of \$1.2 million. The decrease in the service costs was driven by cost management of departmental spend due to lower headcount as compared to the same period in prior year.

Research and Development

Research and development expenses were \$14.3 million in the three months ended September 30, 2015 as compared to \$14.2 million in the three months ended September 30, 2014, which represents an increase of \$0.1 million, or 1%. The increase was primarily due to consulting fees which increased \$1.6 million as a result of a development project that started in the third fiscal quarter of 2015. This increase was partially offset by decreased headcount related expenses of \$1.1 million due to lower headcount as compared with prior period and a decrease in IT and facilities allocated expenses of \$0.3 million due to the overall decrease in operating expenses as compared with prior period.

Selling and Marketing

Selling and marketing expenses for the three months ended September 30, 2015 were \$13.4 million as compared to \$18.0 million for the three months ended September 30, 2014, which represents a decrease of \$4.6 million, or 25%. The decrease is primarily due to a \$2.3 million reduction in marketing and travel related expenses due to the timing of trade show costs associated with the American Society for Radiation Oncology (or "ASTRO") which will take place in the second fiscal quarter of 2016; whereas, it took place in the first fiscal quarter of the prior year. Headcount related expenses also decreased with reductions of \$0.5 million in commissions due to several revenue deals with greater commission expense in the prior year and decreased salaries and benefits of \$0.7 million due to lower headcount. In addition, consulting fees decreased by \$0.5 million due to fewer projects and other marketing expenses, such as grants, decreased by \$0.3 million due to timing of projects. Lastly, there were reductions of \$0.2 million in IT and facilities allocated expenses due to a delay in capital spend and lower headcount.

General and Administrative

General and administrative expenses for the three months ended September 30, 2015 were \$13.4 million as compared to \$11.0 million for the three months ended September 30, 2014, which represents an increase of \$2.4 million, or 22%. The increase was attributable to higher legal fees of \$2.4 million which was driven by the damages of \$3.4 million awarded to Cowealth from the binding arbitration with the ICC which we received October 29th, described in Note 5 and Note 8 to the financial statements. This award of damages was partially offset by lower department expenses for other ongoing defense and other costs for, among other things, the matters described in Note 5 to the financial statements.

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Other Expense, Net

Other expense, net for the three months ended September 30, 2015 was \$5.1 million as compared to \$5.5 million for the three months ended September 30, 2014. Foreign currency losses decreased by \$1.1 million despite the fact that the U.S. Dollar continued to strengthen in comparison to the EURO, Japanese Yen and the Swiss Franc, because more sales agreements and related receivables outside of the U.S. were denominated in U.S. Dollar than in the same period of the previous year. This increase was partially offset by losses on hedging activities of \$0.7 million as compared to the same period in prior year due to increased hedging activities in the current year.

Provision for Incomes Taxes

On a quarterly basis, the Company provides for income taxes based upon an estimated annual effective income tax rate. Income tax expenses were \$0.7 million for the three months ended September 30, 2015, compared to income tax expenses of \$0.9 million for the three months ended September 30, 2014. The decrease in tax expense of \$0.2 million for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 was primarily related to a decrease in earnings of our foreign subsidiaries.

Liquidity and Capital Resources

At September 30, 2015, we had \$85.6 million in cash and cash equivalents and \$67.5 million in short-term investments, for a total of \$153.1 million. Also refer to Note 7, "Debt" to the condensed consolidated financial statements for discussion of the Convertible Notes. Based on our current business plan and revenue prospects, we believe that we will have sufficient cash resources and anticipated cash flows to fund our operations for at least the next 12 months.

As of September 30, 2015, we had approximately \$58.3 million of cash and cash equivalents at our foreign subsidiaries. The earnings of our foreign subsidiaries are considered to be indefinitely reinvested outside the U.S. and unavailable for distribution in the form of dividends or otherwise. Accordingly, no provisions for U.S. income taxes have been provided thereon. We anticipate that we have adequate liquidity and capital resources for the next twelve months and do not anticipate the need to repatriate the undistributed earnings of our foreign subsidiaries at September 30, 2015.

Our cash flows for the three months ended September 30, 2015 and 2014 are summarized as follows (in thousands):

	Three months ended September 30,	
	2015	2014
Net cash provided by (used in) operating activities	\$ 12,256	\$ (14,719)
Net cash (used in) provided by investing activities	(4,983)	31,040
Net cash (used in) provided by financing activities	(26)	1,886
Effect of exchange rate changes on cash and cash equivalents	(1,214)	(3,258)
Net increase in cash and cash equivalents	\$ 6,033	\$ 14,949

Cash Flows From Operating Activities

Net cash provided by operating activities in the three months ended September 30, 2015 was \$12.3 million, as compared to \$14.7 million used in operating activities in the three months ended September 30, 2014. Net cash provided by operating activities in the three months ended September 30, 2015 was primarily related to:

- Net loss of \$13.0 million;
- Net loss was offset by non-cash items of \$10.1 million related to depreciation of fixed assets, amortization of intangible assets, share-based compensation, amortization and accretion of discount and premium on investments, amortization of debt issuance costs, accretion of interest on long-term debt, recovery of doubtful accounts receivable and provision for excess and obsolete inventory;
- Decrease in accounts receivable of \$20.9 million as a result of collections on customer accounts in excess of billings resulting from significant sales transaction in the fourth fiscal quarter of 2015 that were collected in the first fiscal quarter of 2016;
- Increase in inventories of \$7.2 million due to increase in purchases to support expected future sales and service needs;
- Decrease in prepaid expenses and other assets of \$0.1 million primarily due to the settlement of value-add taxes of \$1.6 million in foreign locations, a reduction in prepaid benefit costs of \$0.5 million due to the timing of payments, and a decrease in prepaid maintenance of \$0.5 million due to continued amortization partially offset by current period additions. These decreases were partially offset by an increase of \$1.2 million in prepaid commissions due payment for orders taken in the prior quarter, an increase of \$1.0 million in prepaid insurance related to various insurance renewals in September 2015 of \$1.5 million offset by continued amortization of \$0.5 million and an increase of \$0.3 million in short-term other receivables due to additional tax refunds and other pre-payments;

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- Decrease in deferred revenue of \$2.1 million primarily due to the timing of post-contract service contracts in the Americas and EIMEA regions;
- Increase in deferred cost of revenue of \$0.7 million primarily due to the timing of inventory transfers to customers;
- Increase in accounts payable of \$0.7 million primarily due to an increase in inventory purchasing activities in the first fiscal quarter of 2016;
- Slight decrease in accrued liabilities of 13,000 primarily related to accrued compensation with the bonus accrual reduction of \$2.7 million due to bonus payments related to fiscal year 2015 made in the first fiscal quarter of 2016 offset by additional accrual for bonuses for the three months ended September 30, 2015. Additionally, there was a decrease in accrued severance of \$0.8 million due to severance payments made in the first fiscal quarter of 2016 for terminations from fiscal 2015. These decreases were partially offset by an increase in legal accrual of \$3.4 million due to the award of damages related to the Cowealth litigation as described in Footnotes 5 and 8 to our consolidated financial statements; and
- Increase in customer advances of \$3.6 million due mainly to payments received for future revenue deliverables;

Net cash used in operating activities in the three months ended September 30, 2014 was primarily related to:

- Net loss of \$21.7 million;
- Net loss was offset by non-cash items of \$10.8 million related to depreciation of fixed assets, amortization of intangible assets, share-based compensation, amortization and accretion of discount and premium on investments, amortization of debt issuance costs, accretion of interest on long-term debt, recovery of doubtful accounts receivable and provision for excess and obsolete inventory;
- Decrease in accounts receivable of \$17.7 million as a result of decreased sales of \$19.6 million when compared to the previous fiscal quarter as well as more collections from the customers;
- Increase in inventories of \$13.1 million to support expected future sales;
- Decrease in prepaid expenses and other assets of \$3.2 million primarily due to the reduction of prepaid taxes of \$2.7 million mostly in foreign locations due to settlements, and the transfer of non-current receivable of \$2.7 million to a current accounts receivable account. This decrease was offset by an increase in prepaid insurance balance of \$1.0 million due to the timing of payments, as well as an increase in prepaid commissions of \$0.8 million due to higher commission rates in certain geographical regions; and
- Decrease in accrued liabilities of \$13.2 million primarily related to the bonus accrual reduction of \$11.2 million due to the payment made in the first fiscal quarter of 2015 offset by additional accrual for the three months period ended September 30, 2014. Foreign taxes payable decreased by \$0.7 million and interest payable decreased by \$1.4 million due to the timing of payments.

Cash Flows From Investing Activities

Net cash used in investing activities was \$5.0 million for the three months ended September 30, 2015, which primarily consisted of purchases of short-term investments of \$15.4 million and purchases of property and equipment of \$1.6 million partially offset by sales and maturities of investments of \$12.0 million.

Net cash provided by investing activities was \$31.0 million for the three months ended September 30, 2014, which primarily consisted of purchases of property and equipment of \$2.7 million, purchases of investments of \$45.7 million and sales and maturities of short-term investments of \$79.5 million.

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Cash Flows From Financing Activities

Net cash used in financing activities during the three months ended September 30, 2015 was \$26,000, attributable to \$1.0 million from proceeds from employee stock plans, offset by \$1.1 million of taxes paid related to net share settlement of equity awards.

Net cash provided by financing activities during the three months ended September 30, 2014 was \$1.9 million from 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 sales and marketing initiatives and manufacturing activities;
- Facilities, equipment and IT systems required to support current and future operations;
- Rate of progress and cost of our research and development activities;
- Costs of obtaining and maintaining FDA and other regulatory clearances of our products;
- Effects of competing technological and market developments; and
- Number and timing of acquisitions and other strategic transactions.

