

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2020**

OR

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

For the transition period from _____ to _____

Commission File Number: **001-37725**

ViewRay, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**2 Thermo Fisher Way
Oakwood Village, OH**

(Address of principal executive offices)

42-1777485

(I.R.S. Employer
Identification No.)

44146

(Zip Code)

Registrant's telephone number, including area code: **(440) 703-3210**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01	VRAY	The Nasdaq Global Market

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

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

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

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

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

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

As of July 23, 2020, the registrant had 147,944,735 shares of common stock, \$0.01 par value per share, outstanding.

TABLE OF CONTENTS

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Cautionary Note Regarding Forward-Looking Statements	3
Item 1. Unaudited Condensed Consolidated Financial Statements	4
Condensed Consolidated Balance Sheets	4
Condensed Consolidated Statements of Operations and Comprehensive Loss	5
Condensed Consolidated Statements of Stockholders' Equity	6
Condensed Consolidated Statements of Cash Flows	7
Notes to the Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosures About Market Risk	31
Item 4. Controls and Procedures	31
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	32
Item 1A. Risk Factors	33
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3. Defaults Upon Senior Securities	33
Item 4. Mine Safety Disclosures	33
Item 5. Other Information	33
Item 6. Exhibits	34
Signatures	35

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, or this Report, contains forward-looking statements, including, without limitation, in the sections captioned “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere. Any and all statements contained in this Report that are not statements of historical fact may be deemed forward-looking statements. Terms such as “will,” “may,” “might,” “would,” “should,” “could,” “project,” “estimate,” “pro forma,” “predict,” “potential,” “strategy,” “anticipate,” “attempt,” “develop,” “plan,” “help,” “believe,” “continue,” “intend,” “expect,” “future” and terms of similar import (including the negative of any of the foregoing) may be intended to identify forward-looking statements. However, not all forward-looking statements may contain one or more of these identifying terms. Forward-looking statements in this Report may include, without limitation, statements regarding (i) the plans and objectives of management for future operations, including plans or objectives relating to the development of products, (ii) a projection of income (including income/loss), earnings (including earnings/loss) per share, capital expenditures, dividends, capital structure or other financial items, (iii) our future financial performance, including any such statement contained in a discussion and analysis of financial condition by management or in the results of operations included pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC, and (iv) the assumptions underlying or relating to any statement described in points (i), (ii) or (iii) above.

The forward-looking statements are not meant to predict or guarantee actual results, performance, events or circumstances and may not be realized because they are based upon our current projections, plans, objectives, beliefs, expectations, estimates and assumptions and are subject to a number of risks and uncertainties and other influences, many of which we have no control over. Actual results and the timing of certain events and circumstances may differ materially from those described by the forward-looking statements as a result of these risks and uncertainties. Factors that may influence or contribute to the inaccuracy of the forward-looking statements or cause actual results to differ materially from expected or desired results may include, without limitation:

- the effect of coronavirus and its associated disruption to the global economy and our business operations and financial condition;
- market acceptance of magnetic resonance imaging (“MRI”) guided radiation therapy;
- the benefits of MR Image-Guided radiation therapy;
- our ability to successfully sell and market MRIdian® in our existing and expanded geographies;
- the performance of MRIdian in clinical settings;
- competition from existing technologies or products or new technologies and products that may emerge;
- the pricing and reimbursement of MR Image-Guided radiation therapy;
- the implementation of our business model and strategic plans for our business and MRIdian;
- the scope of protection we are able to establish and maintain for intellectual property rights covering MRIdian;
- our ability to obtain regulatory approval in targeted markets for MRIdian;
- our ability to procure materials and components in connection with the manufacture and installation of MRIdian;
- estimates of our future revenue, expenses, capital requirements and our need for additional financing;
- our financial performance;
- our expectations related to the MRIdian linear accelerator technology, or MRIdian Linac;
- developments relating to our competitors and the healthcare industry; and
- other risks and uncertainties, including those listed under the section titled “Risk Factors.”

Any forward-looking statements in this Report reflect our current views with respect to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Part II, Item 1A, titled “Risk Factors” and discussed elsewhere in this Report, and in Part I, Item 1A, titled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. Given these uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. We disclaim any obligation to update the forward-looking statements contained in this Report to reflect any new information or future events or circumstances or otherwise, except as required by law.

This Report also contains estimates, projections and other information concerning our industry, our business, and the markets for certain devices, including data regarding the estimated size of those markets. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained this industry, business, market and other data from reports, research surveys, studies and similar data prepared by market research firms and other third parties, industry, medical and general publications, government data and similar sources.

PART I—FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

VIEWRAY, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)
(Unaudited)

	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 179,514	\$ 226,783
Accounts receivable	22,089	16,817
Inventory	48,197	55,031
Deposits on purchased inventory	4,643	6,457
Deferred cost of revenue	6,273	3,466
Prepaid expenses and other current assets	5,568	3,310
Total current assets	266,284	311,864
Property and equipment, net	22,718	23,399
Restricted cash	1,860	1,404
Intangible assets, net	53	55
Right-of-use assets	10,621	11,720
Other assets	1,642	1,577
TOTAL ASSETS	\$ 303,178	\$ 350,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,852	\$ 13,739
Accrued liabilities	17,361	21,390
Customer deposits	16,047	9,662
Operating lease liability, current	2,347	2,264
Current portion of long-term debt	10,889	1,556
Deferred revenue, current	16,788	10,457
Total current liabilities	68,284	59,068
Deferred revenue, net of current portion	3,069	3,553
Long-term debt	44,756	53,995
Warrant liabilities	2,072	5,373
Operating lease liability, noncurrent	9,293	10,479
Other long-term liabilities	1,680	1,377
TOTAL LIABILITIES	129,154	133,845
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, par value of \$0.01 per share; 10,000,000 shares authorized at June 30, 2020 and December 31, 2019; no shares issued and outstanding at June 30, 2020 and December 31, 2019	—	—
Common stock, par value of \$0.01 per share; 300,000,000 shares authorized at June 30, 2020 and December 31, 2019; 147,616,373 and 147,191,695 shares issued and outstanding at June 30, 2020 and December 31, 2019	1,466	1,462
Additional paid-in capital	745,418	733,888
Accumulated deficit	(572,860)	(519,176)
TOTAL STOCKHOLDERS' EQUITY	174,024	216,174
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 303,178	\$ 350,019

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

VIEWRAY, INC.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except share and per share data)
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenue:				
Product	\$ 10,615	\$ 27,905	\$ 22,085	\$ 46,779
Service	3,490	2,143	6,151	3,434
Distribution rights	119	119	238	238
Total revenue	<u>14,224</u>	<u>30,167</u>	<u>28,474</u>	<u>50,451</u>
Cost of revenue:				
Product	12,714	22,814	25,843	44,847
Service	2,552	4,107	5,780	7,722
Total cost of revenue	<u>15,266</u>	<u>26,921</u>	<u>31,623</u>	<u>52,569</u>
Gross margin	(1,042)	3,246	(3,149)	(2,118)
Operating expenses:				
Research and development	6,211	6,463	12,548	11,494
Selling and marketing	3,093	7,663	8,916	12,548
General and administrative	15,227	15,398	31,015	30,507
Total operating expenses	<u>24,531</u>	<u>29,524</u>	<u>52,479</u>	<u>54,549</u>
Loss from operations	(25,573)	(26,278)	(55,628)	(56,667)
Interest income	87	687	782	907
Interest expense	(1,071)	(1,074)	(2,109)	(1,833)
Other income (expense), net	405	(4,133)	3,271	(6,566)
Loss before provision for income taxes	\$ (26,152)	\$ (30,798)	\$ (53,684)	\$ (64,159)
Provision for income taxes	—	—	—	—
Net loss and comprehensive loss	<u>\$ (26,152)</u>	<u>\$ (30,798)</u>	<u>\$ (53,684)</u>	<u>\$ (64,159)</u>
Net loss per share, basic and diluted	<u>\$ (0.18)</u>	<u>\$ (0.32)</u>	<u>\$ (0.36)</u>	<u>\$ (0.66)</u>
Weighted-average common shares used to compute net loss per share attributable to common stockholders, basic and diluted	<u>147,563,278</u>	<u>97,572,389</u>	<u>147,506,244</u>	<u>97,129,389</u>

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

VIEWRAY, INC.
Condensed Consolidated Statements of Stockholders' Equity
(In thousands, except share and per share data)
(Unaudited)

	Common Stock			Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Additional Paid-in Capital		
Three Months Ended June 30, 2020					
Balance at March 31, 2020	147,396,985	\$ 1,464	\$ 739,258	\$ (546,708)	\$ 194,014
Issuance of common stock from option exercises	17,709	—	13	—	13
Stock-based compensation	—	—	5,802	—	5,802
Issuance of common stock from releases of restricted stock units	119,447	1	(1)	—	—
Issuance of common stock from employee stock purchase plan	82,232	1	155	—	156
Write-down of offering costs related to previous issuance of common stock upon public offering	—	—	191	—	191
Net loss	—	—	—	(26,152)	(26,152)
Balance at June 30, 2020	147,616,373	\$ 1,466	\$ 745,418	\$ (572,860)	\$ 174,024
Six Months Ended June 30, 2020					
Balance at December 31, 2019	147,191,695	\$ 1,462	\$ 733,888	\$ (519,176)	\$ 216,174
Issuance of common stock from option exercises	20,579	—	15	—	15
Stock-based compensation	—	—	11,303	—	11,303
Issuance of common stock from releases of restricted stock units	321,867	3	(3)	—	—
Tax withholding paid on behalf of employees for stock-based awards	—	—	(131)	—	(131)
Issuance of common stock from employee stock purchase plan	82,232	1	155	—	156
Write-down of offering costs related to previous issuance of common stock upon public offering	—	—	191	—	191
Net loss	—	—	—	(53,684)	(53,684)
Balance at June 30, 2020	147,616,373	\$ 1,466	\$ 745,418	\$ (572,860)	\$ 174,024
Three Months Ended June 30, 2019					
Balance at March 31, 2019	96,933,098	\$ 959	\$ 572,855	\$ (432,338)	\$ 141,476
Issuance of common stock from option exercises	1,113,507	11	5,308	—	5,319
Stock-based compensation	—	—	4,907	—	4,907
Issuance of common stock from releases of restricted stock units	54,469	1	(1)	—	—
Issuance of common stock from warrant exercises	158,129	2	(2)	—	—
Reclassification of warrant liability to additional paid-in capital upon warrant exercises	—	—	2,013	—	2,013
Net loss	—	—	—	(30,798)	(30,798)
Balance at June 30, 2019	98,259,203	\$ 973	\$ 585,080	\$ (463,136)	\$ 122,917
Six Months Ended June 30, 2019					
Balance at December 31, 2018	96,332,023	\$ 952	\$ 565,334	\$ (398,977)	\$ 167,309
Issuance of common stock from option exercises	1,701,627	18	8,185	—	8,203
Stock-based compensation	—	—	9,459	—	9,459
Issuance of common stock from releases of restricted stock units	54,469	1	(1)	—	—
Issuance of common stock from warrant exercises	171,084	2	(2)	—	—
Reclassification of warrant liability to additional paid-in capital upon warrant exercises	—	—	2,105	—	2,105
Net loss	—	—	—	(64,159)	(64,159)
Balance at June 30, 2019	98,259,203	\$ 973	\$ 585,080	\$ (463,136)	\$ 122,917

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

VIEWRAY, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (53,684)	\$ (64,159)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,957	2,033
Stock-based compensation	11,304	9,459
Accretion on asset retirement obligation	41	14
Change in fair value of warrant liabilities	(3,301)	6,935
Loss on disposal of property and equipment	12	—
Inventory lower of cost or net realizable value adjustment	150	—
Amortization of debt discount and interest accrual	357	184
Product upgrade reserve	(1,260)	5,523
Changes in operating assets and liabilities:		
Accounts receivable	(5,272)	1,392
Inventory	6,684	(8,810)
Deposits on purchased inventory	1,814	2,350
Deferred cost of revenue	(4,390)	(577)
Prepaid expenses and other assets	(2,327)	796
Accounts payable	(8,470)	8,256
Accrued expenses and other long-term liabilities	(1,865)	3,791
Customer deposits and deferred revenue	12,232	(16,739)
Net cash used in operating activities	<u>(45,018)</u>	<u>(49,552)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,295)	(4,353)
Net cash used in investing activities	<u>(1,295)</u>	<u>(4,353)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of offering costs related to common stock public offering	(539)	—
Payment of debt issuance cost	—	(168)
Proceeds from the exercise of stock options	15	8,203
Proceeds from employee stock purchase plan	156	—
Payments for taxes related to net share settlement of equity awards	(132)	—
Net cash (used in) provided by financing activities	<u>(500)</u>	<u>8,035</u>
NET (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(46,813)	(45,870)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — BEGINNING OF PERIOD	228,187	169,365
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — END OF PERIOD	<u>\$ 181,374</u>	<u>\$ 123,495</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 2,140	\$ 1,811
Cash paid for taxes	\$ 28	\$ 7
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Fair value of common stock warrants reclassified from liability to additional paid-in capital upon exercise	\$ —	\$ 2,105
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ —	\$ 1,647
Transfer of property and equipment from inventory and deferred cost of revenue	\$ 1,583	\$ 4,394
Purchases of property and equipment in accounts payable and accrued liabilities	\$ 65	\$ 1,146

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

1. Background and Organization

ViewRay, Inc., or ViewRay or the Company, and its wholly-owned subsidiary ViewRay Technologies, Inc., designs, manufactures and markets MRIdian, an MR Image-Guided radiation therapy system to simultaneously image and treat cancer patients.

Since inception, ViewRay Technologies, Inc. has devoted substantially all of its efforts towards research and development, initial selling and marketing activities, raising capital and the manufacturing, shipment and installation of MRIdian systems. In May 2012, ViewRay Technologies, Inc. was granted clearance from the U.S. Food and Drug Administration, or FDA, to sell MRIdian with Cobalt-60. In November 2013, ViewRay Technologies, Inc. received its first clinical acceptance of a MRIdian with Cobalt-60 at a customer site, and the first patient was treated with that system in January 2014. ViewRay Technologies, Inc. has had the right to affix the Conformité Européene, or CE, mark to MRIdian with Cobalt-60 in the European Economic Area, or EEA, since November 2014. In September 2016, the Company received the rights to affix the CE mark to MRIdian Linac, and in February 2017, the Company received 510(k) clearance from the FDA to market MRIdian Linac. In February 2019, the Company received 510(k) clearance from the FDA for advancements in MRI, 8 frames per second cine, and Functional imaging (T1/T2/DWI) and High-Speed MLC. In December 2019, we received the CE mark for these advancements in the EEA.

The Company's condensed consolidated financial statements have been prepared on the basis of the Company continuing as a going concern for a reasonable period of time. The Company's principal sources of liquidity are cash flows from public and private offerings and available borrowings under its term loan agreement, as well as cash receipts from its sales of MRIdian systems. These have historically been sufficient to meet working capital needs, capital expenditures, operating expenses, and debt service obligations. During the six months ended June 30, 2020, the Company incurred a net loss from operations of \$53.7 million and used cash in operations of \$45.0 million. The Company believes that its existing cash balance of \$179.5 million as of June 30, 2020, together with anticipated cash proceeds from sales of MRIdian systems will be sufficient to provide liquidity to fund its obligations for at least the next 12 months.

2. Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, or U.S. GAAP, and pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC. The condensed consolidated financial statements include the accounts of ViewRay, Inc. and its wholly-owned subsidiary, ViewRay Technologies, Inc. All inter-company accounts and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments, including normal recurring adjustments, considered necessary for a fair presentation of the Company's unaudited condensed consolidated financial statements, have been included. The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020 or any future period. These unaudited condensed consolidated financial statements and their notes should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements are disclosed in the notes to consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on March 12, 2020, and have not changed significantly since that filing.

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. Topic 740 reduces complexity in certain areas of accounting for income taxes and makes minor improvements to the codification. The ASU removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is evaluating the impact of this update on its consolidated financial statements and related disclosures.

In March 2020, the FASB issued ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The ASU is intended to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. This guidance is effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

Effective January 1, 2020, the Company adopted FASB ASU 2018-13, Fair Value Measurements (Topic 820). Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The standard eliminates certain disclosure requirements for fair value measurements for all entities, requires public entities to disclose certain new information, and modifies some disclosure requirements. As the result of the adoption the Company is no longer required to disclose (1) the amount of and the reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, and (3) the valuation process for Level 3 fair value measurements. Additionally, the Company is required to disclose (1) the changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. No significant changes were made to our fair value disclosures in the notes to the consolidated financial statements in order to comply with ASU 2018-13. Refer to Note 4, Fair Value of Financial Instruments.

3. Balance Sheet Components

Property and Equipment, Net

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

	June 30, 2020	December 31, 2019
Prototype	\$ 16,901	\$ 16,419
Machinery and equipment	16,522	15,816
Leasehold improvements	6,857	6,718
Furniture and fixtures	1,295	1,284
Software	1,389	1,389
Construction in progress	5,096	4,176
Property and equipment, gross	48,060	45,802
Less: accumulated depreciation and amortization	(25,342)	(22,403)
Property and equipment, net	<u>\$ 22,718</u>	<u>\$ 23,399</u>

Depreciation and amortization expense related to property and equipment were \$1.5 million and \$1.1 million during the three months ended June 30, 2020 and 2019, and \$3.0 million and \$2.0 million during the six months ended June 30, 2020 and 2019, respectively.

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Accrued payroll and related benefits	\$ 8,641	\$ 9,577
Accrued accounts payable	3,285	4,764
Payroll withholding tax, sales and other tax payable	873	1,066
Accrued legal, accounting and professional fees	1,619	1,175
Product upgrade reserve	2,534	3,794
Other	409	1,014
Total accrued liabilities	<u>\$ 17,361</u>	<u>\$ 21,390</u>

Deferred Revenue

Deferred revenue consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Deferred revenue:		
Product	\$ 9,028	\$ 3,141
Service	8,671	8,473
Distribution rights	2,158	2,396
Total deferred revenue	19,857	14,010
Less: current portion of deferred revenue	(16,788)	(10,457)
Noncurrent portion of deferred revenue	<u>\$ 3,069</u>	<u>\$ 3,553</u>

Other Long-Term Liabilities

Other long-term liabilities consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Accrued interest, noncurrent portion	\$ 778	\$ 516
Asset retirement obligation	902	861
Total other-long term liabilities	<u>\$ 1,680</u>	<u>\$ 1,377</u>

4. Fair Value of Financial Instruments

Assets and liabilities recorded at fair value on a recurring basis in the balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, as follows:

Level 1—Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3—Inputs that are generally unobservable. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The assets' or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Company's financial instruments that are carried at fair value mainly consist of Level 1 assets and Level 3 liabilities. Level 1 assets include highly liquid bank deposits and money market funds, which were not material at June 30, 2020 and December 31, 2019. Level 3 liabilities that are measured on a recurring basis relate to the 2017 and 2016 Placement Warrants, as described in Note 9. Placement warrant liabilities are valued using the Black-Scholes option-pricing model. Generally, increases (decreases) in the fair value of the underlying stock, volatility and estimated term would result in a directionally similar impact to the fair value of the warrants (see Note 9). During the six months ended June 30, 2020, no warrants were exercised. During the six months ended June 30, 2019, warrants to purchase 248,315 shares of common stock were exercised and the aggregate fair value upon exercise of \$2.1 million was reclassified from liabilities to additional paid-in-capital.

The gains and losses from re-measurement of Level 3 financial liabilities are recorded as part of other income (expense), net in the condensed consolidated statements of operations and comprehensive loss. During the three and six months ended June 30, 2020, the Company recorded a gain of \$0.4 million and a gain of \$3.3 million, respectively, related to the change in fair value of the 2017 and 2016 Placement Warrants. During the three and six months ended June 30, 2019, the Company recorded a loss of \$1.8 million and a loss of \$4.8 million, respectively, related to the change in fair value of the 2017 and 2016 Placement Warrants. There were no transfers between Level 1, Level 2 and Level 3 in any periods presented.

The following table sets forth the fair value of the Company's financial liabilities by level within the fair value hierarchy (in thousands):

	At June 30, 2020			
	Level 1	Level 2	Level 3	Total
2017 Placement Warrants Liability	\$ —	\$ —	\$ 1,573	\$ 1,573
2016 Placement Warrants Liability	—	—	499	499
Total	\$ —	\$ —	\$ 2,072	\$ 2,072

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
2017 Placement Warrants Liability	\$ —	\$ —	\$ 1,330	\$ 1,330
2016 Placement Warrants Liability	—	—	4,043	4,043
Total	\$ —	\$ —	\$ 5,373	\$ 5,373

The following table sets forth a summary of the changes in fair value of the Company's Level 3 financial liabilities (in thousands):

	Six Months Ended June 30,	
	2020	2019
Fair value, beginning of period	\$ 5,373	\$ 11,844
Change in fair value of Level 3 financial liabilities	(3,301)	6,935
Fair value of 2016 Placement Warrants at exercise	—	(2,039)
Fair value of 2017 Placement Warrants at exercise	—	(65)
Fair value, end of period	\$ 2,072	\$ 16,675

5. Debt

SVB Term Loan

In December 2018, the Company entered into a term loan agreement, or the SVB Term Loan, with Silicon Valley Bank, for a principal amount of \$56.0 million. The SVB Term Loan has a maturity date of December 1, 2023 and bears interest at a rate of 6.30% per annum to be paid monthly over the term of the loan. Beginning on December 1, 2020 (or June 1, 2021, if the Company achieves a trailing twelve-month revenue of at least a specified amount and elects to apply such later date), the Company will make thirty-six equal monthly payments of principal (or thirty equal payments, if the Company so elects). In addition, upon repayment of the SVB Term Loan in full, the Company will make a final payment equal to 3.15% of the original aggregate principal amount of the SVB Term Loan.

The Company used the proceeds of the SVB Term Loan and cash on hand to repay in full its outstanding obligations under its then outstanding term loan, or the CRG Term Loan, and to pay fees and expenses related thereto. The Company accounted for the termination of the CRG Term Loan as a debt extinguishment and recorded a debt extinguishment loss of \$2.4 million from the difference between the net carrying amount of debt and the amount paid. The debt extinguishment loss includes \$0.3 million in write-offs of unamortized debt discount and debt issuance costs associated with the CRG Term Loan.

The Company received net proceeds of \$55.4 million after related legal and consulting fees totaling \$0.6 million. Such fees are accounted for as debt discount and issuance costs and presented as a direct deduction from the carrying amount of debt on the Company's consolidated balance sheets. Debt discount, issuance costs and the final payment are amortized or accreted as interest expense over the term of the loan using the effective interest method.

The SVB Term Loan requires that the Company maintain a minimum cash balance in accounts at Silicon Valley Bank or one of its affiliates or else comply with a liquidity ratio and/or a minimum revenue financial covenant. On December 31, 2019, the Company entered into the First Amendment (the Amendment) to the SVB Term Loan. The Amendment, among other things, amended the SVB Term Loan to (i) suspend testing of the minimum revenue financial covenant for the fiscal quarter ended December 31, 2019, (ii) provide for the minimum trailing twelve-month revenue thresholds under the minimum revenue financial covenant for periods ending on the last day of fiscal quarters in fiscal years subsequent to 2020 to be determined annually at the greater of (a) a 25% cushion to revenue forecasts provided by the Company to SVB and (b) 10% year-over-year annual growth, unless otherwise agreed, (iii) increase the minimum liquidity ratio financial covenant from 1.50:1.00 to 1.75:1.00 and (iv) increase the prepayment premium from 1.00% to 2.00% for amounts prepaid under the SVB Term Loan prior to the maturity date thereof, subject to certain exceptions.

The SVB Term Loan is secured by substantially all assets of the Company, except that the collateral does not include any intellectual property held by the Company, provided, however, the collateral shall include all accounts and proceeds of such intellectual property.

The SVB Term Loan contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness, dividends and other distributions and transactions with affiliates.

The SVB Term Loan includes standard events of default, including, among other things, subject in certain cases to customary grace periods, thresholds and notice requirements, the Company's failure to fulfill its obligations under the SVB Term Loan or the occurrence of a material adverse change in the Company's business, operations, or condition (financial or otherwise). In the event of default by the Company under the SVB Term Loan, Silicon Valley Bank would be entitled to exercise its remedies thereunder, including the right to accelerate the debt, upon which the Company may be required to repay all amounts then outstanding under the SVB Term Loan, which could harm the Company's financial condition.

The Company's scheduled future payments on the SVB Term Loan at June 30, 2020 are as follows (in thousands):

Year Ended December 31,	
The remainder of 2020	\$ 1,555
2021	18,667
2022	18,667
2023	17,111
2024	—
Total future principal payments	56,000
Less: unamortized debt discount	(355)
Carrying value of long-term debt	55,645
Less: current portion	(10,889)
Long-term portion	<u>\$ 44,756</u>

6. Commitments and Contingencies

Operating Leases

The Company entered into agreements to lease office space in Oakwood Village, Ohio, Mountain View, California and Denver, Colorado under noncancelable operating lease agreements.

In April 2008, the Company entered into an agreement to lease approximately 19,800 square feet of office space in Oakwood Village, Ohio, which expires in October 2021.

In June 2014, the Company entered into an office lease agreement to lease approximately 25,500 square feet of office space located in Mountain View, California, with an original expiration date of November 2019. In June 2018, the Company entered into an amendment to extend the term of the lease agreement through July 2025.

In April 2018, the Company entered into a lease agreement to lease approximately 24,600 square feet of additional office space located in Mountain View, California. The lease commenced in December 2018 and will expire in December 2025. The Company has the option to extend the term of the lease for a period of up to five years.

In May 2019, the Company entered into a sub-lease agreement to lease approximately 19,800 square feet of office space located in Denver, Colorado. The sub-lease commenced in June 2019 and will expire in July 2021.

In recognition of the right-of-use assets and the related lease liabilities, the options to extend the lease term have not been included as the Company is not reasonably certain that it will exercise any such option. At June 30, 2020, the weighted-average remaining lease term in years is 4.9 years and the weighted-average discount rate used is 7.7%.

The Company recognized the following lease costs arising from lease transactions (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating lease cost	\$ 781	\$ 677	\$ 1,562	\$ 1,303

The Company recognized the following cash flow transactions arising from lease transactions (in thousands):

	Six Months Ended June 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities	\$ 1,567	\$ 1,074
Right-of-use assets obtained in exchange for new operating lease liabilities	—	1,647

At June 30, 2020, the future payments and interest expense for the operating leases are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Future Payments</u>	
The remainder of 2020	\$	1,580
2021		2,831
2022		2,497
2023		2,571
2024		2,604
2025		1,924
Total undiscounted cash flows	\$	14,007
Less: imputed interest		(2,367)
Present value of lease liabilities	\$	<u>11,640</u>

Legal Proceedings

In the normal course of business, the Company may become involved in legal proceedings. The Company will accrue a liability for legal proceedings when it is 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. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued.

Patent Litigation

On September 10, 2019, a complaint for patent infringement was filed by Varian Medical Systems, Inc., in U.S. District Court for the Northern District of California against the Company. Captioned Varian Medical Systems, Inc., v. ViewRay, Inc., the complaint alleges that the Company infringes two related patents, U.S. Patent Nos. 8,637,841 and 9,082,520 and seeks injunctive relief and monetary damages. The Company filed its answer on November 1, 2019. The District Court matter is presently in discovery. The Company believes the allegations in the complaint are without merit and intends to vigorously defend the litigation.

On July 7, 2020 and July 31, 2020, the Company filed a petition with the Patent Trial & Appeal Board of the United States Patent and Trademark Office, requesting institution of inter partes review (IPR) and cancellation of claims 1-3, 5-8, 10, 13, 14 of Varian's U.S. Patent No. 9,082,520.

Class Action Litigation

On September 13, 2019, a class action complaint for violation of federal securities laws was filed in U.S. District Court for the Northern District of Ohio against the Company, its chief executive officer, chief scientific officer, and former chief financial officer. On December 19, 2019, the court appointed Plymouth County Retirement Association as the lead plaintiff, and on February 28, 2020 the lead plaintiff filed an amended complaint asserting securities fraud claims against the Company, its chief executive officer, chief operating officer, chief scientific officer, and former chief executive officer and former chief financial officer. Now captioned Plymouth County Retirement Association v. ViewRay, Inc., et al., the amended complaint alleges that the Company violated federal securities laws by issuing materially false and misleading statements that failed to disclose adverse facts concerning the its business, operations, and financial results, and seeks damages, interest, and other relief. The Company filed a motion to dismiss the amended complaint on May 28, 2020. That motion is now fully briefed and under consideration by the court. The Company believes the allegations in the complaint are without merit and intends to vigorously defend the litigation.

Given the early stage of each of the litigation matters described above, at this time the Company is unable to reasonably estimate possible losses or form a judgment that an unfavorable outcome is either probable or remote. However, litigation is subject to inherent uncertainties, and one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect on the period in which they are resolved and on our business generally. In addition, regardless of their merits or their ultimate outcomes, lawsuits and legal proceedings are costly, divert management attention and may materially adversely affect our reputation, even if resolved in our favor.

Purchase Commitments

At June 30, 2020, the Company had \$2.9 million in outstanding firm purchase commitments.

7. Revenue

The Company derives revenue primarily from the sale of MRIdian systems and related services as well as support and maintenance services on sold systems. Revenue is categorized as product revenue, service revenue and distribution rights revenue.

