WOODWARD GOVERNOR CO
Form 4
November 26, 2007

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Glass Martin Val

(Last) (First) (Middle)

1000 E. DRAKE ROAD

(Street)

FORT COLLINS, CO 80525

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WOODWARD GOVERNOR CO [WGOV]

3. Date of Earliest Transaction (Month/Day/Year)
11/20/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Group Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. D S

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					(I
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Phantom Stock Units	(1)	11/20/2007	A		690.467		(1)	(1)	Common Stock	690.467

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Glass Martin Val 1000 E. DRAKE ROAD FORT COLLINS, CO 80525			Group Vice President	

Signatures

Kathleen A. Waelti by Power of Attorney	11/26/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The reporting person participates in the Woodward Executive Benefit Plan and has elected to have a portion of his Management Incentive Plan bonus deferred and denominated in Company stock. Phantom stock units are accrued under the Plan and are to be settled in 100% stock on a one-for-one basis upon separation from the Company. The total shown represents the dollar amount of deferrals divided by the current share price and, therefore, the number of shares reported may fluctuate from period to period. The total shown also includes shares acquired under the Company's Dividend Reinvestment Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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General and administrative, or G&A, expenses for fiscal 2012 increased $1.9 million compared to fiscal 2011. The increase was primarily attributable to higher consulting, accounting and legal expenses of $4.2 million, higher travel and office administrative expenses of $1.2 million and higher facilities and information technology related expenses of $1.6 million. This was partially offset by lower compensation and employee related expenses of $5.0 million. During fiscal 2011, higher share-based compensation expenses were incurred from the acceleration of stock options and restricted stock awards for TomoTherapy employees. During fiscal 2012, we incurred $9.4 million of general and administrative expenses in our TomoTherapy subsidiary as compared to $14.0 million during the period from the acquisition date until the end of fiscal 2011. The expenses in the TomoTherapy subsidiary during fiscal 2012 were primarily comprised of $6.3 million of compensation and employee related expenses and $2.1 million of consulting, accounting and legal expenses.

General and administrative expenses for fiscal 2011 increased $21.2 million from fiscal 2010. The increase was primarily attributable to $15.7 million of acquisition related expenses (including costs of severance, share-based compensation arising from acceleration of stock options and restricted stock awards for TomoTherapy employees, fees to investment bankers, integration planning, legal and accounting services), higher employee related expense of $0.7 million, higher insurance expense of $0.4 million and increased travel expense of $0.3 million. Additionally, we incurred $5.1 million for general and administrative expenses, excluding acquisition-related costs, from our TomoTherapy subsidiary, primarily consisting of $3.6 million in accelerated vesting of stock options and restricted stock awards, $0.9 million in employee related expenses and $0.2 million of consulting expense.

We expect G&A expenses to be relatively unchanged for fiscal 2013 as compared to fiscal 2012.

Other income (expense), net

	Years Ended June 30,						
(Dollars in thousands)	**2012**	**2011**	**2010**	**FY12 vs. FY11**		**FY11 vs. FY10**	
Other income (expense), net	$ (12,871)	$ 2,288	$ 1	$ (15,159)	-663%	$ 2,287	nm

nm not meaningful

Other expense, net for fiscal 2012 increased $15.2 million from fiscal 2011 and was primarily attributable to interest expenses on the 3.75% Convertible Senior Notes due August 1, 2016 (the "Convertible Notes") totaling $7.4 million and foreign currency transaction losses of $6.6 million due to appreciation of the U.S dollar against the Euro and Swiss Franc exchange rates during the year and their effects on the re-measurement of balances denominated in those currencies.

Other income, net for fiscal 2011 increased $2.3 million from fiscal 2010. The increase was primarily attributable to an increase of $4.1 million related to foreign currency transaction gains as a result of the appreciation of the Euro-U.S. dollar foreign exchange rate and its effects on the re-measurement of balances denominated in Euros. This was partially offset by a decrease in net interest income of $1.3 million due to lower average interest rates earned on amounts kept in interest bearing accounts during fiscal 2011 compared to fiscal 2010.

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Provision for income taxes

(Dollars in thousands)	Years Ended June 30, 2012	2011	2010	FY12 vs. FY11		FY11 vs. FY10	
Provision for (benefit from) income taxes	$ 2,595	$ 1,116	$ (4)	$ 1,479	133%	$ 1,120	nm
% of income (loss) before provision for (benefit from) income taxes	-3.4%	-4.3%	-0.1%				

nm not meaningful

The provision for income taxes was higher in fiscal 2012 compared to fiscal 2011 primarily due to the increased earnings in international locations.

The provision for income taxes was higher in fiscal 2011 compared to fiscal 2010 due to $0.2 million of additional foreign taxes resulting from higher international revenue in fiscal 2011 combined with a federal tax benefit of $0.9 million recorded in fiscal 2010 resulting from enactment of The Worker, Homeownership, and Business Assistance Act of 2009, which permits some relief from federal alternative minimum tax.

At June 30, 2012, we had federal and state net operating loss carryforwards of $209.0 million and $43.0 million. These federal and state net operating loss carryforwards are available to offset future taxable income, if any, in varying amounts and will begin to expire in 2019 for federal and 2015 for state purposes, respectively. Such net operating loss carryforwards include tax benefits from employee stock option exercises in excess of the share-based compensation expense that has been recognized for these awards. We will record approximately $5.5 million as a credit to additional paid-in capital if and when such excess benefits are ultimately realized. We also had federal and state research and development tax credit carryforwards of approximately $13.5 million and $13.1 million, respectively. If not utilized, the federal research credits will begin to expire in 2025, the California research credits have no expiration date, and the other state research credits begin to expire in 2013. Realization of the deferred tax assets, among other factors, is dependent on our ability to generate sufficient taxable income prior to the expiration of the carryforwards. Due to the inconsistent history of net operating income as adjusted for permanent differences, we cannot conclude that the net domestic deferred tax assets will more likely than not be realized. Accordingly, we have recorded a full valuation allowance against our domestic net deferred tax assets.

At June 30, 2012, there was no provision for U.S. income tax for undistributed earnings of our foreign subsidiaries as it is currently our intention to reinvest these earnings indefinitely in operations outside the U.S. If repatriated, these earnings could result in a tax expense at the current U.S. Federal statutory tax rate of 35%, subject to available net operating losses and other factors. Subject to limitation, tax on undistributed earnings may also be reduced by foreign tax credits that may be generated in connection with the repatriation of earnings.

Share-based Compensation Expense

Share-based compensation expense was recorded net of estimated forfeitures for fiscal 2012, 2011 and 2010 such that expense was recorded only for those share-based awards that are expected to vest. For fiscal 2012, 2011 and 2010, we recorded $8.5 million, $13.4 million and $10.6 million, respectively, of share-based compensation expense, net of estimated forfeitures, for stock options, 2007 Employee Stock Purchase Plan, or ESPP, shares issued, restricted stock units granted to employees and restricted stock awards assumed in connection with the acquisition of TomoTherapy.

As of June 30, 2012, there was approximately $11.1 million of unrecognized compensation cost, net of estimated forfeitures, related to unvested stock options, ESPP options, restricted stock awards and

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restricted stock units which we expect to be recognized over a weighted average period from 0.4 to 2.7 years.

Performance-based Awards

During fiscal 2012, the Compensation Committee of our Board of Directors of the Company approved the granting of Performance-Based Stock Units ("PSUs") to employees of the Company which vest only upon meeting certain financial performance criteria during the performance period commencing on the first day of our 2012 fiscal year and ending on the last day of our 2013 fiscal year. In the event that the PSUs do not become vested as a result of the Company's performance during the performance period, all PSUs are automatically forfeited by the participants effective as of the last day of the performance period. During the year ended June 30, 2012, approximately 1.0 million PSUs have been granted to employees valued at approximately $3.9 million which was based on the fair value of the Company's common stock on the grant date and will be recognized over the requisite performance period based on our assessment of the probability of achieving the performance criteria. Approximately 0.9 million PSUs are outstanding as of June 30, 2012.

As of June 30, 2012, we have assessed that it was not probable that the performance criteria would be met during the performance period and accordingly, no compensation cost has been recognized for the PSUs during the year ended June 30, 2012. If in a future period management revises its assessment and concludes that it is probable that the performance criteria will be met, we will record a cumulative catch-up compensation charge for the PSUs in that period. Remaining compensation charges for the PSUs would be recognized ratably over the remaining performance period.

Liquidity and Capital Resources

At June 30, 2012, we had $143.5 million in cash and cash equivalents. We anticipate that we will begin to turn profitable and generate positive cash flow in the fourth quarter of fiscal 2013. Cash from operations could be affected by various risks and uncertainties, including, but not limited to the risks included in Part I, Item 1A titled "Risk Factors." However, based on our current business plan and revenue prospects, we believe that we will have sufficient cash resources and anticipated cash flows to continue in operation for at least the next 12 months.

On July 15, 2012, we paid approximately $5.7 million in cash to acquire all of the remaining outstanding equity of Morphormics, Inc. that we did not previously own. Morphormics is a privately-held developer of medical imaging software. Refer to Note 18, *Subsequent Events*, to the Consolidated Financial Statements for further details. We do not expect this acquisition to have a significant impact on our anticipated cash flows for at least the next 12 months.

Convertible Notes

On August 1, 2011, we issued $100 million aggregate principal amount of the Convertible Notes to certain qualified institutional buyers or QIBs. The Convertible Notes were offered and sold to the QIBs pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from the offering, after deducting the initial purchaser's discount and commission and 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 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 Convertible Notes will mature on August 1, 2016, unless earlier repurchased, redeemed or converted.

The Convertible Notes were issued under an Indenture between us and The Bank of New York Mellon Trust Company, N.A., as trustee. Holders of the Convertible Notes may convert their

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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 Convertible Notes may convert their 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 our 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 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 our common stock and the applicable conversion rate for such trading day; (3) if we call any or all of the 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 Convertible Notes, we will have the right to pay or deliver, as the case may be, cash, shares of our common stock or a combination thereof, at our election. At any time on or prior to the 33rd business day immediately preceding the maturity date, we may irrevocably elect to (a) deliver solely shares of our common stock in respect of our conversion obligation or (b) pay cash up to the aggregate principal amount of the Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of our common stock or a combination thereof in respect of the remainder, if any, of our conversion obligation in excess of the aggregate principal amount of the Convertible Notes being converted. The initial conversion rate will be 105.5548 shares of our common stock per $1,000 principal amount of Convertible Notes (which represents an initial conversion price of approximately $9.47 per share of our common stock). The conversion rate, and thus the conversion price, will be subject to adjustment as further described below.

Holders of the Convertible Notes, who convert their 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 Convertible Notes may require us to purchase all or a portion of their Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of Convertible Notes, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date.

On or after August 1, 2014 and prior to the maturity date, we may redeem for cash all or a portion of the Convertible Notes if the closing sale price of our common stock exceeds 130% of the applicable conversion price (the initial conversion price is approximately $9.47 per share of common stock) of such 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*, we separately account for the liability and equity conversion components of the Convertible Notes. The principal amount of the liability component of the Convertible Notes was $75.9 million as of date of issuance, which was 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 will be accreted to the principal amount of the Convertible Notes using the effective interest method over five years.

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Years ended June 30, 2012, 2011 and 2010

Cash Flows From Operating Activities

Net cash used in operating activities during 2012 was $38.3 million which was attributable to the net loss of $78.5 million and cash used for working capital purposes of $8.3 million, partially offset by $48.5 million of non-cash charges. Non-cash charges primarily included $32.6 million of depreciation and amortization expenses, $8.5 million of share-based compensation expense, accretion of interest expense on the Convertible Notes of $3.6 million, $2.1 million for provision for write-down of inventories and $1.4 million for provision for bad debts. Cash used for working capital was primarily attributed to $9.2 million of increases in accounts receivables due to increased billings, decreases in accounts payable of $21.4 million due to timing of vendor payments, decreases in accrued liabilities of $10.0 million due to payments for acquisition related, value-added tax related, and other liabilities and decreases in customer advances of $7.0 million due to lower minimum deposit requirements on new orders. This was partially offset by decreases in inventories by $11.9 million due to usage, decreases in prepayments by $5.5 million mainly due to timing of payments and increases in deferred revenues by $20.9 million due to increased shipment and billings as well as higher deferred service revenues from increases in installed base.

Net cash provided by operating activities was $12.4 million for fiscal 2011. Our net loss of $27.1 million contributed to the negative cash flows from working capital changes, including a decrease in deferred revenue, net of deferred cost of revenue of $6.5 million, an increase in inventories of $4.3 million and an increase in prepaid expenses and other current assets of $1.3 million. This decrease was offset primarily by an increase in accounts payable and accrued liabilities of $20.5 million and a decrease in accounts receivable of $8.7 million. The increase in accounts payable was due to timing differences between the receipt of goods and service and vendor payments. Non-cash charges included primarily $13.4 million of share-based compensation charges, $7.6 million of depreciation and amortization expense, and write-down of inventories of $1.7 million.

Net cash used in operating activities was $5.1 million for fiscal 2010. Our net income of $2.8 million during fiscal 2010 was offset by a decrease in deferred revenue, net of deferred cost of revenue, of $18.6 million, an increase in prepaid expenses and other current assets of $4.2 million, an increase in accounts receivable of $2.5 million and a decrease in accounts payable of $5.4 million. The decrease in deferred revenue, net of deferred cost of revenue, was primarily a result of the recognition of revenue previously deferred for systems sold under our Platinum plan, partially offset by differences between invoicing customers for products and services and the recognition of the invoicing as revenue. The increase in prepaid expenses and other current assets was due to an insurance receivable amount recorded for insurance claims. Accounts payable decreased as a result of the timing of the receipt of invoices and when payment was made. Positive cash flow from working capital changes includes an increase of $4.4 million of accrued liabilities, which was primarily due to an increase in compensation accruals and taxes payable due to higher profitability compared to the prior fiscal year. Non-cash charges included $10.2 million of share-based compensation, $0.8 million of charges for write-down of inventories and loss on disposal of property and equipment, $0.4 million reduction in the provision for bad debts and $7.1 million of depreciation and amortization.

Cash Flows From Investing Activities

Net cash used in investing activities was $12.2 million for fiscal 2012, which consisted of purchases of property and equipment of $10.8 million and $1.4 million related to the acquisition of TomoTherapy.

Net cash provided by investing activities was $31.4 million for fiscal 2011, which was attributable to net marketable security activities of $105.7 million, which consisted of $206.4 million of sales and maturities of marketable securities, offset by $100.7 million in purchases. Cash used to fund the

acquisition of TomoTherapy, net of cash acquired, was $70.3 million. In addition, we used $4.0 million of cash for purchases of property and equipment.

Net cash provided by investing activities was $10.5 million for fiscal 2010 and was attributable to net marketable security activities of $15.7 million, which consisted of $127.1 million of sales and maturities of marketable securities, offset by $111.4 million in purchases. The net increase in investment activity for fiscal 2010 was due to the exercise of the put option with UBS and the sale of our ARS holdings on June 30, 2010. We used $5.1 million of cash for purchases of property and equipment.

Cash Flows From Financing Activities

Net cash provided by financing activities during fiscal 2012 was $100.5 million. In August 2011, we issued the Convertible Notes for net proceeds of $96.1 million. In addition, we received $4.4 million from the exercise of common stock options by our employees and the purchase of common stock under our ESPP.

Net cash provided by financing activities was $5.6 million and $3.8 million for fiscal 2011 and 2010, respectively, and was primarily attributable to proceeds from the exercise of common stock options and the purchase of common stock under our ESPP.