We believe that our current cash, cash equivalents and investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least 12 months. If our cash and cash equivalents are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity or convertible debt securities could result in dilution to our stockholders. If additional funds are raised through the issuance of debt securities, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. Additional financing may not be available in amounts or on terms acceptable to us or at all. 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, 2015. There have been no material changes outside of the ordinary course of business in those obligations during the current quarter.

Off-Balance Sheet Arrangements

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these 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 three months ended September 30, 2015 we considered our estimated corporate bonus accrual to be a critical accounting estimate. The Company’s bonus accrual for each quarter is based on its performance against Company defined metrics: net revenue, adjusted EBITDA and gross orders to backlog. There have been no other changes to the critical accounting policies and estimates, as discussed in Part II, Item 7 of our Form 10-K for the year ended June 30, 2015, which we believe are those related to revenue recognition, assessment of recoverability of goodwill and intangible assets, valuation of inventories, share-based compensation expense, income taxes, allowance for doubtful accounts and loss contingencies.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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. Our operating expenses in countries outside the United States are payable in foreign currencies and therefore expose us to currency risk, such as risks related to fluctuations in foreign currencies. 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 intercompany receivables 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 September 30, 2015, 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 income and expenses. 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. The following table presents the hypothetical change in fair values in the financial instruments we held at September 30, 2015 that are sensitive to changes in interest rates. The modeling technique used measures the change in fair values arising from selected potential changes in interest rates on our investment portfolio, which had a fair value of \$67.5 million at September 30, 2015. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 100, 75, 50 and 25 basis points (in thousands).

Change in interest rate	Decrease in interest rates				Increase in interest rates			
	-100 BPS	-75 BPS	-50 BPS	-25 BPS	25 BPS	50 BPS	75 BPS	100 BPS
Unrealized gain (loss)	\$ 312	\$ 281	\$ 205	\$ 111	\$ (112)	\$ (224)	\$ (336)	\$ (448)

Equity Price Risk

On August 1, 2011, we issued \$100 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 105.5548 shares of common stock per \$1,000 principal amount of the 3.75% Convertible Notes, which is equivalent to a conversion price of approximately \$9.47 per share of common stock, subject to adjustment. There is no equity price risk if the share price of our common stock is below \$9.47 upon conversion of the 3.75% Convertible Notes. For every \$1 that the share price of our common stock exceeds \$9.47, we expect to issue an additional \$10.6 million in cash or shares of our common stock, or a combination thereof, if all of the 3.75% Convertible Notes are converted.

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

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 September 30, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2015 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

During the three months ended September 30, 2015, there was no change in our internal control over financial reporting that has materially affected, or is 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.

Please refer to Note 5, Commitments and Contingencies, to the condensed consolidated financial statements above for a description of certain legal proceedings currently pending against the Company. From time to time we are involved in legal proceedings arising in the ordinary course of our business.

Item 1A. Risk Factors.

A description of the risk factors associated with our business is included under "Risk Factors" contained in Part I, Item 1A of our Form 10-K for the year ended June 30, 2015, and is incorporated herein by reference. The descriptions below include material changes to the risk factors affecting our business that were previously disclosed in such filings. Any risk factor included below supersedes the description of the relevant risk factor in such filings. Other than the items discussed below, there have been no material changes in our risk factors since such filings.

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

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

On October 30, 2015, the Centers for Medicare and Medicaid Services (CMS) issued the final rule for 2016 Medicare payment rates for hospital outpatient services, physicians, and services performed in the freestanding center setting. The final rule included certain proposals that impact reimbursement rates for radiation therapy services, such as changes to the equipment utilization assumptions, which have resulted in small changes in reimbursement in the freestanding center setting.

While these coding changes will be implemented in 2016 they do not appear to be significant for services delivered with our products. 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.

We have a large accumulated deficit, may incur future losses and may be unable to achieve profitability.

As of September 30, 2015, we had an accumulated deficit of \$408.3 million. We may incur net losses in the future, particularly as we improve our selling and marketing activities. Our ability to achieve and sustain long-term profitability is largely dependent on our ability to successfully market and sell the CyberKnife and TomoTherapy Systems, control our costs, and effectively manage our growth. We cannot assure you that we will be able to achieve profitability. In the event we fail to achieve profitability, our stock price could decline.

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

We offer longer or extended payment terms for qualified customers in some circumstances. As of September 30, 2015, customer contracts with extended payment terms of more than one year amounted to less than 4% of our accounts receivable balance. While we qualify customers to whom we offer longer or extended payment terms, their financial positions may change adversely over the longer time period given for payment. This may result in an increase in payment defaults, which would affect our revenue, as we recognize revenue on such transactions on a cash basis.

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

At September 30, 2015, we had \$85.6 million in cash and cash equivalents and \$67.5 million in investments. The available cash and cash equivalents are held in accounts managed by third-party financial institutions and consist of cash in our operating accounts and cash invested in money market funds. The investments are managed by third-party financial institutions and primarily consist of U.S. agency and corporate debt securities. 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, or FDIC, insurance limits. While we monitor daily the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or become subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to cash in our operating accounts.

Our major stockholders own approximately 36.2% and directors and executive officers own approximately 2.7% of our outstanding common stock as of September 30, 2015, which could limit other stockholders' ability to influence the outcome of key transactions, including changes of control.

As of September 30, 2015, our current holders of 5% or more of our outstanding common stock held in the aggregate approximately 36.2% of our outstanding common stock, while our directors and executive officers held in the aggregate approximately 2.7% of our outstanding common stock. This concentration of ownership may delay, deter or prevent a change of control of our company and will make some transactions more difficult or impossible without the support of these stockholders.

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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 if such fluctuations result in a failure to meet the expectations of securities analysts or investors.

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

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

- 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.

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

- 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;
- 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;
- 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;

- timing of the announcement, introduction and delivery of new products or product upgrades by us and by our competitors;
- timing and level of expenditures associated with expansion of sales and marketing activities such as trade shows and our overall operations; and
- how fluctuations in our gross margins and the factors that contribute to such fluctuations, as described in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

Because many of our operating expenses are based on anticipated sales and a high percentage of these expenses are fixed for the short term, a small variation in the timing of revenue recognition can cause significant variations in operating results from quarter to quarter. Our overall gross margins are impacted by a number of factors described in our risk factor entitled Our ability to achieve profitability depends in part on maintaining or increasing our gross margins on product sales and service, which we may not be able to achieve. If our gross margins fall below the expectation of securities analysts and investors, the trading price of our common stock would almost certainly decline.

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We report on a quarterly and annual basis our orders and backlog. Unlike revenues, orders and backlog are not defined by GAAP, and are not within the scope of the audit conducted by our independent registered public accounting firm; therefore, investors should not interpret our orders or backlog in such a manner. Also, for the reasons set forth above, 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 will make it difficult to compare our operating results. Our orders, backlog, revenues and net earnings in one or more future periods may fall below the expectations of securities analysts and investors, which could cause the trading price of our common stock to decline.

Because the majority of our product revenue is derived from sales of the CyberKnife and TomoTherapy Systems, and because we experience a long and variable sales and installation cycle, our quarterly results may be inconsistent from period to period.

Our primary products are the CyberKnife and TomoTherapy Systems. We expect to generate substantially all of our revenue for the foreseeable future from sales of and service contracts for the CyberKnife and TomoTherapy Systems. The CyberKnife and TomoTherapy Systems have lengthy sales and purchase order cycles because they are major capital equipment items and require the approval of senior management at purchasing institutions. Selling our systems, from first contact with a potential customer to a complete order, generally spans six months to two years and involves personnel with multiple skills. The sales process in the United States typically begins with pre-selling activity followed by sales presentations and other sales related activities. After the customer has expressed an intention to purchase a CyberKnife or TomoTherapy System, we negotiate and enter into a definitive purchase contract with the customer. The negotiation of terms that are not standard for Accuray may require additional time and approvals. Typically, following the execution of the contract, the customer begins the building or renovation of a radiation-shielded facility to house the CyberKnife or TomoTherapy System, which together with the subsequent installation of the CyberKnife or TomoTherapy System, can take up to 24 months to complete. In order to construct this facility, the customer must typically obtain radiation device installation permits, which are granted by state and local government bodies, each of which may have different criteria for permit issuance. If a permit was denied for installation at a specific hospital or treatment center, our CyberKnife or TomoTherapy System could not be installed at that location. In addition, some of our customers are cancer centers or facilities that are new, and in these cases it may be necessary for the entire facility to be completed before the CyberKnife or TomoTherapy System can be installed, which can result in additional construction and installation delays. Our sales and installations of CyberKnife and TomoTherapy Systems tend to be heaviest during the third month of each fiscal quarter.

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

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

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

As of September 30, 2015, we had total consolidated liabilities of approximately \$397.7 million, including the short-term liability component of the 3.75% Convertible Notes in the amount of \$95.1 million, and the long-term liability component of the 3.50% Convertible Notes in the amount of \$44.7 million and the 3.50% Series A Convertible Notes of \$64.9 million.

In April 2014, we refinanced approximately \$70.3 million aggregate principal amount of the 3.50% Convertible Notes held by certain investors (the "Participating Holders") with approximately \$70.3 million aggregate principal amount of the 3.50% Series A Convertible Notes. In connection with such transactions, we also paid the Participating Holders approximately \$0.4 million in cash.

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

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

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.

