ACCURAY INC
Form PRE 14A
September 27, 2012

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

ý Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

ACCURAY INCORPORATED

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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NOTICE OF
2012 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON NOVEMBER 30, 2012

To our Stockholders:

You are cordially invited to attend the 2012 Annual Meeting of Stockholders of Accuray Incorporated, a Delaware corporation, which will be held at the offices of Gibson, Dunn & Crutcher, LLP, located at 1881 Page Mill Road, Palo Alto, California 94304 on Friday, November 30, 2012 at 9:00 am PST. We are holding the annual meeting for the following purposes:

1. To elect two Class III directors named in the proxy statement to hold office until our 2015 Annual Meeting of Stockholders, or until their respective successors have been duly elected or appointed;

2. To hold an advisory vote to approve the compensation of our named executive officers;

3. To approve an amendment to the Company's Certificate of Incorporation to increase the number of total authorized shares from 105,000,000 to 205,000,000 and the number of authorized shares of common stock from 100,000,000 to 200,000,000;

4. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2013; and

5. To transact any other business as may properly come before the meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or any adjournment or postponement of the meeting.

These items of business to be transacted at the meeting are more fully described in the Proxy Statement.

The annual meeting will begin promptly at 9:00 a.m. PST and check-in will begin at 8:30 a.m. PST. Only holders of record and beneficial owners of shares of our common stock at the close of business on October 5, 2012, the record date, are entitled to notice of, to attend and to vote at the annual meeting and any adjournments or postponements of the annual meeting. If a beneficial owners wishes to vote in person at the meeting, you must obtain a "legal proxy" from the broker, trustee or other nominee that holds your shares, giving you the right to vote your shares at the meeting.

We are pleased to again be using the U.S. Securities and Exchange Commission rule that allows companies to furnish proxy materials to their stockholders primarily over the Internet. We believe that this process should expedite stockholders' receipt of proxy materials, lower the costs of our annual meeting and help to conserve natural resources. On October 18, 2012, we mailed our stockholders a notice containing instructions on how to access our 2012 Proxy Statement (the "Proxy Statement") and 2012 Annual Report (the "Annual Report") and vote online. The notice also included instructions on how to receive a paper copy of your annual meeting materials, including the notice of annual meeting, Proxy Statement and proxy card. If you received your annual meeting materials by mail, the notice of annual meeting, Proxy Statement and proxy card were enclosed. If you received your annual meeting materials via e-mail, the e-mail contained voting instructions and links to the Annual Report and the Proxy Statement on the Internet, which are both available at *https://materials.proxyvote.com/004397*.

For a period of at least 10 days prior to the annual meeting, a complete list of stockholders entitled to vote at the annual meeting will be available and open to the examination of any stockholder

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for any purpose germane to the annual meeting during normal business hours at our principal executive offices.

All stockholders are cordially invited to attend the annual meeting in person. Even if you plan to attend the annual meeting, please cast your vote as instructed in the Notice of Internet Availability of Proxy Materials as promptly as possible. If you choose to receive paper copies of your proxy materials, including the proxy card, please complete, sign and date the proxy card and return it promptly in the postage-paid return envelope in order to ensure that your vote will be counted if you later decide not to, or are unable to, attend the annual meeting. Even if you have given your proxy, you may still attend and vote in person at the meeting.

By order of the Board of Directors,

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

Sunnyvale, California
October 18, 2012

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PROXY STATEMENT FOR ACCURAY INCORPORATED 2012 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON NOVEMBER 30, 2012

This Proxy Statement is furnished to our stockholders of record as of October 5, 2012, the record date, in connection with the solicitation of proxies by our Board of Directors for use at our 2012 Annual Meeting of stockholders, to be held at the offices of Gibson, Dunn & Crutcher, LLP, located at 1881 Page Mill Road, Palo Alto, California 94304 on Friday November 30, 2012 at 9:00 a.m. PST. The address of our principal executive office is 1310 Chesapeake Terrace, Sunnyvale, California 94089. This Proxy Statement and the proxy card is first being made available to our stockholders on or about October 18, 2012. Our Company's fiscal year ended on June 30, 2012.

QUESTIONS AND ANSWERS REGARDING THIS SOLICITATION AND VOTING AT THE ANNUAL MEETING

Why did I receive a Notice of Internet Availability of Proxy Materials?

Under rules adopted by the U.S. Securities and Exchange Commission, or SEC, we are furnishing proxy materials to our stockholders primarily via the Internet, instead of mailing printed copies of those materials to each stockholder. On October 18, 2012, we mailed to our stockholders (other than those who previously requested electronic or paper delivery) a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy materials, including this Proxy Statement and our Annual Report. The Notice of Internet Availability of Proxy Materials also instructs you on how to access your proxy card to vote through the Internet or by telephone.

This process is designed to expedite stockholders' receipt of proxy materials, lower the cost of the annual meeting, and help conserve natural resources. However, if you would prefer to receive printed proxy materials, please follow the instructions included in the Notice of Internet Availability of Proxy Materials. If you have previously elected to receive our proxy materials electronically, you will continue to receive these materials via e-mail unless you elect otherwise. If you received your annual meeting materials via e-mail, the e-mail contained voting instructions and links to the Annual Report and the Proxy Statement on the Internet, which are both available at: *https://materials.proxyvote.com/004397.*

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Why am I receiving access to these proxy materials?	You are receiving access to this Proxy Statement from us because you were a stockholder of record at the close of business on the record date of October 5, 2012. As a stockholder of record, you are invited to attend our annual meeting of stockholders and are entitled to vote on the items of business described in this Proxy Statement. This Proxy Statement contains important information about the annual meeting and the items of business to be transacted at the annual meeting. You are strongly encouraged to read this Proxy Statement, which includes information that you may find useful in determining how to vote.
Who is entitled to attend and vote at the annual meeting?	Only holders of record of shares of our common stock at the close of business on October 5, 2012, the record date, are entitled to notice of, to attend and to vote at the annual meeting and any adjournments or postponements of the annual meeting.
How many shares are outstanding?	On the record date, [ ] shares of our common stock were issued and outstanding. Each share of common stock outstanding on the record date is entitled to one vote.
How many shares must be present or represented to conduct business at the annual meeting (that is, what constitutes a quorum)?	The presence at the annual meeting, in person or represented by proxy, of the holders of at least a majority of the shares of our common stock issued and outstanding on the record date and entitled to vote at the annual meeting will constitute a quorum for the transaction of business. If, however, a quorum is not present, in person or represented by proxy, then either the chair of the annual meeting or the stockholders entitled to vote at the annual meeting may adjourn the annual meeting until a later time.
What items of business will be voted on at the annual meeting?	The items of business to be voted on at the annual meeting are as follows: 1. The election of two Class III directors named in the proxy statement to hold office until our 2015 Annual Meeting of Stockholders, or until their respective successors have been duly elected or appointed; 2. An advisory vote to approve the compensation of our named executive officers; 3. The approval of an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares; and 4. The ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2013.

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What happens if additional matters are presented at the annual meeting?