The following table presents revenue disaggregated by type and geography (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
U.S.				
Product	\$ 5,685	\$ 22,288	\$ 7,303	\$ 22,288
Service	2,029	1,320	3,495	1,954
Total U.S. revenue	\$ 7,714	\$ 23,608	\$ 10,798	\$ 24,242
Outside of U.S. ("OUS")				
Product	\$ 4,930	\$ 5,617	\$ 14,782	\$ 24,491
Service	1,461	823	2,656	1,480
Distribution rights	119	119	238	238
Total OUS revenue	\$ 6,510	\$ 6,559	\$ 17,676	\$ 26,209
Total				
Product	\$ 10,615	\$ 27,905	\$ 22,085	\$ 46,779
Service	3,490	2,143	6,151	3,434
Distribution rights	119	119	238	238
Total revenue	\$ 14,224	\$ 30,167	\$ 28,474	\$ 50,451

Arrangements with Multiple Performance Obligations

The Company frequently enters into sales arrangements that include multiple performance obligations. Such performance obligations mainly consist of (i) sale of MRIdian systems, which generally includes installation and embedded software, and (ii) product support, which includes extended service and maintenance. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. The standalone selling price, or SSP, is determined based on observable prices at which the Company separately sells the products and services. If an SSP is not directly observable, the Company will estimate the SSP considering market conditions or internally approved pricing guidelines related to the performance obligations.

Product Revenue

Product revenue is derived primarily from the sales of MRIdian systems. The system contains both software and non-software components that together deliver essential functionality.

For contracts in which control of the system transfers upon delivery and inspection, the Company recognizes revenue for the systems at the point in time when delivery and inspection by the customer has occurred. For these same contracts, the Company recognizes installation revenue over the period of installation as the installation services are performed and control is transferred to the customer. For all contracts in which control transfers upon post-installation customer acceptance, revenue for the system and installation are recognized upon customer acceptance.

Certain customer contracts with distributors do not require ViewRay to complete installation at the ultimate user site, and the distributors may either perform the installation themselves or hire another party to perform the installation. For sales of MRIdian systems for which the Company is not responsible for installation, revenue recognition generally occurs when the entire system is shipped, which is when the control of the system is transferred to the customer.

Service Revenue

Service revenue is derived primarily from maintenance services. The maintenance and support service is a stand-ready obligation which is performed over the term of the arrangement and, as a result, service revenue is recognized ratably over the service period as the customers benefit from the service throughout the service period.

Distribution Rights Revenue

In December 2014, the Company entered into a distribution agreement with Itochu Corporation pursuant to which it appointed Itochu as its exclusive distributor for the promotion, sale and delivery of its MRIdian products within Japan. In consideration of the exclusive distribution rights granted, the Company received \$4.0 million, which was recorded as deferred revenue. Starting in August 2016, the

distribution rights revenue is recognized ratably over the remaining term of the distribution agreement of approximately 8.5 years. A time-elapsed method is used to measure progress because control is transferred evenly over the remaining contractual period.

Contract Balances

The timing of revenue recognition, billings and cash collections results in short-term and long-term trade receivables, customer deposits, deferred revenues and deferred cost of revenue on the condensed consolidated balance sheets.

Trade receivables are recorded at the original invoiced amount, net of an estimated allowance for credit losses. Trade credit is generally extended on a short-term basis. The Company occasionally provides for long-term trade credit for its maintenance services so that the period between when the services are rendered to its customers and when the customers pay for that service is within one year. Thus, the Company's trade receivables do not bear interest or contain a significant financing component. Long-term trade receivables of \$0.3 million and \$0.2 million were reported within other assets in the condensed consolidated balance sheets at June 30, 2020 and at December 31, 2019, respectively. These amounts are billed in accordance with the terms of the customer contracts to which they relate and are expected to be collected two to three years from the date of invoice as the underlying maintenance services are rendered. At times, billing occurs subsequent to revenue recognition, resulting in an unbilled receivable which represents a contract asset. This contract asset is recorded as an unbilled receivable and reported as part of accounts receivable on the consolidated balance sheets.

Trade receivables are periodically evaluated for collectability based on past credit history of the respective customers and their current financial condition. Changes in the estimated collectability of trade receivables are included in the results of operations for the period in which the estimate is revised. Trade receivables that are deemed uncollectible are offset against the estimated allowance for credit losses. The Company generally does not require collateral for trade receivables. There were no estimated allowances for credit losses recorded at June 30, 2020 or December 31, 2019.

Customer deposits represent payments received in advance of system installation. For domestic and international sales, advance payments received prior to inventory shipments are recorded as customer deposits. Advance payments are subsequently reclassified to deferred revenue upon inventory shipment. All customer deposits, including those that are expected to be a deposit for more than one year, are classified as current liabilities based on consideration of the Company's normal operating cycle (the time between acquisition of the inventory components and the final cash collection from customers on these inventory components) which is in excess of one year.

Deferred revenue consists of deferred product revenue and deferred service revenue. Deferred product revenue arises from timing differences between the fulfillment of contract obligations and satisfaction of all revenue recognition criteria consistent with the Company's revenue recognition policy. Deferred service revenue results from the advance billing for services to be delivered over a period of time. Deferred revenues expected to be realized within one year or normal operating cycle are classified as current liabilities.

Deferred cost of revenue consists of cost for inventory items that have been shipped, but revenue recognition has not yet occurred. Deferred cost of revenue is included as part of current assets as the corresponding deferred product revenue is expected to be realized within one year or the Company's normal operating cycle.

During the three and six months ended June 30, 2020, the Company recognized \$2.1 million and \$5.4 million of revenues that was included in the deferred revenue balance at the beginning of the reporting period. During the three and six months ended June 30, 2019, the Company recognized \$1.3 million and \$9.2 million of revenues that were included in the deferred revenue balance at the beginning of the reporting period.

Variable Consideration

The Company records revenue from customers in an amount that reflects the transaction price it expects to be entitled to after transferring control of those goods or services. The Company estimates the transaction price at contract inception, including any variable consideration, and updates the estimate each reporting period for any changes. There were no amounts recognized during the three and six months ended June 30, 2020 from performance obligations satisfied in the prior period. For the three and six months ended June 30, 2019, the Company recognized \$0.0 million and \$0.9 million in revenue from performance obligations satisfied in the prior period.

8. Equity Financing

Public Offering of Common Stock

On August 14, 2018, the Company entered into an underwriting agreement with Morgan Stanley & Co. LLC and Jefferies LLC, as representatives of several underwriters, or the August 2018 Underwriters, in connection with the issuance and sale of 16,216,217 shares of the Company's common stock at a public offering price of \$9.25 per share. In addition, the Company granted the August 2018 Underwriters a 30-day option to purchase up to 2,432,432 additional shares of common stock on the same terms, which the August 2018 Underwriters exercised in full. The Company completed the offering on August 17, 2018 and received aggregate net proceeds of approximately \$161.9 million, after deducting underwriting discounts and commissions and offering expenses payable by the Company.

On December 3, 2019, the Company entered into an underwriting agreement with Piper Jaffray & Co., as representatives of several underwriters, or the December 2019 Underwriters, in connection with the issuance and sale of 41,550,000 shares of our common stock at a public offering price of \$3.13 per share. In addition, the Company granted the December 2019 Underwriters a 30-day option to purchase up to 6,232,500 additional shares of common stock on the same terms, which the December 2019 Underwriters exercised in full. The Company completed the offering on December 6, 2019 and received aggregate net proceeds of approximately \$138.6 million, after deducting underwriting discounts and commissions and offering expenses payable by the Company.

Direct Registered Offerings

In February 2018, the Company entered into a securities purchase agreement pursuant to which it sold (i) 4,090,000 shares of its common stock; (ii) 3,000,581 shares of its Series A convertible preferred stock and (iii) warrants to purchase 1,418,116 shares of its common stock, or the 2018 Offering Warrants, for total gross proceeds of \$59.1 million, or the March 2018 Direct Registered Offering. The March 2018 Direct Registered Offering was closed on March 5, 2018. The 2018 Offering Warrants have an exercise price of \$8.31 per share, became exercisable upon issuance and expire in March 2025.

Private Placements

In September 2016, the Company completed the final closing of a private placement offering, or the 2016 Private Placement, through which it sold (i) 4,602,506 shares of its common stock and (ii) warrants that provide the warrant holders the right to purchase 1,380,745 shares of common stock, or the 2016 Placement Warrants, and raised total gross proceeds of \$13.8 million. The 2016 Placement Warrants have an exercise price of \$2.95 per share, are exercisable at any time at the option of the holder and expire seven years from the date of issuance.

In January 2017, the Company completed the final closing of a private placement offering, or the 2017 Private Placement, through which it sold (i) 8,602,589 shares of its common stock and (ii) warrants that provide the warrant holders the right to purchase 1,720,512 shares of its common stock, or the 2017 Placement Warrants, and raised total gross proceeds of \$26.1 million. The 2017 Placement Warrants have an exercise price of \$3.17 per share, became exercisable in July 2017 and expire in January 2024.

At-The-Market Offering of Common Stock

In January 2019, the Company filed a registration statement with the SEC which covers the offering, issuance and sale of up to a maximum aggregate offering price of \$250.0 million of our common stock, preferred stock, debt securities, warrants, purchase contracts and/or units, including up to \$100.0 million of the Company's common shares that may be sold pursuant to the Company's at-the-market offering program with FBR Capital Markets & Co. ("FBR"). The shares in the December 2019 Public Offering of Common stock were sold pursuant to the January 2019 registration statement and did not impact the \$100.0 million of our common shares pursuant to our at-the-market offering program with FBR. The Company has not sold any securities under the 2019 registration statement pursuant to its at-the-market offering program.

9. Warrants

Equity Classified Common Stock Warrants

In connection with a debt financing in December 2013, the Company issued warrants to purchase 128,231 shares of its common stock with an exercise price of \$5.84 per share. These warrants are exercisable any time at the option of the holder until December 16, 2023. In August 2019, the Company issued 36,457 shares of its common stock upon the net exercise of 128,231 2013 Placement Warrants. All of the December 2013 Placement Warrants have been exercised and none of the warrants are outstanding at June 30, 2020.

In connection with the merger of the Company and ViewRay Technologies, Inc. in July 2015, or the Merger, in July and August 2015, the Company conducted a private placement offering as part of which the Company issued warrants, or the 2015 Placement Warrants, that provide the warrant holder the right to purchase 198,760 shares of common stock at an exercise price of \$5.00 per share. The 2015 Placement Warrants are exercisable at any time at the option of the holder until the five-year anniversary of its date of issuance. During the year ended December 31, 2018, the Company issued 92,487 shares of its common stock upon the net exercise of 159,010 shares of the 2015 Placement Warrants. The remaining 39,750 shares of the 2015 Placement Warrants have not been exercised and remained outstanding at June 30, 2020.

In connection with the March 2018 Direct Registered Offering, the Company issued warrants to purchase 1,418,116 shares of common stock at an exercise price of \$8.31 per share. The 2018 Offering Warrants became exercisable upon issuance and expire in March 2025. None of the 2018 Offering Warrants have been exercised to date and they all remained outstanding at June 30, 2020.

As separate classes of securities were issued in a bundled transaction, the gross proceeds from the March 2018 Direct Registered Offering of \$59.1 million were allocated to common stock, Series A convertible preferred stock and the 2018 Offering Warrants based on their respective relative fair value upon issuance. The aggregate fair value of the 2018 Offering Warrants of \$7.4 million was estimated using the Black-Scholes option-pricing model with the following assumptions:

	Upon Issuance
Common Stock Warrants:	
Expected term (in years)	7.0
Expected volatility (%)	62.5%
Risk-free interest rate (%)	2.8%
Expected dividend yield (%)	0%

The allocated proceeds from the 2018 Offering Warrants of \$6.6 million were recorded in additional paid-in-capital.

Liability Classified Common Stock Warrants

In connection with the 2017 and 2016 Private Placements, the Company issued warrants that provide the warrant holder the right to purchase 1,720,512 and 1,380,745 shares of common stock. The 2017 and 2016 Placement Warrants contain protection whereby the warrant holders will have the right to receive cash in the amount equal to the Black-Scholes value of the warrants upon the occurrence of a change of control, as defined in the warrant agreement. The 2017 and 2016 Placement Warrants were accounted for as a liability at the date of issuance and are adjusted to fair value at each balance sheet date, with the change in fair value recorded as a component of other income (expense), net in the condensed consolidated statements of operations and comprehensive loss. The key terms of the 2017 and 2016 Placement Warrants are as follows:

	Issuance Date	Term	Exercise Price Per Share	Warrants Exercised during the Six Months Ended June 30, 2020	Warrants Outstanding at June 30, 2020
2017 Placement Warrants	January 2017	7 years	\$ 3.17	—	1,618,890
2016 Placement Warrants	August and September 2016	7 years	\$ 2.95	—	537,263
Total				—	2,156,153

During the three and six months ended June 30, 2020, the Company recorded a gain of \$0.4 and \$3.3 million, respectively, related to the change in fair value of the 2016 and 2017 Placement Warrants. During the three and six months ended June 30, 2019, the Company recorded a loss of \$1.8 million and a loss of \$4.8 million, respectively, related to the change in fair value of the 2016 and 2017 Placement Warrants. The fair value of the 2016 and 2017 Placement Warrants at June 30, 2020 and December 31, 2019, respectively, was estimated using the Black-Scholes option-pricing model and the following weighted-average assumptions:

	2017 Placement Warrants		2016 Placement Warrants	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Expected term (in years)	3.6	4.0	3.1	3.6
Expected volatility	74.4%	68.0%	73.3%	67.5%
Risk-free interest rate	0.2%	1.7%	0.2%	1.6%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

10. Stock-Based Compensation

A summary of the Company's stock option activity and related information is as follows:

	<u>Options Outstanding</u>				
	<u>Shares Available for Grant</u>	<u>Number of Stock Options Outstanding</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (In thousands)</u>
Balance at December 31, 2019	948,415	11,165,846	\$ 7.44	7.6	\$ 1,907
Additional options authorized	9,137,667				
Options granted	(736,579)	736,579	1.97		
Options exercised	—	(20,579)	0.72		
Options cancelled	2,165,317	(2,165,317)	6.27		
Withheld shares to pay for taxes on released RSUs	45,913				
RSUs granted	(5,962,979)				
RSUs forfeited	557,428				
Balance at June 30, 2020	6,155,182	9,716,529	\$ 7.26	7.9	\$ 907
Vested and exercisable at June 30, 2020		4,870,115	\$ 7.04	7.3	\$ 626
Vested and expected to vest at June 30, 2020		9,297,531	\$ 7.28	7.8	\$ 871

The weighted-average grant date fair value of options granted to employees was \$1.20 and \$4.79 per share during the six months ended June 30, 2020 and 2019, respectively. The grant date fair values of options vested was \$5.7 million and \$3.3 million during the six months ended June 30, 2020 and 2019, respectively.

Aggregate intrinsic value represents the difference between the estimated fair value of the underlying common stock and the exercise price of outstanding, in-the-money options. The aggregate intrinsic values of options exercised was \$0.0 million and \$6.5 million during the six months ended June 30, 2020 and 2019, respectively.

At June 30, 2020, total unrecognized compensation cost related to stock options granted to employees, net of estimated forfeitures, was \$18.9 million which is expected to be recognized over a weighted-average period of 2.2 years.

Determination of Fair Value

The determination of the fair value of stock options on the date of grant using an option-pricing model is affected by the estimated fair value of the Company's common stock, as well as assumptions regarding a number of complex and subjective variables. The variables used to calculate the fair value of stock options using the Black-Scholes option-pricing model include actual and projected employee stock option exercise behaviors, expected price volatility of the Company's common stock, the risk-free interest rate and expected dividends. Each of these inputs is subjective and generally requires significant judgment to determine.