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Item 6. Exhibits

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1**	Executive Employment Agreement by and between Registrant and Kevin Waters, dated September 15, 2015	8-K	001-33301	10.1	September 15, 2015	
10.2**	General Release and Separation Agreement by and between the Registrant and Gregory Lichtwardt, dated September 15, 2015	—	—	—	—	X
10.3**	Agreement for Consulting Services by and between Registrant and Gregory Lichtwardt, dated September 15, 2015	—	—	—	—	X
10.4**	Amended and Restated Executive Employment Agreement by and between Registrant and Kelly Lony, Dated October 15, 2015	8-K	001-33301	10.1	October 15, 2015	
10.5**	Accuray Incorporated Performance Bonus Plan, as amended on September 29, 2015	—	—	—	—	X
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended	—	—	—	—	X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended	—	—	—	—	X
32.1*	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	—	—	—	—	X
99.1**	Form of Market Stock Unit Grant Notice and Award Agreement	8-K	001-33301	99.1	October 2, 2015	
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					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.

** Management contract or compensatory plan or agreement.

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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

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

By: /s/ Kevin M. Waters
Kevin M. Waters
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: November 5, 2015

SEPARATION AGREEMENT AND GENERAL RELEASE

This Separation Agreement and General Release (this "Agreement") is hereby entered into by and between Gregory Lichtwardt, an individual ("Executive"), and Accuray Incorporated, a Delaware corporation, on behalf of itself and all of its subsidiaries (collectively, the "Company").

Recitals

A. Executive has been employed by the Company pursuant to an employment agreement by and between the Company and Executive effective as of January 1, 2015 (the "Employment Agreement"), and currently is serving as Executive Vice President, Operations, and Chief Financial Officer;

B. Executive voluntarily tendered his resignation as an officer and employee of the Company without Good Reason (as defined in the Employment Agreement).

C. Executive's employment with the Company and any of its parents, direct or indirect subsidiaries, affiliates, divisions, or related entities (collectively referred to herein as the "Company and its Related Entities") will be ended on the terms and conditions set forth in this Agreement.

Agreement

In consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

1. **Effective Date.** Except as otherwise provided herein, this Agreement shall be effective on the eighth day after it has been executed by both of the parties (the "Effective Date").
2. **End of Employment and Service as a Director.** Executive's employment with the Company and its Related Entities has ended or will end effective as of 5:00pm Pacific Time, on September 14, 2015 (the "Termination Date"). If Executive is an officer or a member of the Board of Directors of the Company and/or its Related Entities (the "Board") Executive hereby voluntarily resigns from any such officer positions and the Board, effective September 14, 2015.
3. **Continuation of Benefits After the Termination Date.** Except as expressly provided in this Agreement or in the plan documents governing the Company's employee benefit plans, after the Termination Date, Executive will no longer be eligible for, receive, accrue, or participate in any other benefits or benefit plans provided by the Company and its Related Entities, including, without limitation, medical, dental and life insurance benefits, and the Company's 401(k) retirement plan; provided, however, that nothing in this Agreement shall waive Executive's right to any vested benefits, including vested amounts in the Company's 401(k) retirement plan, which amounts shall be handled as provided in the plan.
4. **Payments Upon Termination.** Executive will be entitled to receive payment of the following: (i) all earned but unpaid compensation (including accrued unpaid vacation) through the effective date of termination, payable on or before the termination date; and (ii) reimbursement, made in accordance with Section 4(e) of the Employment Agreement, of any monies advanced or incurred by Executive in connection with his/her employment for reasonable and necessary Company-related expenses incurred on or before the Termination Date. The provisions of this Agreement shall not waive

SEPARATION AND RELEASE AGMT STD 11.20.14

ACCURAY CONFIDENTIAL

or terminate any rights to compensation or vested benefits under the Company's benefits plans or as required by law, or to indemnification Executive may have under the Company's Certificate of Incorporation, Bylaws or separate indemnification agreement, as applicable.

5. **Severance Benefits or Enhanced Severance Benefits.** Although Executive voluntarily resigned from the Company and the Company is under no obligation to do so, in return for Executive's promises in this Agreement, the Company will provide Executive with the Severance Benefits (as defined in Section 5(a) of the Employment Agreement) as if Executive had been terminated by the Company without Cause, subject to the terms and conditions set forth in the Employment Agreement, including, but not limited to, Section 16 thereof. The Severance Benefits will be paid as specified in Section 5(a) of the Employment Agreement as if Executive had been terminated by the Company without Cause, subject to required withholdings and authorized deductions and to Section 21 below. For purposes of this Agreement, the term "Severance Period" means twelve (12) months.

6. **Effect of Revocation or Subsequent Employment.**

(a) If Executive properly revokes this Agreement in accordance with Section 13 below, Executive shall not be entitled to receive the payments and benefits under Section 5, above, except that Executive's rights under COBRA will continue (but not, for purposes of clarity, the right to be reimbursed for COBRA premiums).

(b) The Company's obligation to reimburse premiums for insurance coverage under COBRA or otherwise will be extinguished as of the date Executive's coverage begins under the group health plan of any new employer. If Executive violates the restrictions in Section 17, below, the Company's obligation to pay premiums for insurance under COBRA or otherwise will be immediately extinguished, and the other remedies specified in Section 17, below, shall apply.

7. **Acknowledgement of Total Compensation and Indebtedness.** Executive acknowledges and agrees that the cash payments under Sections 4 and 5 of this Agreement extinguish any and all obligations for monies, or other compensation or benefits that Executive claims or could claim to have earned or claims or could claim is owed to him/her as a result of his/her employment by the Company and its Related Entities through the Termination Date, under the Employment Agreement or otherwise. Notwithstanding the foregoing, the parties acknowledge and agree that the provisions of this Section 7 shall not terminate any rights Executive has under Section 3 of this Agreement or to other payments Executive may have, and to any indemnification Executive may have under the Company's Bylaws or separate indemnification agreement, as applicable.

8. **Status of Related Agreements and Future Employment.**

(a) Agreements Between Executive and the Company. The parties agree that as further consideration for the Company's promises herein, Executive will enter into a consulting relationship with the Company for a period of at least sixty (60) days commencing from the Effective Date.

(b) Employment Agreement. The parties agree that the Employment Agreement shall be terminated as of the Termination Date. Notwithstanding the termination of the Employment Agreement, the parties hereto acknowledge that certain rights and obligations set forth in the Employment Agreement extend beyond the Termination Date. In the event that any provision of this Agreement conflicts with Section 6 of the Employment Agreement, the terms and provisions of the section(s) providing the greatest protection to the Company and its Related Entities shall control.

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9. Release by Executive

(a) Except for any obligations or covenants of the Company pursuant to this Agreement and as otherwise expressly provided in this Agreement, Executive, for himself/herself and his/her heirs, executors, administrators, assigns, successors and agents (collectively, the "Executive's Affiliates") hereby fully and without limitation releases and forever discharges the Company and its Related Entities, and each of their respective agents, representatives, stockholders, owners, officers, directors, employees, consultants, attorneys, auditors, accountants, investigators, affiliates, successors and assigns (collectively, the "Company Releasees"), both individually and collectively, from any and all waivable rights, claims, demands, liabilities, actions, causes of action, damages, losses, costs, expenses and compensation, of whatever nature whatsoever, known or unknown, fixed or contingent, which Executive or any of Executive's Affiliates has or may have or may claim to have against the Company Releasees by reason of any matter, cause, or thing whatsoever, from the beginning of time to the Effective Date ("Claims"), arising out of, based upon, or relating to his/her employment or the termination of his/her employment with the Company and its Related Entities and/or his/her service as an officer of any of the Company Releasees, any agreement or compensation arrangement between Executive and any of the Company Releasees, to the maximum extent permitted by law.

(b) Executive specifically and expressly releases any Claims arising out of or based on: the California Fair Employment and Housing Act, Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act, the National Labor Relations Act and the Equal Pay Act, as the same may be amended from time to time; the California common law on fraud, misrepresentation, negligence, defamation, infliction of emotional distress or other tort, breach of contract or covenant, violation of public policy or wrongful termination; state or federal wage and hour laws, and other provisions of the California Labor Code, to the extent these may be released herein as a matter of law; or any other state or federal law, rule, or regulation dealing with the employment relationship, except those claims which may not be released herein as a matter of law.

(c) Nothing contained in this Section 9 or any other provision of this Agreement shall release or waive any right that Executive has to indemnification and/or reimbursement of expenses by the Company and its Related Entities with respect to which Executive may be eligible as provided in California Labor Code section 2802, the Company's and its Related Entities' Certificates of Incorporation, Bylaws and any applicable directors and officers, errors & omissions, umbrella or general liability insurance policies, any indemnification agreements, including the Employment Agreement; or any other applicable source, nor prevent Executive from cooperating in an investigation of the Company by the Equal Employment Opportunity Commission ("EEOC").

10. Waiver of Civil Code Section 1542

(a) Executive understands and agrees that the release provided herein extends to all Claims released above whether known or unknown, suspected or unsuspected, which may be released as a matter of law. Executive expressly waives and relinquishes any and all rights he/she may have under California Civil Code section 1542, which provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

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(b) Executive expressly waives and releases any rights and benefits which he/she has or may have under any similar law or rule of any other jurisdiction. It is the intention of each party through this Agreement to fully, finally and forever settle and release the Claims as set forth above. In furtherance of such intention, the release herein given shall be and remain in effect as a full and complete release of such matters notwithstanding the discovery of any additional Claims or facts relating thereto.