The only items of business that our Board of Directors intends to present at the annual meeting are set forth in this Proxy Statement. As of the date of this Proxy Statement, no stockholder has advised us of the intent to present any other matter, and we are not aware of any other matters to be presented at the annual meeting. If any other matter or matters are properly brought before the annual meeting, the person(s) named as your proxyholder(s) will have the discretion to vote your shares on the matters in accordance with their best judgment and as they deem advisable.

What shares can I vote at the annual meeting?

You may vote all of the shares you owned as of October 5, 2012, the record date, including shares held directly in your name as the *stockholder of record* and all shares held for you as the *beneficial owner* through a broker, trustee or other nominee such as a bank.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Most of our stockholders hold their shares through a broker or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholders of Record. If your shares are registered directly in your name with our transfer agent, Computershare Shareowner Services, you are considered, with respect to those shares, the *stockholder of record*, and we are sending these proxy materials directly to you. As the *stockholder of record*, you have the right to vote in person at the annual meeting or direct the proxyholder how to vote your shares on your behalf at the annual meeting by fully completing, signing and dating the enclosed proxy card and returning it to us in the enclosed postage-paid return envelope, or by following the procedures for voting on the Internet or by phone.

Beneficial Owner. If your shares are held in a brokerage account or by a trustee or another nominee, you are considered the *beneficial owner* of those shares held *in street name* for your account, and these proxy materials are being made available to you together with a voting instruction card by your broker, trustee or other nominee. As the beneficial owner, you have the right to direct your broker, trustee or nominee to vote your shares as you instruct in the voting instruction card. The broker, trustee or other nominee may either vote in person at the annual meeting or grant a proxy and direct the proxyholder to vote your shares at the annual meeting as you instruct in the voting instruction card. You may also vote in person at the annual meeting, but only after you obtain a "legal proxy" from the broker, trustee or other nominee that holds your shares, giving you the right to vote your shares at the annual meeting. Your broker, trustee or other nominee has enclosed or provided a voting instruction card for you to use in directing the broker, trustee or other nominee how to vote your shares.

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How can I vote my shares without attending the annual meeting?	As discussed previously, whether you hold shares directly as the stockholder of record or as a beneficial owner, you may direct how your shares are voted without attending the annual meeting by voting on the Internet, voting by phone, or completing and returning the proxy card or voting instruction card. If you provide specific instructions with regard to items of business to be voted on at the annual meeting, your shares will be voted as you instruct on those items. If you just sign your proxy card or voting instruction card with no further instructions, or if you electronically transmit your voting instructions but do not direct how to vote on each item, your shares will be counted as votes in accord with the Board's recommendation.
How can I attend the annual meeting?	Whether you hold shares in your name as the stockholder of record or beneficially in street name, you should be prepared to present photo identification for admittance. Please also note that if you are not a stockholder of record but hold shares through a broker, trustee or nominee, you will need to provide proof of beneficial ownership as of the record date, such as your most recent brokerage account statement, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership. The annual meeting will begin promptly at 9:00 a.m. PST. Check-in will begin at 8:30 a.m. PST. ***Even if you plan to attend the annual meeting, we recommend that you also vote by Internet, vote by telephone, or complete, sign and date the proxy card or voting instruction card and return it promptly in order to ensure that your vote will be counted if you later decide not to, or are unable to, attend the annual meeting.***
Can I change my vote or revoke my proxy?	You may change your vote or revoke your proxy at any time prior to the vote at the annual meeting. If you are the stockholder of record, you may change your vote by granting a new proxy bearing a later date, which automatically revokes the earlier proxy, by providing a written notice of revocation to our Corporate Secretary prior to your shares being voted, or by attending the annual meeting and voting in person. Attendance at the annual meeting will not cause your previously granted proxy to be revoked unless you specifically so request. If you are a beneficial owner, you may change your vote by submitting a new voting instruction card to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker, trustee or nominee giving you the right to vote your shares, by attending the annual meeting and voting in person.

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What is a "broker non-vote"?	Under the rules that govern brokers that have record ownership of our shares of common stock that are held in street name for the benefit of their clients, who are the beneficial owners of the shares, brokers and banks have the discretion to vote such shares on routine matters. The approval of the amendment to the Company's Certificate of Incorporation to increase the number of authorized shares and the ratification of the appointment of independent registered public accounting firms are considered routine matters. Therefore, if you do not otherwise instruct your broker or bank, the broker or bank may vote your shares on this matter. However, your broker or bank will not be able to vote your shares for the election of directors or the advisory vote to approve the compensation of named executive officers without your specific instruction because these are not considered routine matters. A "*broker non-vote*" occurs when a broker or bank does not receive timely instructions from the beneficial owner, and therefore such broker or bank expressly indicates on a proxy card that it is not voting the uninstructed shares on a non-routine matter.
How are "broker non-votes" counted?	Broker non-votes will be counted as present for the purpose of determining the presence or absence of a quorum for the transaction of business, but they will *not* be counted as "votes cast" in tabulating the voting result for any particular proposal.
What happens if the annual meeting is adjourned?	If our annual meeting is adjourned to another time or place, no additional notice will be given of the adjourned meeting if the time and place of the adjourned meeting is announced at the annual meeting, unless the adjournment is for more than 30 days, in which case a notice of the adjourned meeting will be given to each stockholder of record entitled to vote at the adjourned meeting. At the adjourned meeting, we may transact any items of business that might have been transacted at the annual meeting.
Who will serve as inspector of elections?	A representative of Computershare Shareowner Services, our transfer agent, will tabulate the votes and act as inspector of elections at the annual meeting.

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What should I do in the event that I receive more than one set of proxy materials?	You may receive more than one copy of the Notification of Internet Availability of Proxy Materials or more than one set of these proxy solicitation materials, including multiple copies of this Proxy Statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. In addition, if you are a stockholder of record and your shares are registered in more than one name, you may receive more than one Notification of Internet Availability of Proxy Materials or proxy card. Please vote on the Internet, by telephone, or complete, sign, date and return each proxy card and voting instruction card that you receive to ensure that all your shares are voted.
Who is soliciting my vote and who will bear the costs of this solicitation?	The proxy is being solicited on behalf of our Board of Directors. We will bear the entire cost of solicitation of proxies, including preparation, Internet posting, assembly, printing and mailing of this Proxy Statement. In addition to solicitation by mail, our directors, officers and employees may also solicit proxies in person, by telephone, by electronic mail or by other means of communication. We will not pay any additional compensation to our directors, officers or other employees for soliciting proxies. We have retained MacKenzie Partners, Inc. to assist in the solicitation of proxies for a fee of approximately $15,000 plus reasonable out-of-pocket costs and expenses. Copies of the proxy materials will be furnished to brokerage firms, banks, trustees, custodians and other nominees holding beneficially owned shares of our common stock, who will forward the proxy materials to the beneficial owners. We are required to reimburse brokerage firms, banks, trustees, custodians and other agents for the costs of forwarding the proxy materials.
Where can I find the voting results of the annual meeting?	We intend to announce preliminary voting results at the annual meeting, and publish the final voting results in a current report on Form 8-K filed with the SEC within four business days following the annual meeting.
What is the deadline for submitting proposals for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors?	As a stockholder, you may be entitled to present proposals for action at a future annual meeting of stockholders, including director nominations. Please refer to "Stockholder Proposals" and "Nomination of Director Candidates" below.

