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 March 31, 2021

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	**42-1777485**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2 Thermo Fisher Way Oakwood Village, OH	**44146**
(Address of principal executive offices)	**(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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

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 April 30, 2021, the registrant had 161,740,251 shares of common stock, $0.01 par value per share, outstanding.

VIEWRAY, INC.
FORM 10-Q

TABLE OF CONTENTS

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;
- the effect or impact of market consolidation;
- 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, 2020. 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)

	March 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 182,019	$ 156,720
Accounts receivable	16,569	11,769
Inventory, net of allowance of $2,334 and $2,286, respectively	43,858	46,641
Deposits on purchased inventory	2,550	2,084
Deferred cost of revenue	2,310	1,954
Prepaid expenses and other current assets	5,273	5,257
Total current assets	252,579	224,425
Property and equipment, net	22,822	24,062
Restricted cash	1,460	1,460
Intangible assets, net	48	50
Right-of-use assets	9,553	10,129
Other assets	1,428	1,426
TOTAL ASSETS	$ 287,890	$ 261,552
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,591	$ 9,984
Accrued liabilities	14,164	19,281
Customer deposits	15,433	15,463
Operating lease liability, current	1,988	2,089
Current portion of long-term debt	—	—
Deferred revenue, current	10,022	10,094
Total current liabilities	49,198	56,911
Deferred revenue, net of current portion	2,089	2,572
Long-term debt	57,022	56,940
Warrant liabilities	5,484	4,864
Operating lease liability, noncurrent	8,546	9,043
Other long-term liabilities	1,146	956
TOTAL LIABILITIES	123,485	131,286
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, par value of $0.01 per share; 10,000,000 shares authorized at March 31, 2021 and December 31, 2020; no shares issued and outstanding at March 31, 2021 and December 31, 2020	—	—
Common stock, par value of $0.01 per share; 300,000,000 shares authorized at March 31, 2021 and December 31, 2020; 161,730,363 and 148,615,351 shares issued and outstanding at March 31, 2021 and December 31, 2020	1,607	1,476
Additional paid-in capital	816,625	755,874
Accumulated deficit	(653,827)	(627,084)
TOTAL STOCKHOLDERS' EQUITY	164,405	130,266
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 287,890	$ 261,552

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)

	Three Months Ended March 31,	
	2021	**2020**
Revenue:		
Product	$ 11,379	$ 11,470
Service	4,027	2,661
Distribution rights	119	119
Total revenue	15,525	14,250
Cost of revenue:		
Product	10,685	13,129
Service	4,518	3,228
Total cost of revenue	15,203	16,357
Gross profit (loss)	322	(2,107)
Operating expenses:		
Research and development	6,510	6,337
Selling and marketing	2,848	5,823
General and administrative	15,639	15,788
Total operating expenses	24,997	27,948
Loss from operations	(24,675)	(30,055)
Interest income	2	695
Interest expense	(1,058)	(1,038)
Other (expense) income, net	(1,012)	2,866
Loss before provision for income taxes	$ (26,743)	$ (27,532)
Provision for income taxes	—	—
Net loss and comprehensive loss	$ (26,743)	$ (27,532)
Net loss per share, basic and diluted	$ (0.17)	$ (0.19)
Weighted-average common shares used to compute net loss per share attributable to common stockholders, basic and diluted	160,138,327	147,457,116

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				
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2020	148,615,351	$ 1,476	$ 755,874	$ (627,084)	$ 130,266
Issuance of common stock from option exercises	6,021	—	19	—	19
Stock-based compensation	—	—	8,494	—	8,494
Issuance of common stock from releases of restricted stock units	1,209,870	12	(12)	—	—
Tax withholding paid on behalf of employees for stock-based awards	—	—	(1,473)	—	(1,473)
Issuance of common stock upon public offering (net of offering costs of $3,991)	11,856,500	119	53,394	—	53,513
Issuance of common stock from warrant exercises	42,621	—	2	—	2
Reclassification of warrant liability to additional paid-in capital upon warrant exercises	—	—	327	—	327
Net loss	—	—	—	(26,743)	(26,743)
Balance at March 31, 2021	161,730,363	$ 1,607	$ 816,625	$ (653,827)	$ 164,405

	Common Stock				
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2019	147,191,695	$ 1,462	$ 733,888	$ (519,176)	$ 216,174
Issuance of common stock from option exercises	2,870	—	2	—	2
Stock-based compensation	—	—	5,501	—	5,501
Issuance of common stock from releases of restricted stock units	202,420	2	(2)	—	—
Tax withholding paid on behalf of employees for stock-based awards	—	—	(131)	—	(131)
Net loss	—	—	—	(27,532)	(27,532)
Balance at March 31, 2020	147,396,985	$ 1,464	$ 739,258	$ (546,708)	$ 194,014