11. Release of Federal Age Discrimination Claims by Executive. Executive hereby knowingly and voluntarily waives and releases all rights and claims, known or unknown, arising under the Age Discrimination In Employment Act of 1967, as amended, which he/she might otherwise have had against the Company or any of the Company Releasees regarding any actions which occurred prior to the date that Executive signed this Agreement, except that Executive is not prevented from cooperating in an investigation by the EEOC or from filing an EEOC charge other than for personal relief.

12. Release by Company and its Related Entities. The Company and its Related Entities hereby release and forever discharge Executive, from any and all waivable actions, causes of action, covenants, contracts, claims and demands of whatever character, nature and kind, whether known or unknown, which the Company and its Related Entities ever had, now have, or any of them hereafter can, shall or may have by reason of Executive's employment and/or his/her service as a director and/or officer of the Company and/or its Related Entities; provided, however, that this general release shall not apply, or be deemed or construed to apply, to (a) any of Executive's continuing obligations pursuant to this Agreement or the Employment Agreement, (b) criminal conduct or acts or omissions constituting willful misconduct or gross negligence by Executive during his/her employment with the Company, or (c) recoupment of all or a portion of any previously awarded bonus or equity award pursuant to the Company's Recoupment (Clawback) Policy that was in effect when the bonus was paid or the equity award vested or was exercised by Executive, whichever was later.

13. Review and Revocation Rights. Executive hereby is advised of the following:

(a) Executive has the right to consult with an attorney before signing this Agreement and is encouraged by the Company to do so;

(b) Executive has twenty-one (21) days from his/her receipt of this Agreement to consider it; and

(c) Executive has seven (7) days after signing this Agreement to revoke this Agreement, and this Agreement will not be effective until that revocation period has expired without revocation. Executive agrees that in order to exercise his/her right to revoke this Agreement within such seven (7) day period, he/she must do so in a signed writing delivered to the Company's Board before the close of business on the seventh calendar day after he/she signs this Agreement.

14. Confidentiality of Agreement. After the execution of this Agreement by Executive, neither Executive, his/her attorney, nor any person acting by, through, under or in concert with them, shall disclose any of the terms of or amount paid under this Agreement (other than to state that the Company has filed this Agreement and/or agreements related thereto as public documents) or the negotiation thereof to any individual or entity; provided, however, that the foregoing shall not prevent such disclosures by Executive to his/her attorney, tax advisors and/or immediate family members, or as may be required by law.

15. No Filings. Executive represents that he/she has not filed any lawsuits, claims, charges or complaints, which are pending as of the date hereof, against the Company Releasees with any local, state or federal agency or court from the beginning of time to the date of execution of this Agreement, and that

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Executive is not aware of any facts that would support any Claims or any compliance-related or code of ethics violations of any kind whatsoever against the Company Releasees, including without limitation any claims for any work-related injuries. If Executive hereafter commences, joins in, or in any manner seeks relief through any suit arising out of, based upon, or relating to any of the Claims released in this Agreement, or in any manner asserts against the Company Releasees any of the Claims released in this Agreement, then Executive agrees to pay to the Company Releasees against whom such Claim(s) is asserted, in addition to any other damages caused thereby, all attorneys' fees incurred by the Company Releasees in defending or otherwise responding to the suit or Claim; provided, however, that this provision shall not obligate Executive to pay the Company Releasees' attorneys' fees in any action challenging the release of claims under the Older Workers Benefit Protection Act or the ADEA, unless otherwise allowed by law. If any governmental agency or court ever assumes jurisdiction over any such lawsuit, claim, charge or complaint and/or purports to bring any legal proceeding, in whole or in part, on behalf of Executive based upon events occurring prior to the execution of this Agreement, Executive will request such agency or court to withdraw from and/or to dismiss the lawsuit, claim, charge or complaint with prejudice.

16. Confidential and Proprietary Information. Executive acknowledges that certain information, observations and data obtained by him/her during the course of or related to his/her employment with the Company and its Related Entities (including, without limitation, projection programs, business plans, business matrix programs (*i.e.*, measurement of business), strategic financial projections, certain financial information, shareholder information, technology and product design information, marketing plans or proposals, personnel information, customer lists and other customer information) are the sole property of the Company and its Related Entities and constitute Proprietary Information as defined in Section 6 of the Employment Agreement. Executive represents and warrants that he/she has returned all files, customer lists, financial information and other property of the Company and its Related Entities that were in Executive's possession or control without retaining copies thereof. Executive further represents and warrants that he/she does not have in his/her possession or control any files, customer lists, financial information or other property of the Company and its Related Entities. In addition to his/her promises in Section 6 of the Employment Agreement, Executive agrees that he/she will not disclose to any person or use any such information, observations or data without the written consent of the Board. If Executive is served with a deposition subpoena or other legal process calling for the disclosure of such information, or if he/she is contacted by any third person requesting such information, he/she will notify the Board as soon as is reasonably practicable after receiving notice and will reasonably cooperate with the Company and its Related Entities in minimizing the disclosure thereof; provided, that nothing in this Agreement will affect Executive's obligations to testify truthfully in response to any subpoena or other legally required discovery proceeding.

17. Prohibited Activities.

(a) Non-Solicitation of Customers and Other Business Partners. Executive recognizes that by virtue of his/her employment with the Company, he/she will be introduced to and involved in the solicitation and servicing of existing customers and other business partners of the Company and new customers and business partners obtained by the Company during his/her employment. Executive understands and agrees that all efforts expended in soliciting and servicing such customers and business partners shall be for the benefit of the Company. Executive further agrees that during his/her employment with the Company he/she will not engage in any conduct which could in any way jeopardize or disturb any of the customer and business partner relationships of the Company. In addition, to the extent permitted under applicable law, Executive agrees that, for a period beginning on the Effective Date and ending twelve (12) months after termination of Executive's employment with the Company, regardless of the reason for such termination, Executive shall not use any Proprietary Information to, directly or indirectly, solicit, direct, interfere with, or entice away from the Company any existing

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customer, licensee, licensor, vendor, contractor or distributor of the Company or for the customer or other business partner to expand its business with a competitor, without the prior written consent of the Board.

(b) Non-Solicitation of Employees. Executive recognizes the substantial expenditure of time and effort which the Company devotes to the recruitment, hiring, orientation, training and retention of its employees. Accordingly, Executive agrees that, for a period beginning on the Effective Date and ending twelve (12) months after termination of Executive's employment with the Company, regardless of the reason for such termination, Executive shall not use any Proprietary Information, directly or indirectly, for himself/herself or on behalf of any other person or entity, to solicit, offer employment to, hire or otherwise retain the services of any employee of the Company in a position classified as exempt from overtime pay requirements. For purposes of the foregoing, "employee of the Company" shall include any person who was an employee of the Company at any time within six (6) months prior to the prohibited conduct.

(c) Scope of Restrictions. Executive agrees that the restrictions in Sections 17(a) and (b), above, are reasonable and necessary to protect the Company's trade secrets and that they do not foreclose Executive from working in the medical device industry generally. To the extent that any of the provisions in this Section 17 are held to be overly broad or otherwise unenforceable at the time enforcement is sought, Executive agrees that the provision

shall be reformed and enforced to the greatest extent permissible by law. Executive further agrees that if any portion of this Section 17 is held to be unenforceable, that the remaining provisions of it shall be enforced as written.

18. Remedies. Executive acknowledges that any misuse of Proprietary Information belonging to the Company and its Related Entities, or any violation of Section 6 of the Employment Agreement, and any violation of Sections 14, 16 and 17 of this Agreement, will result in irreparable harm to the Company and its Related Entities, and therefore, the Company and its Related Entities shall, in addition to any other remedies, be entitled to immediate injunctive relief. To the extent there is any conflict between Section 6 of the Employment Agreement and this Section 18, the provision providing the greatest protection to the Company and its Related Entities shall control. In addition, in the event of a breach of any provision of this Agreement by Executive, including Sections 14, 16 and 17, Executive shall forfeit, and the Company and its Related Entities may withhold payment of any unpaid portion of, the Severance Benefits provided under Section 5, above.

19. Cooperation Clause.

(a) To facilitate the orderly conduct of the Company and its Related Entities' businesses, for the Severance Period, Executive agrees to cooperate, at no charge, with the Company and its Related Entities' reasonable requests for information or assistance related to the time of his/her employment.

(b) For the Severance Period, Executive agrees to cooperate, at no charge, with the Company's and its Related Entities' and its or their counsel's reasonable requests for information or assistance related to (i) any investigations (including internal investigations) and audits of the Company's and its Related Entities' management's current and past conduct and business and accounting practices and (ii) the Company's and its Related Entities' defense of, or other participation in, any administrative, judicial, or other proceeding arising from any charge, complaint or other action which has been or may be filed relating to the period during which Executive was employed by the Company and its Related Entities. The Company will promptly reimburse Executive for his/her reasonable, customary and documented out-of-pocket business expenses in connection with the performance of his/her duties under this Section 19. Except as required by law or authorized in advance by the Board of Directors of the Company, Executive will not communicate, directly or indirectly, with any third party other than

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Executive's legal counsel, including any person or representative of any group of people or entity who is suing or has indicated that a legal action against the Company and its Related Entities or any of their directors or officers is being contemplated, concerning the management or governance of the Company and its Related Entities, the operations of the Company and its Related Entities, the legal positions taken by the Company and its Related Entities, or the financial status of the Company and its Related Entities. If asked about any such individuals or matters, Executive shall say: "I have no comment," and shall direct the inquirer to the Company. Executive acknowledges that any violation of this Section 19 will result in irreparable harm to the Company and its Related Entities and will give rise to an immediate action by the Company and its Related Entities for injunctive relief.