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PROPOSAL ONE ELECTION OF DIRECTORS

Classes of our Board of Directors

Our Amended and Restated Certificate of Incorporation provides that our Board of Directors shall be divided into three classes, designated as Class I, Class II and Class III, respectively, with the classes of directors serving for staggered three-year terms. Our proposed Board of Directors consists of seven directors, with two directors in Class I, three directors in Class II and two directors in Class III. Proxies cannot be voted for more than two persons.

The names of each continuing member of our Board of Directors, including each nominee for election to our Board of Directors, the classes in which they serve, their ages as of July 31, 2012, principal occupation and length of service on our Board of Directors, are as follows:

Name	Term Expires	Age	Principal Occupation	Director Since
Class III Directors				
Elizabeth Dávila	2012	68	Retired CEO and Board Member, NuGEN Technologies, Inc. and Afaxys, Inc.	2008
Euan S. Thomson, Ph.D.	2012	49	President and Chief Executive Officer, Accuray Incorporated	2002
Class I Directors				
Robert S. Weiss	2013	65	Chief Executive Officer and President, The Cooper Companies, Inc.	2007
Richard Pettingill	2013	64	Retired President and CEO of Allina Hospitals and Clinics and California Division of Kaiser Foundation Health Plans and Hospitals and Board Member of MAKO Surgical Corp. and Tenet Healthcare Corporation	2012
Class II Directors				
Louis J. Lavigne, Jr.	2014	64	Independent management consultant and Board Member, Allergan, Inc., BMC Software, Inc. and SafeNet, Inc.	2009
Dennis L. Winger	2014	64	Retired CFO and Board Member, Cephalon, Inc., Vertex Pharmaceuticals and Nektar Therapeutics	2009
Jack Goldstein, Ph.D.	2014	65	Independent Consultant, Chairman of the Board of Directors of OncoGenex Pharmaceuticals, Inc.	2010

Director Nominees

Our Board of Directors has nominated Elizabeth Dávila and Euan S. Thomson, Ph.D. for election as Class III directors. Wayne Wu was not nominated to stand for re-election to our board of directors at the end of his term expiring at the Annual Meeting. Each nominee for director has consented to being named in this Proxy Statement and has indicated a willingness to serve if elected. If a nominee is unavailable for election, the persons named as proxyholders will use their discretion to vote for any substitute nominee in accordance with their best judgment as they deem advisable. Listed below are the biographies of each director nominee. The biographies include information regarding each nominee's service as a director of the Company, business experience and principal occupations for at least the past five years, director positions at public companies held currently or at any time during the past five years, and the experiences, qualifications, attributes or skills that led the Nominating and Corporate Governance Committee to recommend, and the Board to determine, that the person should serve as a director for the Company.

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Elizabeth Dávila has served as a member of our Board of Directors since February 2008 and as Vice Chairperson of our Board of Directors since September 2008. Ms. Dávila was the former Chairman and Chief Executive Officer of VISX, Incorporated ("VISX"), a manufacturer of laser vision correction systems, which was acquired by Advanced Medical Optics in May 2005. Prior to becoming Chairman and Chief Executive Officer of VISX in 2001, she served as President and Chief Operating Officer of VISX from 1999 to 2001 and as Executive Vice President and Chief Operating Officer from 1995 to 1999. Ms. Dávila currently serves as a member of the board of directors of NuGEN Technologies, Inc., a private company that develops and commercializes rapid, high-sensitivity and high-throughput amplification and labeling systems for genomic analysis, and Afaxys, Inc., a private company that supplies family planning providers with pharmaceuticals and supplies. Within the last five years, Ms. Dávila also served on the public company boards of directors of Advanced Medical Optics, Inc. (now Abbott Medical Optics) and Cholestech Corp., medical device companies that were acquired in 2009 and 2007, respectively. Ms. Dávila holds a B.S. in Chemistry from St. Mary's College in Notre Dame, Indiana, an M.S. in Chemistry from the University of Notre Dame in Notre Dame, Indiana, and an M.B.A. from Stanford University in Stanford, California.

As a former Chief Executive Officer of VISX and a member and former member of several public and private company boards, Ms. Dávila has extensive healthcare industry experience in management, business development, operations, strategy and capital equipment sales.

Euan S. Thomson, Ph.D. has served as our Chief Executive Officer and a member of our Board of Directors since March 2002 and as our President since October 2002. Dr. Thomson also serves on the board of directors of Hospice of the Valley, a hospice facility serving individuals with life-limiting illnesses. Prior to joining our Company, Dr. Thomson served as Chief Executive Officer of Photoelectron Corporation, a medical device company, and held various positions as a medical physicist and manager within the United Kingdom National Health Service. He also previously worked as a consultant for other medical device companies, including Varian Oncology Systems and Radionics, Inc. Dr. Thomson holds a B.S. in Physics, an M.S. in Radiation Physics and a Ph.D. in Physics, with an emphasis on stereotactic brain radiotherapy, each from the University of London, United Kingdom.

As President and Chief Executive Officer of Accuray, Dr. Thomson brings to our Board healthcare industry expertise, extensive experience in management, strategy, leadership, reimbursement, and an understanding of the Company's technology and user base. In addition, Dr. Thomson has academic training as a medical physicist and research scientist.

If elected, Ms. Davila and Dr. Thomson will hold office as Class III directors until our annual meeting of stockholders to be held in 2015, or until their earlier resignation or removal.

How votes are counted

Stockholders are not entitled to cumulate their votes in the election of directors or with respect to any matter submitted to a vote of the stockholders. To be elected, directors must receive a majority of the votes cast (the number of shares voted "FOR" a director nominee must exceed the number of votes cast "AGAINST" that nominee). You may vote either "FOR" or "AGAINST" each director nominee or you may abstain. A properly executed proxy marked "ABSTAIN" with respect to any director will be counted for purposes of determining whether there is a quorum, but it will not be counted for purposes of determining the number of votes cast with respect to the election of such a director, and thus it will not have the same effect as a vote against a director nominee.

Board of Directors' Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" EACH OF THE TWO NOMINEES FOR CLASS III DIRECTOR LISTED ABOVE.

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Directors Whose Terms Extend Beyond the 2012 Annual Meeting

Listed below are the biographies of each of our Class I and Class II directors. The biographies include information regarding each director's service as a director of the Company, business experience and principal occupations for at least the past five years, director positions at public companies held currently or at any time during the past five years, and the experiences, qualifications, attributes or skills that led the Nominating and Corporate Governance Committee to recommend, and the Board to determine, that the person should serve as a director for the Company. There are no family relationships among any of our directors or executive officers.