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, our shared ownership program 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;
- Number and timing of acquisitions and other strategic transactions; and
- Costs associated with the integration of TomoTherapy.

We believe that our current cash and cash equivalents will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least 12 months. We estimate that capital expenditures will be in the range of $12 million to $16 million during fiscal 2013. If these sources of cash and cash equivalents are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity or convertible debt securities could result in dilution to our stockholders. If additional funds are raised through the issuance of debt securities, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. Additional financing may not be available at all, or in amounts or on terms acceptable to us. If we are unable to obtain this additional financing, we may be required to reduce the scope of our planned product development and marketing efforts.

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Contractual Obligations and Commitments

The following is a schedule summarizing our obligations to make future payments under contractual obligations as of June 30, 2012:

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Convertible Notes(1)	$ 115,313	$ 3,750	$ 11,250	$ 100,313	$
Operating leases	27,189	8,021	11,926	4,597	2,645
Total	$ 142,502	$ 11,771	$ 23,176	$ 104,910	$ 2,645

(1) These amounts represent principal and interest cash payments over the life of the debt obligations, including anticipated interest payments that are not recorded on our consolidated balance sheet. Any conversion, redemption or purchase of Convertible Notes would impact our cash payments.

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

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Critical Accounting Policies and Estimates

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

All of our significant accounting policies and methods used in the preparation of our consolidated financial statements are described in Note 2, *Summary of Significant Accounting Policies,* in Notes to the consolidated financial statements. The methods, estimates and judgments that we use in applying our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. Management believes the critical accounting policies and estimates are those related to revenue recognition, business combinations and intangible asset impairment, inventories, share-based compensation expense, income taxes, loss contingencies and corporate bonus expenses and accruals.

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Revenue Recognition

In the first quarter of fiscal 2011, we adopted Accounting Standards Update, or ASU, 2009-13, *Multiple-Deliverable Revenue Arrangements* (amendments to Accounting Standards Codification, or ASC, Topic 605, *Revenue Recognition*), and ASU 2009-14, *Certain Arrangements That Include Software Elements* (amendments to Financial Accounting Standards Board, or FASB, ASC Topic 985, *Software).* We adopted these new standards on a prospective basis; therefore, they apply only to revenue arrangements entered into or materially modified beginning July 1, 2010. The revised guidance primarily provides two significant changes: 1) it requires us to allocate revenues in an arrangement using best estimated selling prices, or BESP, of deliverables if we do not have VSOE or third-party evidence, or TPE, of selling price; and 2) it eliminates the residual method and requires us to allocate revenue using the relative selling price method. The BESP is established considering multiple factors including, but not limited to, pricing practices, internal costs, geographies and gross margin. The determination of BESP is made through consultation with our pricing committee, taking into consideration the overall go-to-market pricing strategy. We may modify or develop new go-to-market practices in the future. As these go-to-market strategies evolve, we may modify our pricing practices in the future, which may result in changes in selling prices, impacting both VSOE and BESP. These factors may result in a different allocation of revenue to the deliverables in multiple element arrangements from the current fiscal year, which may change the pattern and timing of revenue recognition for these elements but will not change the total revenue recognized for the arrangement.

We frequently enter into sales arrangements with customers that contain multiple elements or deliverables such as hardware, software and services. In order to comply with GAAP, we have to make a number of reasoned judgments with respect to elements of these sales arrangements, including how to allocate the proceeds received from an arrangement, whether there are multiple elements in the arrangement, whether any undelivered elements are essential to the functionality of the delivered elements and the appropriate timing of revenue recognition with respect to these arrangements. During fiscal 2011 and 2012, we accounted for pre-adoption multiple elements arrangements which have not subsequently been materially modified under the residual method and allocated arrangement consideration to each element based upon vendor specific objective evidence, or VSOE, of fair value of the respective elements. VSOE of fair value for each element is based upon our historical standard rates charged for the product or service when such product or service is sold separately or based upon the price established by our management-comprised pricing committee, which has the relevant authority when that product or service is not yet sold separately. Changes to the elements in an arrangement and the ability to establish VSOE of the fair value for those elements could affect the timing and the amount of revenue recognition.

Revenue recognition also depends on all or a combination of the timing of shipment, completion of installation, customer acceptance and the readiness of customers' facilities. If shipments are not made on scheduled timelines, installation schedules are delayed or if the products are not accepted by the customer in a timely manner, our reported revenues may differ materially from expectations.

Examples of the impact of these factors include the following. If the shipment of one of our systems that sold for $4.0 million was delayed, system revenue would be lowered by this $4.0 million, less any amounts deferred for service, training, or other future deliverables. If our CyberKnife or TomoTherapy systems were sold for between $3.0 to $4.0 million and the sale involved multiple elements including training and service, a 5% change in BESP of the systems could result in an approximately $20,000 to $25,000 impact to the amount of revenue allocated and recognized as product revenue rather than as service revenue.

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Business Combinations and Intangible Asset Impairment

Our methodology for allocating the purchase price relating to business combinations is determined through established valuation techniques. The allocation of the purchase price to intangible assets requires us to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and appropriate discount rate for those cash flows. Goodwill represents the excess of the purchase price over the fair value of tangible and identified intangible net assets of businesses acquired. Goodwill is evaluated for impairment on an annual basis or when impairment indicators are present.

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

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

Inventories

The valuation of inventory requires us to estimate obsolete or excess inventory as well as damaged inventory. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. We regularly review inventory quantities on hand and adjust for excess and obsolete inventory based primarily on historical usage rates and our estimates of product demand to support future sales and service. If our demand forecast for specific products is greater than actual demand and we fail to reduce purchasing and manufacturing output accordingly, we could be required to write off inventory, which would negatively impact our gross margin. For example, if the actual amount of inventory that is disposed of as obsolete, excess or damaged is 10% larger or smaller than the amount that we estimated at June 30, 2012, then we would need to increase or decrease cost of sales by approximately $0.7 million.

Share-Based Compensation Expense

We use the Black-Scholes option valuation model to estimate the fair value of stock options and ESPP shares. The Black-Scholes model requires the input of highly subjective assumptions. The most significant assumptions are our estimates of the expected volatility and the expected term of the award. Our expected volatility is derived from the historical volatilities of several unrelated public companies within industries related to our business because we do not have sufficient trading history on our common stock. When making the selections of our peer companies within industries related to our business to be used in the volatility calculation, we also considered the stage of development, size and financial leverage of potential comparable companies. In addition, as our historical share option exercise experience as a publicly-held entity does not provide a reasonable basis upon which to estimate the expected term, we estimate the expected term of options granted by taking the average of the vesting term and the contractual term of the option, as illustrated by the simplified method. The

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assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future.

We recognize compensation cost for only those shares expected to vest over the requisite service period of the award. We estimate our forfeiture rate based on an analysis of our actual forfeitures and will continue to evaluate the appropriateness of the forfeiture rate based on recent forfeiture activity and expected future employee turnover. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the share-based compensation expense recognized in the consolidated financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the share-based compensation expense recognized in the consolidated financial statements. If the estimated forfeiture rate was higher or lower by five percentage points, our share-based compensation expense related to stock options would increase or decrease by approximately 2%, respectively.

Income Taxes

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

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

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Loss Contingencies

As discussed in Note 8, *Commitments and Contingencies*, in Notes to consolidated financial statements, we are involved in various lawsuits, claims and proceedings that arise in the ordinary course of business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. We review these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. Currently, we do not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate materially adversely affect our financial condition or operating results. Litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, we could incur significant charges related to legal matters which could have a material impact on our results of operations, financial position and cash flows.

Corporate Bonus Expense and Accruals

We record accruals for estimated corporate bonus expense each quarter which is paid out in the first quarter of the subsequent fiscal year. Our expense accrual for each quarter during fiscal 2012 is based on our performance against each of these metrics: net revenue, gross margin and orders to backlog. If we underestimate or overestimate any of these metrics during any quarter, adjustments to bonus expense and accruals may be necessary in subsequent periods during the year.

Item 7A. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Rate Risk

Future fluctuations in the value of the U.S. dollar may affect the price competitiveness of our products outside the United States. For direct sales outside the United States, we sell in both U.S. dollars and local currencies, which could expose us to additional foreign currency risks, including changes in currency exchange rates. Our operating expenses in countries outside the United States, are payable in foreign currencies and therefore expose us to currency risk. To the extent that management can predict the timing of payments under sales contracts or for operating expenses that are denominated in foreign currencies, we may engage in hedging transactions to mitigate such risks in the future.

Interest Rate Risk

At June 30, 2012, we had $46.8 million of cash equivalents invested in money market funds and certificates of deposit. Our earnings would not be materially affected by interest rate risk due to the low interest rate on these highly liquid investments.

Equity Price Risk

On August 1, 2011, we issued $100 million aggregate principal amount of the 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 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 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 Convertible Notes are converted.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ACCURAY INCORPORATED

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Accuray Incorporated

We have audited the accompanying consolidated balance sheets of Accuray Incorporated (a Delaware corporation) and subsidiaries (the "Company") as of June 30, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2012. Our audits of the consolidated basic financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Accuray Incorporated and subsidiaries as of June 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated September 7, 2012 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

San Jose, California
September 7, 2012

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Accuray Incorporated

Consolidated Balance Sheets

(in thousands, except share and per share amounts)

	June 30, 2012	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 143,504	$ 95,906
Restricted cash	1,560	3,172
Accounts receivable, net of allowance for doubtful accounts of $1,700 and $324 at June 30, 2012 and 2011, respectively	67,890	61,853
Inventories	81,693	97,836
Prepaid expenses and other current assets	16,715	21,115
Deferred cost of revenue current	4,896	5,840
Total current assets	316,258	285,722
Property and equipment, net	37,458	44,823
Goodwill	59,215	54,474
Intangible assets, net	49,819	66,039
Deferred cost of revenue noncurrent	2,433	2,258
Other assets	7,987	2,468
Total assets	$ 473,170	$ 455,784
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 18,209	$ 38,645
Accrued compensation	23,071	27,406
Other accrued liabilities	31,646	43,012
Customer advances current	18,177	25,829
Deferred revenue current	83,071	68,152
Total current liabilities	174,174	203,044
Long-term liabilities:		
Long-term other liabilities	5,988	6,321
Deferred revenue noncurrent	9,675	6,092
Long-term debt	79,466	
Total liabilities	269,303	215,457
Commitment and contingencies (Note 8)		
Equity:		
Preferred stock, $0.001 par value; authorized: 5,000,000 shares; no shares issued and outstanding		
Common stock, $0.001 par value; authorized: 100,000,000 shares; issued: 71,864,268 and 72,199,837 shares at June 30, 2012 and 2011, respectively; outstanding: 71,864,268 and 70,059,819 shares at June 30, 2012 and 2011, respectively	72	70
Additional paid-in capital	409,143	373,963
Accumulated other comprehensive income	2,837	127
Accumulated deficit	(216,427)	(144,385)
Total stockholders' equity	195,625	229,775
Non-controlling interest	8,242	10,552
Total equity	203,867	240,327

Total liabilities and equity	$ 473,170	$ 455,784

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

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Accuray Incorporated

Consolidated Statements of Operations

(in thousands, except per share amounts)

	Years Ended June 30,		
	2012	**2011**	**2010**
Net revenue:			
Products	$ 240,472	$ 138,595	$ 143,187
Services	166,681	80,490	77,504
Other	2,070	3,199	934
Total net revenue	409,223	222,284	221,625
Cost of revenue:			
Cost of products	136,180	55,524	66,216
Cost of services	134,562	56,218	50,732
Cost of other	1,209	3,300	659
Total cost of revenue	271,951	115,042	117,607
Gross profit	137,272	107,242	104,018
Operating expenses:			
Selling and marketing	54,547	37,181	34,187
Research and development	87,114	41,687	31,523
General and administrative	58,598	56,657	35,472
Total operating expenses	200,259	135,525	101,182
Income (loss) from operations	(62,987)	(28,283)	2,836
Other income (expense), net	(12,871)	2,288	1
Income (loss) before provision for (benefit from) income taxes	(75,858)	(25,995)	2,837
Provision for (benefit from) income taxes	2,595	1,116	(4)
Net income (loss)	(78,453)	(27,111)	2,841
Non-controlling interest	(6,411)	(429)	
Net income (loss) attributable to stockholders	$ (72,042)	$ (26,682)	$ 2,841
Net income (loss) per share attributable to stockholders			
Basic	$ (1.02)	$ (0.44)	$ 0.05
Diluted	$ (1.02)	$ (0.44)	$ 0.05
Weighted average common shares used in computing net income (loss) per share			
Basic	70,887	60,085	57,560
Diluted	70,887	60,085	60,191

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

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Accuray Incorporated

Consolidated Statement of Stockholders' Equity

(in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity	Non-controlling Interest	Total Equity
	Shares	Amount						
Balance at June 30, 2009	56,643,529	$ 57	$ 273,946	$ 416	$ (120,517)	$ 153,902	$	$ 153,902
Exercise of stock options, net	1,313,749	2	2,028			2,030		2,030
Issuance of common stock under employee stock purchase plan	399,283		1,807			1,807		1,807
Issuance of restricted stock	170,395							
Share-based compensation			10,397			10,397		10,397
Income tax charges from employee stock plans			(414)			(414)		(414)
Net income					2,841	2,841		2,841
Cumulative translation adjustment				(57)		(57)		(57)
Unrealized loss on investments, net				(430)		(430)		(430)
Total comprehensive income						2,354		2,354
Balance at June 30, 2010	58,526,956	59	287,764	(71)	(117,676)	170,076		170,076
Deconsolidation of Morphormics					(27)	(27)		(27)
Exercise of stock options, net	1,396,685	1	3,600			3,601		3,601
Issuance of common stock under employee stock purchase plan	392,084		2,000			2,000		2,000
Issuance of restricted stock	201,992							
Share-based compensation			9,842			9,842		9,842
Shares issued in connection with acquisition of TomoTherapy	9,112,511	10	67,332			67,342		67,342
Shares issued in connection with the assumption of restricted stock awards related to acquisition of TomoTherapy	429,591							
Restricted stock awards assumed in connection with acquisition of TomoTherapy			1,191			1,191		1,191
Stock options assumed in connection with acquisition of TomoTherapy			2,234			2,234		2,234
Non-controlling interest in CPAC resulting from acquisition of TomoTherapy							10,981	10,981
Net loss					(26,682)	(26,682)	(429)	(27,111)
Cumulative translation adjustment				236		236		236
Unrealized loss on investments, net				(38)		(38)		(38)
Total comprehensive loss						(26,484)	(429)	(26,913)
Balance at June 30, 2011	70,059,819	70	373,963	127	(144,385)	229,775	10,552	240,327
Exercise of stock options, net	746,441	1	1,865			1,866		1,866
Issuance of common stock under employee stock purchase plan	755,532	1	2,580			2,581		2,581
Issuance of restricted stock	302,476							
Share-based compensation			7,546			7,546		7,546
Embedded conversion feature on Covertible Note			23,189			23,189		23,189
Change in non-controlling interest in CPAC							4,101	4,101
Net loss					(72,042)	(72,042)	(6,411)	(78,453)
Cumulative translation adjustment				2,710		2,710		2,710

Total comprehensive loss						(69,332)	(6,411)	(75,743)
Balance at June 30, 2012	71,864,268	$ 72	$ 409,143	$ 2,837	$ (216,427)	$ 195,625	$ 8,242	$ 203,867