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

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

	Three Months Ended March 31,	
	2021	**2020**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (26,743)	$ (27,532)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,648	1,463
Stock-based compensation	8,494	5,501
Accretion on asset retirement obligation	33	20
Change in fair value of warrant liabilities	947	(2,869)
Loss on disposal of property and equipment	—	12
Amortization of debt discount and interest accrual	239	177
Product upgrade reserve	600	(1,260)
Changes in operating assets and liabilities:		
Accounts receivable	(4,800)	(4,673)
Inventory	2,783	—
Deposits on purchased inventory	(466)	2,222
Deferred cost of revenue	(356)	(952)
Prepaid expenses and other assets	420	(2,680)
Accounts payable	(2,391)	(6,415)
Accrued expenses and other long-term liabilities	(6,130)	(3,702)
Customer deposits and deferred revenue	(585)	5,689
Net cash used in operating activities	(26,307)	(34,999)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(336)	(451)
Net cash used in investing activities	(336)	(451)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from common stock public offering, gross	57,385	—
Payment of offering costs related to common stock public offering	(3,991)	(539)
Proceeds from the exercise of stock options	19	2
Proceeds from the exercise of warrants	2	—
Payments for taxes related to net share settlement of equity awards	(1,473)	(132)
Net cash (used in) provided by financing activities	51,942	(669)
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	25,299	(36,119)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — BEGINNING OF PERIOD	158,180	228,187
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — END OF PERIOD	$ 183,479	$ 192,068
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 819	$ 1,070
Cash paid for income taxes	$ —	$ —
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Fair value of common stock warrants reclassified from liability to additional paid-in capital upon exercise	$ 327	$ —
Transfer of property and equipment from inventory and deferred cost of revenue	$ —	$ 864
Purchases of property and equipment in accounts payable and accrued liabilities	$ 129	$ 986
Offering costs included in accounts payable and accrued expenses	$ —	$ 191

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

NOTE 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 three months ended March 31, 2021, the Company incurred a net loss from operations of $26.7 million and net cash used in operations of $26.3 million. The Company believes that its existing cash balance of $182.0 million as of March 31, 2021, 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.

NOTE 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 months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021 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, 2020.

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, 2020 filed with the SEC on March 5, 2021, and have not changed significantly since that filing.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-13, *Financial Instruments – Credit Losses* (Topic 326), Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). This ASU changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. For smaller reporting companies, as defined by the SEC, ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2022. The standard is effective for the Company on January 1, 2023. The Company is currently assessing the impact of ASU 2016-13 on its consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, an update to ASC Topic 470, Subtopic - 20, Debt - Debt with Conversion and Other Options, and ASC Topic 815, Subtopic – 40, Derivatives and Hedging - Contracts in Entity's Own Equity. The ASU simplifies the guidance for certain financial instruments with characteristics of liability and equity, including convertible instruments and contracts on an entity's own equity by reducing the number of accounting models for convertible instruments and amends guidance in ASC Topic 260, Earnings Per Share, relating to the computation of earnings per share for convertible instruments and contracts on an entity's own equity. The ASU is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2021, with early adoption permitted for fiscal years that begin after December 15, 2020. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

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. No significant changes were made to our condensed consolidated financial statements and related notes in order to comply with ASU 2020-04.

NOTE 3. BALANCE SHEET COMPONENTS

Property and Equipment, Net

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

	March 31, 2021	December 31, 2020
Prototype	$ 17,711	$ 17,711
Machinery and equipment	17,587	17,486
Leasehold improvements	14,205	14,196
Furniture and fixtures	1,295	1,295
Software	1,389	1,389
Construction in progress	782	486
Property and equipment, gross	52,969	52,563
Less: accumulated depreciation and amortization	(30,147)	(28,501)
Property and equipment, net	$ 22,822	$ 24,062

Depreciation and amortization expense related to property and equipment was $1.6 million and $1.5 million during the three months ended March 31, 2021 and 2020, respectively.