The fair value of employee stock options is estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Expected term (in years)	6.0	6.0
Expected volatility	68.8%	60.1%
Risk-free interest rate	0.7%	2.5%
Expected dividend yield	0.0%	0.0%

Restricted Stock Units

From time to time, the Company grants Restricted Stock Units, or RSUs, to its board of directors and certain employees for their services. Certain board members elected RSUs in lieu of retainer and committee service fees, which vest over a period of time from the grant date and will be released and settled upon termination of the board member's services or the occurrence of a change in control event. In January and June 2020, the Company granted RSUs to its Board of Directors as part of the director compensation program. The January 2020 RSUs granted to board members vested in full on the date of our 2020 Annual Meeting of Stockholders. The June 2020 RSUs granted to board members vest in full on the date of our 2021 Annual Meeting of Stockholders. In January and June 2020, the Company granted RSUs to the Company's CEO that vest annually at 42% on the first anniversary date of the grant, and 29% on the second and third anniversary date of the grant. In January and March of 2020, the Company granted RSUs to several employees. These RSUs vest in equal annual installments over three years from the grant date and are subject to the participants continuing service to the Company over that period. The fair value of RSUs is based on the closing market price of the Company's common stock on the grant date.

	RSUs	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2019	4,379,777	\$ 5.14
RSUs granted	5,962,979	2.78
RSUs vested	(393,772)	6.20
RSUs forfeited	(557,428)	3.16
Unvested at June 30, 2020	9,391,556	\$ 3.72
Vested and unreleased	142,336	
Outstanding at June 30, 2020	9,533,892	

The total grant date fair value of RSUs awarded was \$16.4 million for the six months ended June 30, 2020. The total fair value of RSUs vested was \$2.4 million for the six months ended June 30, 2020. The total grant date fair value of RSUs awarded was \$5.3 million for the six months ended June 30, 2019. The total fair value of RSUs vested was \$0.2 million for the six months ended June 30, 2019.

As of June 30, 2020, total unrecognized stock-based compensation cost related to RSUs was \$24.5 million, which is expected to be recognized over a weighted-average period of 2.1 years. At June 30, 2020, 8,765,862 shares of RSUs are expected to vest.

Stock-Based Compensation Expense

Total stock-based compensation expense recognized for employee stock awards and employee stock purchase plan shares in the Company's condensed consolidated statements of operations and comprehensive loss is classified as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of revenue	\$ 270	\$ 628	\$ 508	\$ 1,210
Research and development	636	946	1,156	1,824
Selling and marketing	343	365	559	642
General and administrative	4,554	2,968	9,081	5,783
Total stock-based compensation expense	\$ 5,803	\$ 4,907	\$ 11,304	\$ 9,459

Stock-based compensation relating to stock-based awards granted to consultants was insignificant during the three and six months ended June 30, 2020 and 2019.

11. Income Tax

Due to the current operating losses, the Company recorded zero income tax expense during the three and six months ended June 30, 2020 and 2019, respectively. During these periods, the Company's activities were limited to U.S. federal and state tax jurisdictions, as it does not have any significant foreign operations. The federal and state effective tax rate before valuation allowance is approximately 24% for the six months ended June 30, 2020.

Due to the Company's history of cumulative losses and after considering all the available objective evidence, management concluded that it is not more likely than not that all of the Company's net deferred tax assets will be realized in the future. Accordingly, the Company's deferred tax assets, which include net operating loss, or NOL, carryforwards and tax credits related primarily to research and development, continue to be subject to a valuation allowance as of June 30, 2020. The Company expects to continue to maintain a full valuation allowance until there is sufficient evidence to support recoverability of its deferred tax assets.

The Company had unrecognized tax benefits of \$2.6 million and \$2.2 million at June 30, 2020 and December 31, 2019, respectively. The reversal of the uncertain tax benefits would not affect the effective tax rate to the extent that the Company continues to maintain a full valuation allowance against its deferred tax assets. Unrecognized tax benefits may change during the next 12 months for items that arise in the ordinary course of business.

Interest and/or penalties related to income tax matters are recognized as a component of income tax expense. At June 30, 2020 and December 31, 2019, there were no accrued interest and penalties related to uncertain tax positions.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law. The CARES Act includes provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The enactment of the CARES Act did not result in any material adjustments to our income tax provision for the six months ended June 30, 2020.

12. Net Loss per Share

Since the Company was in a loss position for all periods presented, diluted net loss per common share is the same as basic net loss per common share for all periods presented, because the inclusion of all potential common shares outstanding would have an anti-dilutive effect. The following weighted-average common stock equivalents were excluded from the calculation of diluted net loss per share for the periods presented, because including them would have an anti-dilutive effect:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Options to purchase common stock	9,423,891	10,277,120	10,245,135	10,899,546
Common stock warrants	3,614,019	4,336,072	3,614,019	4,370,302
Restricted stock units	1,995,840	575,129	3,379,806	1,070,969
Total	15,033,749	15,188,321	17,238,960	16,340,817

13. Related Party Transactions

In December 2004, the Company entered into a licensing agreement with the University of Florida Research Foundation, or UFRF, whereby UFRF granted the Company a worldwide exclusive license to certain of UFRF's patents in exchange for 33,652 shares of common stock and a 1% royalty, with a minimum \$0.1 million royalty payment per quarter, from sales of products developed and sold by the Company utilizing the licensed patents. Minimum royalty payments in any calendar year are credited against earned royalties for such calendar year. Royalty expenses based on 1% of net sales were \$0.2 million and \$0.3 million during the three and six months ended June 30, 2020, respectively, and were recorded as product cost of revenue. Royalty expenses based on 1% of net sales were \$0.1 million and \$0.4 million during the three and six months ended June 30, 2019, respectively, and were recorded as product cost of revenue.

In November 2019, the Company entered into a distribution agreement with Chindex Shanghai International Trading Company Limited, or Chindex, which became effective in February 2020. Chindex is a subsidiary of Fosun International Limited, or Fosun. Kevin Xie, Ph.D., a member of the Company's board of directors, was previously designated by Fosun for election to the board pursuant to a Securities Purchase Agreement dated October 23, 2017 and related to the Company's 2017 direct registered offering of common stock.

Under the distribution agreement, Chindex will act as the Company's distributor and regulatory agent for the sale and delivery of its MRIdian products within the People's Republic of China, excluding Hong Kong, Macau and Taiwan. The distribution agreement has an initial term of five years with an option to renew for an additional five years. Under the distribution agreement, the Company will supply its products and services to Chindex based on an agreed upon price between the Company and Chindex. In accordance with the agreement, Chindex agreed to pay ViewRay an upfront fee, portions of which may be refundable under certain conditions, of \$3.5 million, payable in three installments: (i) the first installment of \$1.5 million due approximately 60 days after the effectiveness of the distribution agreement; (ii) the second installment of \$1.0 million due on the first anniversary from the effective date of the agreement; and (iii) the third installment of \$1.0 million due on the second anniversary from the effective date of the agreement. No amounts have been received as of June 30, 2020 as there have been delays with certain regulatory requirements needed to collect the first installment. Currently, the Company expects the first installment to be received in the second half of 2020.

14. Subsequent Events

On July 6, 2020, the Company reduced its workforce by approximately 20%. As the workforce reduction was finalized and communicated in June 2020, the Company accrued a total charge of \$0.9 million related to employee termination costs at June 30, 2020. The majority of this charge is expected to be paid in the third quarter of 2020.

On July 22, 2020, a stockholder derivative lawsuit was filed against ViewRay (as a nominal defendant) and certain of its current and former officers and directors in the U.S. District Court for the Northern District of Ohio. This action alleges, purportedly on behalf of ViewRay, that the officers and directors violated Section 14(a) of the Securities Exchange Act of 1934, breached their fiduciary duties, wasted corporate assets, and were unjustly enriched based on factual assertions substantially similar to those in the class action complaint described in Note 6, Commitments and Contingencies. The complaint seeks, among other things, damages awarded to ViewRay, restitution and disgorgement of profits in an unspecified amount, and corporate reforms.

Given the early stage of the litigation matter described above, at this time the Company is unable to reasonably estimate possible losses or form a judgment that an unfavorable outcome is either probable or remote. However, litigation is subject to inherent uncertainties, and one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect on the period in which they are resolved and on our business generally. In addition, regardless of their merits or their ultimate outcomes, lawsuits and legal proceedings are costly, divert management attention and may materially adversely affect our reputation, even if resolved in our favor.

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

The interim financial statements included in this Quarterly Report on Form 10-Q and this Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2019, and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations, contained in the Annual Report filed with the SEC on March 12, 2020. In addition to historical information, this discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are subject to risks and uncertainties, including those under “Risk Factors” in this Quarterly Report and the Annual Report that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements.

Unless otherwise indicated, references in this section to “ViewRay,” “we,” “us,” “our” and the “Company” refer to ViewRay, Inc. and its consolidated subsidiary, ViewRay Technologies, Inc.

As a result of the merger of the Company and ViewRay Technologies, Inc. in July 2015, or the Merger, and the change in business and operations of the Company, a discussion of the past financial results of the Company is not pertinent, and under applicable accounting principles the historical financial results of ViewRay Technologies, Inc., the accounting acquirer, prior to the Merger are considered the historical financial results of the Company.

The following discussion highlights our results of operations and the principal factors that have affected our financial condition as well as our liquidity and capital resources for the periods described and provides information that management believes is relevant for an assessment and understanding of the statements of financial condition and results of operations presented herein. The following discussion and analysis are based on our unaudited condensed consolidated financial statements contained in this Quarterly Report, which we have prepared in accordance with U.S. GAAP. You should read the discussion and analysis together with such condensed consolidated financial statements and the related notes thereto.

Company Overview

We design, manufacture and market the ViewRay MRIdian®. The MRIdian is an innovative system that integrates high quality radiation therapy with simultaneous magnetic resonance imaging (MRI). There are two generations of the MRIdian: the first generation MRIdian with Cobalt-60 based radiation beams and the second generation MRIdian Linac, with more advanced linear accelerator or ‘linac’ based radiation beams.

The MRIdian combines MRI and external-beam radiation therapy to simultaneously image and treat cancer patients. MRI is a broadly used imaging tool that has the ability to clearly differentiate between types of soft tissue. In contrast, X-ray or computed tomography (CT), the most commonly used imaging technologies in radiation therapy today, are often unable to distinguish soft tissues such as the tumor and critical organs. MRIdian integrates MRI technology, radiation delivery and our proprietary software to clearly **See** the soft tissues, **Shape** the dose to accommodate for changes in anatomy and **Strike** the target precisely using real-time targeting throughout the treatment. The MRIdian system is **Sized** to fit into standard radiation therapy vaults without having to remove ceiling or walls. These capabilities allow MRIdian to deliver radiation to the tumor accurately, while reducing the radiation amount delivered to nearby healthy tissue, as compared to other radiation therapy treatments currently available. We believe this will lead to improved patient outcomes and reduced treatment-related side effects.

Both generations of the MRIdian have received 510(k) marketing clearance from the FDA and permission to affix the CE mark.

- We received initial 510(k) marketing clearance from the FDA for our treatment planning and delivery software in January 2011.

- We received 510(k) marketing clearance for MRIdian, with Cobalt-60 as the radiation source, in May 2012. We received permission to affix the CE mark to MRIdian with Cobalt-60 in November 2014, allowing MRIdian with Cobalt-60 to be sold within the European Economic Area, or EEA.
- In August 2016, we received regulatory approval from the Japanese Ministry of Health, Labor and Welfare to market MRIdian with Cobalt-60 in Japan as well as from the China Food and Drug Administration to market MRIdian with Cobalt-60 in China.
- In September 2016, we received the CE mark for the MRIdian Linac (with a linear accelerator as the radiation source) in the EEA.
- In February 2017, we received 510(k) clearance from the FDA to market MRIdian Linac in the United States.
- In June 2017, we received 510(k) clearance to market RayZR™, our high-resolution beam-shaping multi-leaf collimator. We also received MRIdian Linac regulatory approval in Taiwan and Canada in August 2017, and in Israel in November 2017. In March 2018, we received regulatory approval from the Japanese Ministry of Health, Labor and Welfare to market MRIdian Linac in Japan.
- In February 2019, we received 510(k) clearance for advancements in MRI, 8 frames per second cine, and Functional imaging (T1/T2/DWI) and High-Speed MLC. In December 2019, we received the CE mark for these advancements in the EEA.
- We are also seeking required MRIdian Linac approvals in other countries.

MRIdian is the first radiation therapy solution that enables simultaneous radiation treatment delivery and real-time MRI imaging of a patient's internal anatomy. It generates high-quality images that differentiate between the targeted tumor, surrounding soft tissue and nearby critical organs. MRIdian also records the level of radiation dose that the treatment area has received, enabling physicians to adapt the prescription between treatments, as needed. We believe this improved visualization and accurate dose recording will enable better treatment, improve patient outcomes and reduce side effects. Key benefits to users and patients include: improved imaging and patient alignment; the ability to adapt the patient's radiation treatments to changes while the patient is still on the treatment table, or "on-table adaptive treatment planning"; MRI-based motion management; and an accurate recording of the delivered radiation dose. Physicians have already used MRIdian to treat a broad spectrum of radiation therapy patients with more than 45 different types of cancer, as well as patients for whom radiation therapy was previously not an option.

At June 30, 2020, a total of 38 MRIdian systems, four MRIdian with Cobalt-60 systems and 34 MRIdian Linac systems, are in operation at 35 customer sites worldwide (15 in the United States and 20 outside the United States). In addition, seven MRIdian Linacs have been delivered to customers that are in varying stages of deployment.

We currently market MRIdian through a direct sales force in the United States. In the rest of the world, we market MRIdian through a hybrid model of both a direct sales force and distribution network. We market MRIdian to a broad range of worldwide customers, including university research and teaching hospitals, community hospitals, private practices, government institutions and freestanding cancer centers. As with the traditional linac market, our sales and revenue cycles vary based on the particular customer and can be lengthy, sometimes lasting up to 18 to 24 months (or more) from initial customer contact to order contract execution. Following execution of an order contract, it generally takes nine to 15 months for a customer to customize an existing facility or construct a new vault. Upon the commencement of installation at a customer's facility, it typically takes approximately 45 to 90 days for us to install MRIdian and perform on-site testing of the system, including the completion of acceptance test procedures.

We generated total revenue of \$14.2 million and \$30.2 million, and had net losses of \$26.2 million and \$30.8 million, during the three months ended June 30, 2020 and 2019, respectively. We generated total revenue of \$28.5 million and \$50.5 million, and net losses of \$53.7 and \$64.2 million, during the six months ended June 30, 2020 and 2019, respectively.

We expect to continue to incur significant expenses and operating losses for the foreseeable future, as we:

- navigate our business activities through the impacts of the coronavirus pandemic;
- continue our research and development efforts;
- seek regulatory approval for MRIdian in certain foreign countries; and
- operate as a public company.

Accordingly, we may seek to fund our operations through public or private equity, debt financings or other sources. However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. Our failure to raise capital or enter into such other arrangements as and when needed would have a negative impact on our financial condition and our ability to develop enhancements to and integrate new technologies into MR Image-Guided radiation therapy systems.