Louis J. Lavigne, Jr. has served as a member of our Board of Directors since September 2009 and as the Chairperson of our Board of Directors since April 2010. Mr. Lavigne has been Managing Director of Lavite, LLC, a management-consulting firm specializing in the areas of corporate finance, accounting and growth strategy and management since 2005. From 1983 to 2005, Mr. Lavigne served in various executive capacities with Genentech, Inc., a healthcare company, namely, Executive Vice President and Chief Financial Officer from 1997 to 2005; Senior Vice President and Chief Financial Officer from 1994 to 1997; Vice President and Chief Financial Officer from 1988 to 1994; Vice President from 1986 to 1988; and Controller from 1983 to 1986. Mr. Lavigne has also served on the boards of directors of Allergan, Inc., a technology-driven, global health care company that provides specialty pharmaceutical products worldwide since 2005 and BMC Software, Inc., an independent systems software vendor that specializes in software solutions that allow companies to manage their information technology infrastructure from a business perspective since 2008, and he previously served on BMC Software's board of directors from 2004 to 2007. Mr. Lavigne also currently serves as a member of the board of directors of SafeNet, Inc., a private information security company. Within the past five years, Mr. Lavigne also served as a director of the following public companies: Arena Pharmaceuticals, Inc., Equinix, Inc. and Kyphon, Inc, as well as private companies Emphasis Search, Inc. and Life Masters Supported Self Care. Mr. Lavigne serves as a board member of Children's Hospital in Oakland, California, as a faculty member of Babson College's Bio-Pharma: Mastering the Business of Science Program, as a Trustee of Babson College (and Babson Global) and of the California Institute of Technology (CalTech) and of the Seven Hills School. Mr. Lavigne holds a B.S. in Finance from Babson College in Babson Park, Massachusetts, and an M.B.A. from Temple University in Philadelphia, Pennsylvania.

As a former Chief Financial Officer of a large, complex publicly traded company in the healthcare industry, and a current and former member of several public company boards, Mr. Lavigne brings to our Board extensive experience in business operations and management, strategy, finance, accounting and public company governance.

Jack Goldstein, Ph.D., has served as a member of our Board of Directors since May 2010. Dr. Goldstein has been an independent consultant since 2006 specializing in human medical diagnostics, biopharmaceuticals and medical devices. He served as President and Chief Operating Officer of Chiron Corporation from 2004 until its acquisition by Novartis in 2006, and from 2002 to 2004 he served as President of Chiron's Blood Testing Division. From 2000 to 2002, he was a general partner at Windamere Venture Partners, a private venture capital investment fund. From 1997 to 2001, he served as President and Chief Executive Officer at Applied Imaging Corporation, and from 1999 until 2002, he also served as Chairman of the Board of Applied Imaging. From 1986 to 1997, Dr. Goldstein served in various executive positions at Johnson & Johnson, including President of Ortho Diagnostic Systems and Executive Vice President of Professional Diagnostics. Dr. Goldstein currently serves as Chairman of the Board of Directors of OncoGenex Pharmaceuticals, Inc. In the past five years, Dr. Goldstein has also served on the following public company boards of directors: Immucor, Inc., Illumina, Inc. and Orasure Technologies, Inc. Dr. Goldstein holds a B.A. in biology from Rider University and an M.S. in immunology and a Ph.D. in microbiology from St. John's University.

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As a former executive of several life sciences companies and member of other health care industry public company boards, Dr. Goldstein has extensive industry experience in management, strategy, operations, business development, and capital equipment sales and marketing. Dr. Goldstein also has relevant scientific, research and development and manufacturing expertise.

Richard Pettingill has served as a member of our Board of Directors since May 2012. Mr. Pettingill served as the President and Chief Executive Officer of Allina Hospitals and Clinics, Minnesota's largest healthcare organization, from 2002 until his retirement in 2009. While in this role, he also served on the board of directors of the Minnesota Hospital Association and the Minnesota Business Partnership. Prior to joining Allina Hospitals and Clinics, Mr. Pettingill served as President and Chief Executive Officer of the California Division of Kaiser Foundation Health Plans and Hospitals, one of the largest not-for-profit managed healthcare companies in the United States, from 1996 to 2002. Mr. Pettingill currently serves on the boards of directors of MAKO Surgical Corp., a medical devices company, and Tenet Healthcare Corporation, a medical services provider. Mr. Pettingill received a bachelor's degree from San Diego State University and a master's degree in health care administration from San Jose State University. He served as a 2010 Fellow in the Advanced Leadership Initiative program at Harvard University.

As the former chief executive officer of a major hospital system and a member of other public company boards, Mr. Pettingill has extensive leadership experience in the healthcare industry, including experience in the areas of business development, strategy and corporate governance, and can represent the customer perspective.

Robert S. Weiss has served as a member of our Board of Directors since January 2007. Since November 2007, Mr. Weiss has served as the Chief Executive Officer of The Cooper Companies, Inc. ("Cooper"), a global specialty medical products company. He was also given the title of President of Cooper in March 2008. Mr. Weiss has served in various senior executive management positions with Cooper since 1989. From January 2005 through October 2007, Mr. Weiss served as the Executive Vice President and Chief Operating Officer of Cooper, and from March 2007 to March 2008, he also served as President of CooperVision, Cooper's contact lens subsidiary. Prior to that, he served as Cooper's Chief Financial Officer from September 1989 to January 2005 and held the additional title of Executive Vice President from October 1995 until November 2007. From March 1984 until October 1995 he served at Cooper in various other roles, including Senior Vice President, Vice President and Corporate Controller. Mr. Weiss has also served on the board of directors of Cooper since 1996. Mr. Weiss holds a B.S. in Accounting from the University of Scranton in Scranton, Pennsylvania.

As a current Chief Executive Officer and former Chief Financial Officer of a publicly traded medical products company, Mr. Weiss brings to our board extensive experience in the healthcare industry in finance, accounting, management, strategy, manufacturing, and public company governance.

Dennis L. Winger has served as a member of our Board of Directors since September 2009. Mr. Winger most recently served as Senior Vice President and Chief Financial Officer of Applied Biosystems, Inc. from 1997 to 2008. Mr. Winger has also served on the boards of directors of Cephalon, Inc., a drug developer and seller, with activities focusing on central nervous system disorders since 2003; Vertex Pharmaceuticals, a company that discovers, develops and markets small molecule drugs that address viruses, cancer and autoimmune, inflammatory and neurological diseases since 2009; and Nektar Therapeutics, a biopharmaceutical company, since 2009. In the last five years, Mr. Winger also served as a director of Cell Genesys, Inc. and A.P. Pharma Inc. Mr. Winger also serves on the Board of Trustees of Siena College. Mr. Winger holds a B.A. in History from Siena College in Loudonville, New York and an M.B.A. from Columbia University in New York, New York.

As a former Chief Financial Officer of multiple publicly traded life sciences companies, and a member of multiple public company boards, Mr. Winger has extensive experience in finance, accounting, operations, strategy, and public company governance.