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

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Accuray Incorporated

Consolidated Statements of Cash Flows

(in thousands)

	Years ended June 30,		
	2012	**2011**	**2010**
Cash Flows From Operating Activities			
Net income (loss)	$ (78,453)	$ (27,111)	$ 2,841
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	32,592	7,566	7,122
Share-based compensation	8,458	13,365	10,232
Realized and unrealized (gain) loss on investments, net		(27)	65
Accretion of interest on long-term debt	3,596		
Provision for (recovery of) bad debt	1,392	239	(380)
Provision for write-down of inventories	2,129	1,698	626
Loss on disposal of property and equipment	296	312	195
Changes in assets and liabilities:			
Restricted cash	1,605		438
Accounts receivable	(9,162)	8,698	(2,448)
Inventories	11,927	(4,321)	244
Prepaid expenses and other current assets	5,533	(1,340)	(4,230)
Deferred cost of revenue	2,080	7,586	8,980
Other assets	(2,647)	214	(228)
Accounts payable	(21,425)	10,662	(5,364)
Accrued liabilities	(10,043)	9,831	4,382
Customer advances	(7,044)	(909)	20
Deferred revenue	20,887	(14,060)	(27,568)
Net cash provided by (used in) operating activities	(38,279)	12,403	(5,073)
Cash Flows From Investing Activities			
Purchases of property and equipment , net	(10,769)	(4,022)	(5,130)
Acquisition of business, net of cash acquired	(1,384)	(70,265)	
Purchase of investments		(100,710)	(111,429)
Sale and maturity of investments		206,414	127,086
Net cash provided by (used in) investing activities	(12,153)	31,417	10,527
Cash Flows From Financing Activities			
Proceeds from issuance of common stock	1,867	3,601	2,030
Proceeds from employee stock purchase plan	2,582	2,000	1,807
Proceeds from debt, net of costs	96,100		
Net cash provided by financing activities	100,549	5,601	3,837
Effect of exchange rate changes on cash and cash equivalents	(2,519)	1,051	(692)
Net increase in cash and cash equivalent	47,598	50,472	8,599
Cash and cash equivalents at beginning of period	95,906	45,434	36,835
Cash and cash equivalents at end of period	$ 143,504	$ 95,906	$ 45,434
Supplemental Disclosure of Cash Flow Information			
Cash paid for income taxes	$ 1,198	$ 1,392	$ 60
Cash paid for interest	$ 1,875		
Non-cash financing activity:			

Fair value of common stock issued and vested options and restricted stock awards assumed in connection with acquisition of TomoTherapy	$	$ 73,845	$

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

Accuray Incorporated

Notes to Consolidated Financial Statements

1. Description of Business

Organization

Accuray Incorporated (together with its subsidiaries, the "Company") is incorporated in Delaware. The Company designs, develops and sells advanced medical radiation systems for the treatment of tumors throughout the body. The CyberKnife Systems are advanced, image-guided robotic systems used to deliver radiosurgery for the treatment of solid tumors anywhere in the body.

On June 10, 2011, the Company completed the acquisition of TomoTherapy Incorporated ("TomoTherapy") by acquiring all of TomoTherapy's common stock in exchange for cash and shares of Accuray common stock (for further information, see Note 12, *Acquisition*). TomoTherapy designs, manufactures and sells systems used to deliver advanced radiation therapy for the treatment of a wide range of cancer types. The consolidated financial statements include the financial results of TomoTherapy prospectively from the date of acquisition.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying 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"). The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and a variable interest entity, Compact Particle Acceleration Corporation ("CPAC") (for further information, see Note 13, *Investment in CPAC*). All significant inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of 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, business combinations and intangible asset impairment, inventories, share-based compensation expense, income taxes, loss contingencies and corporate bonus expenses and accruals. Actual results could differ materially from those estimates.

Foreign Currency

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

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash equivalents consist of amounts invested in highly liquid investment accounts with original maturities of three months or less on the date of purchase. Cash equivalents are comprised of money market funds and certificates of deposit and amounted to $46.8 million and $19,000 at June 30, 2012 and 2011, respectively. Cash and cash equivalent balances denominated in foreign currencies amounted to $43.2 million and $28.3 million at June 30, 2012 and 2011, respectively.

Restricted Cash

Restricted cash primarily relates to funds held related to Value-Added Tax ("VAT") guarantees in a foreign jurisdiction and certain performance obligation guarantees.

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued additional guidance on fair value measurements and related disclosures. The new guidance clarifies the application of existing guidance on fair value measurement for non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance is effective on a prospective basis for interim and annual periods beginning after December 15, 2011. The adoption of this guidance during the year ended June 30, 2012 did not have any impact on the Company's financial statements.

The carrying values of the Company's financial instruments including cash equivalents, restricted cash, accounts receivable and accounts payable are approximately equal to their respective fair values due to the relatively short-term nature of these instruments. Also refer to Note 4, *Financial Instruments,* for further details.

Other-than-Temporary Impairment Assessment

The Company regularly reviews all of its investments for other-than-temporary declines in fair value. The review includes but is not limited to (i) the consideration of the cause of the impairment, (ii) the creditworthiness of the security issuers, (iii) the length of time a security is in an unrealized loss position, and (iv) the Company's positive intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Concentration of Credit Risk and Other Risks and Uncertainties

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

There were no customers that represented 10% or more of total net revenue for the years ended June 30, 2012, 2011 and 2010. At June 30, 2012 and 2011, there were two customers and one customer, respectively, whose accounts receivable balance was 10% or more of the Company's total accounts receivable.

Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

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. Historically, such losses have been within management's expectations.

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

Inventories

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market value. Excess and obsolete inventories are written down based on historical sales and forecasted demand, as judged by management. The Company determines inventory and product costs, which include allocated production overheads, through use of standard costs.

Revenue Recognition

The Company earns revenue from the sale of products, the operation of its shared ownership program, and the provision of related services, which include installation services, post-contract customer support ("PCS"), training and other professional services. The Company records its revenues net of any value added or sales tax. From time to time, the Company introduces customers to third party financing organizations. No amounts received from these third party financing organizations are at risk.

In the first quarter of fiscal 2011, the Company adopted Accounting Standards Update ("ASU") 2009-13, *Multiple-Deliverable Revenue Arrangements,* and ASU 2009-14, *Certain Arrangements That Include Software Elements*. These standards changed the requirements for establishing separate units of accounting in a multiple element arrangement and require the allocation of arrangement consideration to each deliverable to be based on the relative selling price. The FASB also amended the accounting standards for revenue recognition to exclude software that is contained in a tangible product from the scope of software revenue guidance if the software is essential to the tangible product's functionality. The Company adopted these new standards on a prospective basis. For revenue arrangements that were entered into or materially modified after the adoption of these standards, implementation of this new authoritative guidance had an insignificant impact on the Company's reported net revenue since the first quarter of fiscal 2011 as compared to net revenue if the related arrangements entered into or modified after the effective date were subject to the accounting requirements in effect prior to the first quarter of fiscal 2011.

The Company frequently enters into sales arrangements with customers that contain multiple elements or deliverables. For revenue arrangements with multiple elements that were entered into prior to the adoption of the new standards and that have not subsequently been materially modified, the Company allocated arrangement consideration to each element based upon vendor specific objective evidence ("VSOE") of fair value of the respective elements. VSOE of fair value for each element is based upon the Company's standard rates charged for the product or service when such product or service is sold separately or based upon the price established by the Company's pricing committee when that product or service is not yet being sold separately. When contracts contain multiple elements, and

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

VSOE of fair value exists for all undelivered elements, the Company accounts for the delivered elements, principally the system and optional product upgrades, based upon the residual method. If VSOE of fair value does not exist for all the undelivered elements, all revenue is deferred until the earlier of: (1) delivery of all elements, or (2) establishment of VSOE of fair value for all remaining undelivered elements.

Under the new accounting guidance, in evaluating revenue recognition for arrangements which contain multiple deliverables, the Company determined that in certain instances it was not able to establish VSOE for all deliverables in an arrangement as the Company infrequently sells each element on a stand-alone basis, does not price products within a narrow range, or has a limited sales history. When VSOE cannot be established, the Company attempts to establish the selling price of each element based on relevant third-party evidence ("TPE"). TPE is determined based on competitors' prices for similar deliverables when sold separately. Generally, the Company's offerings contain a significant level of proprietary technology, customization or differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitors' products' selling prices are on a stand-alone basis. Therefore, the Company typically is not able to determine TPE.

When the Company is unable to establish selling price using VSOE or TPE, the Company uses its best estimate of selling price ("BESP") in the Company's allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. BESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings. The Company determines BESP for a product or service by considering multiple factors including, but not limited to, pricing practices, internal costs, geographies and gross margin. The determination of BESP is made through consultation with the Company's pricing committee, taking into consideration the overall go-to-market pricing strategy.

As the Company's go-to-market strategies and other factors evolve, the Company may modify its pricing practices in the future, which could result in changes in selling prices, including VSOE, TPE and BESP. As a result, the Company's future revenue recognition for multiple element arrangements could differ materially from that recorded in the current period. The Company regularly reviews VSOE, TPE and BESP and maintains internal controls over the establishment and update of these inputs.

The Company has a limited number of software offerings which are not required to deliver the tangible product's essential functionality and can be sold separately. Revenues from sales of these software products and related post-contract support are accounted for under software revenue recognition rules. The Company's multiple-element arrangements may therefore have a software deliverable that is subject to the existing software revenue recognition guidance. The revenue for these multiple-element arrangements is allocated to the software deliverable or group of software deliverables and the non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement using the hierarchy in the new revenue recognition accounting guidance.

The Company recognizes product revenues when there is persuasive evidence of an arrangement, the fee is fixed or determinable, collection of the fee is probable and delivery has occurred. Payments received in advance of product shipment are recorded as customer advances and are recognized as revenue or deferred revenue upon product shipment or installation.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

The Company assesses the probability of collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. The Company generally does not request collateral from its customers. If the Company determines that collection is not probable, the Company will defer the fee and recognize revenue upon receipt of cash.

The Company records revenues from sales of systems to distributors on either a sell-through or sell-in basis, depending on the terms of the distribution agreement as well as terms and conditions executed for each sale, and once all revenue recognition criteria have been met. For sales of product upgrades and accessories to distributors, revenue is recognized on either a sell-through or sell-in basis, depending upon the terms of the purchase order or signed quotation and once all revenue recognition criteria have been met.

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

Product Revenue

The majority of product revenue is generated from sales of CyberKnife and TomoTherapy systems. The Company sells its systems with PCS contracts, training points, and at times, professional services. PCS contracts provide planned and corrective maintenance services, software updates, bug fixes, as well as call-center support. If the Company is responsible for installation, the Company recognizes revenue after installation and acceptance of the system. Otherwise, revenue is recognized upon delivery.

Service Revenue

Service revenue is generated primarily from warranty services, post warranty services, installation services, unspecified when and if available product upgrades, training, and professional services. Warranty and post warranty service revenue is deferred and recognized ratably over the service period, generally 12-18 months, until no further obligation exists. The warranty service period generally starts upon product acceptance. Training and consulting service revenues that are not deemed essential to the functionality of the systems are recognized as such services are performed. Installation service revenue is recognized concurrent with system revenue.

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

Other revenue

Other revenue primarily consists of research and development and construction contract revenues.

Shared ownership program

The Company also enters into arrangements under its shared ownership program with certain customers. Agreements under the shared ownership program typically have a term of five years, during which the customer has the option to purchase the system, either at the end of the contractual period or in advance, at the customer's request, at pre-determined prices. Under the terms of this program,

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

the Company retains title to its system, while the customer has use of the system. The Company generally receives a minimum monthly payment and earns additional revenues from the customer based upon its use of the system. The Company may provide unspecified upgrades during the term of each program when and if available. Upfront non-refundable payments and minimum monthly payments from the customer are recognized as revenue over the contractual period. Additional revenues beyond the minimum payments from the shared ownership program are recorded as they become earned and receivable and are included within shared ownership program revenues, which are included in products revenue in the consolidated statements of operations.

Future minimum revenues under shared ownership arrangements as of June 30, 2012 are as follows (in thousands):

Year Ending June 30,	Amount
2013	$ 1,744
2014	1,789
2015	1,789
2016	1,394
2017	540
Total	$ 7,256

Total usage-based fee revenues, which are included in products revenue, earned from the systems under the shared ownership program amounted to $1.7 million, $1.5 million and $1.6 million for the years ended June 30, 2012, 2011 and 2010, respectively.

Under the terms of the shared ownership program, the customer has the option to purchase the CyberKnife or TomoTherapy System at pre-determined prices based on the period the system has been in use and considering the lease payments already received. Revenue from such sales is recorded in accordance with the Company's revenue recognition policy, taking into account the PCS and any other elements that might be sold as part of the arrangement. At June 30, 2012, the Company had four systems installed under its shared ownership program. During the years ended June 30, 2012, 2011 and 2010, nil, $3.6 million and nil, respectively, of revenue was recognized in the consolidated statements of operations for the sale of nil, one and nil systems, respectively, that were formerly under the shared ownership program.

The systems associated with the Company's shared ownership program are recorded within property and equipment on the accompanying consolidated balance sheets. Depreciation and warranty expenses attributable to the shared ownership systems are recorded within cost of products in the accompanying consolidated statements of operations.

Long-term construction and manufacturing contracts

The Company recognizes revenue and cost of revenue related to long-term construction and manufacturing contracts using contract accounting on the percentage-of-completion or the completed contract method. The Company records such revenue under other revenue and cost of such revenue under cost of other in the consolidated statements of operations. Any loss provision identified from the total contract in the period is recorded as an increase to cost of revenue.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Deferred Revenue and Deferred Cost of Revenue

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

Customer Advances

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

Property and Equipment

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

Software Capitalization Costs

The Company capitalizes certain costs associated with obtaining or developing internal use software, including external direct costs of material and services. Software development costs relating to assets to be sold in the normal course of business are included in research and development and are expensed as incurred until technological feasibility is established. After technological feasibility is established, material software development costs are capitalized. The capitalized cost is then amortized on a straight-line basis over the estimated product life, or on the ratio of current revenues to total projected product revenue, whichever is greater. To date, the period between achieving technological feasibility, which the Company has defined as the establishment of a working model which typically occurs when the beta testing commences, and the general availability of such software has been short and software development costs qualifying for capitalization have been insignificant.

Capitalized software costs are included in property, plant and equipment and amortized beginning when the software project is complete and the assets is ready for its intended use. The Company has capitalized software development costs relating to internal use software as identified and discussed below at Note 5, *Balance Sheet Components*.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable using pretax undiscounted cash flows. Impairment, if any, is measured as the amount by which the carrying value of a long-lived asset exceeds its fair value. Through June 30, 2012, there have been no such impairment losses.

Goodwill and Acquired Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of tangible and identified intangible net assets of businesses acquired. Goodwill is not amortized, but is evaluated for impairment on an annual basis or when impairment indicators are present. The Company has assessed that it has one reporting unit and the consolidated net assets, including existing goodwill and other intangible assets, are considered to be the carrying value of the reporting unit. The Company estimates the fair value of the reporting unit based on the Company's closing stock price on the trading day closest to the annual review date multiplied by the outstanding shares on that date. If the carrying value of the reporting unit is in excess of its fair value, an impairment may exist, and the Company must perform the second step of the analysis, in which the implied fair value of the goodwill is compared to its carrying value to determine the impairment charge, if any. If the estimated fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and no further analysis is required. Through June 30, 2012, there have been no such impairment losses.