Impact of the Coronavirus Disease

The coronavirus pandemic, the resulting global recession and its follow-on effects have impacted and will continue to impact business activity across industries worldwide, including ViewRay.

Due to pandemic-related factors like the delays in service from our global supply chain partners and restrictions imposed by government agencies and our customers in response to the spread of coronavirus, we have experienced delays in installation of systems in the United States, Asia and Europe. Similarly, our ability to conduct commercial efforts with our customers has been and is likely to continue to be disrupted as customers have in most cases suspended in-person sales calls and turned their focus to dealing with the impact of the coronavirus on their operations. Should the global recession persist as a result of the impact of coronavirus, our ability to conduct our business and access capital markets will be negatively impacted; and capital equipment sales, which makes up the majority of our revenue, may take longer than other areas of the economy in a recovery, which may have a material impact on our business. The coronavirus pandemic continues to develop rapidly, and its continued global economic impact may negatively impact our operations in areas that we are not aware of currently.

In the first quarter of 2020, we initiated a contingency plan with the goal to reduce our cash usage by approximately \$30 million during the remainder of 2020, largely through reductions in operating expense, working capital and company-wide salary reductions. Regarding company-wide salary reductions, our executive leadership team, including our board of directors, reduced their salaries by as much as 30%, and reductions were then cascaded down at lesser rates through the organization. In late June 2020, we finalized and communicated a plan to reduce our workforce by approximately 20%. The plan was implemented on July 6, 2020. As of June 30, 2020, we remain on track with our contingency plan to reduce cash usage by approximately \$30 million.

New Orders and Backlog

New orders are defined as the sum of gross product orders, representing MRIIdian contract price, recorded in backlog during the period. Backlog is the accumulation of all orders for which revenue has not been recognized and which we consider valid. Backlog includes customer deposits or letters of credit, except when the sale is to a customer where a deposit is not deemed necessary or customary. Deposits received are recorded in a customer deposit liability account on the balance sheet. Orders may be revised or cancelled according to their terms or upon mutual agreement between the parties. Therefore, it is difficult to predict with certainty the amount of backlog that will ultimately result in revenue. The determination of backlog includes objective and subjective judgment about the likelihood of an order contract becoming revenue. We perform a quarterly review of backlog to verify that outstanding orders in backlog remain valid, and based upon this review, orders that are no longer expected to result in revenue are removed from backlog. Among other criteria to consider for a transaction to be in backlog, we must possess both an outstanding and effective written agreement for the delivery of a MRIIdian signed by a customer with a minimum customer deposit or a letter of credit requirement except when the sale is to a customer where a deposit is not deemed necessary or customary (i.e. sale to a government entity, a large hospital, group of hospitals or cancer care group that has sufficient credit, sales via tender awards, or indirect channel sales that have signed contracts with end-customers). We decide whether to remove or add back an order from or to our backlog by evaluating the following criteria: changes in customer or distributor plans or financial conditions; the customer's or distributor's continued intent and ability to fulfill the order contract; changes to regulatory requirements; the status of regulatory approval required in the customer's jurisdiction, if any; the length of time the order has been on our backlog; and other reasons for potential cancellation of order contracts.

During the six months ended June 30, 2020, we received eight new orders for MRIIdian systems, totaling \$47.2 million. At June 30, 2020, we had total backlog of \$232.2 million.

Components of Statements of Operations

Revenue

Product Revenue. Product revenue consists of revenue recognized from sales of MRIIdian systems, as well as optional components, such as additional planning workstations and body coils.

Following execution of an order contract, it generally takes nine to 15 months for a customer to customize an existing facility or construct a new vault for the purchased system. Upon the commencement of installation at a customer's facility, it typically takes approximately 45 to 90 days to complete the installation and on-site testing of the system, including the completion of customer test procedures. On-site training can take up to multiple weeks and can be conducted concurrently with installation and acceptance testing. Order contracts generally include customer deposits upon execution of the agreement, and in certain cases, additional amounts due at shipment or commencement of installation, and final payment due generally upon customer acceptance.

Beginning in the second quarter of 2019, for new contracts in which control of the system transfers upon delivery and inspection, the Company recognizes revenue for the system at the point in time when delivery and inspection has occurred. For these same contracts, the Company recognizes installation revenue over a period of time as control of the installation services are transferred. For all contracts in which control continues to transfer upon post-installation customer acceptance, revenue for the system and installation will continue to be recognized upon customer acceptance. For sales of MRIIdian systems for which we are not responsible for installation, revenue is recognized when the entire system is delivered, which is when the control of the system is transferred to the customer.

Service Revenue. Our contracts typically include service warranty at no additional costs for one year. In addition, we offer multi-year, post-installation maintenance and support contracts that provide various levels of service support, which enables our customers to select the level of on-going support services, including parts and labor, which they require. These post-installation contracts are for a

period of one to five years and provide services ranging from on-site parts and labor, and preventative maintenance to labor only with a longer response time. We also offer technology upgrades to our MRIdian systems, when and if available, for an additional fee. Service revenue is recognized ratably over the term during which the contracted services are provided.

Distribution Rights Revenue. In December 2014, we entered into a distribution agreement with Itochu Corporation, or Itochu, pursuant to which we appointed Itochu as our exclusive distributor for the promotion, sale and delivery of MRIdian products within Japan. As consideration for the exclusive distribution rights granted, we received \$4.0 million, which was recorded as deferred revenue and since August 2016, distribution rights revenue has been recognized ratably over the remaining term of the distribution agreement, which expires in December 2024. A time-elapsed method is used to measure progress because the control is transferred evenly over the contractual period.

Cost of Revenue

Product Cost of Revenue. Product cost of revenue primarily consists of the cost of materials, installation and services associated with the manufacturing and installation of MRIdian systems, and royalty payments to the University of Florida Research Foundation. Product cost of revenue also includes lower of cost or net realizable value inventory, or LCNRV, adjustments if the carrying value of the inventory is greater than its net realizable value. We recorded LCNRV charges of \$0.2 million for the three and six months ended June 30, 2020. There was no LCNRV charge for the three or six months ended June 30, 2019.

We expect our materials, installation and service costs to decrease as we continue to scale our operations, improve product designs and work with our third-party suppliers to lower costs.

Service Cost of Revenue. Service cost of revenue is comprised primarily of personnel costs, training and travel expenses to service and perform maintenance on installed MRIdian systems. Service cost of revenue also includes the costs of replacement parts under maintenance and support contracts.

Operating Expenses

Research and Development. Research and development expenses consist primarily of compensation and related costs for personnel, including stock-based compensation, employee benefits and travel expenses. Other significant research and development costs arise from third-party consulting services, laboratory supplies, research materials, medical equipment, computer equipment and licensed technology, and related depreciation and amortization. We expense research and development costs as incurred. We will continue to invest in improving MRIdian and developing new technologies.

Selling and Marketing. Selling and marketing expenses consist primarily of compensation and related costs for our direct sales force, sales management, and marketing and customer support personnel, and include stock-based compensation, employee benefits and travel expenses. Selling and marketing expenses also include costs related to trade shows and marketing programs. We expense selling and marketing costs as incurred.

General and Administrative. Our general and administrative expenses consist primarily of compensation and related costs for our operations, finance, human resources, regulatory, and other administrative personnel, and include stock-based compensation, employee benefits and travel expenses. In addition, general and administrative expenses include third-party consulting, legal, audit, accounting services, quality and regulatory functions and facilities costs, and gain or loss on the disposal of property and equipment.

Interest Income

Interest income consists primarily of interest income received on our cash and cash equivalents.

Interest Expense

Interest expense consists primarily of interest and amortization related to our SVB Term Loan.

Other Income (Expense), Net

Other income (expense), net consists primarily of changes in the fair value of the 2017 and 2016 Placement Warrants and foreign currency exchange gains and losses.

The outstanding 2017 and 2016 Placement Warrants are re-measured to fair value at each balance sheet date with the corresponding gain or loss from the adjustment recorded as a component of other income (expense), net.

Results of Operations

The following tables set forth our results of operations for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(in thousands)				
Revenue:				
Product	\$ 10,615	\$ 27,905	\$ 22,085	\$ 46,779
Service	3,490	2,143	6,151	3,434
Distribution rights	119	119	238	238
Total revenue	14,224	30,167	28,474	50,451
Cost of revenue:				
Product	12,714	22,814	25,843	44,847
Service	2,552	4,107	5,780	7,722
Total cost of revenue	15,266	26,921	31,623	52,569
Gross margin	(1,042)	3,246	(3,149)	(2,118)
Operating expenses:				
Research and development	6,211	6,463	12,548	11,494
Selling and marketing	3,093	7,663	8,916	12,548
General and administrative	15,227	15,398	31,015	30,507
Total operating expenses:	24,531	29,524	52,479	54,549
Loss from operations	(25,573)	(26,278)	(55,628)	(56,667)
Interest income	87	687	782	907
Interest expense	(1,071)	(1,074)	(2,109)	(1,833)
Other income (expense), net	405	(4,133)	3,271	(6,566)
Loss before provision for income taxes	(26,152)	(30,798)	(53,684)	(64,159)
Provision for income taxes	—	—	—	—
Net loss	\$ (26,152)	\$ (30,798)	\$ (53,684)	\$ (64,159)

Comparison of the Three Months Ended June 30, 2020 and 2019

Revenue

	Three Months Ended June 30,		Change
	2020	2019	
(in thousands)			
Product	\$ 10,615	\$ 27,905	\$ (17,290)
Service	3,490	2,143	1,347
Distribution rights	119	119	—
Total revenue	\$ 14,224	\$ 30,167	\$ (15,943)

Total revenue during the three months ended June 30, 2020 decreased by \$15.9 million compared to the three months ended June 30, 2019. The decrease was primarily due to a \$17.3 million decrease in product revenue and offset by a \$1.3 million increase in service revenue during the three months ended June 30, 2020 compared to the three months ended June 30, 2019.

Product Revenue. Product revenue decreased by \$17.3 million during the three months ended June 30, 2020 compared to the three months ended June 30, 2019. The decrease was primarily due to the revenue recognized on three fewer MRIdian Linac systems in the three months ended June 30, 2020 as compared to the three months ended June 30, 2019.

Service Revenue. Service revenue increased by \$1.3 million during the three months ended June 30, 2020 compared to the three months ended June 30, 2019 primarily due to the increase in installed base. The \$1.3 million increase includes a \$0.5 million release of deferred revenue that was related to a service contract.

Cost of Revenue

	Three Months Ended June 30,		Change
	2020	2019	
	(in thousands)		
Product	\$ 12,714	\$ 22,814	\$ (10,100)
Service	2,552	4,107	(1,555)
Total cost of revenue	\$ 15,266	\$ 26,921	\$ (11,655)

Product Cost of Revenue. Product cost of revenue decreased by \$10.1 million during the three months ended June 30, 2020 compared to the three months ended June 30, 2019. The decrease was attributable to three fewer MRIDian Linac systems recognized during the three months ended June 30, 2020 compared to the three months ended June 30, 2019.

Service Cost of Revenue. Service cost of revenue decreased by \$1.6 million during the three months ended June 30, 2020 compared to the three months ended June 30, 2019, primarily due to a decrease in cost of service-related inventory parts and coronavirus related travel and payroll reductions for our service personnel.

Operating Expenses

	Three Months Ended June 30,		Change
	2020	2019	
	(in thousands)		
Research and development	\$ 6,211	\$ 6,463	\$ (252)
Selling and marketing	3,093	7,663	(4,570)
General and administrative	15,227	15,398	(171)
Total operating expenses	\$ 24,531	\$ 29,524	\$ (4,993)

Research and Development. Research and development expenses during the three months ended June 30, 2020 decreased by \$0.3 million compared to the three months ended June 30, 2019. The decrease was primarily attributable to an \$0.4 million decrease in travel expense attributable to coronavirus related travel reductions for our research and development workforce.

Selling and Marketing. Selling and marketing expenses during the three months ended June 30, 2020 decreased by \$4.6 million compared to the three months ended June 30, 2019. The decrease was primarily attributable to a \$2.4 million decrease in personnel expense in the form of sales related compensation, a \$0.9 million decrease in travel expense primarily driven by coronavirus related reduction in travel for our sales and marketing workforce, and a \$0.8 million decrease in marketing expense primarily driven by the postponement or cancellation of clinical conferences.

General and Administrative. General and administrative expenses during the three months ended June 30, 2020 decreased by \$0.2 million compared to the three months ended June 30, 2019. The slight decrease was primarily attributable to a \$0.6 million decrease in consulting and other professional service expense and a \$0.5 million decrease in travel expense primarily driven by coronavirus related reduction in travel for our general and administrative workforce. These decreases were offset by a \$0.7 million increase in personnel expense and a \$0.3 million increase in facilities expense. The increase in personnel expense is primarily driven by an increase in severance and stock-based compensation expense, offset by reductions in other personnel charges related to our company-wide salary reductions.

Interest Income

	Three Months Ended June 30,		Change
	2020	2019	
	(in thousands)		
Interest income	\$ 87	\$ 687	\$ (600)

Interest income decreased by \$0.6 million during the three months ended June 30, 2020 compared to the three months ended June 30, 2019 primarily due to a strategic shift of invested funds from a high to low yield account.

Interest Expense

	Three Months Ended June 30,		Change
	2020	2019	
	(in thousands)		
Interest expense	\$ (1,071)	\$ (1,074)	\$ 3

Interest expense related to the SVB Term Loan remained flat during the three months ended June 30, 2020 compared to the three months ended June 30, 2019.

Other Income (Expense), Net

	<u>Three Months Ended June 30,</u>		<u>Change</u>
	<u>2020</u>	<u>2019</u>	
	(in thousands)		
Other income (expense), net	\$ 405	\$ (4,133)	\$ 4,538

Other income (expense), net during the three months ended June 30, 2020 consisted primarily of a \$0.4 million decrease in the fair value of warrant liabilities related to the 2017 and 2016 Placement Warrants as a result in the reduction of the Company's stock price. Other income (expense), net during the three months ended June 30, 2019 consisted primarily of a \$3.8 million increase in fair value of warrant liabilities related to the 2017 and 2016 Placement Warrants.

Comparison of the Six Months Ended June 30, 2020 and 2019**Revenue**

	<u>Six Months Ended June 30,</u>		<u>Change</u>
	<u>2020</u>	<u>2019</u>	
	(in thousands)		
Product	\$ 22,085	\$ 46,779	\$ (24,694)
Service	6,151	3,434	2,717
Distribution rights	238	238	—
Total revenue	<u>\$ 28,474</u>	<u>\$ 50,451</u>	<u>\$ (21,977)</u>

Total revenue during the six months ended June 30, 2020 decreased by \$22.0 million compared to the six months ended June 30, 2019. The decrease was primarily due to a \$24.7 million decrease in product revenue, offset by a \$2.7 million increase in service revenue during the six months ended June 30, 2020 compared to the six months ended June 30, 2019.

Product Revenue. Product revenue decreased by \$24.7 million during the six months ended June 30, 2019 compared to the six months ended June 30, 2018. The decrease was primarily due to the revenue recognized on four fewer MRIdian Linac systems in the six months ended June 30, 2020 as compared to the six months ended June 30, 2019. In addition, for the six months ended June 30, 2019, the Company recognized \$0.9 million in revenue from performance obligations satisfied in 2018.