20. No Future Employment. Executive understands that his/her employment with the Company and its Related Entities will irrevocably end as of the Termination Date and will not be resumed at any time in the future. Executive agrees that he/she will not apply for, seek or accept employment by the Company and its Related Entities at any time, unless invited to do so by the Company and its Related Entities.

21. Tax Issues. The parties agree that the payments and benefits provided under this Agreement, and all other contracts, arrangements or programs that apply to him/her, shall be subject to Section 16 of the Employment Agreement.

22. Non-disparagement. Executive agrees not to criticize, denigrate, or otherwise disparage the Company and its Related Entities, or any of their directors, officers, products, processes, experiments, policies, practices, standards of business conduct, or areas or techniques of research. The Company agrees not to authorize or condone denigrating or disparaging statements about Executive to any third party, including by press release or other formally released announcement. Factually accurate statements in legal or public filings shall not violate this provision. In addition, nothing in this Section 22 shall prohibit Executive or the Company or the Board, or any of their employees or members from complying with any lawful subpoena or court order or taking any other actions affirmatively authorized by law.

23. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without giving effect to principles of conflict of laws.

24. Dispute Resolution. The parties hereby agree that all disputes, claims or controversies arising from or otherwise in connection with this Agreement (except for injunctive relief sought by either party) between them and between Executive and any of the Company's affiliated entities and the successor of all such entities, and any director, stockholder or employee of the Company will be resolved in accordance with Section 13 of the Employment Agreement, except for its attorneys' fee provision.

25. Attorneys' Fees. Except as otherwise provided herein, in any action, litigation or proceeding between the parties arising out of or in relation to this Agreement, including any purported breach of this Agreement, the prevailing party shall be entitled to an award of its costs and expenses, including reasonable attorneys' fees.

26. Non-Admission of Liability. The parties understand and agree that neither the payment of any sum of money nor the execution of this Agreement by the parties will constitute or be construed as an admission of any wrongdoing or liability whatsoever by any party.

27. Severability. If any one or more of the provisions contained herein (or parts thereof), or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity and enforceability of any such provision in every other respect and of the

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remaining provisions hereof will not be in any way impaired or affected, it being intended that all of the rights and privileges shall be enforceable to the fullest extent permitted by law.

28. **Entire Agreement.** This Agreement represents the sole and entire agreement among the parties and, except as expressly stated herein, supersedes all prior agreements, negotiations and discussions among the parties with respect to the subject matters contained herein.

29. **Waiver.** No waiver by any party hereto at any time of any breach of, or compliance with, any condition or provision of this Agreement to be performed by any other party hereto may be deemed a waiver of similar or dissimilar provisions or conditions at the same time or at any prior or subsequent time.

30. **Amendment.** This Agreement may be modified or amended only if such modification or amendment is agreed to in writing and signed by duly authorized representatives of the parties hereto, which writing expressly states the intent of the parties to modify this Agreement.

31. **Counterparts.** This Agreement may be executed in counterparts, each of which will be deemed to be an original as against any party that has signed it, but both of which together will constitute one and the same instrument.

32. **Assignment.** This Agreement inures to the benefit of and is binding upon the Company and its successors and assigns, but Executive's rights under this Agreement are not assignable, except to his/her estate.

33. **Notice.** All notices, requests, demands, claims and other communications hereunder shall be in writing and shall be deemed to have been duly given (a) if personally delivered or delivered by overnight courier; (b) if sent by electronic mail, telecopy or facsimile (except for legal process); or (c) if mailed by overnight or by first class, United States certified or registered mail, postage prepaid, return receipt requested, and properly addressed as follows:

If to the Company: Accuray Incorporated
 1310 Chesapeake Terrace
 Sunnyvale, California 94089
 Attn: Board of Directors
 c/o Corporate Secretary
 Fax No. (408) 789-4205

If to Executive: Address: most recent on file with the Company
 Email: most recent on file with the Company

Such addresses may be changed, from time to time, by means of a notice given in the manner provided above. Notice will conclusively be deemed to have been given when personally delivered (including, but not limited to, by messenger or courier); or if given by mail, on the third business day after being sent by first class, United States certified or registered mail; or if given by Federal Express or other similar overnight service, on the date of delivery; or if given by electronic mail, telecopy or facsimile machine during normal business hours on a business day, when confirmation of transmission is indicated by the sender's machine; or if given by electronic mail, telecopy or facsimile machine at any time other than during normal business hours on a business day, the first business day following when confirmation of transmission is indicated by the sender's machine. Unless otherwise agreed, notices, requests, demands and other communications delivered to legal counsel of any party hereto, whether or not such counsel shall consist of in-house or outside counsel, shall not constitute duly given notice to any party hereto.

34. **Miscellaneous Provisions.**

(a) The parties represent that they have read this Agreement and fully understand all of its terms; that they have conferred with their attorneys, or have knowingly and voluntarily chosen not to confer with their attorneys about this Agreement; that they have executed this Agreement without coercion or duress of any kind; and that they understand any rights that they have or may have, and they are signing this Agreement with full knowledge of any such rights.

(b) Both parties have participated in the drafting of this Agreement with the assistance of counsel to the extent they desired. The language in all parts of this Agreement must be in all cases construed simply according to its fair meaning and not strictly for or against any party. Whenever the context requires, all words used in the singular must be construed to have been used in the plural, and vice versa, and each gender must include any other gender. The captions of the Sections of this Agreement are for convenience only and must not affect the construction or interpretation of any of the provision herein.

(c) Each provision of this Agreement to be performed by a party hereto is both a covenant and condition, and is a material consideration for the other party's performance hereunder, and any breach thereof by the party will be a material default hereunder. All rights, remedies, undertakings, obligations, options, covenants, conditions and agreements contained in this Agreement are cumulative and no one of them is exclusive of any other. Time is of the essence in the performance of this Agreement.

(d) Each party acknowledges that no representation, statement or promise made by any other party, or by the agent or attorney of any other party, except for those in this Agreement, has been relied on by him/her or it in entering into this Agreement.

(e) Unless expressly set forth otherwise, all references herein to a "day" are deemed to be a reference to a calendar day. All references to "business day" mean any day of the year other than a Saturday, Sunday or a public or bank holiday in Orange County, California. Unless expressly stated otherwise, cross-references herein refer to provisions within this Agreement and are not references to any other document.

(f) Each party to this Agreement will cooperate fully in the execution of any and all other documents and in the completion of any additional actions that may be necessary or appropriate to give full force and effect to the terms and intent of this Agreement.

EACH OF THE PARTIES ACKNOWLEDGES THAT HE/SHE/IT HAS READ THIS AGREEMENT, UNDERSTANDS IT AND IS VOLUNTARILY ENTERING INTO IT, AND THAT IT INCLUDES A WAIVER OF THE RIGHT TO A TRIAL BY JURY, AND, WITH RESPECT TO EXECUTIVE, HE/SHE UNDERSTANDS THAT THIS AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the dates written below.

EXECUTIVE:

/s/ Gregory Lichtwardt

Date: September 14, 2015

COMPANY:

Accuray Incorporated

By: /s/ Joshua H. Levine

Name: Joshua H. Levine

Title: Chief Executive Officer

Date: September 14, 2015


 Initials: Consultant _____
 Accuray _____

AGREEMENT FOR CONSULTING SERVICES

This Consulting Services Agreement ("Agreement") is made and entered into by and between Gregory E. Lichtwardt ("CONSULTANT") and Accuray Incorporated ("ACCURAY"). This Agreement shall be effective as of September 15, 2015 ("Effective Date").

WITNESSETH

WHEREAS, CONSULTANT has training, expertise and prior experience in the development, manufacture and sale of radiation oncology, including radiosurgery and radiation therapy technologies and devices, and in the executive management of ACCURAY; and

WHEREAS, ACCURAY desires to retain the services of CONSULTANT to provide the consulting services specified in this Agreement; and

WHEREAS, CONSULTANT desires to provide consulting services for the benefit of ACCURAY and its related entities using his knowledge, skills, experience and abilities;

NOW THEREFORE, in consideration of the mutual promises contained herein, and other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I - SERVICES TO BE PROVIDED

A. Nature of Services. CONSULTANT shall be available to provide advice and assistance to ACCURAY and its related entities, and specifically to ACCURAY's (1) Senior Vice President, Chief Financial Officer, (2) Senior Vice President, General Counsel and Corporate Secretary, (3) Chief Executive Officer and (4) other members of ACCURAY management, with respect to various questions, initiatives and projects in the areas of radiosurgery and radiation therapy, and personnel, customers, prospective customers and vendors of ACCURAY (collectively, "Services") on an as needed basis, up to a maximum of 80 hours of Services each month during the Term of this Agreement.

B. Right of Control. CONSULTANT shall have exclusive control over the means, manner, methods and processes by which the Services are performed.

C. Exclusive Services. In order to ensure that CONSULTANT is available to provide, and to devote his undivided attention and effort in providing, the Services as required by ACCURAY, and to insure compliance with the obligations in Article IV of this Agreement, CONSULTANT agrees that he will not accept any employment or engage in any other consulting, business and/or commercial activities with the following entities: Varian Medical Systems, Elekta AB, Siemens AG, Mitsubishi Heavy Industries, Brainlab AG, ViewRay Inc, Best Medical, Rotary Systems, Radiation Stabilization Solutions, Alliance Oncology, MedyTec, Oncology Systems Limited, Rotary Systems Incorporated, Cowealth Medical Holding Co., Ltd. or any of their respective affiliates (the "Prohibited Entities"). In addition, in the event CONSULTANT intends to provide services related in any way to radiation oncology, including radiosurgery or radiation therapy, during the Term of this Agreement to any entity other than a Prohibited Entity, CONSULTANT shall notify ACCURAY's General Counsel to get approval by ACCURAY and such approval shall not be unreasonably withheld. In the event CONSULTANT desires to provide

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 Initials: Consultant _____
 Accuray _____

work to any of the above, then both parties could mutually agree to terminate this agreement in writing, such agreement not to be unreasonably withheld.