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**PROPOSAL TWO ADVISORY VOTE
TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS
("SAY-ON-PAY VOTE")**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), which was enacted on July 21, 2010, enables our stockholders to approve, on an advisory (non-binding) basis, no less frequently than once every three years, the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with the SEC's rules. We submitted both our first advisory vote on compensation and an advisory vote on how frequently such a vote would occur to our stockholders at our 2011 Annual Meeting. Stockholders owning 83% of the shares voting on the advisory vote on compensation at our 2011 Annual Meeting approved the compensation of our named executive officers for fiscal 2011 and stockholders owning 92% of the shares voting on the frequency of advisory votes on executive compensation favored an annual vote. In consideration of this and other factors, our Compensation Committee and Board of Directors have decided to hold advisory votes on the approval of executive compensation annually until the next advisory vote on frequency occurs. Accordingly, unless the Compensation Committee and Board of Directors modifies its policy on the frequency of future votes, the next advisory vote to approve executive compensation will be held at the 2013 annual meeting of stockholders. In this proposal, we are asking our stockholders to provide advisory approval of the compensation of Accuray Incorporated's Named Executive Officers ("NEO" or "NEOs"), as such compensation is described in the Compensation Discussion and Analysis section, the tabular disclosure regarding such compensation, and the accompanying narrative disclosure set forth in this Proxy Statement, beginning on page 15.

In fiscal 2012, our executive compensation programs were designed to enable us to attract, retain, motivate and appropriately reward the individuals who can help us successfully execute our business strategy and promote the best interests of our stockholders. In deciding how to vote on this proposal, the Board of Directors urges you to consider the following factors, which are more fully discussed in the Compensation Discussion and Analysis section below:

We tie pay to performance.

NEO base salaries were modestly increased in fiscal 2012 over their fiscal 2011 levels, both in recognition of Company and individual performance in fiscal 2011 and in an effort to maintain base salaries in the range of the 50th to 60th percentiles of the competitive market as reported in the Radford April 2011 High-Tech Industry Survey (the "Radford Survey") for companies with $200-$500 million in annual revenue and by a peer group of 17 medical device companies with whom we compete for executive talent which are in our industry sector and which have comparable financial and organizational characteristics.

The bonus pool was funded, in accordance with funding methodology established at the beginning of the year, at 68.6% of the target level. The Compensation Committee determined that the fiscal 2012 annual cash incentive award payouts to the executives, including NEOs, collectively, would be no greater than 68.6% of the total target award opportunity for the executives, including NEOs, as a whole. Sixty-five percent of each NEO's annual bonus was tied to Company performance, and 35% was tied to the executive's individual performance. Accordingly, for fiscal 2012 65% of the funded target award opportunity was paid to each NEO based on Company performance. The Compensation Committee also exercised its discretion to determine the level to be paid to each NEO with respect to the remaining 35% target award opportunity based on each NEO's individual performance and achievement of his or her respective fiscal 2012 goals and objectives. With respect to our CEO, the Compensation Committee exercised its negative discretion to reduce the 35% target opportunity to 0% for fiscal 2012.

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In fiscal 2012, the Compensation Committee approved a performance equity program, referred to as the performance stock unit program ("PSU program"), which sets forth stretch goals for the Company to achieve. Performance Stock Units were tied to the achievement of key stretch goals relating to revenue and profitability to be achieved by the end of fiscal 2013, thereby tying an even greater portion of NEO compensation directly to performance going forward.

In fiscal 2013, the Compensation Committee approved a new performance equity program, referred to as the market stock unit program ("MSU Program"), which uses the Russell 2000 index as a performance benchmark and requires that the Company's total stockholder return exceed that of the Russell 2000 in order for a certain number of shares to be earned by each participating executive, including participating NEOs, on a sliding scale based on how much the Russell 2000 benchmark is exceeded, up to a maximum of 150% of the target number of shares. There are two measurement periods, one at the end of fiscal 2014 and another at the end of fiscal 2015, thereby tying an even greater portion of the compensation of participants in the MSU Program directly to performance going forward.

We have reasonable employment agreements. Each NEO's employment agreement has a two-year term, competitively reasonable cash benefit levels and double trigger change of control acceleration for equity awards. Our CEO's employment agreement also provides for partial equity acceleration in the event of certain terminations of employment apart from a change of control.

We mitigate unnecessary risk. We have implemented robust Board and management-level processes to identify risk, and we mitigate undue risk with business controls, including maximum payout levels under our annual incentive award plan, a sales compensation committee and a recoupment (sometimes called a "clawback") policy that applies to both our annual cash incentive and long-term equity incentive programs.

We have strong corporate governance standards. Our Compensation Committee uses an independent compensation consultant, and has incorporated compensation analytical tools such as market data, tally sheets and compensation history for each executive officer as part of its annual executive compensation review.

We have adopted stock ownership requirements. Our Compensation Committee believes it is important for executives and non-employee directors to hold a minimum amount of our common stock, in order to align their interests with those of our stockholders. Consistent with this belief, the Compensation Committee implemented stock ownership guideline policies with stock holding requirements for our executives as follows:

The lesser of 3.0 times base salary or 175,000 shares for our CEO;

The lesser of 1.0 times base salary or 40,000 shares for our CFO, COO, CCO; and

The lesser of 1.0 times base salary or 17,500 shares for our General Counsel.

While each NEO has five years from the later of July 1, 2010 and the date of employment to achieve the required ownership levels, each NEO who has been employed by the Company for more than one year already meets the applicable ownership requirement.

We do NOT engage in the following compensation practices:

We do not provide perquisites or other personal benefits to our NEOs.

We do not currently offer pension arrangements, retirement plans (other than our Section 401(k) employee savings plan), or nonqualified deferred compensation plans or arrangements to our executives, including the NEOs.

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We do not provide excise tax gross-ups.

The Compensation Committee will continue to analyze our executive compensation policies and practices and adjust them as appropriate to reflect our performance and competitive needs.

How votes are counted

The adoption of the non-binding advisory resolution to approve the compensation of our named executive officers requires the affirmative vote of a majority of shares present at the annual meeting, in person or by proxy, and entitled to vote on the proposal. A properly executed proxy marked "ABSTAIN" with respect to the approval of the compensation of our named executive officers will not be voted with respect to such proposal, but it will be counted for purposes of determining whether there is a quorum. Abstentions will be treated as being present and entitled to vote on the proposal and, therefore, will have the same effect as a vote against the proposal.

Board of Directors' Recommendation

Based on the information provided above and within the "Compensation Disclosure" section of this Proxy Statement, we request that you indicate your support for our executive compensation philosophy and practices, by voting in favor of the following resolution:

> "**RESOLVED,** that the Company's stockholders approve, on an advisory basis, the compensation of the Company's named executive officers as described in this Proxy Statement, including the "Compensation Discussion and Analysis" section, the compensation tables, and the other narrative compensation disclosures."

The opportunity to vote on this Proposal Two is required pursuant to Section 14A of the Exchange Act. Because your vote is advisory, however, it will not be binding on the Board of Directors. However, the Compensation Committee, which is responsible for designing and administering our executive compensation program, and the Board of Directors values the opinions expressed by stockholders and will consider the outcome of the vote when making future compensation decisions for our named executive officers.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DESCRIBED IN THIS PROXY STATEMENT.