Service Revenue. Service revenue increased by \$2.7 million during the six months ended June 30, 2020 compared to the six months ended June 30, 2019 due to the increase in installed base. The \$2.7 million increase includes a \$0.5 million release of deferred revenue that was related to a service contract.

Cost of Revenue

	<u>Six Months Ended June 30,</u>		<u>Change</u>
	<u>2020</u>	<u>2019</u>	
	(in thousands)		
Product	\$ 25,843	\$ 44,847	\$ (19,004)
Service	5,780	7,722	(1,942)
Total cost of revenue	<u>\$ 31,623</u>	<u>\$ 52,569</u>	<u>\$ (20,946)</u>

Product Cost of Revenue. Product cost of revenue decreased by \$19.0 million during the six months ended June 30, 2020 compared to the six months ended June 30, 2019. Product cost of revenue in the six months ended June 30, 2020 was impacted by cost of revenue recognized on four fewer MRIdian Linac systems in the six months ended June 30, 2020 as compared to the six months ended June 30, 2019. In addition, total cost of revenue in the six months ended June 30, 2019 was impacted by approximately \$7.0 million of charges, primarily driven by higher than anticipated installation costs related to historical upgrade commitments. The \$7.0 million included \$5.6 million of one-time charges and \$1.4 million of expenses.

Service Cost of Revenue. Service cost of revenue decreased by \$1.9 million during the six months ended June 30, 2020 compared to the six months ended June 30, 2019, primarily due to a decrease in cost of service-related inventory parts and coronavirus related travel and payroll reductions for our service personnel.

Operating Expenses

	Six Months Ended June 30,		Change
	2020	2019	
	(in thousands)		
Research and development	\$ 12,548	\$ 11,494	\$ 1,054
Selling and marketing	8,916	12,548	(3,632)
General and administrative	31,015	30,507	508
Total operating expenses	<u>\$ 52,479</u>	<u>\$ 54,549</u>	<u>\$ (2,070)</u>

Research and Development. Research and development expenses during the six months ended June 30, 2020 increased by \$1.1 million, compared to the six months ended June 30, 2019. The increase was primarily attributable to a \$1.2 million increase in personnel expense.

Selling and Marketing. Selling and marketing expenses during the six months ended June 30, 2020 decreased by \$3.6 million, compared to the six months ended June 30, 2019. This decrease was primarily attributable to a \$1.5 million decrease in personnel expense in the form of sales related compensation, a \$0.9 million decrease in travel expense primarily driven by coronavirus related reductions in travel for our sales and marketing workforce, a \$0.6 million decrease in marketing expense primarily driven by the postponement or cancellation of clinical conferences, and a \$0.4 million decrease in professional services.

General and Administrative. General and administrative expenses during the six months ended June 30, 2020 increased by \$0.5 million, compared to the six months ended June 30, 2019. This increase was primarily driven by a \$0.9 million increase in personnel expense, a \$0.3 million increase in depreciation and amortization expense, and a \$0.2 million increase in facilities expense. These increases were partially offset by a \$0.9 million decrease in travel expense attributable to coronavirus related travel reductions for our general and administrative workforce. The increase in personnel expense is primarily driven by an increase in severance and stock-based compensation expense, offset by reductions in other personnel charges related to our company-wide salary reductions.

Interest Income

	Six Months Ended June 30,		Change
	2020	2019	
	(in thousands)		
Interest income	\$ 782	\$ 907	\$ (125)

Interest income decreased by \$0.1 million during the six months ended June 30, 2020 compared to the six months ended June 30, 2019 primarily due to a strategic shift of invested funds from a high to low yield account in 2020.

Interest Expense

	Six Months Ended June 30,		Change
	2020	2019	
	(in thousands)		
Interest expense	\$ (2,109)	\$ (1,833)	\$ (276)

Interest expense related to the SVB Term Loan increased by \$0.3 million during the six months ended June 30, 2020 compared to the six months ended June 30, 2019.

Other Income (Expense), Net

	Six Months Ended June 30,		Change
	2020	2019	
	(in thousands)		
Other income (expense), net	\$ 3,271	\$ (6,566)	\$ 9,837

Other income (expense), net during the six months ended June 30, 2020 consisted primarily of a \$3.3 million decrease in the fair value of warrant liabilities related to the 2017 and 2016 Placement Warrants. Other income (expense), net during the six months ended June 30, 2019 consisted primarily of a \$6.9 million increase in the fair value of warrant liabilities related to the 2017 and 2016 Placement Warrants and was partially offset by \$0.9 million of income related to insurance proceeds.

Liquidity and Capital Resources

Since our inception in 2004, we have incurred significant net losses and negative cash flows from operations. During the six months ended June 30, 2020 and 2019, we had net losses of \$53.7 million and \$64.2 million, respectively. At June 30, 2020 and December 31, 2019, we had an accumulated deficit of \$572.9 million and \$519.2 million, respectively.

At June 30, 2020 and December 31, 2019, we had cash and cash equivalents of \$179.5 million and \$226.8 million, respectively. To date, we have financed our operations principally through offerings of our capital stock, issuances of warrants, issuances of convertible promissory notes, use of term loans and receipts of customer deposits for new orders and payments from customers for systems installed and delivered. We may, from time to time, seek to raise capital through a variety of sources, including the public equity market, private equity financing, and public or private debt. In December 2019, we raised aggregate gross proceeds of \$149.6 million via a public offering, in which we sold approximately 47.8 million shares of our common stock at a price of \$3.13 per share. We expect that our existing cash and cash equivalents, together with proceeds from the sales of MRIdian systems, will enable us to conduct our planned operations for at least the next 12 months.

However, the coronavirus pandemic, the resulting recession and its follow-on effects are impacting and will continue to impact our business activities. For further discussion, see the section titled "Impact of the Coronavirus Disease" included above. In the first quarter of 2020, we initiated a contingency plan with the goal to reduce our cash usage by approximately \$30 million during the remainder of 2020, largely through reductions in operating expense, working capital and company-wide salary reductions. Regarding company-wide salary reductions, our executive leadership team, including our board of directors, reduced their salaries by as much as 30%, and reductions were then cascaded down at lesser rates through the organization. In late June 2020, we finalized and communicated a plan to reduce our workforce by approximately 20%. The plan was implemented on July 6, 2020. As of June 30, 2020, we remain on track with our contingency plan to reduce cash usage by approximately \$30 million.

In January 2019, we filed a registration statement with the SEC which covers the offering, issuance and sale of up to a maximum aggregate offering price of \$250.0 million of our common stock, preferred stock, debt securities, warrants, purchase contracts and/or units, including up to \$100.0 million of our common shares pursuant to our at-the-market offering program with FBR. The shares in the December 2019 Public Offering of Common stock were sold pursuant to the January 2019 registration statement and did not impact the \$100.0 million of our common shares pursuant to our at-the-market offering program with FBR.

We could potentially use our available financial resources sooner than we currently expect, and we may incur additional indebtedness to meet future operating needs. Adequate additional funding may not be available to us on acceptable terms or at all. In addition, although we anticipate being able to obtain additional financing, we may be unable to do so. Our failure to raise capital as and when needed could have significant negative consequences for our business, financial condition and results of operations. Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth in the section titled "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and in Part II, Item 1A of this report.

The following table summarizes our cash flows for the periods presented (in thousands):

	Six Months Ended June 30,	
	2020	2019
Cash used in operating activities	\$ (45,018)	\$ (49,552)
Cash used in investing activities	\$ (1,295)	\$ (4,353)
Cash (used in) provided by financing activities	\$ (500)	\$ 8,035

Operating Activities

We have historically experienced cash outflows as we developed MRIdian with Cobalt-60 and MRIdian Linac and expanded our business. Our primary source of cash flow from operating activities is cash receipts from customers including sales of MRIdian systems and, to a lesser extent, up-front payments from customers. Our primary uses of cash from operating activities are amounts due to vendors for purchased components and employee-related expenditures.

During the six months ended June 30, 2020, cash used in operating activities was \$45.0 million, resulting from our net loss of \$53.7 million, a \$1.6 million net decrease in our operating assets and liabilities, and offset by aggregate non-cash charges of \$10.3 million.

- Non-cash charges included \$11.3 million of stock-based compensation expense, \$3.0 million of depreciation and amortization expense, a \$3.3 million gain related to the change in fair value of the 2017 and 2016 Placement Warrants, and \$1.3 million for the release of historical upgrade commitments.

- The net change in our operating assets and liabilities was primarily a result of changes in accounts payable, accounts receivable, deferred cost of revenue and prepaid expenses and other assets, which were partially offset by changes in customer deposits and deferred revenue and inventory. Accounts payable decreased \$8.5 million due to timing of payments. Accounts receivable increased \$5.3 million resulting from timing of billings milestones and collections. Deferred cost of revenue increased \$4.4 million. Prepaid expenses and other assets increased \$2.3 million mainly due to timing of prepayments. The net change in our operating assets and liabilities was partially offset by an increase in customer deposits and deferred revenue of \$12.2 million mainly due to timing of revenue recognition milestones and a \$6.7 million decrease in inventory.

During the six months ended June 30, 2019, cash used in operating activities was \$49.6 million, as a result of our net loss of \$64.2 million, a \$9.5 million net change in our operating assets and liabilities, and offset by aggregate non-cash charges of \$24.1 million.

- Non-cash charges included \$9.5 million of stock-based compensation expense, \$2.0 million of depreciation and amortization expense, a \$6.9 million loss related to the change in fair value of the 2017 and 2016 Placement Warrants, and \$5.5 million for historical upgrade commitments.
- The net change in our operating assets and liabilities was primarily a result of changes in customer deposits and deferred revenue and inventory, which was partially offset by changes in accounts payable, accrued expenses and other liabilities, deposits on purchased inventory and accounts receivable. Customer deposits and deferred revenue decreased \$16.7 million as a result of revenue recognized on eight units of MRIdian system sales and one unit of system upgrade. Inventory increased \$8.8 million with the previous anticipation of upcoming shipments and installations of MRIdian systems. The net change in our operating assets and liabilities was partially offset by an accounts payable increase of \$8.3 million resulting from the build of inventory and the timing of payments. Accrued expenses and other liabilities increased \$3.8 million mainly due to an increase in payroll and related benefits and accrued travel costs. Deposits on purchased inventory decreased \$2.4 million. Accounts receivable decreased \$1.4 million resulting from the timing of collections.

Investing Activities

Cash used in investing activities for the six months ended June 30, 2020 and 2019 of \$1.3 million and \$4.4 million, respectively, resulted from capital expenditures to purchase property and equipment.

Financing Activities

During the six months ended June 30, 2020, financing activities used \$0.5 million in cash, consisting primarily of \$0.5 million of stock offering costs.

During the six months ended June 30, 2019, financing activities provided \$8.0 million in cash, consisting primarily of \$8.2 million from the exercise of stock options.

SVB Term Loan

In December 2018, we entered into a term loan agreement, or the SVB Term Loan, with Silicon Valley Bank, for a principal amount of \$56.0 million. The SVB Term Loan has a maturity date of December 1, 2023 and bears interest at a rate of 6.30% per annum to be paid monthly over the term of the loan. Beginning on December 1, 2020 (or June 1, 2021, if the Company achieves a trailing twelve-month revenue of at least \$215.0 million from January 1, 2019 to December 1, 2020 and elects to apply such later date), the Company will make thirty-six equal monthly payments of principal (or thirty equal payments, if the Company so elects). In addition, upon repayment of the SVB Term Loan in full, the Company will make a final payment equal to 3.15% of the original aggregate principal amount of the SVB Term Loan.

On December 31, 2019, we entered into the First Amendment (the Amendment) to the SVB Term Loan. The Amendment, among other things, amended the SVB Term Loan to (i) suspend testing of the minimum revenue financial covenant for the fiscal quarter ended December 31, 2019, (ii) provide for the minimum trailing twelve-month revenue thresholds under the minimum revenue financial covenant for periods ending on the last day of fiscal quarters in fiscal years subsequent to 2020 to be determined annually at the greater of (a) a 25% cushion to revenue forecasts provided by the Company to SVB and (b) 10% year-over-year annual growth, unless otherwise agreed, (iii) increase the minimum liquidity ratio financial covenant from 1.50:1.00 to 1.75:1.00 and (iv) increase the prepayment premium from 1.00% to 2.00% for amounts prepaid under the SVB Term Loan prior to the maturity date thereof, subject to certain exceptions.

The SVB Term Loan is secured by substantially all assets of the Company, except that the collateral does not include any intellectual property held by the Company, provided, however, the collateral does include all accounts and proceeds of such intellectual property.

The SVB Term Loan contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness, dividends and other distributions and transactions with affiliates. The SVB Term Loan also contains financial covenants that require the Company to maintain a minimum cash balance in accounts maintained at Silicon Valley Bank or one of its affiliates or else comply with a liquidity ratio and/or a minimum revenue target.

We were in compliance with all financial covenants under the SVB Term Loan at June 30, 2020.

Off-Balance Sheet Arrangements and Contractual Obligations

We did not have any off-balance sheet arrangements as of June 30, 2020 and December 31, 2019. Additionally, there were no material changes to our contractual obligations described in our Annual Report on Form 10-K filed with the SEC on March 12, 2020.

For our contractual obligations that are expected to have an effect on our liquidity and cash flow, see section “Notes to Condensed Consolidated Financial Statements – Note 6 – Commitments and Contingencies” in the condensed consolidated financial statements and “Note 5 – Debt” in the condensed consolidated financial statements.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses. We evaluate our estimates and assumptions on an ongoing basis. Our estimates and assumptions are based on historical experience and on various other factors that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

There have been no significant changes to our accounting policies during the six months ended June 30, 2020, as compared to the critical accounting policies described in our Annual Report on Form 10-K filed with the SEC on March 12, 2020. We believe that the accounting policies discussed in that Annual Report are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management’s judgments and estimates.

Recently Issued and Adopted Accounting Pronouncements

We review new accounting standards to determine the expected financial impact, if any, that the adoption of each new standard will have. For the recently issued and adopted accounting standards that we believe may have an impact on our condensed consolidated financial statements, see the section entitled “Notes to Condensed Consolidated Financial Statements – Note 2 – Summary of Significant Accounting Policies” in the condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer, or CEO, and chief financial officer, or CFO, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our CEO and CFO have concluded that as of June 30, 2020, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (SEC), and that such required information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the second quarter of 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Item 1. Legal Proceedings

Patent Litigation

On September 10, 2019, a complaint for patent infringement was filed by Varian Medical Systems, Inc., in U.S. District Court for the Northern District of California against the Company. Captioned Varian Medical Systems, Inc., v. ViewRay, Inc., the complaint alleges that the Company infringes two related patents, U.S. Patent Nos. 8,637,841 and 9,082,520 and seeks injunctive relief and monetary damages. The Company filed its answer on November 1, 2019. The District Court matter is presently in discovery. We believe the allegations in the complaint are without merit and intend to vigorously defend the litigation.