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Accrued payroll and related benefits	$ 8,051	$ 12,810
Accrued accounts payable	1,945	2,810
Payroll withholding tax, sales and other tax payable	1,271	1,398
Accrued legal, accounting and professional fees	298	305
Product upgrade reserve	2,100	1,500
Other	499	458
Total accrued liabilities	$ 14,164	$ 19,281

Deferred Revenue

Deferred revenue consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Deferred revenue:		
Product	$ 1,228	$ 1,888
Service	9,081	8,857
Distribution rights	1,802	1,921
Total deferred revenue	12,111	12,666
Less: current portion of deferred revenue	(10,022)	(10,094)
Noncurrent portion of deferred revenue	$ 2,089	$ 2,572

Other Long-Term Liabilities

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

	March 31, 2021	December 31, 2020
Accrued interest, noncurrent portion	$ 256	$ 99
Asset retirement obligation	890	857
Total other-long term liabilities	$ 1,146	$ 956

NOTE 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 March 31, 2021 and December 31, 2020. 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 three months ended March 31, 2021, warrants to purchase 113,161 shares of common stock were exercised and the aggregate fair value upon exercise of $0.3 million was reclassified from liabilities to additional paid-in-capital. During the three months ended March 31, 2020, no warrants were exercised.

The gains and losses from re-measurement of Level 3 financial liabilities are recorded as part of other (expense) income, net in the condensed consolidated statements of operations and comprehensive loss. During the three months ended March 31, 2021 and 2020, the Company recorded a loss of $0.9 million and a gain of $2.9 million, respectively, related to the change in fair value of the 2017 and 2016 Placement Warrants.

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

	At March 31, 2021			
	Level 1	Level 2	Level 3	Total
2017 Placement Warrants Liability	$ —	$ —	$ 4,072	$ 4,072
2016 Placement Warrants Liability	—	—	1,412	1,412
Total	$ —	$ —	$ 5,484	$ 5,484

	At December 31, 2020			
	Level 1	Level 2	Level 3	Total
2017 Placement Warrants Liability	$ —	$ —	$ 3,675	$ 3,675
2016 Placement Warrants Liability	—	—	1,189	1,189
Total	$ —	$ —	$ 4,864	$ 4,864

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

	Three Months Ended March 31,	
	2021	2020
Fair value, beginning of period	$ 4,864	$ 5,373
Change in fair value of Level 3 financial liabilities	947	(2,869)
Fair value of 2016 Placement Warrants at exercise	(2)	—
Fair value of 2017 Placement Warrants at exercise	(325)	—
Fair value, end of period	$ 5,484	$ 2,504

NOTE 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 First Amendment) to the SVB Term Loan. The First 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.

On October 30, 2020, the Company entered into the Second Amendment (the Second Amendment) to the SVB Term Loan. The Second Amendment, among other things, amended the SVB Term Loan to (i) increase the term loan agreement principal amount from $56.0 million to $58.0 million, (ii) revise the thirty-six equal monthly payments of principal to begin on November 1, 2022, (iii) revise the maturity date to October 1, 2025, (iv) decrease the interest rate from a fixed rate of 6.3% to a floating rate of 2.4% above the Prime Rate, (v) increase the final payment from 3.15% of the original aggregate principal amount to 3.7% of the revised aggregate principal amount, (vi) revise 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, (vii) decrease the minimum liquidity ratio financial covenant from 1.75:1.00 to 1.70:1.00, (viii) remove the minimum cash balance as a condition of the minimum revenue financial covenant and the minimum liquidity ratio financial covenant, and (ix) increase the prepayment premium from 2.00% to 3.00% for the first 30 months of the term for amounts prepaid under the SVB Term Loan prior to the maturity date thereof, subject to certain exceptions. In connection with the execution of the Second Amendment, the Company agreed to pay the earned portion of the final payment, which equated to $0.8 million.

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 March 31, 2021 are as follows (in thousands):

Year Ended December 31,	
The remainder of 2021	$ —
2022	3,222
2023	19,333
2024	19,333
2025	16,112
Total future principal payments	58,000
Less: unamortized debt discount	(978)
Carrying value of long-term debt	57,022
Less: current portion	—
Long-term portion	$ 57,022

NOTE 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. The Company leases and occupies approximately 19,800 square feet of office space in Oakwood Village, Ohio, which expires in October 2026. 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 expiration date of July 2025. Additionally, the Company entered into a lease agreement to lease additional office space in Mountain View, California of approximately 24,600 square feet, which 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. The Company also 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; the Company does not intend to extend the term of this sub-lease. On March 3, 2021, the Company entered into a sub-lease agreement to lease approximately 12,800 square feet of office space in Denver, Colorado. This sub-lease will commence on September 1, 2021 and will expire October 31, 2024.