ARTICLE II - COMPENSATION FOR SERVICES

A. Consulting Consideration. As payment and consideration for the Services to be provided and promises made herein by CONSULTANT, ACCURAY agrees to pay for CONSULTANT's ongoing coverage under Accuray's Directors and Officer's insurance policies for so long as CONSULTANT remains as an officer or director of ACCURAY or any of its affiliate entities. CONSULTANT shall not receive any cash compensation but shall receive continued vesting of equity as detailed in subsection B below ("Consulting Fee") for the Services.

B. Equity. No additional equity will be granted under this Agreement, however, any equity awards previously granted by Accuray shall continue to vest in accordance with the terms thereof until the expiration or earlier termination of the Term.

C. Reimbursement of Authorized Expenses. ACCURAY agrees to reimburse CONSULTANT for all actual out-of-pocket expenses that are necessary for the performance of CONSULTANT's Services under this Agreement, provided, however, that any expenses must be approved in advance in writing by ACCURAY's Chief Executive Officer.

D. Tax Obligations. CONSULTANT understands and agrees that all compensation to which he is entitled under the Agreement shall be reported on an IRS Form 1099, and that he is solely responsible for all income and/or other tax obligations, if any, including but not limited to all reporting and payment obligations, if any, which may arise as a consequence of any payment under this Agreement.

E. No Benefits. CONSULTANT understands and agrees that since he is no longer an employee of ACCURAY, he shall not be entitled to participate in ACCURAY employee benefits plans or receive any benefits provided to employees of ACCURAY, including, but not limited to participation in retirement savings or benefit plans, bonus plans and/or stock option plans beyond his participation during his employment by ACCURAY; holidays off with

pay; vacation time off with pay; paid leaves of absence of any kind; and insurance coverage of any kind, specifically including, but not limited to, medical and dental insurance, workers' compensation insurance and state disability insurance.

ARTICLE III - TERM AND TERMINATION

A. Term of Agreement. This Agreement shall continue in full force and effect from the Effective Date through the date that is sixty (60) days after the Effective Date, unless extended at Accuray's request (the "Term") or earlier terminated pursuant to subsection B below.

B. Termination Prior to Expiration of Term. Either party hereto may terminate this Agreement at any time without cause on ten (10) business days' advance written notice to the other. ACCURAY may terminate this Agreement for Cause before the expiration of the Term hereof without any prior notice.

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Initials: Consultant _____
Accuray _____

ARTICLE IV — PROPRIETARY RIGHTS

A. No Impediments to Providing Consulting Services. CONSULTANT represents that he is not party to any agreement with any individual or business entity, including any relating to protection of alleged trade secrets or confidential business information that would prevent him from providing the Services or that would be violated by the providing of the Services.

B. Confidential and Proprietary Information. CONSULTANT acknowledges that the post-employment terms of the ACCURAY Employee Invention Assignment and Confidentiality Agreement, the Employment Agreement that existed before this Agreement and the General Release and Separation Agreement which may be entered into between ACCURAY and CONSULTANT, remain in full force and effect, specifically including the prohibitions against using or disclosing any of ACCURAY's trade secrets or proprietary and/or confidential information learned while employed by ACCURAY during any subsequent employment. CONSULTANT also acknowledges that during the term of this Agreement he will have access to and learn additional confidential information and/or trade secrets regarding the business of ACCURAY and its related entities, including, but not limited to, radio surgery and radiation therapy devices, and various other business, financial, technical and employee information (collectively, "Confidential and Proprietary Information").

C. Restrictions on Use and Disclosure of Confidential and Proprietary Information. In addition to the confidential information obligations that continue from the period of CONSULTANT's employment with ACCURAY, CONSULTANT agrees to hold all Confidential and Proprietary Information in trust and in the strictest of confidence, and to protect the Confidential and Proprietary Information from disclosure, and to only use such Confidential and Proprietary Information as required to perform the Services hereunder. CONSULTANT further agrees that he will not, directly or indirectly, use, publish, disseminate or otherwise disclose any Confidential and Proprietary Information to any third party without the prior written consent of ACCURAY, which may be withheld in its absolute discretion.

D. Return of Property. CONSULTANT agrees not to remove any property of ACCURAY or its related entities from their premises without express permission, and to return all such property, including computer data, written materials provided to or obtained during the term of this Agreement, customer and supplier address lists, and any other items of value at the time this Agreement is terminated.

E. No Solicitation of Customers and Vendors. CONSULTANT further agrees that, during the term of this Agreement and for a period of one year after the termination of it, he will not directly or indirectly, either on his own behalf or on behalf of any other person or entity, use any Confidential and Proprietary Information to attempt to persuade or solicit any customer or vendor of ACCURAY to cease to do business or to reduce the amount of business which any customer or vendor has customarily done or contemplates doing with them, or to expand the customer's or vendor's business with a competitor of ACCURAY or its related entities.

F. No Solicitation of Employees and Other Consultants. CONSULTANT further agrees, that during the Term of this Agreement and for a period of one year after its termination, he will not directly or indirectly, either on his own behalf or on behalf of any other person or entity, attempt to persuade or solicit any person who is an employee or consultant of ACCURAY or its

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related entities to terminate such employment or consulting relationship. In addition, CONSULTANT agrees that after the termination of this Agreement he will not seek to obtain or misappropriate any of the Confidential and Proprietary Information of ACCURAY or its related entities from any of their current or former employees and consultants.

G. Violations. CONSULTANT agrees that ACCURAY and its related entities would be irreparably harmed by any actual or threatened violation of the promises in this Article IV, and therefore, that, in addition to other remedies, ACCURAY and its related entities will be entitled to an injunction prohibiting CONSULTANT from committing any such violations.

ARTICLE V — MISCELLANEOUS PROVISIONS

A. Independent Contractor Status. CONSULTANT understands and agrees that he is an independent contractor and not an employee of ACCURAY and that he shall not become an employee of ACCURAY by virtue of the performance of the services called for under this Agreement.

B. No Office Space. CONSULTANT understands and agrees that he will not be provided with a regular office or access to telephone, clerical support, facsimile or internet services at ACCURAY. CONSULTANT shall at his own expense acquire, operate, maintain and repair or replace any office and equipment and supplies as may be required for his performance of consulting services under this Agreement.

C. Subconsultants and Other Contractors. CONSULTANT is not authorized to engage the services of subconsultants, vendors or other contractors on behalf of ACCURAY or its related entities, unless she has obtained written authorization from ACCURAY to do so in advance. To the extent such advance authorization has been obtained, ACCURAY will pay for the services provided by such subconsultants, vendors and/or other contractors.

D. Consultant's Employees. To the extent CONSULTANT has any employees as of the date he signs this Agreement or hires any employees during the Term of this Agreement, CONSULTANT understands and agrees that all such employees shall be his employees only, and that ACCURAY shall not be an employer of the employees. ACCURAY shall have no responsibility for providing and shall not provide directions, instructions or supervision to any of CONSULTANT's employees. Only CONSULTANT shall provide such directions, instructions and supervision. In addition, all decisions with respect to the employment of CONSULTANT's employees, if any, shall be made solely and exclusively by CONSULTANT. ACCURAY shall have no responsibility for or input into such decisions. CONSULTANT hereby agrees to indemnify, defend and hold ACCURAY harmless from and against any costs, losses, damages, obligations, liabilities and expenses, including attorneys' fees, arising from or in connection with any claim asserted by any of CONSULTANT's employees against ACCURAY based on the employees' employment with CONSULTANT, such as claims for discrimination in employment, harassment, retaliation, violation of statutory law, and wrongful termination.

E. No Purchases. CONSULTANT shall not purchase materials or supplies for the accounts of ACCURAY or its related entities, or otherwise hold himself out as being authorized to

Initials: Consultant _____
Accuray _____

make purchases for which ACCURAY or its related entities would be billed directly by the seller of the materials or supplies, unless such purchase is authorized in writing by ACCURAY in advance.

F. Compliance with Governmental Requirements. CONSULTANT will maintain in force and/or secure all required licenses, permits, certificates and exemptions necessary for the performance of his services under this Agreement, and at all times shall comply with all applicable federal, state and local laws, regulations and orders.

G. Indemnification. CONSULTANT shall indemnify and hold ACCURAY and its related entities, and the directors, officers, agents, representatives and employees of all such entities, harmless from and against any and all liabilities, losses, damages, costs, expenses, causes of action, claims, suits, legal proceedings and similar matters, including without limitation reasonable attorneys' fees, resulting from or arising out of the failure of CONSULTANT or any of his employees to comply with and perform fully the obligations hereunder, or resulting from any act or omission on the part of CONSULTANT, provided however that the indemnification shall not apply to any good faith action on the part of the CONSULTANT that is within the scope of this Agreement. If any cause of action, claim, suit or other legal proceeding is brought against CONSULTANT in connection with any services rendered under this Agreement, CONSULTANT shall promptly notify ACCURAY upon learning of any such proceeding.