On July 7, 2020 and July 31, 2020, the Company filed a petition with the Patent Trial & Appeal Board of the United States Patent and Trademark Office, requesting institution of inter partes review (IPR) and cancellation of claims 1-3, 5-8, 10, 13, 14 of Varian's U.S. Patent No. 9,082,520.

Class Action Litigation

On September 13, 2019, a class action complaint for violation of federal securities laws was filed in U.S. District Court for the Northern District of Ohio against the Company, its chief executive officer, chief scientific officer, and former chief financial officer. On December 19, 2019, the court appointed Plymouth County Retirement Association as the lead plaintiff, and on February 28, 2020 the lead plaintiff filed an amended complaint asserting securities fraud claims against the Company, its chief executive officer, chief operating officer, chief scientific officer, and former chief executive officer and former chief financial officer. Now captioned Plymouth County Retirement Association v. ViewRay, Inc., et al., the amended complaint alleges that the Company violated federal securities laws by issuing materially false and misleading statements that failed to disclose adverse facts concerning the its business, operations, and financial results, and seeks damages, interest, and other relief. We filed a motion to dismiss the amended complaint on May 28, 2020. That motion is now fully briefed and under consideration by the court. We believe the allegations in the complaint are without merit and intend to vigorously defend the litigation.

Stockholder Derivative Lawsuit

On July 22, 2020, a stockholder derivative lawsuit was filed against ViewRay (as a nominal defendant) and certain of its current and former officers and directors in the U.S. District Court for the Northern District of Ohio. This action alleges, purportedly on behalf of ViewRay, that the officers and directors violated Section 14(a) of the Securities Exchange Act of 1934, breached their fiduciary duties, wasted corporate assets, and were unjustly enriched based on factual assertions substantially similar to those in the class action complaint described above. The complaint seeks, among other things, damages awarded to ViewRay, restitution and disgorgement of profits in an unspecified amount, and corporate reforms.

Given the early stage of each of the litigation matters described above, at this time we are unable to reasonably estimate possible losses or form a judgment that an unfavorable outcome is either probable or remote. However, litigation is subject to inherent uncertainties, and one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect in the period in which they are resolved and on our business generally. In addition, regardless of their merits or their ultimate outcomes, lawsuits and legal proceedings are costly, divert management attention and may materially adversely affect our reputation, even if resolved in our favor.

The information under the caption "Commitments and Contingencies" in Note 6 of the unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

Except with respect to the risk factor set forth below, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended December 31, 2019 and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020. If any of the risks discussed in our Annual Report on Form 10-K or below are realized, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Risks Related to Our Business and Strategy

The coronavirus disease has been declared a pandemic by the World Health Organization, has spread to many parts of the world, and has and will continue to adversely affect our business operations and financial condition.

The coronavirus disease has been declared a pandemic by the World Health Organization, or WHO, and has spread to many parts of the world and has and will continue to adversely affect our business operations and financial condition. The outbreak continues to grow globally and government and private sector responsive actions have and will continue to adversely affect our business operations. It is impossible to predict the effect and potential spread of the coronavirus globally.

Should the coronavirus continue to spread, our business plans will be further materially delayed or interrupted. Our sales and revenue cycles, including MRIdian orders, deliveries and installation, as well as our other business operations, are likely to be significantly delayed as we experience adverse impacts, including but not limited to adverse impacts affecting our teammates, global supply chain partners, transportation service providers, and customers. For example, along with delays in service from our global supply chain partners, we have experienced delays in installation of systems in the United States, Asia and Europe due to the restrictions imposed by government agencies and our customers in response to the spread of coronavirus. Similarly, our ability to conduct commercial efforts with our customers have been and are likely to continue to be disrupted as customers have suspended in-person sales calls and turned their focus to dealing with the impact of coronavirus on their operations. In the first quarter of 2020, we initiated a contingency plan with the goal to reduce our cash usage by approximately \$30 million during the remainder of 2020, largely through reductions in operating expense, working capital and company-wide salary reductions. In addition, on July 6, 2020, we reduced our workforce by approximately 20%. However, if our business operations continue to be adversely impacted by the spread of coronavirus, our costs associated with operating our business could be significantly higher than planned, which may have a material impact on our business. The coronavirus could also further adversely impact our teammate population, as well as our near-term and long-term revenues, earnings and cash flow and may require significant additional expenditures to mitigate such impacts.

Should the global recession persist as a result of the impact of coronavirus, our ability to conduct our business and to access capital markets will be negatively impacted; and capital equipment sales, which make up the majority of our revenue, may take longer than other areas of the economy in a recovery, which may have a material impact on our business. The coronavirus pandemic continues to develop rapidly, and its continued global economic impact may negatively impact our operations in areas that we are not aware of currently.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Date Filed	
2.1	Agreement and Plan of Merger and Reorganization, dated as of July 23, 2015, by and among ViewRay Inc., Acquisition Sub and ViewRay Technologies, Inc.	S-1/A	2.1	12/16/15	
3.1	Amended and Restated Certificate of Incorporation.	S-1/A	3.1	12/16/15	
3.2	Amended and Restated Bylaws of ViewRay, Inc.	8-K	3.2	5/10/18	
10.1	Offer Letter to Zachary Stassen dated April 20, 2020.	8-K	10.1	4/30/20	
10.2	ViewRay, Inc. Amended and Restated 2015 Equity Incentive Award Plan.	S-8	99.1	6/26/20	
10.3	Separation Agreement, dated June 1, 2020, by and between ViewRay Inc. and Richard “Brian” Knaley.				X
31.1	Certification of Principal Executive Officer Required under Securities Exchange Act Rule 13a-14(a) and 15d-14(a).				X
31.2	Certification of Principal Financial Officer under Securities Exchange Act Rule 13a-14(a) and 15d-14(a).				X
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. 1350 and Securities Exchange Act Rule 13a-14(b).				X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				X

SIGNATURES

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

VIEWRAY, INC.

Dated: July 31, 2020

By: /s/ Scott Drake
Name: Scott Drake
Title: Chief Executive Officer
(Principal Executive Officer)

Dated: July 31, 2020

By: /s/ Zachary Stassen
Name: Zachary Stassen
Title: Chief Financial Officer
(Principal Financial Officer)

CONFIDENTIAL SEPARATION AGREEMENT AND GENERAL RELEASE

This Confidential Separation Agreement and General Release ("Agreement"), dated as of June 1, 2020, is entered into between ViewRay, Inc., a Delaware Corporation., together with its existing and future subsidiaries and controlled affiliates ("ViewRay"), and Brian Knaley ("Employee") (collectively, the "Parties").

The Parties agree as follows:

1. **Separation of Employment.** Employee hereby acknowledges that Employee's employment with ViewRay is terminated effective June 30, 2020 (the "Separation Date"). Regardless of whether Employee enters into this Agreement, ViewRay will pay Employee all accrued wages, earned and current-year accrued but unused paid time off, through and including the Separation Date, less applicable holdings, in accordance with ViewRay's regular payroll practices or earlier when required by applicable state law.
2. **Severance Amount.** Pursuant to the terms of this Agreement, Employee is being provided with certain severance payments. In consideration of the promises by Employee stated in this Agreement, which include but are not limited to the Employee agreeing to a release of claims and promise of confidentiality, if Employee signs and does not timely revoke this Agreement, if applicable, then ViewRay shall pay to Employee a lump sum in the amount of three hundred eighty eight thousand seven hundred dollars and 00/100s (the "Severance Amount"). The Severance Amount is subject to Employee's execution and non-revocation of this Agreement.
 - a. **Right to Receive Severance Amount Conditioned on Continued Compliance.** Employee understands and acknowledges that the receipt of the Severance Amount is conditioned upon Employee's continued compliance with the terms and conditions of this Agreement including, but not limited to, the provisions of paragraphs 8, 9, and 10 below. In the event Employee fails to comply with any of the terms and conditions herein, Employee's right to receive the Severance Amount will immediately cease and ViewRay shall be entitled to the immediate return of any payments made to the Employee under this Agreement.
 - b. **COBRA.** To the extent the Employee timely and properly elects health insurance continuation coverage under ViewRay's group health insurance plan under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), ViewRay shall pay for the cost of the monthly COBRA premium for continuing health insurance coverage as elected by Employee (the "COBRA Payment") until the earliest of: (i) 12 months; (ii) the date Employee is no longer eligible to receive COBRA continuation coverage under ViewRay's group health insurance plan; and (iii) the date on which Employee secures other employment. If ViewRay's making the COBRA Payment under this paragraph 2.c would violate the nondiscrimination rules applicable to non-grandfathered plans under the Affordable Care Act (the "ACA"), or result in the imposition of penalties under the ACA and the related regulations and guidance promulgated thereunder, the Parties agree to reform this paragraph 2.c in a manner as is necessary to comply with the ACA.

Except as expressly provided in this Agreement, or an accrued benefit to which Employee is already entitled, Employee will not receive any additional compensation, bonus, severance, commissions, or other benefits after the Separation Date. Notwithstanding the foregoing, ViewRay will not oppose any application for unemployment insurance, although ViewRay will respond truthfully to any inquiries relating to such application. Further, nothing in this Agreement shall impact Employee's rights to any vested retirement benefits. Employee acknowledges that payment of any

amounts to, or on behalf of, Employee under this Agreement does not, in any way, extend the period of employment or continuous service beyond the last day of employment or confer any other rights or benefits other than what may be set forth expressly herein.

3. **Release.** In exchange for the Severance Amount, Employee and Employee's representatives, heirs, successors and assigns do hereby completely release and forever discharge ViewRay and any present or past affiliates of ViewRay, and its and their present and former shareholders, officers, directors, members, agents, employees, attorneys, insurers, successors, and assigns (collectively, "Released Parties") from all claims, rights, demands, actions, obligations, liabilities, and causes of action of every kind and character, known or unknown, mature or unmatured, which Employee may now have or has ever had. This release of claims includes, but is not limited to, all claims arising out of Employee's employment at ViewRay and the termination of that employment, or the failure/refusal of any Released Party hiring Employee, whether based on tort, contract (expressed or implied), or any federal, state, or local law, statute, or regulation (collectively, "Released Claims"). By way of example and not in limitation of the foregoing, Released Claims shall include any claims arising under Title VII of the Civil Rights Act of 1964; the Family and Medical Leave Act; the Post Civil War Civil Rights Acts (42 USC §§ 1981-1988); the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967 (the "ADEA") (this release is meant to comply with the Older Workers Benefit Protection Act ("OWBPA"), 29 U.S.C. § 621 et seq., which statute was enacted to, among other things, ensure that individuals forty (40) years of age or older who waive their rights under the ADEA do so knowingly and voluntarily); the Equal Pay Act; the Occupational Safety and Health Act; the Americans with Disabilities Act; the Americans with Disabilities Act Amendments Act of 2008; the Uniform Services Employment and Reemployment Rights Act; the Davis-Bacon Act; the Walsh-Healey Act; the Employee Retirement Income Security Act (other than claims with regard to vested benefits); the Contract Work Hours and Safety Standards Act; Executive Order 11246; the Worker Adjustment and Retraining Notification Act; 42 U.S.C. section 1981; and any state or local statute, rule or regulation governing the employment relationship. This release further includes, any claims asserting breach of contract, breach of the covenant of good faith and fair dealing, negligent or intentional infliction of emotional distress, negligent or intentional misrepresentation, negligent or intentional interference with contract or prospective economic advantage, fraud or other tort claims, defamation, invasion of privacy, claims related to disability, any and all claims for wages, commissions, compensation, reimbursement, disbursements, bonuses, benefits, vacation, penalties and any other claims arising under or related to laws or regulations relating to employment. Employee likewise releases the Released Parties for any and all obligations for attorneys' fees, paralegals' fees, and costs incurred in regard to the above claims, or otherwise. Employee further agrees that if any such claim is prosecuted in Employee's name before any court or administrative agency, Employee waives and agrees not to take any award of money or other damages from such suit. Notwithstanding the foregoing, Released Claims shall not include any workers' compensation benefits or other claims which cannot be waived as a matter of law. This releases all waivable claims, including those of which Employee is not aware and those not specifically mentioned in this Agreement. This release applies to all claims resulting from anything that has happened up through the date Employee signs this Agreement. Employee understands that this Agreement does not waive rights or claims that may arise after the date that this Agreement is executed.
4. **Waiver of Age Discrimination Claims.** Employee understands and agrees that, by entering into this Agreement, (i) Employee is waiving any rights or claims Employee might have under the ADEA; (ii) Employee has received consideration beyond that to which Employee was previously entitled; (iii) Employee has been and hereby is advised in writing to consult with an attorney before signing this Agreement; (iv) Employee has not relied on any statement or promises by anyone other than those contained in the written terms of this Agreement, and that Employee has entered into

this Agreement knowingly without reliance upon any other representation, promise, or inducement that is not set forth herein; (v) Employee has been offered the opportunity to evaluate the terms of this Agreement for not less than twenty-one (21) days prior to Employee's execution of the Agreement, although Employee may choose to execute this Agreement sooner; and (vi) Employee has a period of seven (7) days following Employee's execution of this Agreement in which Employee may revoke this Agreement (the "Revocation Period"). The Parties agree that any material or non-material changes made to this Agreement after Employee receives this Agreement do not restart the running of the 21-day period in which Employee may review this Agreement prior to signing this Agreement. Employee may revoke this Agreement by notifying ViewRay in writing of Employee's decision to revoke to Robert Fuchs CHRO via email at Rfuchs@viewray.com prior to the expiration of the Revocation Period, with the original of the revocation sent via U.S. Mail to 1595 Wynkoop Street, Suite 900, Denver, CO 80202. This Agreement shall become enforceable on the eighth day after the employee signs and delivers this Agreement to ViewRay, provided Employee does not revoke or otherwise breach Employee's obligations hereunder prior to such time (the "Effective Date").

5. **Employee Representations.** Employee represents and warrants that Employee (i) has been paid all compensation owed (including, but not limited to, overtime and bonus compensation) and for all hours worked; (ii) has received all the leave and leave benefits and protections for which Employee was eligible, pursuant to the Family and Medical Leave Act or otherwise, and (iii) has not suffered any on-the-job injury for which Employee has not already filed a claim.
6. **General Releases Extend to Both Known and Unknown, Suspected and Unsuspected Claims (Applicable to California Employees Only).** Employee acknowledges that he or she has read and fully understands the provisions of Section 1542 of the California Civil Code, which provides:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

Employee intends the releases set forth in this Agreement to include all claims encompassed by paragraph 4, whether known and/or unknown, to waive and relinquish every right or benefit he or she has, had, or may have under California Civil Code section 1542, and intend his or her release to extend to, and include without limitation all claims which are presently unknown, unanticipated and/or unsuspected.

Employee further acknowledges and agrees that California Labor Code section 206.5 is not applicable to the resolution of this matter. That section provides in pertinent part as follows:

No employer shall require the execution of any release of any claim or right on account of wages due, or to become due, or made as an advance on wages to be earned, unless payment of such wage has been made.

In connection with the foregoing, Employee acknowledges, agrees, represents and warrants that, at all times relevant to Employee's employment with ViewRay, Employee has been fully and properly paid for all time worked, or there is otherwise a genuine, reasonable, and good faith dispute between the parties with respect to same, and that, by this Agreement, Employee is releasing any claim to entitlement for any recovery of any nature whatsoever arising out of any such claim.