PROPOSAL THREE APPROVAL OF AN AMENDMENT TO THE COMPANY'S CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES

Summary

The Company is asking stockholders to approve an amendment to the Company's amended and restated certificate of incorporation (the "Certificate of Incorporation") to:

> Increase the total number of authorized shares from 105,000,000 to 205,000,000, thereby increasing the authorized shares of common stock from 100,000,000 to 200,000,000

The additional common stock will have rights identical to the Company's currently outstanding common stock. The number of authorized shares of the Company's preferred stock will not be affected by this amendment; it will be maintained at 5,000,000 shares. No shares of preferred stock have been issued, and the Company currently has no plans, arrangements, commitments or understandings with respect to the issuance of any shares of preferred stock.

Substantially all of the Company's currently authorized common stockmber 30, 2014, an aggregate of 1,342,905 shares of common stock underlying stock-based awards have been issued or exercised under our equity incentive plans. In the three-month period ended September 30, 2014, restricted stock units equivalent to 302,359 shares of common stock vested during the period.

As of September 30, 2014, a total of 1,753,152 shares were available for issuance under our equity compensation plans and stock-based awards to purchase 8,403,943 shares of common stock were outstanding. For the three-month periods ended September 30, 2014 and 2013, stock-based compensation expense was approximately $714,000 and

$606,000, respectively. At September 30, 2014, total unrecognized estimated compensation cost related to unvested stock-based awards was approximately $6,117,000, which is expected to be recognized by the end of 2018 using the straight-line method.

7. Issuance of Common Stock and Warrants

In January 2014, we completed a registered direct offering generating net proceeds of approximately $18.8 million through the issuance of 5,000,000 shares of common stock and warrants to purchase 1,500,000 shares of common stock with an exercise price of $4.50 per share that expire on July 15, 2016. The securities were sold in multiples of a fixed combination of one share of common stock and a warrant to purchase 0.30 shares of common stock at an offering price of $4.10 per fixed combination.

During the quarter ended September 30, 2014, we did not sell any shares to Aspire Capital, and during the nine-month period ended September 30, 2014, we sold 250,000 shares of common stock at an average price of $3.78 per share. In accordance with the equity purchase agreement, we could elect to sell to Aspire Capital up to $23.5 million of shares of common stock.

As of September 30, 2014, we had the following outstanding warrants to purchase shares of common stock:

Number of Underlying Shares	Exercise Price	Expiration
1,310,000	$ 3.55	February 2, 2016
3,021,077	$ 1.01	March 14, 2017
3,500,000	$ 2.50	March 31, 2015
1,500,000	$ 4.50	July 15, 2016
9,331,077		

8. Warrant Liabilities

We account for common stock warrants as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. Registered common stock warrants that could require cash settlement are accounted for as liabilities. We classify these warrant liabilities on the consolidated balance sheet as a non-current liability. The warrant liabilities are revalued at fair value at each balance sheet date subsequent to the initial issuance. Changes in the fair market value of the warrant are reflected in the consolidated statement of operations as income (expense) from change in fair value of warrants.

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The warrants we issued in the January 2014 and December 2013 registered direct offerings contain a provision for a cash payment in the event that the shares are not delivered to the holder within two trading days. The cash payment equals $10 per day per $2,000 of warrant shares for each day late. The warrants issued in the March 2012 private placement and the February 2011 registered direct offering each contain a provision for net cash settlement in the event that there is a fundamental transaction (e.g., merger, sale of substantially all assets, tender offer, or share exchange). If a fundamental transaction occurs in which the consideration issued consists of all cash or stock in a non-public company, then the warrant holder has the option to receive cash equal to a Black Scholes value of the remaining unexercised portion of the warrant. Further, the March 2012 warrants include price protection in the event we sell stock below the exercise price, as defined, and the exercise price as reduced in February 2013 to $1.01 per share as a result of the October 2012 public offering.

The warrants have been classified as liabilities, as opposed to equity, due to the potential adjustment to the exercise price that could result upon late delivery of the shares or potential cash settlement upon the occurrence of certain events as described above, and are recorded at their fair values at each balance sheet date.

9. Income Taxes

We have net operating loss and research and development tax credit carryforwards that may be used to reduce future taxable income and tax liabilities. Our deferred tax assets have been fully offset by a valuation allowance due to our cumulative losses. As a result of our October 2012 equity offering, our net operating loss carryforwards are significantly limited for use under Section 382 of the Internal Revenue Code.

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

This discussion and analysis should be read in conjunction with our financial statements and notes thereto included in this Quarterly Report on Form 10-Q and the audited financial statement and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013. Operating results are not necessarily indicative of results that may occur in future periods.

Overview and Recent Developments

We are an international biopharmaceutical company that is focused primarily in the field of regenerative medicine. Our MultiStem® cell therapy is currently being evaluated in multiple clinical trials. Our current clinical development programs are focused on treating inflammatory and immune disorders, neurological conditions, cardiovascular disease, and other conditions. We are also applying our pharmaceutical discovery capabilities to identify and develop small molecule compounds with potential applications in indications such as obesity, related metabolic conditions and certain neurological conditions.

Current Programs

By applying our proprietary MultiStem cell therapy product, we have established therapeutic product development programs treating inflammatory and immune disorders, neurological conditions, cardiovascular disease, and other conditions. Our programs in the clinical development stage include the following:

Ischemic Stroke: In our ongoing Phase 2 clinical study, we are evaluating the administration of MultiStem cell therapy to patients that have suffered an ischemic stroke. In contrast to treatment with thrombolytics, which must be administered within 3 to 4 hours after a stroke, we are treating patients one to two days after the stroke has occurred. In preclinical studies, administration of a single dose of MultiStem therapy, even several days after a stroke, resulted in significant and durable improvements. This double blind, placebo-controlled trial is being conducted at leading stroke centers across the United States and Europe. The study is expected to enroll approximately 136 patients. Enrollment is nearing completion and interim safety and initial efficacy results are expected to be available and communicated following analysis of the ninety-day patient data.

Inflammatory Bowel Disease: MultiStem therapy is being evaluated in a Phase 2 clinical study involving administration of MultiStem to patients suffering from ulcerative colitis, or UC, the most common form of inflammatory bowel disease, or IBD. This study is being conducted with our partner, Pfizer, and we released interim results in April 2014. The study is expected to run through 2014 to complete the secondary evaluations. The interim results showed that a single administration of MultiStem to a patient population with chronic advanced disease failed to show a meaningful clinical effect at the eight-week evaluation period. Despite not showing a significant improvement compared to placebo in the primary efficacy endpoints, the MultiStem therapy demonstrated favorable tolerability and safety in the eight weeks following treatment. Furthermore, at four weeks, the proportion of responders treated with MultiStem had a statistically significant improvement in their Mayo rectal bleeding score, as compared to patients treated with placebo, raising the possibility of a transient effect from a single MultiStem dose. Additional detail is being collected through the course of 2014, and further analysis of this and other data, such as biomarker information, is being undertaken by Pfizer. In the event that Pfizer does not move forward with the program, development and commercialization rights would revert to us.