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 March 31, 2021, the weighted-average remaining lease term in years is 4.5 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 March 31,	
	2021	2020
Operating lease cost	$ 781	$ 781

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

	Three Months Ended March 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities	$ 803	$ 783
Right-of-use assets obtained in exchange for new operating lease liabilities	—	—

At March 31, 2021, the future payments and interest expense for the operating leases are as follows (in thousands):

Year Ending December 31,	Future Payments
The remainder of 2021	$ 2,044
2022	2,659
2023	2,738
2024	2,774
2025	2,096
2026	147
Total undiscounted cash flows	$ 12,458
Less: imputed interest	(1,924)
Present value of lease liabilities	$ 10,534

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 Company believes the allegations in the complaint are without merit and has been vigorously defending the litigation.

On July 7, 2020 and July 31, 2020, the Company filed petitions with the Patent Trial & Appeal Board of the United States Patent and Trademark Office (PTAB), 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. On August 13, 2020, the Company filed a separate petition with the PTAB, requesting an IPR and cancellation of claims 1-4 and 20-22 of Varian's U.S. Patent No. 8,637,841.

In August 2020, Varian announced that it had entered into a definitive agreement to combine with Siemens Healthineers AG. The merger closed effective April 15, 2021, within 60 days of which, Siemens has agreed to dismiss Varian's lawsuit and release ViewRay from all claims brought by Varian. In light of this, both the district court case and the proceedings before the PTAB are currently stayed, pending such dismissal.

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 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. While the initial motion to dismiss was pending, the plaintiff was granted leave to file a second amended complaint. A motion to dismiss the second amended complaint was filed on September 16, 2020. That motion has been fully briefed and is pending before the District Court. The Company believes the allegations in the complaint are without merit and intends 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. Due to the overlap between the allegations in the derivative complaint and those in the putative securities class action complaint, this lawsuit is stayed until June 1, 2021, pending a decision on the motion to dismiss the second amended complaint in the securities action.

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 the Company could have a material adverse effect in the period in which they are resolved and on the Company's 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 the Company's reputation, even if resolved in the Company's favor.

Purchase Commitments

At March 31, 2021, the Company had $2.9 million in outstanding firm purchase commitments.

NOTE 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 March 31,	
	2021	2020
U.S.		
Product	$ 5,067	$ 1,618
Service	2,367	1,466
Total U.S. revenue	$ 7,434	$ 3,084
Outside of U.S. ("OUS")		
Product	$ 6,312	$ 9,852
Service	1,660	1,195
Distribution rights	119	119
Total OUS revenue	$ 8,091	$ 11,166
Total		
Product	$ 11,379	$ 11,470
Service	4,027	2,661
Distribution rights	119	119
Total revenue	$ 15,525	$ 14,250

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 doubtful accounts. 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 $0.1 million and $0.1 million were reported within other assets in the condensed consolidated balance sheets at March 31, 2021 and at December 31, 2020, 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. As of March 31, 2021 and December 31, 2020, the contract asset was $13.6 million and $6.6 million, respectively.

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 doubtful accounts recorded at March 31, 2021 or December 31, 2020.

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 months ended March 31, 2021 and 2020, the Company recognized $4.2 million and $3.3 million of revenues that was included in the deferred revenue balance at the beginning of the reporting period, respectively.

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 months ended March 31, 2021 from performance obligations satisfied in the prior period.

NOTE 8. EQUITY FINANCING

Public Offering of Common Stock

On January 4, 2021, the Company entered into an underwriting agreement with Piper Sandler & Co., as representative of the several underwriters named therein (the "2021 Underwriters"), with respect to the issuance and sale of 11,856,500 shares of our common stock, which included the full exercise of the 2021 Underwriters' option to purchase additional shares, at a price to the public of $4.85 per share. The Company completed the offering on January 7, 2021 and received net proceeds of approximately $53.5 million, after deducting the underwriting discounts and commissions and estimated offering expenses payable by the Company.

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 its common stock, preferred stock, debt securities, warrants, purchase contracts and/or units, including up to $100.0 million of the Company's common shares pursuant to an at-the-market offering program with FBR Capital Markets & Co., now known as B. Riley Securities. Under this at-the-market offering program, the Company did not sell any shares of its common stock during the years ended December 31, 2019 or December 31, 2020. The consummation of the January 2021 public offering of common stock effectively reduced the common shares available for issuance under the at-the-market offering program to approximately $42.9 million.

NOTE 9. WARRANTS

Equity Classified Common Stock Warrants

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 expired in July and August 2020 and no warrants remained outstanding at March 31, 2021.

In connection with a March 2018 direct registered offering (the "March 2018 Direct Registered Offering"), the Company issued (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 common stock at an exercise price of $8.31 per share (the "2018 Offering Warrants"). 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 March 31, 2021.

