ACCURAY INC
Form 10-Q
November 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from to

Commission File Number: 001-33301

ACCURAY INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-8370041**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

1310 Chesapeake Terrace

Sunnyvale, California 94089

(Address of Principal Executive Offices Including Zip Code)

(408) 716-4600

(Registrant s Telephone Number, Including Area Code)

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

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of October 31, 2014, there were 77,850,462 shares of the Registrant s Common Stock, par value $0.001 per share, outstanding.

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Accuray Incorporated

Form 10-Q for the Quarter Ended September 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Accuray Incorporated

Condensed Consolidated Balance Sheets

(in thousands, except share amounts and par value)

(Unaudited)

	September 30, 2014	June 30, 2014 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 107,295	$ 92,346
Short-term investments	45,415	79,553
Restricted cash	1,457	1,492
Accounts receivable, net of allowance for doubtful accounts of $841 and $976 as of September 30, 2014 and June 30, 2014, respectively	52,943	72,152
Inventories	99,994	87,752
Prepaid expenses and other current assets	16,266	17,873
Deferred cost of revenue	12,417	13,302
Total current assets	335,787	364,470
Property and equipment, net	32,733	34,391
Goodwill	58,066	58,091
Intangible assets, net	21,529	23,517
Deferred cost of revenue	2,259	2,899
Other assets	9,263	11,820
Total assets	$ 459,637	$ 495,188
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 14,695	$ 15,639
Accrued compensation	20,358	32,569
Other accrued liabilities	20,438	24,464
Customer advances	20,034	19,804
Deferred revenue	89,340	92,093
Total current liabilities	164,865	184,569
Long-term liabilities:		
Long-term other liabilities	7,425	6,593
Deferred revenue	9,483	9,866
Long-term debt	197,371	195,612
Total liabilities	379,144	396,640
Commitment and contingencies (Note 5)		
Stockholders Equity:		
Preferred stock, $0.001 par value; authorized: 5,000,000 shares; no shares issued and outstanding		

Common stock, $0.001 par value; authorized: 200,000,000 shares as of September 30, 2014 and June 30, 2014 respectively; issued and outstanding: 77,422,458 and 77,178,365 shares at September 30, 2014 and June 30, 2014, respectively		77		77
Additional paid-in capital		455,928		451,750
Accumulated other comprehensive income		1,232		1,815
Accumulated deficit		(376,744)		(355,094)
Total stockholders equity		80,493		98,548
Total liabilities and stockholders equity	$	459,637	$	495,188

(1) The condensed consolidated balance sheet at June 30, 2014 has been derived from audited consolidated financial statements.

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

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Accuray Incorporated

Condensed Consolidated Statements of Operations and Comprehensive Loss

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013	
Net revenue:				
Products	$	33,015	$	29,568
Services		49,366		47,073
Total net revenue		82,381		76,641
Cost of revenue:				
Cost of products		20,665		18,601
Cost of services		33,915		31,562
Total cost of revenue		54,580		50,163
Gross profit		27,801		26,478
Operating expenses:				
Research and development		14,149		12,950
Selling and marketing		17,974		14,454
General and administrative		10,950		11,360
Total operating expenses		43,073		38,764
Loss from operations		(15,272)		(12,286)
Other expense, net		(5,461)		(2,460)
Loss before provision for income taxes		(20,733)		(14,746)
Provision for income taxes		917		787
Net loss	$	(21,650)	$	(15,533)
Net loss per share - basic and diluted	$	(0.28)	$	(0.21)
Weighted average common shares used in computing loss per share				
Basic and diluted		77,290		74,700
Net loss attributable to stockholders	$	(21,650)	$	(15,533)
Foreign currency translation adjustment		(442)		165
Unrealized gain (loss) on investments		(141)		290
Comprehensive loss	$	(22,233)	$	(15,078)

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

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Accuray Incorporated

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Three Months Ended September 30, 2014	2013
Cash Flows From Operating Activities		
Net loss	$ (21,650)	$ (15,533)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,978	5,448
Share-based compensation	3,273	2,180
Amortization of debt issuance costs	363	343
Amortization and accretion of discount and premium on investments	266	490
Accretion of interest on long-term debt	1,759	1,148
Recovery of bad debt, net	(127)	(10)
Provision for write-down of inventories	259	790
Changes in assets and liabilities:		
Accounts receivable	17,726	(4,000)
Inventories	(13,147)	(6,821)
Prepaid expenses and other assets	3,233	(2,084)
Deferred cost of revenue	1,468	(405)
Accounts payable	9	2,219
Accrued liabilities	(13,237)	1,623
Customer advances	751	1,932
Deferred revenue	(643)	1,426
Net cash used in operating activities	(14,719)	(11,254)
Cash Flows From Investing Activities		
Purchases of property and equipment, net	(2,691)	(3,206)
Purchases of investments	(45,739)	(5,125)
Sales and maturities of investments	79,470	6,851
Net cash provided by (used in) investing activities	31,040	(1,480)
Cash Flows From Financing Activities		
Proceeds from employee stock plans	1,886	629
Net cash provided by financing activities	1,886	629
Effect of exchange rate changes on cash and cash equivalents	(3,258)	1,228
Net increase (decrease) in cash and cash equivalents	14,949	(10,877)
Cash and cash equivalents at beginning of period	92,346	73,313
Cash and cash equivalents at end of period	$ 107,295	$ 62,436