7. **Taxes and Indemnification.** Employee agrees to pay any and all taxes (other than payroll taxes) found to be owed from the Severance Package or other payments made pursuant to this Agreement and to indemnify and hold ViewRay harmless for any federal, state and local tax liability, including taxes, interest, penalties or the like, and required withholdings, which may be or is asserted against or imposed upon the Released Parties by any taxing authority based upon any amounts paid to Employee as a result of Employee's non-payment of taxes of such amounts for which Employee is legally responsible. Employee understands and agrees that any necessary tax documentation may be filed by ViewRay with regard to any payments made pursuant to this Agreement. Employee and ViewRay acknowledge that nothing herein shall constitute tax advice to the other Party.

8. **Confidentiality.**

a. **Protection of Confidential and Proprietary Information.** The Employee agrees not to disclose, sell or transfer to any person, firm, corporation, association or other entity, at any time in the future, any confidential and/or proprietary information concerning ViewRay or its affiliates, including, but not limited to any and all information regarding: (i) business plans and strategies; (ii) business contacts; (iii) research and development; (iv) computer programs, software, applications, directories, databases, passwords and access codes; (v) confidential personnel matters unrelated to wages, hours, or other terms and conditions of employment; (vi) operation methods and information, and accounting, financial and planning techniques; (vii) operating, administrative and training materials; (viii) marketing and sales strategies, materials and information; and (ix) any other trade secret or non-public financial, licensing, or marketing information relating to ViewRay or its affiliates (collectively, "confidential and/or proprietary information"). The Employee also agrees not to use, at any time in the future, any confidential and/or proprietary information of ViewRay or its affiliates for her own purposes and/or benefit, whether for personal or business reasons. Further, whether or not the Employee signs this Agreement, and notwithstanding the Employee's separation from employment, the Employee agrees to abide by all of ViewRay's policies, rules and procedures that relate to the protection of confidential and/or proprietary information. The Employee agrees that ViewRay's confidential and/or proprietary information is: (a) is valuable, special and a unique asset of ViewRay; (b) provides ViewRay with a substantial competitive advantage; and (c) is a legitimate business interest justifying the need for the restrictions in this paragraph.

b. **Federal Defend Trade Secrets Act Notice.** The Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that: (i) is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and made solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Should the Employee file a lawsuit against the Company for retaliation for reporting a suspected violation of law, the Employee may disclose the trade secret to the Employee's attorney and use the trade secret information in the court proceeding, if the Employee: (a) files any document containing the trade secret under seal; and (b) does not disclose the trade secret, except pursuant to court order.

c. **Return of Confidential and/or Proprietary Information.** On or immediately following the Separation Date, the Employee shall return to ViewRay all documents reflecting confidential and/or proprietary information belonging to ViewRay which are in the Employee's possession or under the Employee's control and shall not retain any copies or other reproductions, or extracts thereof, whether paper or electronic, thereafter.

d. **Confidentiality of Agreement.** The Employee agrees not to disclose at any time in the future any of the terms of this Agreement, except that the Employee may disclose the terms of this Agreement: (i) as may be required by law; (ii) to any taxing authority, such as the IRS; (iii) to a court of competent jurisdiction for purposes of enforcement of, or for demonstrating a breach of this Agreement; and, (iv) to the Employee's spouse, attorney and/or tax and financial advisors, provided that the individual first agrees to keep this information confidential. The Employee acknowledges and agrees that any other disclosure regarding the terms of this Agreement would constitute a material breach of the Agreement.

e. **Response to Subpoenas.** If the Employee is compelled by legal subpoena or court order to provide information covered by this paragraph 8, prior to such disclosure, the Employee will immediately provide a copy of such judicial order or subpoena, by hand delivery and/or E-mail, to ViewRay, Robert McCormack, General Counsel, Email: rmccormack@viewray.com. The Employee agrees to provide ViewRay with a reasonable opportunity to intervene to assert what rights it may have to non-disclosure, prior to any response to the order or subpoena. However, nothing in this paragraph is intended to, nor should be construed to limit the Employee's rights as outlined in paragraph 11 below.

9. **Non-Disparagement.** The Employee agrees and warrants that at no time in the future will the Employee make any statements (orally or in writing, including, without limitation, whether in fiction or nonfiction) or take any actions which in any way disparage or defame ViewRay or any of the Released Parties, or in any way, directly or indirectly, cause or encourage the making of such statements, or the taking of such actions by anyone else, including but not limited to other current or former employees of ViewRay (except as outlined in paragraph 11 below).

10. **No Cooperation.** The Employee also agrees that the Employee will not act in any manner that might damage ViewRay's business. This obligation includes an agreement not to counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges or complaints by any third party against ViewRay and/or any officer, director, employee, agent, representative, stockholder or attorney, unless under a subpoena or other court order to do so (except as outlined in paragraph 11 below).

11. **Non-Interference.** Notwithstanding paragraphs 8, 9, and 10 above, nothing in this Agreement shall be construed to prohibit the Employee from: (i) filing a charge or participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission or other federal, state or local government agency charged with enforcement of any law; (ii) reporting possible violations of any law, rule or regulation to any governmental agency or entity charged with enforcement of any law, rule or regulation; or (iii) making other disclosures that are protected under whistleblower provisions of any law, rule or regulation. Notwithstanding the foregoing, by signing this Agreement, the Employee acknowledges and agrees that the Employee waives not only the Employee's right to recover money or any other relief in any action the Employee might commence against ViewRay or any of the Released Parties with respect to the claims released in paragraph 3 above, but also the Employee's right to recovery in any such action brought against ViewRay or any of the Released Parties by any government agency or other party, whether brought on the Employee's behalf or otherwise.

12. **No Claims Filed.** Employee affirms that Employee has not filed, has not caused to be filed, and is not presently party to, any claims, causes of action, lawsuits or arbitrations against any of the Released Parties in any forum. Employee's representation to same constitutes a material inducement for ViewRay entering into this Agreement. In the event that Employee has filed such a claim or cause of action, it will be considered a material breach of the terms of this Agreement.

13. **Acknowledgment.** The Employee acknowledges that the Employee has been advised in writing to consult with an attorney before signing this Agreement and that the Employee has been afforded the opportunity to consider the terms of this Agreement and incorporated waiver of claims for a period of twenty-one (21) days prior to its execution. The Employee acknowledges that no representation, promise or inducement has been made other than as set forth in this Agreement, and that the Employee enters into this Agreement without reliance upon any representation, promise or inducement not set forth herein. The Employee acknowledges and represents that the Employee assumes the risk for any mistake of fact now known or unknown, and that the Employee understands and acknowledges the significance and consequences of this Agreement. The Employee further acknowledges that the Employee has read this Agreement in its entirety; that the Employee fully understands all of the terms of the Agreement and their significance; and that the Employee has signed the Agreement voluntarily and of the Employee's own free will. The Employee further affirms that, upon receipt of his final paycheck on June 30, 2020 the Employee will have been paid and/or have received all leave (paid or unpaid), base salary, bonuses, and all other compensation and benefits to which the Employee may have been entitled from ViewRay through the Separation Date. The Employee further and specifically affirms that the Employee has been provided and/or has not been denied any leave requested under the Family and Medical Leave Act and has not suffered any workplace injuries.
14. **Fiduciary Obligations/Cooperation:** This Agreement in no way relieves the Employee of any fiduciary obligations the Employee may owe to ViewRay. The Employee agrees to cooperate with ViewRay in any investigations, defenses to claims, prosecution of claims, depositions, court appearances and all other inquiries of the Employee which relate to services that the Employee performed for ViewRay.
15. **Breach.** The Employee acknowledges that if the Employee materially breaches or threatens to materially breach any provision of this Agreement and/or commences a suit or action in contravention of this Agreement (except as outlined in paragraph 11 above), ViewRay's obligations to pay the Severance Amount shall immediately cease and ViewRay shall be entitled to all other remedies allowed in law or equity, including but not limited to the return of any payments made to the Employee under this Agreement. Further, nothing in this Agreement shall prevent ViewRay from pursuing an injunction to enforce the provisions of paragraphs 8, 9, and 10 above. However, nothing in this paragraph regarding the return of monies is intended to, nor shall be construed to abrogate any contrary rights under the ADEA.
16. **Non-Admission.** The Parties understand that the Severance Package and other matters agreed to herein are not to be construed as an admission of or evidence of liability for any violation of the law, willful or otherwise, by any entity or any person.
17. **Severability.** If any provisions in this Agreement, other than the waiver and release provisions in paragraph 3, are held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions shall nevertheless continue in full force without being impaired or invalidated in any way.
18. **Complete Agreement.** Any agreement to amend or modify the terms and conditions of this Agreement must be in writing and executed by the Parties. The Parties agree that this Agreement sets forth all of the promises and agreements between them concerning the subject matter and that this Agreement supersedes all prior and contemporaneous agreements, understandings, inducements or conditions, express or implied, oral or written, regarding the subject matter, except that certain Employee Confidentiality, Inventions and Non-Interference Agreement dated August 25, 2018.

19. **Sufficiency of Consideration.** Employee agrees that Severance Package is made in exchange for, and constitutes good and valuable consideration for Employee's execution of this Agreement.
20. **Section 409A.** This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("**Section 409A**"), including the exceptions thereto, and shall be construed and administered in accordance with such intent. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service, as a short-term deferral, or as a settlement payment pursuant to a bona fide legal dispute shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, any installment payments provided under this Agreement shall each be treated as a separate payment. To the extent required under Section 409A, any payments to be made under this Agreement in connection with a termination of employment shall only be made if such termination constitutes a "separation from service" under Section 409A. Notwithstanding the foregoing, ViewRay makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall ViewRay be liable for all or any portion of any taxes, penalties, interest, or other expenses that may be incurred by Employee on account of non-compliance with Section 409A.
21. **Excess Parachute Payments.** In the event that: (i) any amount or benefit paid or distributed to you pursuant to this Agreement, taken together with any amounts or benefits otherwise paid or distributed to you (collectively, the "Covered Payments"), are or become subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, or any similar tax that may hereafter be imposed (the "**Excise Tax**"), and (ii) it would be economically advantageous to you to reduce such Covered Payments to avoid imposition of the Excise Tax, the Covered Payments shall be reduced to an amount which maximizes the aggregate present value (as determined in accordance with Section 280G(d)(4) of the Code or any successor provision of the Code) of the Covered Payments without causing the Covered Payments to be subject to the Excise Tax. The reduction described herein shall only be made if the net after-tax amount to be received by you after giving effect to the reduction will be greater than the net after-tax amount that would be received by you without the reduction. You shall in your sole discretion determine which and how much of the Covered Payments shall be eliminated or reduced consistent with the requirements of this paragraph.
22. **Transfer of Claims.** Employee represents and warrants that Employee has not assigned, transferred, or purported to assign or transfer, to any person, firm, corporation, association or entity whatsoever, any claims released herein. Employee agrees to indemnify and hold the Released Parties harmless against, without any limitation, any and all rights, claims, warranties, demands, debts, obligations, liabilities, costs, court costs, expenses (including attorneys' fees, paralegals' fees and costs, at all levels), causes of action or judgments based on or arising out of any such assignment or transfer. Employee further warrants that there is nothing that would prohibit Employee from entering into this Agreement.
23. **Binding Effect.** This Agreement shall be binding upon and shall inure to the benefit of the Parties' representatives, agents, successors, assigns, heirs, attorneys, affiliates, and predecessors.
24. **Enforcement.** This Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to its choice of law principles. If either party breaches this Agreement or any dispute arises out of or relating to this Agreement, the prevailing party shall be entitled to its reasonable attorneys' fees, paralegals' fees and costs, at all levels. THE PARTIES

SPECIFICALLY WAIVE THEIR RIGHT TO A TRIAL BY JURY IN CONNECTION WITH ANY SUCH ACTION. However, nothing in this paragraph is intended to, nor shall be construed to abrogate any contrary rights under the ADEA.

25. **Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any Party. By way of example and not in limitation, this Agreement shall not be construed in favor of the Party receiving a benefit nor against the Party responsible for any particular language in this Agreement.
26. **Integration.** Employee hereby acknowledges that this Agreement, constitutes the entire agreement between the Parties pertaining to the subject matter hereof, and supersedes all prior or contemporaneous agreements and understandings among Employee, ViewRay and any other Released Party, whether written or oral, express or implied, with respect to the employment, termination and benefits of Employee.
27. **Construction.** The Parties expressly acknowledge that they have had equal opportunity to negotiate the terms of this Agreement and that this Agreement shall not be construed against the drafter.
28. **Headings.** The headings contained in the Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.
29. **Electronic Transmissions and Counterparts.** This Agreement may be executed in several counterparts and by electronic transmissions (e-mail, facsimile and/or scanner) and all so executed shall constitute one Agreement, binding on all the Parties hereto, notwithstanding that the Parties are not signatories to the original or same counterpart.
30. **Representation by Counsel.** The Parties acknowledge that (i) they have had the opportunity to consult counsel in regard to this Agreement, (ii) they have read and understand the Agreement and they are fully aware of its legal effect; and (iii) they are entering into this Agreement freely and voluntarily, and based on each Party's own judgment and not on any representations or promises made by the other Party, other than those contained in this Agreement.
31. **Acceptance.** To accept this Agreement, Employee must sign and date below and return an original copy to ViewRay within 21 days at the following address 1595 Wynkoop Street, Suite 900, Denver, CO 80202.
32. **Right of Revocation/Effective Date:** The Employee has the right to revoke this Agreement within seven (7) days after the Employee's execution of this Agreement by giving notice in writing of such revocation to ViewRay, Attention: Rob Fuchs Email: rfuchs@viewray.com As such, the Agreement shall not become effective until the Effective Date. In the event that the Employee revokes this Agreement prior to the Effective Date, this Agreement, and the promises contained therein, shall automatically be deemed null and void.

The Employee represents and warrants that the Employee has read this Agreement in its entirety, has been offered a period of twenty-one (21) days to review this Agreement and incorporated release prior to its execution, and has been advised in writing herein to consult with counsel. The Employee further represents and warrants that the Employee is of sound mind and fully understands and voluntarily assents to all of the terms of the Agreement.

ViewRay, Inc.

Employee

Signature:

Signature:

Name:

Name:

Title:

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott Drake, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ViewRay, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2020

/s/ Scott Drake

Scott Drake

Title: Chief Executive Officer and President
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Zachary Stassen, certify that:

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

Date: July 31, 2020

/s/ Zachary Stassen

Zachary Stassen

Title: Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of ViewRay, Inc., a Delaware corporation (the "Company"), hereby certify that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the second quarter ended June 30, 2020 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification (i) is given to such officers' knowledge, based upon such officers' investigation as such officers reasonably deem appropriate; and (ii) is being furnished solely pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002) and is not being filed as part of the Report or as a separate disclosure document and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

VIEWRAY, INC.

Dated: July 31, 2020

By: /s/ Scott Drake
Name: Scott Drake
Title: Chief Executive Officer
(Principal Executive Officer)

Dated: July 31, 2020

By: /s/ Zachary Stassen
Name: Zachary Stassen
Title: Chief Financial Officer
(Principal Financial Officer)