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 private placement offerings in 2016 and 2017 (the "2016 and 2017 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", respectively). 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 (expense) income, 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 three months ended March 31, 2021	Warrants Outstanding at March 31, 2021
2017 Placement Warrants	January 2017	7 years	$ 3.17	112,609	1,506,281
2016 Placement Warrants	August and September 2016	7 years	$ 2.95	552	536,711
Total				113,161	2,042,992

During the three months ended March 31, 2021 and 2020, the Company recorded a loss of $0.9 million and a gain of $2.9 million, respectively, related to the change in fair value of the 2017 and 2016 Placement Warrants. The fair value of the 2017 and 2016 Placement Warrants at March 31, 2021 and December 31, 2020, respectively, was estimated using the Black-Scholes option-pricing model and the following weighted-average assumptions:

	2017 Placement Warrants		2016 Placement Warrants	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Expected term (in years)	2.8	3.0	2.4	2.6
Expected volatility	90.3%	86.9%	89.4%	86.3%
Risk-free interest rate	0.3%	0.2%	0.2%	0.2%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

NOTE 10.STOCK-BASED COMPENSATION

As of March 31, 2021, the Company had an active stock-based incentive compensation plan, an employee stock purchase plan and an equity inducement plan: the 2015 Equity Incentive Award Plan (as amended and restated, the “2015 Plan”), the 2015 Employee Stock Purchase Plan (as amended and restated, the “ESPP”), and the 2018 Equity Inducement Award Program (the “2018 Plan”), respectively. All new equity compensation grants are issued under these three plans; however, outstanding awards previously issued under inactive plans will continue to vest and remain exercisable in accordance with the terms of the respective plans.

The 2015 Plan and the 2018 Plan provide for the grant of stock and stock-based awards including stock options, restricted stock units (including deferred stock units), performance-based stock units, and stock appreciation rights. As of March 31, 2021, there were 5.2 million shares available for grant under the 2015 Plan and 2018 Plan.

Stock-Based Compensation Expense

Total stock-based compensation expense recognized in the Company’s consolidated statements of operations and comprehensive loss is classified as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Cost of revenue	$ 236	$ 238
Research and development	637	520
Selling and marketing	295	216
General and administrative	7,326	4,527
Total stock-based compensation expense	$ 8,494	$ 5,501

The Company’s stock-based compensation expense is based on the value of the portion of share-based payment awards that are ultimately expected to vest, assuming estimated forfeitures at the time of grant. Stock-based compensation relating to stock-based awards granted to consultants was insignificant for the three months ended March 31, 2021 and 2020.

Restricted Stock Units and Deferred Stock Units:

The Company grants Restricted Stock Units, or RSUs, to its board of directors and employees for their services. Additionally, the Company grants Deferred Stock Units, or DSUs, to its board of directors at their election in lieu of retainer and committee service fees.

The DSUs granted to board members are either fully vested upon issuance or vest over a period of time from the grant date and will be released and settled upon termination of the board member’s services, the occurrence of a change in control event, or the tenth anniversary of the grant date.

The RSUs granted to employees and/or board members vest in equal annual or monthly installments over either two or three years from the grant date and are subject to the participants continuing service to the Company over that period. The weighted-average grant date fair value of RSUs granted three months ended March 31, 2021 and 2020 was $4.67 per share, and $3.09 per share, respectively.

In March 2021, the Company introduced a performance share plan (the "2021 PSU Plan") as a component of its equity grants for 2021. The 2021 PSU Plan provides for the award of performance share units which will be awarded based on a metric around the Company's compound annual revenue growth rate over a three-year period.

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

	RSUs	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2020	8,046,399	$ 3.41
RSUs granted	2,890,478	4.67
RSUs vested	(1,556,823)	3.54
RSUs forfeited	(162,558)	3.66
Unvested at March 31, 2021	9,217,496	$ 3.79
Vested and unreleased	177,644	
Outstanding at March 31, 2021	9,395,140	

The total grant date fair value of RSUs awarded was $13.5 million and $12.9 million for the three months ended March 31, 2021 and 2020, respectively. The total grant date fair value of RSUs vested was $5.5 million, and $1.9 million for the three months ended March 31, 2021 and 2020, respectively.

At March 31, 2021, total unrecognized stock-based compensation cost related to RSUs, net of estimated forfeitures, was $22.0 million, which is expected to be recognized over a weighted-average period of 2.1 years. As of March 31, 2021, 8.6 million shares of RSUs are expected to vest.

Stock Options:

Stock options awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant and with a four-year vesting schedule. Stock option awards generally expire 10 years from the date of grant.