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

Business Combinations

In fiscal 2011, the Company accounted for the acquisition of TomoTherapy using the acquisition method of accounting. The underlying principles of this method require that the Company recognize separately from goodwill the assets acquired and the liabilities assumed, generally at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, subsequent adjustments, if any, are recorded to the Company's consolidated statements of operations. Transaction costs and costs to restructure the acquired company are expensed as incurred. The operating results of the acquired company are reflected in the Company's consolidated financial statements after the date of the merger or acquisition.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Shipping and Handling

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

Advertising Expenses

The Company expenses the costs of advertising and promoting its products and services as incurred. Advertising expenses were approximately $0.5 million, $0.4 million and $0.4 million for the years ended June 30, 2012, 2011 and 2010, respectively.

Research and Development Costs

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

Share-Based Compensation

The Company accounts for share-based compensation by measuring and recognizing the fair value of all share-based payment awards made to employees based on the estimated grant date fair values, including employee stock options, restricted stock units ("RSUs"), restricted stock awards ("RSAs"), performance stock units ("PSUs") and the employee stock purchase plan ("ESPP"). The determination of fair value involves a number of significant estimates. The Company uses the Black-Scholes model to estimate the value of employee stock options and ESPP, which requires a number of assumptions to determine the model inputs. These include the expected volatility of the Company's stock, the expected term of the option, the expected risk free rate of interest and dividend yields. As share-based compensation expense is based on awards ultimately expected to vest, the expense is recorded net of estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. As the Company has been operating as a public company for a period of time that is shorter than its estimated expected option term, the Company concluded that its historical price volatility does not provide a reasonable basis for the expected volatility input assumption within its Black-Scholes model when determining the fair value of its stock options. Expected volatility was based on the historical volatility of a peer group of publicly traded companies. The Company continues to use the "simplified" method for the estimated term of the awards. Management's estimate of forfeitures is based on historical experience, but actual forfeitures could differ materially as a result of voluntary employee terminations which could result in a significant change in future share-based compensation expense. See Note 9, *Stockholders' Equity,* for additional information.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Net Income (Loss) Per Common Share

Basic net income (loss) per share is computed by dividing net income (loss) attributable to stockholders by the weighted- average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) attributable to stockholders by the weighted average number of common shares outstanding and other dilutive common shares outstanding during the period. The potential dilutive shares of the Company's common stock resulting from the assumed exercise of outstanding stock options, the vesting of RSUs and PSUs, and the purchase of ESPP shares, as determined under the treasury stock method, are included in the computation of diluted net income (loss) per share if their effect would have been dilutive.

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

	Years ended June 30,		
	2012	**2011**	**2010**
Numerator:			
Net income (loss) used in computing basic and diluted net income (loss) per share	(72,042)	(26,682)	2,841
Denominator:			
Weighted average shares used in computing basic net income (loss) per share	70,887	60,085	57,560
Add: Dilutive stock options and awards outstanding			2,631
Weighted average shares used in computing diluted net income (loss) per share	70,887	60,085	60,191

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

	As of June 30,		
	2012	**2011**	**2010**
Option to purchase common stock	7,873	8,337	4,057
Restricted stock units	1,171	658	260
Performance stock units	926		
	9,970	8,995	4,317

The 3.75% Convertible Senior Notes due August 1, 2016 (the "Convertible Notes") are included in the calculation of diluted net income per share if their inclusion is dilutive under the if-converted method. For the year ended June 30, 2012, the potential dilutive shares under the convertible notes were excluded from the calculation of diluted net loss per share as their inclusion would be anti-dilutive. See Note 14, *Debt*, for further details.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

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

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

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses the Company's tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business. The Company anticipates that except for $0.3 million in uncertain tax positions that may be reduced related to the lapse of various statutes of limitation, there will be no material changes in uncertain tax positions in the next 12 months.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of foreign currency translation adjustments for years ended June 30, 2012, 2011 and 2010, and unrealized gains and losses on investments for years ended June 30, 2011 and 2010, that have been excluded from the determination of net income (loss). The Company has reported the components of comprehensive income (loss) for the years ended June 30, 2012, 2011 and 2010 in its consolidated statement of stockholders' equity.

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. The Company's long-lived assets maintained outside the United States are not material. Revenue by geographic region is based on

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

the shipping addresses of the Company's customers. The following summarizes revenue by geographic region (in thousands):

	Years ended June 30,		
	2012	2011	2010
Americas (including Puerto Rico)	$ 189,072	$ 122,636	$ 147,381
Europe	110,331	67,244	58,049
Asia (excluding Japan)	64,026	16,158	5,608
Japan	45,794	16,246	10,587
Total	$ 409,223	$ 222,284	$ 221,625

Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment (Topic 350 the revised standard).* The revised standard allows an entity the option to first assess qualitatively whether it is more likely than not that an indefinite-lived intangible asset is impaired, thus necessitating that it perform the quantitative impairment test. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determined that it is more likely than not that the asset is impaired. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted for annual and interim goodwill impairment tests if an entity's financial statements for the most recent interim period have not yet been issued. The Company does not expect that adoption of this guidance during fiscal 2013 will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, applicable for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The guidance allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment for a reporting unit. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the quantitative two-step impairment test is unnecessary. Early adoption is permitted for annual and interim goodwill impairment tests if an entity's financial statements for the most recent interim period have not yet been issued. The Company does not expect that adoption of this guidance during fiscal 2013 will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*, to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The FASB issued ASU 2011-12 in December 2011 to defer certain presentation requirements of the new guidance. ASU 2011-05 is effective for the Company in the first quarter of fiscal year 2013 and will be applied retrospectively. The adoption of these standards will only result in changes in the financial statement presentation.

Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

3. Alliance Agreement

In June 2010, the Company entered into a Strategic Alliance Agreement (the "Alliance Agreement") with Siemens AG ("Siemens"), pursuant to which (1) the Company granted Siemens certain distribution rights to our CyberKnife Systems, (2) Siemens agreed to incorporate certain Accuray technology into certain of its linear accelerator ("linac") products, and (3) the Company created a research and development relationship with Siemens for the pursuit and implementation of other potential collaboration opportunities. Siemens terminated the Alliance Agreement effective December 23, 2011, thereby terminating the elements described in clauses (2) and (3) above. On December 26, 2011, Siemens and the Company entered into a distribution agreement pursuant to which Siemens has the right to distribute both CyberKnife and TomoTherapy Systems. The term of this agreement ends in March 2013. Sales to date under the Siemens Alliance Agreement and subsequent distribution agreement with Accuray have not been material.

In April 2012, Siemens and Varian Medical Systems, Inc. ("Varian") announced that they had entered into a strategic global partnership involving mutual marketing and representation of products for imaging and treatment in the global radiation oncology business, the development of software interfaces between Siemens and Varian treatment systems and potential joint development of new products. Given this announcement, the Company anticipates that Siemens will distribute few, if any, CyberKnife or TomoTherapy Systems during the remaining term of its distribution agreement.

4. Financial Instruments

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.

At June 30, 2012, the Company held money market funds totaling $40.1 million, which are included in cash equivalents on the consolidated balance sheet. These money market funds are measured on a recurring basis using Level 1 inputs.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

4. Financial Instruments (Continued)

The fair value of the 3.75% Convertible Senior Notes due August 1, 2016 (the "Convertible Notes") was approximately $101.4 million at June 30, 2012 and 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. Refer to "Note 14, Debt" for details.

5. Balance Sheet Components

Accounts receivable, net

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

	June 30,	
	2012	**2011**
Accounts receivable	$ 69,285	$ 59,858
Unbilled fees and services	305	2,319
	69,590	62,177
Less: Allowance for doubtful accounts	(1,700)	(324)
Accounts receivable, net	$ 67,890	$ 61,853

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 creditor's balance sheet. The Company's financing receivables, consisting of its accounts receivable with contractual maturities of more than one year, was $2.5 million and nil at June 30, 2012 and 2011, respectively and are included in Other Assets in the consolidated balance sheet. There was no balance or activity in the allowance for doubtful financing receivable accounts as of or during the years ended June 30, 2012 and 2011.

Inventories

Inventories consisted of the following (in thousands):

	June 30,	
	2012	**2011(1)**
Raw materials	$ 42,951	$ 32,988
Work-in-process	16,932	28,216
Finished goods	21,810	36,632
Inventories	$ 81,693	$ 97,836

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(1) Prior year numbers have been reclassified to conform to current year classification and presentation.

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Explanation of Responses:

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

5. Balance Sheet Components (Continued)

Property and Equipment, net

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

	June 30,	
	2012	2011
Furniture and fixtures	$ 5,921	$ 5,317
Computer and office equipment	9,126	8,280
Software	9,429	8,107
Leasehold improvements	16,065	15,386
Machinery and equipment	33,493	33,692
Shared ownership systems	4,979	4,923
Construction in progress	3,787	602
	82,800	76,307
Less: Accumulated depreciation and amortization	(45,342)	(31,484)
Property and equipment, net	$ 37,458	$ 44,823

Depreciation and amortization expense related to property and equipment for the years ended June 30, 2012, 2011 and 2010 was $16.4 million, $6.4 million and $6.8 million, respectively. Accumulated depreciation related to the CyberKnife and TomoTherapy Systems attributable to the shared ownership program at June 30, 2012 and 2011 was $1.3 million and $2.1 million, respectively.

6. Investment

Morphormics

In 2008, the Company purchased 120,000 shares of Morphormics Series C Preferred Stock at $12.50 per share, for a total purchase price of $1.5 million. The investment is carried at zero value as of June 30, 2012 and 2011. See Note 18, *Subsequent Events*, for further details.

7. Goodwill and Intangible Assets

Goodwill

Goodwill as of June 30, 2012 and 2011 and changes in the carrying amount of goodwill for the respective periods are as follows (in thousands):

	Year Ended June 30, 2012	Year Ended June 30, 2011
Balance at the beginning of the period	$ 54,474	$ 4,495
Addition related to acquisition		49,979
Adjustments related to prior year acquisition(1)	4,741	
Balance at the end of the period	$ 59,215	$ 54,474

(1) Primarily represents liabilities related to the TomoTherapy acquisition.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

7. Goodwill and Intangible Assets (Continued)

Intangible Assets

The Company's intangible assets associated with completed acquisitions at June 30, 2012 and 2011 are as follows: (in thousands):

		June 30, 2012			June 30, 2011		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Developed technology	6.0	$ 43,455	$ (9,161)	$ 34,294	$ 43,455	$ (2,069)	$ 41,386
Backlog	1.25	10,500	(8,867)	1,633	10,500	(467)	10,033
Distributor license	2.5	1,860	(768)	1,092	1,860	(40)	1,820
In-process research and development (CPAC)	Indefinite	12,800		12,800	12,800		12,800
		$ 68,615	$ (18,796)	$ 49,819	$ 68,615	$ (2,576)	$ 66,039

During the year ended June 30, 2011, the Company recorded additions to intangible assets of $66.8 million related to the acquisition of TomoTherapy. See Note 12, *Acquisition*, for additional information on the acquisition of TomoTherapy. Amortization expense related to intangible assets was $16.2 million, $1.2 million and $0.3 million for the years ended June 30, 2012, 2011 and 2010, respectively. During the years ended June 30, 2012, 2011 and 2010, the Company did not record any impairment charges as a result of its analysis of its intangible assets.

The estimated future amortization expense of purchased intangible assets, excluding in-process research and development, as of June 30, 2012, is as follows (in thousands):

Year Ending June 30,	Amount
2013	$ 9,306
2014	7,298
2015	6,933
2016	6,933
2017	6,549
	$ 37,019

8. Commitments and Contingencies

Operating Lease Agreements and Long-term Debt

The Company leases office and manufacturing space under non-cancelable operating leases with various expiration dates through December 2018. Rent expense, including common area maintenance, was $7.1 million, $4.8 million and $5.2 million for the years ended June 30, 2012, 2011 and 2010, respectively. The terms of the facility leases provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

8. Commitments and Contingencies (Continued)

The Company is required to make semi-annual interest payments on the Convertible Notes. See Note 14, *Debt*, for details.

Future minimum lease payments under non-cancelable operating lease agreements and long-term principal and interest on the Convertible Note as of June 30, 2012 are as follows (in thousands):

Year Ending June 30,	Operating Leases	Long-term Debt(1)
2013	$ 8,021	$ 3,750
2014	7,245	3,750
2015	4,681	3,750
2016	2,272	3,750
2017	2,325	100,313
Thereafter	2,645	
Total	$ 27,189	$ 115,313

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

The Company enters into standard indemnification agreements with its landlords and all superior mortgagees and their respective directors, officers' agents, and employees in the ordinary course of business. Pursuant to these agreements, the Company will indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the landlords, in connection with any loss, accident, injury, or damage by any third party with respect to the leased facilities. The term of these indemnification agreements is from the commencement of the lease agreements until termination of the lease agreements. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, historically the Company has not incurred claims or costs to defend lawsuits or settle claims related to these indemnification agreements. The Company has recorded no liability associated with its indemnification agreements as it is not aware of any pending or threatened actions that represent probable losses as of June 30, 2012.

Royalty Agreements

In March 2007, the Company entered into a license and royalty agreement with Deutsches Krebsforschungszentrum ("DKFZ"), a German cancer research center. Under this agreement, the Company has a non-exclusive license to use certain technology. The Company is obligated to pay DKFZ $12,500 for each CyberKnife System sold that includes the licensed technology, with the stipulation that the Company must make minimum annual payments of $50,000. Royalty expense under this agreement recorded in cost of revenue or deferred cost of revenue was $0.1 million, $0.6 million and $0.6 million for the years ended June 30, 2012, 2011 and 2010, respectively. At June 30, 2012 and 2011, the Company accrued approximately $25,000 and $0.3 million, respectively, under this agreement and the amounts are included in other accrued liabilities in the accompanying consolidated balance sheets.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

8. Commitments and Contingencies (Continued)

The Company, as a result of the acquisition of TomoTherapy, has a license and royalty agreement with RaySearch Laboratories AB, a Swedish provider of treatment planning software. Under this agreement, the Company has a non-exclusive license to use certain technology until September 2013. The Company is obligated to pay RaySearch $25,000 for each TomoTherapy System sold that includes the licensed technology, with the stipulation that the Company must make minimum annual payments of $750,000 for the remainder of the licensing term. Royalty expense under this agreement recorded in cost of revenue or deferred cost of revenue was $0.7 million, $40,000 and nil for the years ended June 30, 2012, 2011 and 2010, respectively. At June 30, 2012 and 2011, the Company accrued approximately $0.6 million and $0.6 million, respectively, under this agreement and the amounts are included in other accrued liabilities in the accompanying consolidated balance sheets.

The Company, as result of the acquisition of TomoTherapy, has an exclusive license agreement with the Wisconsin Alumni Research Foundation (WARF), a shareholder of the Company, to make, use, sell and otherwise distribute products under certain of WARF's patents anywhere in the world. The Company is required to pay WARF a royalty for each product sold. The license agreement expires upon expiration of the patents and may be terminated earlier if the Company so elects. The Company may also grant sublicenses to third parties but must pay WARF 50% of all fees, royalties and other payments received. WARF has the right to terminate the license agreement if the Company does not meet the minimum royalty obligations, which are $0.3 million per year, or if the Company commits any breach of the license agreement's covenants. If the Company were to lose this license, it would be unable to produce or sell the TomoTherapy Systems. Royalty expense under this agreement recorded in cost of revenue or deferred cost of revenue was $1.0 million, nil and nil for the years ended June 30, 2012, 2011 and 2010, respectively. At June 30, 2012 and 2011, the Company accrued approximately $0.1 million and $0.3 million, respectively, under this agreement and the amounts are included in other accrued liabilities in the accompanying consolidated balance sheets.