Acute Myocardial Infarction: We have evaluated the administration of MultiStem to patients that suffered an acute myocardial infarction, or AMI, in a Phase 1 clinical study. The results of this study demonstrated a favorable safety profile and encouraging signs of improvement in heart function among patients that exhibited severely compromised heart function prior to treatment. This data was published in a leading peer reviewed scientific journal, and one-year follow-up data suggested that the benefit observed was sustained over time. We have been awarded a grant for up to $2.8 million to support the advancement of this clinical program, and we are completing preparations for the launch of this Phase 2 clinical study.

Hematopoietic Stem Cell Transplant / GvHD: We have completed a Phase 1 clinical study of the administration of MultiStem cells to patients suffering from leukemia or certain other blood-borne cancers in which patients undergo radiation therapy and then receive a hematopoietic stem cell transplant. Such patients are at significant risk for serious complications, including graft-versus-host disease, or GvHD, an imbalance of immune system function caused by transplanted immune cells that

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attack various tissues and organs in the patient. Data from the study demonstrated the safety of MultiStem cells in this indication and suggested that the therapy may have a beneficial effect in reducing the incidence and severity of GvHD, as well as providing other benefits. The MultiStem therapy has been designated an orphan drug by both the United States Food and Drug Administration, or FDA, and the European Medicines Agency, which may provide market exclusivity and other substantial incentives and benefits. We have interacted with the FDA and also engaged with the EMA to finalize trial design. Currently, we are staging this program for future development dependent our other clinical programs and the achievement of certain business development and financial objectives.

We are conducting or supporting clinical activity in other areas, such as solid organ transplant, which is an investigator initiated study being conducted at a leading transplant center in Europe. We are also engaged in the preparation stages for clinical studies in other targeted areas.

In addition to our current and anticipated clinical development activities, we are engaged in preclinical development and evaluation of MultiStem therapy in other inflammatory and immune, neurological and cardiovascular disease areas, as well as certain other indications. We conduct such work both through our own internal research efforts and through a broad global network of collaborators.

We are in discussions with third parties about collaborating in the development of MultiStem therapy for certain programs and may enter into one or more business partnership(s) to advance these programs.

We have also partnered with RTI on the development of products for certain orthopedic applications using our stem cell technologies in the bone graft substitutes market. We began recognizing royalty revenue from product sales in 2014 and may receive other payments upon the successful achievement of certain commercial milestones.

We are also engaged in the development of novel small molecule therapies to treat obesity and other conditions, such as schizophrenia. We may elect to enter into a partnership to advance the development of our 5HT2c agonist program, either for the treatment of obesity, schizophrenia, or both indications.

Financial

In January 2014, we completed a registered direct offering generating net proceeds of approximately $18.8 million through the issuance of 5,000,000 shares of common stock and warrants to purchase 1,500,000 shares of common stock with an exercise price of $4.50 per share that expire on July 15, 2016. The securities were sold in multiples of a fixed combination of one share of common stock and a warrant to purchase 0.30 shares of common stock at an offering price of $4.10 per fixed combination.

Under our equity purchase agreement with Aspire Capital Fund LLC, or Aspire Capital, we sold 250,000 shares of common stock at an average price of $3.78 per share during the nine-month period ended September 30, 2014. During the nine months ended September 30, 2014, we received proceeds of approximately $938,000 from the exercise of warrants, resulting in the issuance of 928,924 shares of common stock in the aggregate.

Results of Operations

Since our inception, our revenues have consisted of license fees, contract revenues and milestone payments from our collaborators, and grant proceeds primarily from federal, state and foundation grants. We have derived no revenue from the commercial sale of therapeutic products to date, but we receive royalties on commercial sales by a licensee of products using our technologies. Research and development expenses consist primarily of external clinical and preclinical study fees, manufacturing costs, salaries and related personnel costs, legal expenses resulting from

intellectual property prosecution processes, facility costs, and laboratory supply and reagent costs. We expense research and development costs as they are incurred. We expect to continue to make significant investments in research and development to enhance our technologies, advance clinical trials of our product candidates, expand our regulatory affairs and product development capabilities, conduct preclinical studies of our product and manufacture our product candidates. General and administrative expenses consist primarily of salaries and related personnel costs, professional fees and other corporate expenses. We expect to continue to incur substantial losses through at least the next several years.

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Three Months Ended September 30, 2014 and 2013

Revenues. Revenues decreased to $0.3 million for the three months ended September 30, 2014 from $0.6 million in the comparable period in 2013, reflecting a $0.3 million decrease in our grant revenues. Our grant revenues fluctuate from period to period based on the timing of grant-related activities and the award and expiration of new grants. Contract revenue remained consistent at $0.1 million for each of the three months ended September 31, 2014 and 2013. Absent any new collaborations, we expect our contract revenues to continue at similar levels for the remainder of the year and to be comprised of royalty payments from RTI and potential license and milestone payments from Bristol-Myers Squibb.

Research and Development Expenses. Research and development expenses increased to $5.8 million for the three months ended September 30, 2014 from $4.7 million in the comparable period in 2013. The $1.1 million increase is primarily comprised of an increase in preclinical and clinical development costs of $0.4 million, an increase in research supplies of $0.4 million, an increase in personnel costs of $0.2 million and an increase in stock-based compensation of $0.1 million. The increase in our preclinical and clinical development costs is primarily due to increased manufacturing costs, clinical study costs and regulatory costs. The increase in research supplies was due to an increase in internal process development activities. The increase in personnel costs related to selective personnel additions and annual compensation increases. We expect our 2014 annual research and development expenses to be higher than the 2013 expenses based on our planned clinical development and manufacturing process development activities, and such costs will vary over time based on clinical manufacturing and clinical trial activity during any given period. Other than external expenses for our clinical and preclinical programs, we do not track our research expenses by project; rather, we track such expenses by the type of cost incurred.

General and Administrative Expenses. General and administrative expenses increased to $1.7 million for the three months ended September 30, 2014 from $1.5 million in the comparable period in 2013. The increase was due primarily to an increase in personnel costs of $0.1 million and an increase in legal and professional costs of $0.1 million compared to the same period in 2013. The increase in personnel costs related primarily to annual compensation increases, and legal and professional costs primarily due to increased professional services. We expect our 2014 quarterly general and administrative expenses to continue at similar levels during the remainder of the year.

Depreciation. Depreciation expense of $0.1 million remained consistent during each of the three-month periods ended September 30, 2014 and 2013.

Other Income (Expense), net. Other income (expense), net, for the three-month period ended September 30, 2014 and 2013 remained relatively consistent during the periods, and was comprised of interest income and expense and foreign currency gains and losses.

Income (Expense) from Change in Fair Value of Warrants, net. Income of $2.5 million was recognized during the three months ended September 30, 2014 for the market value change in our warrant liabilities, compared to $6,000 of expense in the comparable period in 2013. The fluctuation is related to the impact of new warrant issuances and changes in warrant value as affected by the exercise prices, our stock price and the remaining lives of the issued warrants.