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

	Number of Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
				(In thousands)
Options outstanding at December 31, 2020	8,142,348	$ 7.14	7.3	$ 2,638
Options granted	—	—		
Options exercised	(6,021)	3.10		
Options cancelled or forfeited	(39,422)	6.58		
Options outstanding at March 31, 2021	8,096,905	$ 7.15	6.9	$ 3,309
Options exercisable at March 31, 2021	5,676,389	$ 7.24	6.4	$ 1,755
Options vested and expected to vest at March 31, 2021	7,889,379	$ 7.18	6.9	$ 3,101

There were no options granted to employees for the three months ended March 31, 2021. The weighted-average grant date fair value of options granted to employees was $1.46 per share for the three months ended March 31, 2020. The grant date fair value of options vested was $1.7 million and $3.0 million for the three months ended March 31, 2021 and 2020, 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 value of options exercised was nominal for the three months ended March 31, 2021 and 2020, respectively.

At March 31, 2021, total unrecognized stock-based compensation cost related to stock options granted to employees, net of estimated forfeitures, was $8.6 million, which is expected to be recognized over a weighted-average period of 1.8 years.

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 risk-free interest rate is based on the zero-coupon U.S. Treasury notes, with maturities similar to the expected term of the options. The Company has not paid and does not anticipate paying cash dividends on its common stock; therefore, the expected dividend yield is assumed to be zero.

During the fourth quarter of 2020, the Company began to determine volatility by solely using the Company's own historical volatility measurements, since more than four years of historical data became available in the public market. Prior to the fourth quarter of 2020, the Company determined the volatility for stock options granted based on the average historical price volatility for the Company and industry peers over a period equivalent to the expected term of the stock option grants.

The forfeiture rate of stock options is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures have been estimated by the Company based upon historical and expected forfeiture experience.

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

	Three Months Ended March 31,
	2020
Expected term (in years)	6.1
Expected volatility	66.5%
Risk-free interest rate	1.4%
Expected dividend yield	0.0%

Employee Stock Purchase Plan

In July 2015, the Company adopted the Employee Stock Purchase Plan, or ESPP. Certain employees, as defined by the ESPP, are eligible to participate in the ESPP if employed by the Company for at least 20 hours per week during at least five months per calendar year. Participating employees may contribute up to the lesser of 15% of their eligible earnings or $30,000 during each offering period, provided that in no event shall a participating employee be permitted to purchase more than 3,000 shares of common stock during each offering period.

During 2021, the first offering period provided to eligible employees is January 1, 2021 through June 30, 2021. The purchase price of common stock purchased under the ESPP is currently equal to 85% of the lesser of the fair market value of a share of common stock on: 1) the first trading day of an offering period and 2) the last trading of each offering period. At March 31, 2021, 3.5 million shares were reserved for issuance under the ESPP. No more than 3.5 million shares of common stock may be issued under the ESPP. As of March 31, 2021, 0.2 million shares have been issued under the ESPP and 3.3 million shares remained available for future issuance under the ESPP. Purchase rights granted under the ESPP are valued using the Black-Scholes pricing model.

NOTE 11. INCOME TAX

Due to the current operating losses, the Company recorded zero income tax expense during the three months ended March 31, 2021 and 2020, 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.

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 March 31, 2021. 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 $2.8 million and $2.7 million at March 31, 2021 and December 31, 2020, 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 March 31, 2021 and December 31, 2020, 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 three months ended March 31, 2021 and 2020.

NOTE 12.NET LOSS PER SHARE

Diluted earnings per share ("EPS") includes the dilutive effect of common stock equivalents and is computed using the weighted-average number of common stock and common stock equivalents outstanding during the reporting period. Diluted EPS for the years ended March 31, 2021 and 2020 excluded common stock equivalents because the effect of their inclusion would be anti-dilutive or would decrease the reported loss per share. The following table sets forth securities outstanding that could potentially dilute the calculation of diluted earnings per share:

	Three Months Ended March 31,	
	2021	2020
Stock options outstanding	8,096,905	10,412,952
Warrants to purchase common stock - liability classified	2,042,992	2,156,153
Warrants to purchase common stock - equity classified	1,418,116	1,457,856
Unvested restricted stock units	9,217,496	8,002,687
Total	20,775,509	22,029,648

NOTE 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 $0.1 million during the three months ended March 31, 2021 and 2020, 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.

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. The Company received the first installment in the fourth quarter of 2020.

NOTE 14.SUBSEQUENT EVENTS

The Company has evaluated the period subsequent to March 31, 2021 for material events that did not exist at the balance sheet date but arose after that date and determined that no additional subsequent events arose that should be disclosed in order to keep the financial statements from being misleading.