Contingencies

From time to time, the Company may become involved in litigation relating to claims arising during the ordinary course of business. Management does not believe the final disposition of these matters will have a material adverse effect on the financial position, results of operations or future cash flows of the Company.

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 recorded no liability associated with this indemnification, as it is not aware of any pending or threatened actions that represent probable losses as of June 30, 2012.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

8. Commitments and Contingencies (Continued)

Litigation

From time to time, the Company is involved in legal proceedings arising in the ordinary course of its business. Currently, management believes the Company does not have any probable and estimable loss related to any current legal proceedings and claims that would individually or in the aggregate materially adversely affect its financial condition or operating results. Litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond the Company's control. Should any of these estimates and assumptions change or prove to have been incorrect, the Company could incur significant charges related to legal matters which could have a material impact on its results of operations, financial position and cash flows.

Accuray Securities Litigation

On July 22, 2009, a securities class action lawsuit was filed in the U.S. District Court for the Northern District of California against the Company and certain of its current and former directors and officers. On August 7, 2009 and August 9, 2009, two securities class action complaints, both similar to the one filed on July 22, 2009, were filed against the same defendants in the same court. These three actions were consolidated. The consolidated complaint generally alleged that the Company and the individual defendants made false or misleading public statements regarding its operations and sought unspecified monetary damages and other relief. On August 31, 2010, the Court granted defendants' motion to dismiss the consolidated complaint and granted plaintiffs leave to file an amended complaint. On September 27, 2010, plaintiffs filed an amended complaint. The amended complaint named the Company and certain of its current and former officers and directors as defendants and generally alleged that the defendants made false or misleading public statements regarding its operations. The amended complaint sought unspecified monetary damages and other relief. Defendants filed a motion to dismiss the amended complaint. On April 28, 2011, the parties filed a stipulation of settlement with the court, providing for the settlement of the litigation for a payment of $13.5 million which was covered by insurance. The court preliminarily approved the settlement on June 10, 2011. A hearing on the terms of the settlement was held on September 1, 2011. On December 8, 2011, the Court issued its final judgment and order of dismissal with prejudice.

Litigation relating to the TomoTherapy Acquisition

On March 11, 2011, a purported class action complaint was filed in the Circuit Court for the State of Wisconsin, Dane County, on behalf of a putative class of TomoTherapy shareholders and naming as defendants TomoTherapy and TomoTherapy's board of directors (prior to the acquisition of TomoTherapy by the Company). Thereafter, four additional complaints were filed in the same court on behalf of the same class and against the same defendants, and two such complaints also named the Company and Jaguar Acquisition, Inc., a wholly-owned subsidiary of the Company ("Merger Sub"). On April 4, 2011, all five actions were consolidated. The complaints generally alleged that, in connection with the Company's then proposed merger transaction with TomoTherapy, TomoTherapy's board breached their fiduciary duties by, among other things, failing to maximize the value of TomoTherapy to its shareholders and purportedly agreeing to certain terms in the merger agreement, which were allegedly preclusive and onerous. The complaints further alleged that the Company and Merger Sub aided and abetted TomoTherapy's board of directors in their alleged breaches of fiduciary duties. The plaintiffs sought, among other things, an injunction barring consummation of the merger, rescission or recessionary damages, costs and attorney's fees. The Company and Merger Sub were dismissed from

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

8. Commitments and Contingencies (Continued)

the litigation without prejudice on April 19, 2011. The consolidated complaint against TomoTherapy and the former directors of TomoTherapy was dismissed with prejudice and without costs to either party on July 5, 2011.

Best Medical Trade Secret Litigation

On September 3, 2009, Best Medical International, Inc. ("Best Medical") filed a lawsuit against the Company in the U.S. District Court for the Western District of Pennsylvania, claiming that the Company induced certain individuals to leave the employment of Best Medical and join the Company in order to gain access to Best Medical's confidential information and trade secrets. Best Medical is seeking monetary damages and other relief. The Company filed a motion for summary judgment on May 20, 2011, Best Medical filed its response on June 21, 2011, and the Company filed a response to their response on July 8, 2011. On October 25, 2011, the court granted summary judgment in favor of the Company on all counts. On November 21, 2011 Best Medical filed a notice of appeal, and the parties await a ruling by the appellate court. At this time, the Company does not have enough information to estimate what, if any, financial impact this claim will have.

Best Medical Patent Litigation

On August 6, 2010, Best Medical filed an additional lawsuit against the Company in the U.S. District Court for the Western District of Pennsylvania, claiming that the Company has infringed U.S. Patent No. 5,596,619; a patent that Best Medical alleges protects a method and apparatus for conformal radiation therapy. On December 2, 2010, the Court granted the Company's motion to dismiss, with leave to amend. On December 16, 2010, Best Medical filed an amended complaint, claiming that the Company also infringed U.S. Patent Nos. 6,038,283 and 7,266,175, both of which Best Medical alleges cover methods and apparatus for conformal radiation therapy. On March 9, 2011, the Court dismissed with prejudice all counts against the Company, except for two counts of alleged willful infringement of two of the patents. The Court issued a Scheduling Order on May 12, 2011 appointing a special master for claim construction, and setting a claim construction hearing on January 10, 2012. Best Medical moved to voluntarily dismiss one of the two remaining patent claims on June 28, 2011, which the court granted on June 30, 2011, leaving only one patent (U.S. Patent No. 6,038,283) at issue in the case. The Court held a claim construction hearing on May 16, 2012, and we await a ruling by the Court. Best Medical is seeking declaratory and injunctive relief, as well as unspecified compensatory and treble damages and other relief. At this time, the Company does not have enough information to estimate what, if any, financial impact this claim will have.

TomoTherapy Former Distributor in Japan

On July 17, 2009, Hi-Art Co., Ltd. (Hi-Art), TomoTherapy's former distributor in Japan, filed a complaint against TomoTherapy in the Tokyo District Court seeking compensation it claimed was owed by TomoTherapy. The Company and Hi-Art entered into a settlement agreement pursuant to which the Company agreed to pay 190,000,000 yen (or approximately $2.3 million) and Hi-Art dropped all claims against TomoTherapy and the Company. On July 26, 2011, the Court approved the settlement and issued a decree dismissing the case. The settlement amount was paid during the fiscal quarter ended September 30, 2011.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

8. Commitments and Contingencies (Continued)

Rotary Systems

On April 28, 2011, a former supplier to TomoTherapy, Rotary Systems Incorporated, 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 in June 2011, 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. At this time, the Company does not have enough information to estimate what, if any, financial impact this claim will have.

Radiation Stabilization Solutions Patent Litigation

On September 15, 2011, Radiation Stabilization Solutions LLC ("Radiation Stabilization Solutions") filed a patent infringement complaint in the United States District Court for the Northern District of Illinois, Eastern Division. The complaint, alleged the Company's sale of the TomoHD product induces infringement of or contributorily infringes U.S. Patent No. 6,118,848, or the '848 Patent, and sought unspecified monetary damages for the alleged infringement. The complaint also named Varian Medical Systems, Inc., BrainLab AG, BrainLab, Inc., Elekta AB and Elekta, Inc. as defendants, alleging that certain of their products also infringe the '848 patent. On October 27, 2011, the Court dismissed the complaint without prejudice because non-resident defendants had been improperly named in the complaint.

On October 28, 2011, Radiation Stabilization Solutions filed a new complaint against the Company and a customer of the Company in the United States District Court for the Northern District of Illinois, Eastern Division. The new complaint repeats the original complaint's allegations against the Company and seeks unspecified monetary damages for the alleged infringement. The complaint further alleges that the customer directly and indirectly infringes the '848 patent, and seeks unspecified monetary damages for the alleged infringement. Radiation Stabilization Solutions also filed individual suits against each of Varian and Elekta and several of their respective customers. Radiation Stabilization Solutions served the complaint on Accuray and its customer on December 7, 2011. On January 30, 2012 the Company filed a motion to dismiss the complaint, and the Court heard oral argument for the motion on June 29, 2012. The parties await a ruling by the Court. At this time, the Company does not have enough information to estimate what, if any, financial impact this claim will have.

9. Stockholders' Equity

In August 2007, the Company announced that the Board of Directors had approved a stock repurchase plan that authorized the Company to repurchase shares of its common stock. Under the plan, the Company had the ability to acquire up to $25.0 million of common shares in the open market over a period of one year. The stock repurchase plan expired in August 2008 and was not renewed by the Board of Directors. During the year ended June 30, 2012, the Company retired 2,140,018 shares of

Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

9. Stockholders' Equity (Continued)

its common stock that had been repurchased in prior years. At June 30, 2012, the Company has reserved approximately 13.2 million shares of its authorized common stock for future issuance to the 3.75% Convertible Senior Note-holders, while 14.7 million shares of authorized common stock are reserved for issuance under the share-based compensation plans and the employee stock purchase plan.

Stock Options, Restricted Stock Units, Performance Stock Units and Restricted Stock Awards

At June 30, 2012, the Company has one active share-based compensation plan, the 2007 Incentive Award Plan (the '2007 Plan'). Options may be granted to employees, directors and non-employee consultants to purchase shares of the Company's common stock. Additionally, the Company grants Restricted Stock Units, or RSUs, and Performance Stock Units, or PSUs, to employees that entitle the holder to receive shares of common stock as the awards vest.

Under the 2007 Plan, the Company may issue up to 10.5 million shares, of which 2.3 million were available for future issuances as of June 30, 2012. As of June 30, 2012, the 1993 Plan and the 1998 Plan continued to remain in effect along with the 2007 Plan; however, options can no longer be granted from the 1993 and 1998 Plans, and all options which expire or are forfeited will be retired from the pool.

Only employees are eligible to receive incentive stock options. Non-employees may be granted non-qualified options. The Board of Directors has the authority to set the exercise price of all options granted, subject to the exercise price of incentive stock options being no less than 100% of the fair value of a share of common stock on the date of grant; and no less than 85% of the fair value for non-qualified stock options.

Generally, the Company's outstanding options and RSUs vest at a rate of 25% per year. However, certain RSUs granted vest 10% upon the first anniversary year of the grant date, 20% upon the second anniversary year of the grant date, 30% upon the third anniversary year of the grant date and 40% upon the fourth anniversary year of the grant date. Continued vesting typically terminates when the employment or consulting relationship ends. The maximum term of the options granted to persons who own at least 10% of the voting rights of all outstanding stock on the date of grant is five years. The maximum term of all other options is ten years. The Company's current practice with options is to issue new shares to satisfy share option exercises.

In connection with the Company's acquisition of TomoTherapy, the Company assumed 1,539,255 outstanding stock options and 429,591 RSAs under TomoTherapy's stock plans. The remaining vesting term, remaining contractual term range and exercise price range for the assumed stock options is 0 years, 0.1 to 3.4 years and $0.48 to $44.24, respectively. The remaining vesting term for the RSAs is 1.2 years.

As of June 30, 2012, there was approximately $4.5 million of unrecognized compensation cost, net of estimated forfeitures, related to RSUs, which is expected to be recognized over a weighted average period of 1.9 years. As of June 30, 2012, there was approximately $5.5 million of unrecognized compensation cost, net of estimated forfeitures, related to unvested stock options, which is expected to be recognized over a weighted average period of 2.7 years. As of June 30, 2012, there was approximately $0.5 million of unrecognized compensation cost related to RSAs, which is expected to be recognized over a weighted-average period of 1.2 years.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

9. Stockholders' Equity (Continued)

The Company uses the Black-Scholes option pricing model for determining the fair value of option grants. During the years ended June 30, 2012, 2011 and 2010, the following weighted average assumptions were used:

	Years Ended June 30,		
	2012	2011	2010
Risk-free interest rate	0.85% - 1.72%	1.88% - 2.44%	2.11% - 3.04%
Dividend yield			
Expected life	6.25	6.25	6.25
Expected volatility	52.0% - 52.9%	52.8% - 54.9%	56.6% - 64.7%

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

	Years ended June 30,		
	2012	2011	2010
Cost of revenue	$ 1,672	$ 1,312	$ 1,721
Selling and marketing	729	695	1,433
Research and development	2,340	2,922	2,850
General and administrative	3,717	8,436	4,642
	$ 8,458	$ 13,365	$ 10,646

During the years ended June 30, 2011, the Company recognized $4.4 million of share-based compensation expense related to accelerated vesting of stock options, RSUs and RSAs in conjunction with employee separation costs. No such expenses were recognized during the year ended June 30, 2012 and 2010. At June 30, 2012 and 2011, $0.4 million and $0.3 million, respectively, of capitalized share-based compensation costs were included as components of inventory.

The aggregate intrinsic value in the table below represents the total pre-tax intrinsic value (the difference between the fair value of the Company's common stock on June 30, 2012 of $6.82 and the exercise price of the options) that would have been received by option holders if all options exercisable had been exercised on June 30, 2012. The total intrinsic value of options exercised in the years ended June 30, 2012, 2011, and 2010 was approximately $2.9 million, $6.1 million and $6.6 million, respectively. The total fair value of shares vested during the years ended June 30, 2012, 2011 and 2010 was $2.8 million, $3.4 million and $1.1 million, respectively.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

9. Stockholders' Equity (Continued)

Option activity during the year ended June 30, 2012 was as follows:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (in thousands)
Balance at June 30, 2011	8,336,220	$ 7.39	5.13	$ 19,131
Options granted	1,399,424	$ 4.53		
Options exercised	(746,441)	$ 2.50		
Options forfeited/expired	(1,116,603)	$ 9.79		
Balance at June 30, 2012	7,872,600	$ 7.00	5.57	$ 12,359
Vested or Expected to vest at June 30, 2012	7,871,741	$ 7.00	5.57	$ 12,359
Exercisable at June 30, 2012	5,816,292	$ 7.57	4.46	$ 9,242

During the years ended June 30, 2012, 2011 and 2010, the Company recognized $3.5 million, $4.7 million and $6.6 million, respectively, of share-based compensation expense for stock options granted to employees. The weighted average fair value of options granted was $2.30, $3.91 and $3.45 per share for the years ended June 30, 2012, 2011 and 2010, respectively.