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

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Accuray Incorporated

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Summary of Significant Accounting Policies

Description of Business

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

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

The accompanying condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP), pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and note disclosures have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of the periods presented. The results for the three months ended September 30, 2014 are not necessarily indicative of the results to be expected for the year ending June 30, 2015, for any other interim period or for any future year.

These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and accompanying notes for the year ended June 30, 2014 included in the Company s Annual Report on Form 10-K filed with the SEC. The Company s significant accounting policies are described in Note 2 to those audited consolidated financial statements.

Recent Accounting Standard Update Not Yet Effective

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers: Topic 606* (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the Company in its first quarter of fiscal 2018 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. The Company is currently evaluating the impact of pending adoption of ASU 2014-09 on its consolidated financial statements.

Use of Estimates

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

Concentration of Credit and Other Risks

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

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For the three months ended September 30, 2014 and 2013, there were no customers that represented 10% or more of total net revenue. At September 30, 2014, no customers accounted for 10% or more of the Company s total accounts receivable. At June 30, 2014, one customer accounted for 13% of accounts receivable.

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

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

Revenue Recognition

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

Product and Service Revenue

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

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

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

Net Loss Per Common Share

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

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

	Three months ended September 30, 2014	2013
Numerator:		
Net loss used in computing net loss per share	$ (21,650)	$ (15,533)
Denominator:		
Weighted average shares used in computing basic and diluted net loss per share	77,290	74,700

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The potentially dilutive shares of the Company s common stock resulting from the assumed exercise of outstanding stock options, the vesting of Restricted Stock Units (RSU), Market Stock Units (MSU) and Performance Stock Units (PSU), and the purchase of shares under the Employee Stock Purchase Program (ESPP), as determined under the treasury stock method, are excluded from the computation of diluted net loss per share because their effect would have been anti-dilutive. Additionally, the 3.75% Convertible Senior Notes due August 1, 2016 (the 3.75% Convertible Notes), the 3.50% Convertible Senior Notes due February 1, 2018 (the 3.50% Convertible Notes) and the 3.50% Series A Convertible Notes (the 3.50% Series A Convertible Notes) due February 1, 2018 (together, the Convertible Notes) are included in the calculation of diluted net income per share only if their inclusion is dilutive. For the three months ended September 30, 2014 and 2013, the potentially dilutive shares under the Convertible Notes were excluded from the calculation of diluted net loss per share as their inclusion would have been anti-dilutive. The following table sets forth all potentially dilutive securities excluded from the computation in the table above because their effect would have been anti-dilutive (in thousands):

	As of September 30,	
	2014	2013
Stock options	3,032	4,436
RSUs, PSUs and MSUs	4,024	3,011
3.75% Convertible Notes		
3.50% Convertible Notes	8,378	21,576
3.50% Series A Convertible Notes	3,352	
	18,786	29,023

Outstanding Convertibles Notes Diluted Share Impact

The 3.75% Convertible Notes and 3.50% Series A Convertible Notes have an optional physical (share), cash or combination settlement feature and contain certain conditional conversion features. Due to the optional cash settlement feature and management s intent to settle the principal amount thereof in cash, the conversion shares underlying the outstanding principal amount of the 3.75% Convertible Notes and 3.50% Series A Convertible Notes, totaling approximately 10.6 million shares and 13.2 million shares, respectively, were not included in the potentially diluted share count table above. The Company s average stock price did not exceed the conversion price of the 3.75% Convertible Notes as of September 30, 2014 and 2013. The 3.4 million potentially dilutive shares of the 3.50% Series A Convertible Notes included in the table above represent the premium over the principal amount due to the higher average share price. The number of premium shares included in the Company s diluted share count will vary with fluctuations in the Company s share price. Higher actual share prices result in a greater number of premium shares.

Segment Information

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

	Three Months Ended September 30,	
	2014	2013
Americas		