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, 2020, 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 5, 2021. 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 tissue tracking and automated beam gating; 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 65 different types of cancer, as well as patients for whom radiation therapy was previously not an option. During the first quarter of 2021, we surpassed a significant milestone by treating more than 11,500 patients.

At March 31, 2021, a total of 41 MRIdian systems, two MRIdian with Cobalt-60 systems and 39 MRIdian Linac systems, are in operation with 39 customers worldwide (18 in the United States and 23 outside the United States). In addition, eight 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 75 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 $15.5 million and $14.3 million and had net losses of $26.7 million and $27.5 million, during the three months ended March 31, 2021 and 2020, 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.

New Orders and Backlog

New orders are defined as the sum of gross product orders, representing MRIdian 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 MRIdian 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 three months ended March 31, 2021, we received seven new orders for MRIdian systems, totaling $40.9 million. At March 31, 2021, we had total backlog of $264.3 million.

Components of Statements of Operations

Revenue

Product Revenue. Product revenue consists of revenue recognized from sales of MRIdian 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 75 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.

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 MRIdian 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. There was no LCNRV charge for the three months ended March 31, 2021 and 2020.

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 (Expense) Income, Net

Other (expense) income, 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 (expense) income, net.

Results of Operations

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

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Revenue:		
Product	$ 11,379	$ 11,470
Service	4,027	2,661
Distribution rights	119	119
Total revenue	15,525	14,250
Cost of revenue:		
Product	10,685	13,129
Service	4,518	3,228
Total cost of revenue	15,203	16,357
Gross profit (loss)	322	(2,107)
Operating expenses:		
Research and development	6,510	6,337
Selling and marketing	2,848	5,823
General and administrative	15,639	15,788
Total operating expenses:	24,997	27,948
Loss from operations	(24,675)	(30,055)
Interest income	2	695
Interest expense	(1,058)	(1,038)
Other (expense) income, net	(1,012)	2,866
Loss before provision for income taxes	(26,743)	(27,532)
Provision for income taxes	—	—
Net loss	$ (26,743)	$ (27,532)

Comparison of the Three Months Ended March 31, 2021 and 2020

Revenue

	Three Months Ended March 31,		
	2021	2020	Change
	(in thousands)		
Product	$ 11,379	$ 11,470	$ (91)
Service	4,027	2,661	1,366
Distribution rights	119	119	—
Total revenue	$ 15,525	$ 14,250	$ 1,275

Total revenue during the three months ended March 31, 2021 increased by $1.3 million compared to the same period in 2020. The increase was primarily due to a $1.4 million increase in service revenue, which was offset by a $0.1 million decrease in product revenue during the three months ended March 31, 2021 compared to the same period in 2020.

Product Revenue. Product revenue remained relatively flat during the three months ended March 31, 2021 compared to the same period in 2020. The Company recognized revenue for two MRIdian Linac systems in the three months ended March 31, 2021 as compared to three MRIdian Linac systems including one system upgrade in the same period in 2020.

Service Revenue. Service revenue increased by $1.4 million during the three months ended March 31, 2021 compared to the same period in 2020 primarily due to the increase in installed base.

Cost of Revenue

	Three Months Ended March 31,		
	2021	2020	Change
	(in thousands)		
Product	$ 10,685	$ 13,129	$ (2,444)
Service	4,518	3,228	1,290
Total cost of revenue	$ 15,203	$ 16,357	$ (1,154)

Product Cost of Revenue. Product cost of revenue decreased by $2.4 million during the three months ended March 31, 2021 compared to the same period in 2020. The decrease was primarily attributable to no MRIdian Linac upgrade systems recognized during the three months ended March 31, 2021 compared to the same period in 2020.

Service Cost of Revenue. Service cost of revenue increased by $1.3 million during the three months ended March 31, 2021 compared to the same period in 2020, primarily due to the increase in installed base.

Operating Expenses

	Three Months Ended March 31,		
	2021	2020	Change
	(in thousands)		
Research and development	$ 6,510	$ 6,337	$ 173
Selling and marketing	2,848	5,823	(2,975)
General and administrative	15,639	15,788	(149)
Total operating expenses	$ 24,997	$ 27,948	$ (2,951)

Research and Development. Research and development expenses during the three months ended March 31, 2021 remained flat compared to the same period in 2020.

Selling and Marketing. Selling and marketing expenses during the three months ended March 31, 2021 decreased by $3.0 million compared to the same period in 2020. The decrease was primarily attributable to a $1.6 million decrease in personnel expense in the form of sales related compensation and the reduction in workforce, a $0.6 million decrease in travel expense primarily driven by coronavirus related reductions in travel for our sales and marketing workforce, and a $0.5 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 March 31, 2021 remained relatively flat compared to the same period in 2020. During the three months ended March 31, 2021, there was a $1.9 million decrease in consulting expenses, other professional expenses, and other expenses, substantially offset by a $1.7 million increase in personnel expense due to the acceleration of share-based awards for certain employees including our former Chief Operating Officer under the Impacted Teammate Program (the “ITP”).