Tax benefits from tax deductions for exercised options and disqualifying dispositions in excess of the deferred tax asset attributable to stock compensation costs for such options are credited to additional paid-in capital. Realized excess tax benefits for the years ended June 30, 2012, 2011 and 2010 were nil, nil and $0.4 million, respectively.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

9. Stockholders' Equity (Continued)

Combined activity under the share based compensation plans were as follows:

	Shares Available For Grant	Number of Options Outstanding	Weighted Average Exercise Price	Number of RSUs/PSUs Outstanding	Weighted Average Grant Date Fair Value
Balance at June 30, 2009	2,645,757	8,455,316	$ 5.70	519,609	$ 18.15
Additional shares reserved	1,500,000				
Expirations	(325,120)				
Grants	(1,686,498)	1,498,740	$ 6.09	187,758	$ 6.12
Forfeitures or cancellations	904,502	(831,716)	$ 9.86	(72,786)	$ 18.92
Exercises or releases		(1,313,749)	$ 1.55	(170,395)	$ 6.32
Balance at June 30, 2010	3,038,641	7,808,591	$ 6.03	464,186	$ 12.52
Additional shares reserved	1,500,000				
Expirations	(151,042)				
Grants	(1,389,949)	914,770	$ 7.30	475,179	$ 6.77
Options assumed		1,539,255	$ 10.41		$
Forfeitures or cancellations	602,945	(529,711)	$ 8.60	(79,180)	$ 9.85
Exercises or releases		(1,396,685)	$ 2.58	(201,992)	$ 7.57
Balance at June 30, 2011	3,600,595	8,336,220	$ 7.39	658,193	$ 6.97
Additional shares reserved	1,500,000				
Expirations					
Grants	(3,400,449)	1,399,424	$ 4.53	2,001,025	$ 4.53
Forfeitures or cancellations	617,864	(1,116,603)	$ 9.79	(259,107)	$ 5.67
Exercises or releases		(746,441)	$ 2.50	(302,476)	$ 4.47
Balance at June 30, 2012	2,318,010	7,872,600	$ 7.00	2,097,635	$ 5.16
Vested during year ended June 30, 2012				296,905	$ 4.47
Non-vested at June 30, 2011				652,622	$ 6.97
Non-vested at June 30, 2012				2,097,635	$ 5.16

Under the 2007 Plan, the Company issued RSUs to employees and recognized $2.5 million, $2.9 million and $3.0 million of share-based compensation expense, net of estimated forfeitures, during the years ended June 30, 2012, 2011 and 2010, at a weighted average grant date fair value of $4.53, $6.77 and $6.12 per share, respectively.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

9. Stockholders' Equity (Continued)

The activity under the RSA Plan was as follows:

	Number of RSAs Outstanding	Weighted Average Grant Date Fair Value
Balance at June 30, 2011	190,522	$ 7.39
Grants		$
Forfeitures	(10,804)	$ 7.39
Releases	(147,290)	$ 7.39
Balance at June 30, 2012	32,428	$ 7.39

The Company recognized $1.4 million and $5.0 million of share-based compensation expense during the years ended June 30, 2012 and 2011, respectively, for RSAs assumed in connection with the acquisition of TomoTherapy.

Employee Stock Purchase Plan

Under the Company's 2007 Employee Stock Purchase Plan ("ESPP"), qualified employees are permitted to purchase the Company's common stock at 85% of the lower of the fair market value of the common stock on the commencement date of each offering period or the fair market value on the specified purchase date. The ESPP is deemed compensatory and compensation costs are accounted for under ASC 718, *Stock Compensation*. The maximum number of shares authorized for sale under the ESPP is 1.2 million.

Employees' payroll deductions may not exceed 10% of their salaries. Employees may purchase up to 2,500 shares per period provided that the value of the shares purchased in any calendar year may not exceed $25,000, as calculated pursuant to the purchase plan.

The estimated fair value of ESPP shares was determined at the date of grant using the Black-Scholes option pricing model. Expected volatility was based on the historical volatility of a peer group of publicly traded companies. The expected term of six months was based upon the offering period of the ESPP. The risk-free rate for the expected term of the ESPP option was based on the U.S. Treasury Constant Maturity rate for each offering period. For the years ended June 30, 2012, 2011 and 2010, the Company recognized $1.1 million, $0.8 million and $0.8 million, respectively, of compensation expense related to its ESPP. The weighted average assumptions were as follows:

	Years Ended June 30,		
	2012	2011	2010
Risk-free interest rate	0.05% - 0.12%	0.11% - 0.23%	0.15% - 0.29%
Dividend yield			
Expected life	0.50	0.50	0.50
Expected volatility	33.6% - 50.6%	33.6% - 56.7%	56.7% - 78.3%

As of June 30, 2012, there was approximately $0.6 million of unrecognized compensation cost related to the ESPP, which is expected to be recognized over a weighted average period of 0.4 years.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

9. Stockholders' Equity (Continued)

The weighted average fair value of ESPP shares was $1.80, $2.03 and $2.21 per share for the years ended June 30, 2012, 2011 and 2010, respectively.

Performance-Based Awards

During fiscal 2012, the Compensation Committee of the Board of Directors of the Company approved the granting of Performance-Based Stock Units ("PSUs") to employees of the Company which vest only upon meeting certain financial performance criteria during the performance period commencing on the first day of the Company's 2012 fiscal year and ending on the last day of the Company's 2013 fiscal year. If the PSUs do not become vested as a result of the Company's performance during the performance period, all PSUs are automatically forfeited by the participants effective as of the last day of the performance period. During the year ended June 30, 2012, approximately 1.0 million PSUs have been granted to employees valued at approximately $3.9 million which was based on the fair value of the Company's common stock on the grant date and will be recognized over the requisite performance period based on management's assessment of the probability of achieving the performance criteria. Approximately 0.9 million PSUs are outstanding as of June 30, 2012.

As of June 30, 2012, management assessed that it was not probable that the performance criteria would be met during the performance period and accordingly, no compensation cost has been recognized for the PSUs during the year ended June 30, 2012. If in a future period management revises its assessment and concludes that it is probable that the performance criteria will be met, the Company will record a cumulative catch up compensation charge for the PSUs in that period. Remaining compensation charges would be recognized ratably over the remaining performance period.

10. Income Taxes

Income (loss) before provision for (benefit from) income taxes on the accompanying statements of operations included the following components (in thousands):

	Years Ended June 30,		
	2012	**2011**	**2010**
Domestic	$ (82,494)	$ (28,621)	$ 1,169
Foreign	6,636	2,626	1,668
Total worldwide	(75,858)	(25,995)	2,837

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

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

	Years Ended June 30,		
	2012	2011	2010
Current:			
Federal	$	$	$ (876)
State	(7)	114	265
Foreign	2,107	939	724
Total current	2,100	1,053	113
Deferred:			
Federal			
State			
Foreign	495	63	(117)
Total deferred	495	63	(117)
Total provision for (benefit from) income taxes	$ 2,595	$ 1,116	$ (4)

Income tax payable was $1.1 million and $0.4 million at June 30, 2012 and 2011 respectively. A reconciliation of income taxes at the statutory federal income tax rate to net income taxes included in the accompanying consolidated statements of operations is as follows (in thousands):

	Years Ended June 30,		
	2012	2011	2010
U.S. federal taxes (benefit):			
At federal statutory rate	$ (26,551)	$ (8,961)	$ 993
State tax, net of federal benefit	(7)	114	265
Stock-based compensation expense	3,645	33	389
Change in valuation allowance	24,796	8,883	(32)
Credits	(846)	(1,373)	(877)
Federal alternative minimum tax			(873)
Meals and entertainment	335	214	178
Acquisition costs	89	2,451	
Other	818	(251)	(71)
Foreign taxes	316	6	24
Total	$ 2,595	$ 1,116	$ (4)

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

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

purposes. Significant components of the Company's net deferred tax assets at June 30, 2012 and 2011 were as follows (in thousands):

	June 30,	
	2012	**2011**
Deferred tax assets:		
Federal and state net operating losses	$ 80,834	$ 46,110
Accrued vacation	1,973	2,184
Accrued bonus		2,315
Deferred revenue	1,125	13,981
Deferred rent	1,165	1,355
Credits	13,985	12,500
Share-based compensation expense	13,103	15,007
Reserves not deductible for tax purposes	4,085	9,678
Unicap	1,347	1,818
Other	689	1,642
Total deferred tax assets	118,306	106,590
Deferred tax liabilities:		
Fixed assets/intangibles	(15,198)	(21,629)
Foreign currency differences	(594)	(3,034)
Total deferred tax liabilities	(15,792)	(24,663)
Valuation allowance	(102,142)	(81,800)
Net deferred tax assets	$ 372	$ 127

The Company has not provided for U.S. income taxes on undistributed earnings of its foreign subsidiaries because it intends to permanently re-invest these earnings outside the U.S. The cumulative amount of such undistributed earnings upon which no U.S. income taxes have been provided as of June 30, 2012 was $6.6 million. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be repatriated to the U.S.

As of June 30, 2012, the Company had approximately $209.0 million and $43.0 million in federal and state net operating loss carryforwards, respectively. The federal and state carryforwards expire in varying amounts beginning in 2019 for federal and 2015 for state purposes. Such net operating loss carryforwards includes excess tax benefits from employee stock option exercises which, in accordance with guidance for income tax accounting, have not been recorded within the Company's deferred tax asset balances. The Company will record approximately $5.5 million as a credit to additional paid-in capital as and when such excess benefits are ultimately realized.

In addition, as of June 30, 2012, the Company had federal and state research and development tax credits of approximately $13.5 million and $13.1 million, respectively. The federal research credits will begin to expire in 2025, the California research credits have no expiration date, and the other state research credits will begin to expire in 2013.

Utilization of the Company's net operating loss and credit carryforwards is subject to annual limitation due to the ownership change limitations provided by Section 382 of the Internal Revenue

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

Code and similar state provisions. The acquisition of TomoTherapy and the resulting Section 382 limitation should not result in the expiration of net operating losses or credits due to the Section 382 limitation.

Based on the available objective evidence and history of losses, the Company has established a 100% valuation allowance against its domestic and certain foreign net deferred tax assets due to the uncertainty surrounding the realization of such assets.

The aggregate changes in the balance of gross unrecognized tax benefits were as follows at June 30, 2012, 2011, and 2010 (in thousands):

	Years Ended June 30,		
	2012	2011	2010
Balance at beginning of year	$ 14,158	$ 3,669	$ 3,364
Tax positions related to current year:			
Additions	1,129	10,468	347
Tax positions related to prior years:			
Additions	40	58	6
Reductions	(180)	(37)	(48)
Balance at end of year	$ 15,147	$ 14,158	$ 3,669

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses the Company's tax positions in respect to legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business. The Company anticipates that except for $0.3 million in uncertain tax positions that may be reduced related to the lapse of various statutes of limitation, there will be no material changes in uncertain tax positions in the next 12 months. As of June 30, 2012, the amount of gross unrecognized tax benefits was $15.1 million of which $2.5 million would affect the Company's effective tax rate if realized.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of June 30, 2012 and 2011, respectively, the Company had approximately $0.6 million and $0.4 million of accrued interest and penalties related to uncertain tax positions.

The Company files income tax returns in the United States federal, various states and foreign jurisdictions. Due to attributes being carried forward and utilized during open years, the statute of limitations remains open for the U.S. federal jurisdiction and domestic states for tax years from 1999 and forward. The statute of limitations for Accuray France and Accuray Japan remain open from 2008 and 2011, respectively. For legacy TomoTherapy foreign entities, the statute of limitations in most foreign jurisdictions remain open from 2008, with the exception of TomoTherapy China which remains open from 2011.

The Company is also subject to the periodic examination of our income tax returns by the Internal Revenue Service (IRS) and other tax authorities, and in some cases we have received additional tax assessments. Currently, certain tax years are under audit by the relevant tax authorities, including an examination of our U.S. federal tax returns for the calendar year 2009 for TomoTherapy Incorporated and an examination in France for fiscal years 2009 through 2011. Both audits are in the information gathering stage.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

11. Other Income (Expense), Net

For the years ended June 30, 2012, 2011 and 2010, other income (expense), net consisted of the following (in thousands):

	Years Ended June 30,		
	2012	2011	2010
Interest income	$ 360	$ 543	$ 1,813
Foreign currrency transaction gain		2,193	
Realized gain on investments		27	318
Other	170	69	270
Total interest and other income	530	2,832	2,401
Interest expense on convertible notes	(7,397)		
Other interest expenses	(414)	(23)	(32)
Foreign currrency transaction loss	(4,386)		(1,920)
Loss on asset disposition	(296)	(254)	(195)
State sales, use and local taxes	(877)	(267)	(226)
Fines and penalties	(31)		(27)
Total interest and other expense	(13,401)	(544)	(2,400)
Total other income (expense), net	$ (12,871)	$ 2,288	$ 1

12. Acquisition

Fiscal year 2011

On June 10, 2011, the Company completed the acquisition of TomoTherapy by acquiring all of TomoTherapy's common stock in exchange for cash and shares of Accuray common stock. TomoTherapy is a creator of advanced radiation therapy solutions for cancer care. The objective of the acquisition is to create a company that can provide patients with radiation treatments tailored to their specific needs, from high-precision radiosurgery to image-guided, intensity-modulated radiation therapy. The Company has included the financial results of TomoTherapy in its consolidated financial statements from the date of acquisition. TomoTherapy's revenues and net loss from the acquisition date through June 30, 2011 were $11.1 million and $20.6 million, respectively.

The total purchase price for TomoTherapy was approximately $248.0 million and was comprised of the following (in thousands):

Cash	$ 174,178
Common stock issued (9,112,511 shares)	67,341
Stock options assumed (1,539,255 shares)	2,234
RSAs assumed (429,591 shares)	4,270
	$ 248,023

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

12. Acquisition (Continued)

The fair value of the Common Stock issued was based on the per share price of Accuray's Common Stock on the date of acquisition. The fair value of the stock options assumed was determined using the Black-Scholes option pricing model utilizing the following assumptions:

Risk Free Rate	0.10% - 1.36%
Dividend Yield	0%
Expected Life	0.44 - 4.44
Volatility	34% - 56%

The fair value of the stock options assumed was attributed to purchase price and post-transaction compensation expense based on the ratio of the past service period to the total service period for each award.

The fair value of the RSA's assumed was based on a combination of the per share price of Accuray's common stock on the date of acquisition and $3.15 for each pre-adjusted RSA. The fair value of the RSA's assumed was attributed to purchase price and post-transaction compensation expense based on the ratio of the past service period to the total service period for each award.

The preliminary allocation of the purchase price to TomoTherapy's tangible and identifiable intangible assets acquired and liabilities assumed was based on their estimated fair values at the date of acquisition as determined by the Company's management. The excess of the purchase price over the tangible and identifiable intangible assets acquired and liabilities assumed has been allocated to goodwill. As of June 30, 2011, the purchase price has been allocated as follows (in thousands):

Cash	$	105,932
Accounts receivable		31,563
Inventories		72,383
Other assets		10,666
Property and equipment		28,878
Goodwill		49,979
Identified intangible assets		66,805
Accounts payable		(14,974)
Customer advances		(13,045)
Deferred revenue		(39,856)
Other liabilities		(39,327)
Noncontrolling interest		(10,981)
Total purchase price	$	248,023

The Company has estimated the fair value of the acquired identifiable intangible assets, which are subject to amortization, using the income approach, which included an analysis of the completion costs, cash flows, other required assets and risk associated with achieving such cash flows. The goodwill of $50.0 million represents the value that is expected from combining TomoTherapy with Accuray to provide customers with a broader range of product offerings and generate greater opportunity for service revenue and for replacement business over time to customers who have purchased these best-in-class technologies. No amount of goodwill is expected to be deductible for tax purposes.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

12. Acquisition (Continued)

In conjunction with the acquisition, the Company recorded an expense of $10.5 million for severance payments to certain TomoTherapy employees, most of which was paid as of June 30, 2011. These charges were recorded in operating expenses in the consolidated statements of operations for the year ended June 30, 2011. The Company incurred $18.5 million in acquisition-related costs for TomoTherapy during fiscal year 2011, including the severance liability above, and additional acquisition-related costs, such as bankers' fees, legal and accounting fees and integration costs.