ACCURAY shall indemnify and hold CONSULTANT and his agents, employees, representatives and heirs, harmless from and against any and all liabilities, losses, damages, costs, expenses, causes of action, claims, suits, legal proceedings and similar matters, including without limitation reasonable attorneys' fees, resulting from or arising out of the performance of any act specifically requested or authorized by ACCURAY in connection with this Agreement. This promise does not apply to any actions arising out of or in connection with CONSULTANT's operation of any motor vehicle. If any cause of action, claim, suit or other legal proceeding is brought against ACCURAY in connection with any services provided by CONSULTANT under this Agreement, ACCURAY shall promptly notify CONSULTANT upon learning of any such proceeding.

H. Notices. Any and all notices and other communications hereunder shall have been deemed to have been duly given when delivered personally or by e-mail during normal business hours, or 24 hours after being emailed outside of normal business hours or mailed, certified or registered mail, return receipt requested, postage prepaid, in the English language, to the addresses set forth below the signatures of the parties hereto or to such other address as either of the parties hereto may from time-to-time designate to the other party in writing.

I. Waiver. No purported waiver by either party hereto of any provision of this Agreement or of any breach thereof shall be deemed a waiver of such provision or breach unless such waiver is in writing signed by the party making such waiver. No such waiver shall be deemed to be a subsequent waiver of such provision or waiver of any subsequent breach of the same or any other provision hereof.

J. Severability. The provisions of this Agreement are severable, and if any part of it is found to be unenforceable, the other paragraphs shall remain fully valid and enforceable.

Initials: Consultant _____
Accuray _____

K. Arbitration. This Agreement shall in all respects be interpreted and governed by and under the laws of the State of California. Any dispute between the parties hereto, including any dispute regarding any aspect of this Agreement or any act which allegedly has or would violate any provision of this Agreement or any law (hereinafter "Arbitrable Dispute"), will be submitted to arbitration through Judicial Arbitration and Mediation Services, Inc. ("JAMS") in San Jose, California, unless the parties agree to another location, using the JAMS Commercial Arbitration Rules ("JAMS Rules"). The arbitrator shall be an experienced arbitrator licensed to practice law in California and selected in accordance with the JAMS Rules, unless the parties agree to another arbitrator. Arbitration shall be the exclusive remedy for any such Arbitrable Dispute. The decision of the arbitrator shall be final, conclusive and binding upon the parties. Should any party to this Agreement pursue any Arbitrable Dispute by any method other than said arbitration, the responding

party shall be entitled to recover from the initiating party all damages, costs, expenses and attorneys' fees incurred as a result of such action. This section shall not restrict the right of ACCURAY to go to court seeking injunctive relief for a violation of Article IV of this Agreement, pending the outcome of an arbitration proceeding.

L. Sole and Entire Agreement. This Agreement sets forth the entire agreement between the parties hereto pertaining to the subject matter hereof, and fully supersedes any and all prior agreements or understandings between the parties hereto, whether written or oral, pertaining to the subject matter hereof, including without limitation the Employment Agreement between the ACCURAY and CONSULTANT dated January 1, 2015, which is terminated, of no further force or effect, and no benefits or obligations are owed by ACCURAY to CONSULTANT thereunder. No change in, modification of, or addition, amendment or supplement to this Agreement shall be valid unless set forth in writing and signed and dated by each of the parties hereto subsequent to the execution of this Agreement.

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Initials: Consultant _____
Accuray _____

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the Effective Date set forth above.

/s/ Gregory E. Lichtwardt
Gregory E. Lichtwardt

Date: 9/15/15

Address:
Most recent on file with the Company

ACCURAY INCORPORATED

By: /s/ Joshua H. Levine
Name: Joshua H. Levine
Title: Chief Executive Officer
Date: 9/15/15

Address: 1310 Chesapeake Terrace
Sunnyvale, CA 94089



Performance Bonus Plan

As amended by the Board of Directors on September 29, 2015

1. Purposes of the Plan. The Plan is intended to increase stockholder value and the success of the Company by motivating key executives to: (1) perform to the best of their abilities, and (2) achieve the Company's objectives. The Plan's goals are to be achieved by providing such executives with incentive awards based on the achievement of goals relating to the performance of the Company or upon the achievement of objectively determinable individual performance goals. The Plan is intended to permit the payment of bonuses that may qualify as performance-based compensation under Code section 162(m).

2. Definitions.

(a) "Award" means, with respect to each Participant, the award determined pursuant to Section 8(a) below for a Performance Period. Each Award is determined by a Payout Formula for a Performance Period, subject to the Committee's authority under Section 8(a) to eliminate or reduce the Award otherwise payable.

(b) "Base Salary" means as to any Performance Period, the gross cash wages earned by the Participant during the Performance Period, inclusive of any vacation, sick, or Company provided direct pay during an approved leave of absence. Commissions, Special Performance Incentive Fund ("SPIF") pay, severance pay, salary continuation, disability payments, workers compensation payments, and other monetary consideration as part of a separation agreement, release agreement, or other similar agreement, shall not be included in Base Salary. Excluded from Base Salary are equity compensation income or gains, spot or other bonus, or variable pay, expense reimbursements and other allowances (such as housing, education reimbursements, etc.), pay during an unapproved leave of absence, and any payments attributable to a period of time other than the Performance Period (other than on account of normal payroll practices), unless mandated by local and foreign jurisdictions. Also excluded from Base Salary is any compensation paid to a Participant after his or her date of termination or after a Participant transfers to a position within the Company that is not eligible to participate in this Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means the Compensation Committee of the Board.

(f) "Company" means Accuray Incorporated or any of its subsidiaries (as such term is defined in Code Section 424(f)).

(g) "Determination Date" means the latest possible date that will not jeopardize a Target Award or Award's qualification as Performance-Based Compensation.

(h) "Fiscal Quarter" means a fiscal quarter of the Company.

(i) "Fiscal Year" means a fiscal year of the Company.

(j) "Maximum Award" means as to any Participant for any Performance Period, three million dollars (\$3,000,000).

(k) "Participant" means an executive officer of the Company participating in the Plan for a Performance Period.

(l) "Payout Formula" means as to any Performance Period, the formula or payout matrix established by the Committee pursuant to Section 7 in order to determine the Awards (if any) to be paid to Participants. The formula or matrix may differ from Participant to Participant.

(m) "Performance-Based Compensation" means compensation that is intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code.

(n) "Performance Goals" means the goal(s) (or combined goal(s)) determined by the Committee (in its discretion) to be applicable to a Participant with respect to an Award. As determined by the Committee, the performance measures for any performance period will be any one or more of the following objective performance criteria, applied to either the Company as a whole or, except with respect to stockholder return metrics, to a region, business unit, affiliate or business segment, and measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, and, with respect to financial metrics, which may be determined in accordance with United States Generally Accepted Accounting Principles ("GAAP"), in accordance with accounting principles established by the International Accounting Standards Board ("IASB Principles") or which may be adjusted when established to exclude any items otherwise includable under GAAP or under IASB Principles: (i) cash flow (including operating cash flow or free cash flow), (ii) revenue (on an absolute basis or adjusted for currency effects), (iii) gross margin, (iv) operating expenses or operating expenses as a percentage of revenue, (v) earnings (which may include earnings before interest and taxes, earnings before taxes and net earnings), (vi) earnings per share, (vii) stock price, (viii) return on equity, (ix) total stockholder return, (x) growth in stockholder value relative to the moving average of the S&P 500 Index or another index, (xi) return on capital, (xii) return on assets or net assets, (xiii) return on investment, (xiv) economic value added, (xv) operating profit or net operating profit, (xvi) operating income, (xvii) operating margin, (xviii) market share, (xix) contract awards or backlog, (xx) overhead or other expense reduction, (xxi) credit rating, (xxii) objective customer indicators, (xxiii) new product invention or innovation, (xxiv) attainment of research and development milestones, (xxv) improvements in productivity, (xxvi) attainment of objective operating goals, (xxvii) contingent or non-contingent orders; and (xxviii) growth rates in any of the performance criteria listed in sections (i) through (xxvii) herein.

- (o) “Performance Period” means any Fiscal Quarter or Fiscal Year, or such other longer period, as determined by the Committee in its sole discretion.
- (p) “Plan” means this Performance Bonus Plan.
- (q) “Plan Year” means the Company’s Fiscal Year.
- (r) “Section 162(m)” means Section 162(m) of the Code, or any successor to Section 162(m), as that section may be interpreted from time to time by the Internal Revenue Service, whether by regulation, notice or otherwise.
- (s) “Target Award” means the target award payable under the Plan to a Participant for the Performance Period, expressed as a percentage of his or her Base Salary or a specific dollar amount, as determined by the Committee in accordance with Section 6.
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3. Plan Administration.

(a) The Committee shall be responsible for the general administration and interpretation of the Plan and for carrying out its provisions. Subject to the requirements for qualifying compensation as Performance-Based Compensation, the Committee may delegate specific administrative tasks to Company employees or others as appropriate for proper administration of the Plan. Subject to the limitations on Committee discretion imposed under Section 162(m) of the Code, the Committee shall have such powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following powers and duties, but subject to the terms of the Plan:

- (i) discretionary authority to construe and interpret the terms of the Plan, and to determine eligibility, Awards and the amount, manner and time of payment of any Awards hereunder;
- (ii) to prescribe forms and procedures for purposes of Plan participation and distribution of Awards; and
- (iii) to adopt rules, regulations and bylaws and to take such actions as it deems necessary or desirable for the proper administration of the Plan.

(b) Any rule or decision by the Committee that is not inconsistent with the provisions of the Plan shall be conclusive and binding on all persons, and shall be given the maximum deference permitted by law.

4. Eligibility. The employees eligible to participate in the Plan for a given Performance Period shall be executive officers of the Company who are designated by the Committee in its sole discretion. No person shall be automatically entitled to participate in the Plan.