Interest Income

	Three Months Ended March 31,		
	2021	2020	Change
	(in thousands)		
Interest income	$ 2	$ 695	$ (693)

Interest income decreased by $0.7 million during the three months ended March 31, 2021 compared to the same period in 2020, primarily due to an overall decrease in interest rates.

Interest Expense

	Three Months Ended March 31,		
	2021	2020	Change
	(in thousands)		
Interest expense	$ (1,058)	$ (1,038)	$ (20)

Interest expense related to the SVB Term Loan remained flat during the three months ended March 31, 2021 compared to the same period in 2020.

Other (Expense) Income, Net

	Three Months Ended March 31,		
	2021	2020	Change
	(in thousands)		
Other (expense) income, net	$ (1,012)	$ 2,866	$ (3,878)

Other (expense) income, net during the three months ended March 31, 2021 consisted primarily of a $0.9 million increase in the fair value of warrant liabilities related to the 2017 and 2016 Placement Warrants as a result of the increase in the Company's stock price. Other (expense) income, net during the three months ended March 31, 2020 consisted primarily of a $2.9 million decrease in the fair value of warrant liabilities related to the 2017 and 2016 Placement Warrants.

Liquidity and Capital Resources

Since our inception in 2004, we have incurred significant net losses and negative cash flows from operations. During the three months ended March 31, 2021 and 2020, we had net losses of $26.7 million and $27.5 million, respectively. At March 31, 2021, we had an accumulated deficit of $653.8 million.

At March 31, 2021, we had cash and cash equivalents of $182.0 million. 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 January 2021, we raised aggregate gross proceeds of $57.4 million via a public offering, in which we sold approximately 11.9 million shares of our common stock at a price of $4.85 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.

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 an at-the-market offering program with FBR Capital Markets & Co., now known as B. Riley Securities. There were no sales of our common stock pursuant to our at-the-market offering program during fiscal year 2019 or fiscal year 2020. The consummation of the January 2021 public offering of common stock effectively reduced the common shares available for issuance under the at-the-market offering program to approximately $42.9 million as of March 31, 2021.

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, 2020 and in Part II, Item 1A of this report.

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

	Three Months Ended March 31,	
	2021	2020
Cash used in operating activities	$ (26,307)	$ (34,999)
Cash used in investing activities	$ (336)	$ (451)
Cash provided by (used in) financing activities	$ 51,942	$ (669)

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.

Net cash from operating activities for the three months ended March 31, 2021 was $26.3 million, as compared to $35.0 million for the same period in 2020. The decrease in net cash flows from operating activities as compared to the same period in 2020 is primarily driven by the increase in the stock compensation expense and by the change in the fair value of the 2017 and 2016 Placement Warrants.

Investing Activities

Cash used in investing activities for the three months ended March 31, 2021 and 2020 of $0.3 million and $0.5 million, respectively, resulted from capital expenditures to purchase property and equipment.

Financing Activities

During the three months ended March 31, 2021, financing activities provided $51.9 million in cash, as compared to net cash used of $0.7 million for the same period in 2020. The increase in net cash flows from financing activities as compared to the same period in

2020 is primarily a result of the January 2021 public offering partially offset by the cash used to pay taxes related to net share settlement of equity awards.

Off-Balance Sheet Arrangements and Contractual Obligations

We did not have any off-balance sheet arrangements as of March 31, 2021 and December 31, 2020. 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 5, 2021.

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 three months ended March 31, 2021, as compared to the critical accounting policies described in our Annual Report on Form 10-K filed with the SEC on March 5, 2021. 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 March 31, 2021, 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 first quarter of 2021 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.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

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, 2020. If any of the risks discussed in our Annual Report on Form 10-K are realized, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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	
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

* Certain identified information has been excluded from this exhibit because it is both not material and would likely cause competitive harm to the Company if publicly disclosed.

† Portions of this exhibit have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company agrees to furnish to the Securities and Exchange Commission a copy of any omitted portions of the exhibit upon request.

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: May 7, 2021

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

Dated: May 7, 2021

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

Exhibit 31.1

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: May 7, 2021

/s/ Scott Drake
Scott Drake
Title: Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 31.2

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: May 7, 2021

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

Exhibit 32.1

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 quarter ended March 31, 2021 (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: May 7, 2021

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

Dated: May 7, 2021

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