The identifiable intangible assets assumed in the acquisition of TomoTherapy were recognized as follows based upon their fair values as of June 10, 2011 (in thousands):

	Fair Value	Useful Life (in years)
Developed technology	$ 41,645	6
Backlog	10,500	1.25
Distributor license	1,860	2.5
Total intangible assets subject to amortization	54,005	
In-process research and development (CPAC)	12,800	Indefinite
Total intangible assets	$ 66,805	

Acquired developed technology represents the fair value of TomoTherapy's products that have reached technological feasibility and are part of the existing product line. Backlog represents existing production or sales orders not yet fulfilled as of June 10, 2011. In-process research and development represents TomoTherapy's research and development projects that had not reached technological feasibility and had no alternative future use when acquired.

The unaudited pro forma results presented below include the effects of pro forma adjustments as if TomoTherapy was acquired on July 1, 2009. The nonrecurring pro forma adjustments are primarily the result of fair value adjustments to intangible assets, inventory, fixed assets and deferred revenue. The pro forma financial results do not include any anticipated synergies or other expected benefits of the acquisition. The table below is presented for informational purposes only and is not indicative of future operations or results that would have been achieved had the acquisition been completed as of July 1, 2009 (in thousands, except per share amounts).

	Years Ended June 30, 2011	2010
	(unaudited)	
Net revenue	$ 407,963	$ 409,313
Net loss attributable to stockholders	$ (74,522)	$ (50,037)
Diluted earnings per share	$ (1.08)	$ (0.75)

13. Investment in CPAC

In April 2008, TomoTherapy established a new affiliate, CPAC, to develop a compact proton therapy system for the treatment of cancer. As its initial investment in CPAC, TomoTherapy contributed intellectual property with a fair market value of approximately $1.9 million. Since then, CPAC has raised additional funds from TomoTherapy, the Company and other investors through the

Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

13. Investment in CPAC (Continued)

sale of stock and issuance of promissory notes. As of June 30, 2012, the Company and its wholly owned subsidiary, TomoTherapy, together own approximately 15.4% of the outstanding stock of CPAC and approximately 16.3% on a fully diluted basis. Although TomoTherapy's and the Company's combined ownership in CPAC is less than 50%, the Company includes CPAC in its consolidated financial statements because the Company and TomoTherapy are the primary beneficiaries of CPAC (a variable interest entity, or VIE). The Company and TomoTherapy were involved in the design of CPAC, from which CPAC cannot depart due to restrictions that are part of its financing arrangements. The Company also provided intellectual property, which is the basis of CPAC and also holds influence over the VIE through representation on CPAC's board of directors. Further, the Company has an option to either acquire CPAC or enter into a distribution arrangement for the technology developed by CPAC as further described below. CPAC's outside stockholders' interests are shown in the Company's consolidated financial statements as "Non-controlling interest." The liabilities of the VIE do not represent additional claims on the Company's general assets; rather they represent claims against the specific assets of the VIE. Likewise, the assets of the VIE consolidated by the Company do not represent additional assets available to satisfy claims against the Company's general assets. The creditors of the VIE do not have recourse to the Company. Total assets and liabilities of CPAC were $15.0 million and $0.6 million, respectively, as of June 30, 2012 and $16.0 million and $1.6 million, respectively, as of June 30, 2011, which are included within the Company's consolidated balance sheets. The largest component of CPAC assets as of June 30, 2012 and 2011 is its in-process research and development intangible asset valued at $12.8 million. See Note 7, *Goodwill and Intangible Assets* for details.

From December 2010 through March 2012, the Company, TomoTherapy and certain other CPAC investors purchased convertible promissory notes from CPAC. Total consideration for the notes that the Company and TomoTherapy purchased was $1.2 million. Under the terms of the December 2010 notes, TomoTherapy received warrants for 1,386,981 common shares of CPAC. Other participating investors also purchased $3.3 million of the convertible notes which were included in "other accrued liabilities" in the Company's consolidated balance sheets prior to their conversion to equity in April 2012. The other investors also received warrants under the terms of the December 2010 notes for an aggregate of 1,386,983 shares of CPAC, which were equity classified. The notes bore interest at 12% and were convertible based on a per share conversion price as defined in the notes. The CPAC warrants described above are exercisable through November 2020 at an exercise price of $0.57 per CPAC common share. At June 30, 2012, none of these warrants had been exercised.

On March 9, 2011, TomoTherapy entered into a revolving promissory note with CPAC. On May 10, 2011, the revolving note was amended to increase the maximum amount available to borrow to $1.9 million. As of June 30, 2012, $2.2 million of principal and accrued interest was outstanding under the revolving note. The revolving note bears interest at 12% per annum compounded quarterly. This note and related interest is eliminated in consolidation.

On April 20, 2012, the Company entered into various transactions with CPAC and its other stockholders pursuant to which the Company invested $1.1 million and agreed, under certain circumstances, to invest up to an additional $0.7 million in exchange for preferred stock of CPAC and warrants to purchase common stock. The Company (including TomoTherapy) also converted the outstanding principal and accrued interest on its convertible promissory notes, amounting to $1.3 million, into preferred stock. The other note holders also converted their outstanding principal and accrued interest, amounting to $3.6 million into preferred stock. Certain other investors also

Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

13. Investment in CPAC (Continued)

participated in the financing. In connection with such transactions, the Company received warrants for 338,839 common shares of CPAC. These warrants are exercisable through April 2017 at an exercise price of $0.8725 per CPAC common share. At June 30, 2012, none of these warrants had been exercised.

The $1.9 million principal amount revolving promissory note remains outstanding but its maturity date was extended from December 31, 2011 to December 31, 2012 as part of the April 2012 transaction. The Company can convert all or any part of the revolving note into preferred stock of CPAC at any time until September 30, 2012. If the second closing of the preferred stock financing occurs, then the Company will be obligated to convert the revolving note to the extent such conversion will not result in the Company owning more than 19.0% of CPAC. If any portion of the revolving note remains outstanding following the second closing, the note will be amended to change the maturity date to December 31, 2015 and to decrease the interest rate from 12% per annum to 8% per annum compounded quarterly.

In connection with the April 2012 transactions, the Company modified the option it previously held to purchase a portion of the CPAC stock held by other CPAC investors. The Company now has the option, upon the occurrence of certain events, to elect to either acquire CPAC at the then-determined fair value or enter into a non-exclusive supply and distribution agreement for CPAC's compact proton therapy products. The triggers for the option becoming exercisable include CPAC achieving certain technical milestones or the CPAC board approving a proposal for the acquisition of CPAC.

The Company and CPAC also amended certain licensing relationships for the DWA technology by and between the Company, CPAC and Lawrence Livermore National Security, LLC ("LLNS") and terminated a previous arrangement pursuant to which the Company had provided CPAC with certain accounting and back office support and management services.

14. Debt

On August 1, 2011, the Company issued $100 million aggregate principal amount of 3.75% Convertible Senior Notes due August 1, 2016 (the "Convertible Notes") to certain qualified institutional buyers or QIBs. The Convertible Notes were offered and sold to the QIBs pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from the 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 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 Convertible Notes will mature on August 1, 2016, unless earlier repurchased, redeemed or converted.

The 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 Convertible Notes may convert their 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 Convertible Notes may convert their 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

Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

14. Debt (Continued)

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 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 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 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 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 Convertible Notes being converted. The initial conversion rate will be 105.5548 shares of the Company's common stock per $1,000 principal amount of 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, will be subject to adjustment as further described below.

Holders of the Convertible Notes who convert their 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 Convertible Notes may require the Company to purchase all or a portion of their Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of Convertible Notes, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date.

On or after August 1, 2014 and prior to the maturity date, the Company may redeem for cash all or a portion of the 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 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 Convertible Notes. The principal amount of the liability component of the Convertible Notes was $75.9 million as of 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 will be accreted to the principal amount of the Convertible Notes using the effective interest method over five years.

Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

14. Debt (Continued)

The following table presents the carrying value of the Convertible Notes as of June 30, 2012 (in thousands):

Carrying amount of the equity conversion component	$	23,189
Principal amount of the Convertible Notes	$	100,000
Unamortized debt discount(1)		(20,534)
Net carrying amount	$	79,466

(1) As of June 30, 2012, the remaining period over which the unamortized debt discount will be amortized is 49 months.

A summary of interest expense and effective interest rate on the liability component related to the Convertible Notes for the year ended June 30, 2012 is as follows (in thousands):

		Year ended June 30, 2012
Effective interest rate		10.0%
Interest expense related to contractual interest coupon	$	3,438
Interest expense related to amortization of debt discount		3,596
Total interest expense recognized	$	7,034

15. Employee Benefit Plans

The Company's employee savings and retirement plan is qualified under Section 401(k) of the United States Internal Revenue Code. Employees may make voluntary, tax-deferred contributions to the 401(k) Plan up to the statutorily prescribed annual limit. The Company makes discretionary matching contributions to the 401(k) Plan on behalf of employees up to the limit determined by the Board of Directors. The Company contributed $1.7 million, $0.7 million and $0.7 million to the 401(k) Plan during the years ended June 30, 2012, 2011 and 2010, respectively.

16. Restructuring Charges

In the second quarter of fiscal 2012, the Company implemented a Workforce Re-alignment Program ("WFA") which affected approximately 51 full-time positions across the organization. The WFA was designed to position the workforce more appropriately for the Company's growth strategy and to help achieve cost synergies associated with the acquisition of TomoTherapy during fiscal 2011. The Company originally estimated the total restructuring-related charges associated with the WFA to be approximately $1.7 million in cash related to employee severance pay and related expenses. The WFA program has been completed by the end of the fourth quarter of fiscal 2012 and the Company reduced its global workforce under this program by 51 full-time employees and recorded $1.9 million in charges for severance and related benefits, which has been paid as of June 30, 2012. Restructuring charges are reflected within the respective operating expenses in the consolidated statements of operations.

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Accuray Incorporated

Notes to Consolidated Financial Statements (Continued)

17. Quarterly Financial Data (unaudited)

	Quarters ended			
	September 30, 2011	**December 31, 2011**	**March 31, 2012**	**June 30, 2012**
Net revenue	$ 100,451	$ 106,423	$ 101,816	$ 100,533
Gross profit	$ 24,428	$ 40,243	$ 36,111	$ 36,490
Net loss	$ (28,083)	$ (12,191)	$ (16,533)	$ (21,646)
Net loss attributable to stockholders	$ (26,510)	$ (10,387)	$ (14,881)	$ (20,264)
Basic net loss per share attributable to stockholders	$ (0.38)	$ (0.15)	$ (0.21)	$ (0.28)
Diluted net loss per share attributable to stockholders	$ (0.38)	$ (0.15)	$ (0.21)	$ (0.28)
Shares used in basic per share calculation	70,263	70,698	71,120	71,473
Shares used in diluted per share calculation	70,263	70,698	71,120	71,473

	Quarters ended			
	September 30, 2010	**December 31, 2010**	**March 31, 2011**	**June 30, 2011**
Net revenue	$ 38,068	$ 54,246	$ 54,747	$ 75,223
Gross profit	$ 18,237	$ 29,466	$ 27,313	$ 32,226
Net income (loss)	$ (4,640)	$ 4,098	$ (1,160)	$ (25,409)
Net income (loss) attributable to stockholders	$ (4,640)	$ 4,098	$ (1,160)	$ (24,980)
Basic net (loss) per share attributable to stockholders	$ (0.08)	$ 0.07	$ (0.02)	$ (0.40)
Diluted net (loss) per share attributable to stockholders	$ (0.08)	$ 0.07	$ (0.02)	$ (0.40)
Shares used in basic per share calculation	58,667	59,282	59,960	62,451
Shares used in diluted per share calculation	58,667	61,376	59,960	62,451

18. Subsequent Events

Acquisition of Morphormics, Inc.

On July 15, 2012, the Company acquired all of the remaining outstanding equity of Morphormics, Inc. that it did not previously own for a cash payment of approximately $5.7 million. Morphormics is a privately-held developer of medical imaging software. This acquisition will enable the Company to extend auto-contouring capabilities for both the CyberKnife and TomoTherapy systems to improve disease specific workflows. The purchase price is primarily attributable to developed technology which is expected to be amortized over 5 years. Given the proximity of this acquisition, the initial accounting for the business combination was incomplete at the time the financial statements were issued.

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Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of June 30, 2012. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by our Annual Report on Form 10-K, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2012, based upon the framework in "Internal Control Integrated Framework".

Grant Thornton LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of the audit, has issued a report, included herein, on the effectiveness of our internal control over financial reporting as of June 30, 2012.

Previously Reported Material Weakness

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected. It was determined that a material weakness existed in our internal controls over financial reporting relating to our accounting for significant and non-routine transactions, as previously reported in our Quarterly Report on Form 10-Q for the fiscal quarters ended September 30, 2011, December 31, 2011, and March 31, 2012, and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

During the year ended June 30, 2012, we took the following corrective actions to remediate the previously reported material weakness in internal control over financial reporting:

- We hired several finance personnel which has provided us with the appropriate resources and technical skills to ensure that the period-end financial close and reporting processes are completed in an adequate and reliable manner.

We implemented a practice, pursuant to which we have consulted with, and will continue to consult with external subject matter experts as necessary prior to execution of any significant, non-routine transactions in order to validate the accounting approach to be taken with respect to such transactions.

As a result of the implementation of these remediation measures, management determined that the material weakness described above was successfully remediated and no longer existed as of June 30, 2012.

(c) Changes in Internal Control over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated any changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2012, and has concluded that, except for the remediation of the previously reported material weakness discussed above, there was no change during such quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Item 9B. OTHER INFORMATION

Not applicable.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Accuray Incorporated

We have audited Accuray Incorporated's (a Delaware Corporation) and subsidiaries' (the "Company") internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Accuray Incorporated maintained, in all material respects, effective internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Accuray Incorporated and subsidiaries as of June 30, 2012 and 2011 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2012.

/s/ GRANT THORNTON LLP

San Jose, California
September 7, 2012

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors, Executive Officers and Corporate Governance

The information in our 2012 Proxy Statement regarding Directors and Executive officers appearing under the headings "Proposal One Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

In addition, the information in our 2012 Proxy Statement regarding the director nomination process, the Audit Committee financial expert and the identification of the Audit Committee members appearing under the heading "Corporate Governance and Board of Directors Matters" is incorporated herein by reference.

There have been no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors.

Code of Conduct and Ethics

We have adopted a Code of Conduct and Ethics that applies to all employees including our principal executive officer and principal financial officer. The full texts of our codes of business conduct and ethics are posted on our website at *www.accuray.com* under the Investor Relations section. The inclusion of our web site address in this report does not include or incorporate by reference the information on our web site into this report.

Item 11. EXECUTIVE COMPENSATION

The information in our 2012 Proxy Statement appearing under the headings "Executive Compensation," "Compensation Committee Report," "Compensation Discussion and Analysis," "Compensation of Non-Employee Directors" and "Compensation Committee Interlocks and Insider Information" is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in our 2012 Proxy Statement appearing under the heading "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in our 2012 Proxy Statement appearing under the headings "Certain Relationships and Related Party Transactions" and "Corporate Governance Director Independence" is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in our 2012 Proxy Statement appearing under the headings "Proposal Four Ratification of Appointment of Independent Registered Public Accounting Firm Audit and Non-Audit Services" and "Proposal Four Ratification of Appointment of Independent Registered Public Accounting Firm Audit Committee Pre-Approval Policies and Procedures" is incorporated herein by reference.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

We have the filed the following documents as part of this report:

1.

Consolidated Financial Statements (as set forth in Item 8)

	Page No.
Report of Independent Registered Public Accounting Firm	95
Consolidated Balance Sheets	96
Consolidated Statements of Operations	97
Consolidated Statements of Stockholders' Equity	98
Consolidated Statements of Cash Flows	99
Notes to Consolidated Financial Statements	100

2.