5. Performance Goal Determination. The Committee, in its sole discretion, shall establish the Performance Goals for each Participant for the Performance Period. Such Performance Goals shall be set forth in writing prior to the Determination Date.

6. Target Award Determination. The Committee, in its sole discretion, shall establish a Target Award for each Participant. Each Participant’s Target Award shall be determined by the Committee in its sole discretion, and each Target Award shall be set forth in writing prior to the Determination Date.

7. Determination of Payout Formula or Formulae. On or prior to the Determination Date, the Committee, in its sole discretion, shall establish a Payout Formula or Formulae for purposes of determining the Award (if any) payable to each Participant. Each Payout Formula shall (a) be set forth in writing prior to the Determination Date, (b) be based on a comparison of actual performance to the Performance Goals, (c) provide for the payment of a Participant’s Target Award if the Performance Goals for the Performance Period are achieved (subject to the Committee’s discretion as described herein), and (d) provide for an Award greater than or less than the Participant’s Target Award, depending upon the extent to which actual performance exceeds or falls below the Performance Goals. Notwithstanding the preceding, in no event shall a Participant’s Award for any Performance Period exceed the Maximum Award.

8. Determination of Awards; Award Payment.

(a) Determination and Certification. After the end of each Performance Period, the Committee shall certify in writing (which may be by approval of the minutes in which the certification was made) the extent to which the Performance Goals applicable to each Participant for the Performance Period were achieved or exceeded. The Award for each Participant shall be determined by applying the Payout Formula to the level of actual performance that has been certified by the Committee. Notwithstanding any contrary provision of

the Plan, the Committee, in its sole discretion, may eliminate or reduce the Award payable to any Participant below that which otherwise would be payable under the Payout Formula, but shall not have the right to increase the Award above that which would otherwise be payable under the Payout Formula.

(b) Right to Receive Payment. Each Award under the Plan shall be paid solely from the general assets of the Company. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Participant’s claim of any right to payment of an Award other than as an unsecured general creditor with respect to any payment to which a Participant may be entitled. A Participant needs to be employed by the Company through the payment date in order to be eligible to receive an Award payout hereunder.

(c) Form of Distributions. The Company shall distribute all Awards to the Participant in cash.

(d) Timing of Distributions. Subject to Section 8(e) below, the Company shall distribute amounts payable to Participants as soon as is practicable following the determination and written certification of the Award for a Performance Period.

(e) Deferral. The Committee may defer payment of Awards, or any portion thereof, to Covered Employees as the Committee, in its discretion, determines to be necessary or desirable to preserve the deductibility of such amounts under Section 162(m) of the Code, but only in compliance with Section 409A of the Code. In addition, the Committee, in its sole discretion, may permit a Participant to defer receipt of the payment of cash that would otherwise be delivered to a Participant under the Plan. Any such deferral elections shall be subject to such rules and procedures as shall be determined by the Committee, in its sole discretion, and in compliance with Section 409A of the Code.

(f) Recoupment.

(i) Recoupment in the Event of a Restatement of Financial Results. Notwithstanding anything to the contrary set forth in the Plan or any Award, in the event of a restatement of incorrect financial results, the Board will review the conduct of executive officers in relation to the restatement. If the Board determines that an executive officer has engaged in misconduct, or otherwise violated the Company's Code of Conduct and Ethics for Employees, Agents and Contractors, and that such misconduct or violation contributed to such restatement, then the Board may, in its discretion, take appropriate action to remedy the misconduct or violation, including, without limitation, seeking reimbursement of any portion of any performance-based or incentive compensation paid or awarded to the employee that is greater than would have been paid or awarded if calculated based on the restated financial results, to the extent not prohibited by governing law. For this purpose, the term "executive officer" means executive officers as defined by the Securities Exchange Act of 1934, as amended (the "Act"). Any such action by the Board would be in addition to any other actions the Board of the Company may take under the Company's policies, as modified from time to time, or any actions imposed by law enforcement, regulators or other authorities. If the Board takes any such action, Participants shall be required to reimburse the Company such amounts as directed by the Board, in its sole discretion.

(ii) Recoupment in the Event of a Material Reduction in Publicly Disclosed Backlog. Notwithstanding anything to the contrary set forth in the Plan or any Award, effective July 1, 2011, in the event the Company is required to make a Material Reduction of its publicly-disclosed backlog figures, the Board will review the conduct of executive officers in relation to the determination and publication of backlog figures and their subsequent Material Reduction. If the Board determines that an executive officer has engaged in knowing or reckless misconduct, or otherwise violated the Company's Code of Conduct and Ethics for Employees, Agents, and Contractors, and that such misconduct or violation led to the improper inclusion of a proposed system sale in

publicly-disclosed backlog, then the Board shall, in its discretion, take appropriate action to remedy the misconduct or violation, including, without limitation, seeking reimbursement of any portion of any performance-based or incentive compensation paid or awarded to the executive officer that is greater than would have been paid or awarded if calculated based on the Materially Reduced backlog figures, to the extent not prohibited by governing law. For this purpose, the term "executive officer" means executive officers as defined by the Act. "Material Reduction" shall mean a Reduction of at least 15% of the total backlog publicly reported by the Company in the preceding quarter. As used herein, "Reduction" is intended to relate to system sales that are included in publicly disclosed backlog but are then removed due to the cancellation of the transaction. Removals from backlog because a system sale shipped and was recognized as revenue or a system removal from backlog because it exceeded the time period provided for by the Company's backlog criteria will not count as a Reduction. Any action taken by the Board pursuant to this provision would be in addition to any other actions the Board may take under the Company's policies, as modified from time to time, or any actions imposed by law enforcement, regulators or other authorities. If the Board takes any such action, Participants shall be required to reimburse the Company such amounts as directed by the Board, in its sole discretion.

9. Term of Plan. The Plan was approved by the stockholders at the 2009 annual meeting of the Company's stockholders and became effective as of the 2011 Plan Year. The Plan continues in effect until terminated under Section 10 of the Plan.

10. Amendment and Termination of the Plan. The Committee may amend, modify, suspend or terminate the Plan, in whole or in part, at any time, including the adoption of amendments deemed necessary or desirable to correct any defect or to supply omitted data or to reconcile any inconsistency in the Plan or in any Award granted hereunder; provided, however, that no amendment, alteration, suspension or discontinuation shall be made which would (i) impair any payments to Participants made prior to such amendment, modification, suspension or termination, unless the Committee has made a determination that such amendment or modification is in the best interests of all persons to whom Awards have theretofore been granted; provided further, however, that in no event may such an amendment or modification result in an increase in the amount of compensation payable pursuant to such Award or (ii) cause compensation that is, or may become, payable hereunder to fail to qualify as Performance-Based Compensation. To the extent necessary or advisable under applicable law, including Section 162(m) of the Code, Plan amendments shall be subject to stockholder approval. At no time before the actual distribution of funds to Participants under the Plan shall any Participant accrue any vested interest or right whatsoever under the Plan except as otherwise stated in this Plan.

11. Withholding. Distributions pursuant to this Plan shall be subject to all applicable federal and state tax and withholding requirements.

12. At-Will Employment. No statement in this Plan should be construed to grant any employee an employment contract of fixed duration or any other contractual rights, nor should this Plan be interpreted as creating an implied or an expressed contract of employment or any other contractual rights between the Company and its employees. The employment relationship between the Company and its employees is terminable at-will. This means that an employee of the Company may terminate the employment relationship at any time and for any reason or no reason.

13. Successors. All obligations of the Company under the Plan, with respect to awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

14. Indemnification. Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from (a) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any award, and (b) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the

Company's Certificate of Incorporation or Bylaws, in each case, as amended from time to time, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

15. Non-assignment. The rights of a Participant under this Plan shall not be assignable or transferable by the Participant except by will or the laws of intestacy.

16. Governing Law. The Plan shall be governed by the laws of the State of California, without regard to conflicts of law provisions thereunder.

I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of Accuray Incorporated on September 24, 2009.

* * * * *

I hereby certify that the foregoing Plan was approved by the stockholders of Accuray Incorporated on November 20, 2009.

* * * * *

I hereby certify that Board of Directors of Accuray Incorporated amended the foregoing Plan to include Section 8(f) and such amendment was approved on August 24, 2010.

* * * * *

I hereby certify that Board of Directors of Accuray Incorporated amended the foregoing Plan to add Section 8(f)(ii) and such amendment was approved on June 23, 2011.

* * * * *

I hereby certify that Board of Directors of Accuray Incorporated amended the foregoing Plan to add, "subject to the Committee's discretion as described herein" to Section 7 and such amendment was approved on November 18, 2011.

* * * * *

I hereby certify that Board of Directors of Accuray Incorporated amended the foregoing Plan to revise the definition of "Base Salary" and correct minor errors and such amendment was approved on August 27, 2014.

* * * * *

I hereby certify that Board of Directors of Accuray Incorporated amended the foregoing Plan to correct minor errors and such amendment was approved on September 29, 2015.

/s/ Alaleh Nouri
Alaleh Nouri, Corporate Secretary

Certifications

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: November 5, 2015

/s/ Joshua H. Levine

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

Certifications

I, Kevin M. Waters, 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: November 5, 2015

/s/ Kevin M. Waters

Kevin M. Waters

Senior Vice President and 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 September 30, 2015 (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: November 5, 2015

/s/ Joshua H. Levine

Joshua H. Levine

President and Chief Executive Officer
(Principal Executive Officer)

/s/ Kevin M. Waters

Kevin M. Waters

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