Financial Statement Schedule

SCHEDULE II
Valuation and Qualifying Accounts

	Beginning Balance	Additions (Deductions)	Write-offs	Ending Balance
Accounts receivable allowances				
Year ended June 30, 2010	$ 484	$ (358)	$ (11)	$ 115
Year ended June 30, 2011	$ 115	$ 239	$ (30)	$ 324
Year ended June 30, 2012	$ 324	$ 1,392	$ (16)	$ 1,700

	Beginning Balance	Increase Due to Acquisition	Additions	Deductions	Ending Balance
Accrued warranty					
Year ended June 30, 2011	$	$ 7,600	$	$ (805)	$ 6,795
Year ended June 30, 2012	$ 6,795	$	$ 48	$ (6,095)	$ 748

All other schedules have been omitted because they are not required, not applicable, or the required information is otherwise included.

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3.

Exhibits

The following exhibits are incorporated by reference or filed herewith.

		Incorporated by Reference					
Exhibit No.	**Exhibit Description**	**Filer (ARAY/ TOMO)**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Furnished or Filed Herewith**
2.1	Agreement and Plan of Merger of Accuray Incorporated, a Delaware Corporation, and Accuray Incorporated, a California Corporation, dated as of February 3, 2007.	ARAY	S-1/A	333-138622	2.1	02/07/2007	
2.2	Agreement and Plan of Merger, dated March 6, 2011, among Registrant, Jaguar Acquisition, Inc. and TomoTherapy Incorporated.	ARAY	8-K	001-33301	2.1	03/07/2011	
3.1	Amended and Restated Certificate of Incorporation of Registrant.	ARAY	10-Q	001-33301	3.1	11/08/2010	
3.2	Amended and Restated Bylaws of Registrant.	ARAY	8-K	001-33301	3.1	08/29/2011	
4.2	Investors' Rights Agreement dated October 30, 2006 by and between Registrant and purchasers of Series A Preferred Stock, Series A1 Preferred Stock, Series B Preferred Stock and Series C Preferred Stock and certain holders of common stock.	ARAY	S-1	333-138622	4.2	11/13/2006	
4.3	Form of Common Stock Certificate.	ARAY	S-1/A	333-138622	4.3	02/05/2007	
10.1	Industrial Complex Lease dated July 14, 2003 by and between Registrant and MP Caribbean, Inc., as amended by the First Amendment to Industrial Complex Lease effective as of December 9, 2004 and the Second Amendment to Industrial Complex Lease effective as of September 25, 2006.	ARAY	S-1	333-138622	10.1	11/13/2006	

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Exhibit No.	Exhibit Description	Incorporated by Reference					Furnished or Filed Herewith
		Filer (ARAY/ TOMO)	Form	File No.	Exhibit	Filing Date	
10.1(a)	Third Amendment to Industrial Complex Lease dated January 16, 2007.	ARAY	10-K	001-33301	10.1(a)	09/04/2007	
10.2	Fourth Amendment to Industrial Complex Lease, dated September 18, 2007, by and between the Registrant and BRCP Caribbean Portfolio, LLC.	ARAY	10-Q	001-33301	10.3	02/04/2010	
10.3	Fifth Amendment to Industrial Complex Lease, dated April 1, 2008, by and between the Registrant and BRCP Caribbean Portfolio, LLC.	ARAY	10-Q	001-33301	10.4	02/04/2010	
10.4	Sixth Amendment to Industrial Complex Lease, dated December 18, 2009, by and between the Registrant and I & G Caribbean, Inc.	ARAY	10-Q	001-33301	10.5	02/04/2010	
10.5	Standard Industrial Lease effective as of June 30, 2005 by and between Registrant and The Realty Associates Fund III, L.P.	ARAY	S-1	333-138622	10.2	11/13/2006	
10.6*	Accuray Incorporated 1993 Stock Option Plan and forms of agreements relating thereto.	ARAY	S-1	333-138622	10.3	11/13/2006	
10.7*	Accuray Incorporated 1998 Equity Incentive Plan and forms of agreements relating thereto.	ARAY	S-1	333-138622	10.4	11/13/2006	
10.8*	Accuray Incorporated 2007 Incentive Award Plan.	ARAY	10-K	001-3330110.8	10.8	09/19/2011	
10.9*	Accuray Incorporated 2007 Employee Stock Purchase Plan and forms of agreements relating thereto.	ARAY	S-1/A	333-138622	10.6	01/16/2007	

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Exhibit No.	Exhibit Description	Filer (ARAY/ TOMO)	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Furnished or Filed Herewith
10.10*	Form of Indemnification Agreement by and between Registrant and each of its directors and executive officers.	ARAY	10-Q	001-33301	10.7	05/10/2011	
10.11*	Amended and Restated Employment Terms Letter dated September 29, 2011 by and between Registrant and Euan S. Thomson, Ph.D.	ARAY	10-Q	001-33301	10.4	11/08/2011	
10.12*	Amended and Restated Employment Terms Letter dated February 2, 2011 by and between Registrant and Chris A. Raanes.	ARAY	10-Q	001-33301	10.2	05/10/2011	
10.13*	Amendment to Employment Terms Letter Agreement by and between Registrant and Chris Raanes, effective July 25, 2011.	ARAY	10-Q	001-33301	10.3	11/08/2011	
10.14*	Employment Terms Letter dated January 7, 2011 by and between Registrant and Eric Pauwels.	ARAY	10-Q	001-33301	10.6	05/10/2011	
10.15*	Employment Letter Agreement by and between Registrant and Kelly Londy, dated September 13, 2011	ARAY	S-1	001-33301	10.5	11/08/2011	
10.16*	Amended and Restated Employment Terms Letter effective as of February 2, 2011 by and between Registrant and Theresa Dadone.	ARAY	10-Q	001-33301	10.5	05/10/2011	
10.17*	Amended and Restated Employment Terms Letter dated February 2, 2011 by and between Registrant and Derek Bertocci.	ARAY	10-Q	001-33301	10.2	05/10/2011	

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Exhibit No.	Exhibit Description	Incorporated by Reference					Furnished or Filed Herewith
		Filer (ARAY/ TOMO)	Form	File No.	Exhibit	Filing Date	
10.18*	Amended and Restated Employment Letter Agreement dated February 2, 2011 by and between Registrant and Darren J. Milliken.	ARAY	10-Q	001-33301	10.4	05/10/2011	
10.19	Nonexclusive End-User Software License Agreement dated September 9, 2005 by and between Registrant and The Regents of the University of California.	ARAY	S-1	333-138622	10.18	11/13/2006	
10.20	License Agreement effective as of July 9, 1997 by and between Registrant and The Board of Trustees of the Leland Stanford Junior University.	ARAY	S-1	333-138622	10.19	11/13/2006	
10.21	Non-Exclusive System Partner Agreement effective as of September 23, 2005 by and between Registrant and KUKA Robotics Corporation.	ARAY	S-1/A	333-138622	10.21	1/16/2007	
10.22	Exclusive Manufacturing Agreement effective as of November 29, 2006 by and between the Registrant and Forte Automation Systems, Inc.	ARAY	S-1/A	333-138622	10.46	01/16/2007	
10.23	Patent and Trademark License Agreement effective as of November 29, 2006 by and between the Registrant and Forte Automation Systems, Inc.	ARAY	S-1/A	333-138622	10.49	01/23/2007	
10.24	License and Development Agreement dated April 27, 2007 by and between the Registrant and CyberHeart, Inc.	ARAY	10-K	001-33301	10.51	08/31/2007	

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Exhibit No.	Exhibit Description	Filer (ARAY/ TOMO)	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Furnished or Filed Herewith
10.25	License Agreement dated December 10, 2010 by and between the Registrant and CyberHeart, Inc.	ARAY	10-Q	001-33301	10.3	01/27/2011	
10.26	Patent License Agreement dated December 10, 2010 by and between the Registrant and CyberHeart, Inc.	ARAY	10-Q	001-33301	10.4	01/27/2011	
10.27*	Accuray Incorporated Performance Bonus Plan.	ARAY	10-Q	001-33301	10.1	02/08/2012	
10.28	Lease Agreement, dated January 26, 2005, by and between TomoTherapy Incorporated and Old Sauk Trails Park Limited Partnership	TOMO	S-1	333-140600	10.13	02/12/2007	
10.29	Lease Agreement, dated October 28, 2005, between TomoTherapy Incorporated and Adelphia, LLC	TOMO	S-1	333-140600	10.14	02/12/2007	
10.30	TomoTherapy Incorporated 2000 Stock Option Plan, as amended, and forms of option agreements thereunder.	ARAY	S-8	333-174952	99.1	06/17/2011	
10.31	TomoTherapy Incorporated 2002 Stock Option Plan, as amended, and forms of option agreements thereunder.	ARAY	S-8	333-174952	99.2	06/17/2011	
10.32	TomoTherapy Incorporated 2007 Equity Incentive Plan, as amended, and forms of option agreements thereunder.	ARAY	S-8	333-174952	99.3	06/17/2011	
10.33	Stock Purchase Agreement, dated April 25, 2008, between Compact Particle Acceleration Corporation and its investors	TOMO	8-K	001-33452	10.1	04/28/2008	

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Exhibit No.	Exhibit Description	Filer (ARAY/ TOMO)	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Furnished or Filed Herewith
10.34	Preferred Stock and Warrant Purchase Agreement, dated April 20, 2012 for Compact Particle Acceleration Corporation and its investors						X
10.35	Series B Common Stock Purchase Agreement dated April 20, 2012 between the Registrant and Compact Particle Acceleration Corporation						X
10.36	Second Amended and Restated Shareholder Agreement, dated April 20, 2012, between Compact Particle Acceleration Corporation and its investors						X
10.37	Amended and Restated Investors' Rights Agreement, dated April 20, 2012, between Compact Particle Acceleration Corporation and its investors						X
10.38	Amended and Restated Limited Exclusive Sublicense and Cross-License Agreement for Dielectric Wall Accelerator Technology, dated April 20, 2012, between TomoTherapy Incorporated and Compact Particle Acceleration Corporation						X
10.39	Development and OEM Supply Agreement, dated January 27, 2003, by and between TomoTherapy Incorporated and Analogic Corporation	TOMO	S-1/A	333-140600	10.11	04/16/2007	

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Exhibit No.	Exhibit Description	Filer (ARAY/ TOMO)	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Furnished or Filed Herewith
10.40	License Agreement 98-0228, dated February 22, 1999, between TomoTherapy Incorporated and Wisconsin Alumni Research Foundation	TOMO	S-1/A	333-140600	10.4	04/19/2007	
10.41	Amendment to License Agreement 90-0228, dated April 16, 2007, between TomoTherapy Incorporated and Wisconsin Alumni Research Foundation	TOMO	S-1	333-146219	10.31	09/21/2007	
10.42	Amendment to License Agreement 90-0228, dated December 16, 2008, between TomoTherapy Incorporated and Wisconsin Alumni Research Foundation	TOMO	8-K	001-33452	10.2	12/30/2008	
10.43	Limited Exclusive License Agreement, dated February 23, 2007, between TomoTherapy Incorporated and Regents of the University of California	TOMO	8-K	001-33452	10.4	04/28/2008	
10.44	Amendment One to Limited Exclusive License Agreement, dated April 8, 2008, between TomoTherapy Incorporated and Lawrence Livermore National Security, LLC	TOMO	8-K	001-33452	10.5	04/28/2008	
10.45	Long-term Purchase Agreement, dated December 22, 2008, among TomoTherapy Incorporated, e2v, Inc. and e2v Technologies (UK) Limited	TOMO	8-K	001-33452	10.1	12/30/2008	
10.46	Magnetron Subscription Agreement, dated April 24, 2009 and effective May 1, 2009, between TomoTherapy Incorporated and e2v, Inc. and e2v Technologies (UK) Limited	TOMO	8-K/A	001-33452	10.1	10/28/2009	

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Exhibit No.	Exhibit Description	Incorporated by Reference					Furnished or Filed Herewith
		Filer (ARAY/ TOMO)	Form	File No.	Exhibit	Filing Date	
10.47	Amendment to Lease, dated April 12, 2011, between Registrant and OAW Orleans 1310, LLC, as successor to The Realty Associates Fund III, L.P.	ARAY	10-K	001-33301	10.54	09/19/2012	
10.48	Indenture by and between Registrant and the Bank of New York Mellon Trust Company, N.A., dated as of August 1, 2011.	ARAY	10-Q	001-33301	10.1	11/08/2011	
21.1	List of subsidiaries.						X
23.1	Consent of Grant Thornton LLP, independent registered public accounting firm.						X
24.1	Power of Attorney (incorporated by reference to the signature page of this annual report on Form 10-K).						X
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.						X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.						X
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.						X
99.1*	Form of Performance Stock Unit Grant Notice and Performance Stock Unit Agreement	ARAY	10-Q	001-33301	99.1	02/08/2012	
99.2*	Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement	ARAY	8-K	001-33301	99.2	11/23/2011	

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Exhibit No.	Exhibit Description	Filer (ARAY/ TOMO)	Form	File No.	Exhibit	Filing Date	Furnished or Filed Herewith
		Incorporated by Reference					
99.3*	Form of Stock Option Grant Notice and Stock Option Agreement	ARAY	8-K	001-33301	99.3	11/23/2011	
101.INS**	XBRL Instance Document						X
101.SCH**	XBRL Taxonomy Extension Schema Document						X
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document						X
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document						X
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document						X
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document						X

*
Management contract or compensatory plan or arrangement.

Portions of the exhibit have been omitted pursuant to a request for confidential treatment, which has been granted. The omitted information has been filed separately with the Securities and Exchange Commission.

Portions of the exhibit have been omitted pursuant to a request for confidential treatment. The omitted information has been filed separately with the Securities and Exchange Commission.

**
XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

The certification attached as Exhibit 32.1 that accompanies this Annual Report on Form 10-K is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Accuray Incorporated under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, State of California, on the 7th day of September 2012.

ACCURAY INCORPORATED

By: /s/ EUAN S. THOMSON, PH.D.

Euan S. Thomson, Ph.D.
President and Chief Executive Officer

By: /s/ DEREK BERTOCCI

Derek Bertocci
Senior Vice President and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Euan S. Thomson, Ph.D. and Derek Bertocci, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and any of them or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ EUAN S. THOMSON, PH.D. Euan S. Thomson, PH.D.	President and Chief Executive Officer and Director (principal executive officer)	September 7, 2012
/s/ DEREK BERTOCCI Derek Bertocci	Senior Vice President, Chief Financial Officer (principal financial and accounting officer)	September 7, 2012
/s/ LOUIS J. LAVIGNE, JR. Louis J. Lavigne, Jr.	Chairperson of the Board and Director	September 7, 2012

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Signature	Title	Date
/s/ ELIZABETH DÁVILA Elizabeth Dávila	Vice Chairperson of the Board and Director	September 7, 2012
/s/ JACK GOLDSTEIN, PH.D. Jack Goldstein, PH.D.	Director	September 7, 2012
/s/ RICHARD R. PETTINGILL Richard R. Pettingill	Director	September 7, 2012
/s/ ROBERT S. WEISS Robert S. Weiss	Director	September 7, 2012
/s/ DENNIS WINGER Dennis Winger	Director	September 7, 2012
/s/ WAYNE WU Wayne Wu	Director	September 7, 2012