Nine Months Ended September 30, 2014 and 2013

Revenues. Revenues decreased to $1.4 million for the nine months ended September 30, 2014 from $1.5 million in the comparable period in 2013 reflecting a $0.2 million decrease in our contract revenues, partially offset by a $0.1 million dollar increase in our grant revenue. Our grant revenues fluctuate from period to period based on the timing of

grant-related activities and the award of new grants. Absent any new collaborations, we expect our contract revenues to continue at similar levels for the remainder of the year and to be comprised of RTI royalty payments and potential license and milestone payments from Bristol-Myers Squibb.

Research and Development Expenses. Research and development expenses increased to $17.8 million for the nine months ended September 30, 2014 from $15.4 million in the comparable period in 2013. The increase of $2.4 million related primarily to an increase in personnel costs of $0.8 million, an increase in stock-based compensation of $0.5 million, an increase in sponsored research costs of $0.2 million, an increase in research supplies of $0.5 million, an increase in legal and professional fees of $0.2 million and an increase

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in other research and development costs of $0.2 million. Personnel costs rose due to selective personnel additions and annual compensation increases. Stock-based compensation increased primarily due to additional months of ratable expense from restricted stock units granted in June 2013. Sponsored research costs increased primarily due to an increase in grant-funded programs involving collaboration with certain academic research institutions. The increase in research supplies was due to an increase in internal process development activities. The increase in legal fees resulted from increased patent expenses associated with patent prosecution, national filings, and interparty proceedings and related filings. The increase in our clinical and preclinical costs is primarily due to increased manufacturing costs, increased clinical study costs and increased process development costs. We expect our 2014 annual research and development expenses to be higher than the 2013 expenses based on our planned clinical development and manufacturing process development activities, and such costs will vary over time based on clinical manufacturing and clinical trial activity during any given period. Other than external expenses for our clinical and preclinical programs, we do not track our research expenses by project; rather, we track such expenses by the type of cost incurred.

General and Administrative Expenses. General and administrative expenses increased to $5.3 million for the nine months ended September 30, 2014 from $4.5 million in the comparable period in 2013. The $0.8 million increase was due primarily to an increase in personnel costs of $0.3 million and an increase in stock based compensation of $0.5 million compared to the same period in 2013. The increase in personnel costs related primarily to annual compensation increases, and stock-based compensation increased primarily due to the impact of vesting of restricted stock units granted in June 2013. We expect our 2014 quarterly general and administrative expenses to continue at similar levels during the remainder of the year.

Depreciation. Depreciation expense of $0.3 million remained consistent during each of the nine-month periods ended September 30, 2014 and 2013.

Other Income (Expense), net. Other income (expense), net, for the nine-month period ended September 30, 2014 and 2013 remained relatively consistent during the periods, and was comprised of interest income and expense and foreign currency gains and losses.

Income (Expense) from Change in Fair Value of Warrants, net. Income of $6.3 million was recognized during the nine months ended September 30, 2014 for the market value change in our warrant liabilities, and expense of $2.4 million was recognized during the nine months ended September 30, 2013. The fluctuation is related to the impact of new warrant issuances and changes in warrant value as affected by the exercise prices, our stock price and the remaining lives of the issued warrants.

Liquidity and Capital Resources

Our sources of liquidity include our cash balances and any available-for-sale securities on hand. At September 30, 2014, we had $32.4 million in cash and cash equivalents. We have primarily financed our operations through business collaborations, grant funding and equity financings. We conduct all of our operations through our subsidiary, ABT Holding Company.

We have incurred losses since inception of operations in 1995 and had an accumulated deficit of $280 million at September 30, 2014. Our losses have resulted principally from costs incurred in research and development, clinical and preclinical product development, acquisition and licensing costs, and general and administrative costs associated with our operations. We have used the financing proceeds from equity and debt offerings and other sources of capital to develop our technologies, to discover and develop therapeutic product candidates, develop business collaborations and to acquire certain technologies and assets.

In January 2014, we generated net proceeds of approximately $18.8 million in a registered direct offering. Also, in December 2013, we completed a registered direct offering generating net proceeds of approximately $18.4 million.

We have an equity purchase agreement with Aspire Capital, whereby Aspire Capital is committed to purchase up to an aggregate of $25.0 million of shares of our common stock over a two-year period ending in 2015, subject to our election to sell any such shares. Under the agreement, we have the right to sell shares, subject to certain volume limitations and a minimum floor price, at a modest discount to the prevailing market price.

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During the quarter ended September 30, 2014, we did not sell any shares to Aspire Capital, and during the nine-month period ended September 30, 2014, we sold 250,000 shares of common stock at an average price of $3.78 per share. In accordance with the equity purchase agreement, we could elect to sell to Aspire Capital up to $23.5 million of shares of common stock.

During the nine months ended September 30, 2014, we received proceeds of approximately $938,000 from the exercise of warrants, resulting in the issuance of 928,924 shares of common stock in the aggregate.

Under the terms of our agreement with Pfizer, we are eligible to receive milestone payments of up to $105 million upon the successful achievement of certain development, regulatory and commercial milestones, though there can be no assurance that we will achieve any milestones. No significant milestone payments have been received as of September 30, 2014. Pfizer pays us for manufacturing product for clinical development and commercialization purposes. Pfizer has responsibility for development and regulatory, including decision-making regarding the advancement or cessation of further development under the collaboration. If the product is successfully developed, Pfizer would also have sole responsibility for commercialization. We may elect to co-develop with Pfizer, in which case, the parties would share development and commercialization expenses and profits (if any) on an agreed basis beginning at Phase 3 clinical development. Alternatively, we may elect to not co-develop with Pfizer, in which case Pfizer will pay us tiered single-digit royalties on worldwide commercial sales of MultiStem IBD products. Any royalties may be subject to certain reductions related to market exclusivity, patent claims and credits from sales milestone payments. In the event that Pfizer does not move the program forward, the development and commercialization rights would revert to us.

Under the terms of our RTI agreement, we are eligible to receive cash payments upon the successful achievement of certain commercial milestones, though there can be no assurance that such milestones will be achieved, and no milestone payments have been received as of September 30, 2014. In addition, we are entitled to receive tiered royalties on worldwide commercial sales of implants using our technologies based on a royalty rate starting in the mid-single digits and increasing into the mid-teens, and we began receiving royalty payments in 2014. Any royalties may be subject to a reduction if third-party payments for intellectual property rights are necessary or commercially desirable to permit the manufacture or sale of the product.

We remain entitled to receive license fees for targets that were delivered to Bristol-Myers Squibb under our completed 2001 collaboration, as well as milestone payments and royalties on compounds developed by Bristol-Myers Squibb using our technology, though there can be no assurance that we will achieve any such milestones or royalties.

We are obligated to pay the University of Minnesota a royalty based on worldwide commercial sales of licensed products if covered by a valid licensed patent. The low single-digit royalty rate may be reduced if third-party payments for intellectual property rights are necessary or commercially desirable to permit the manufacture or sale of the product.

In 2012, we entered into an arrangement with the Global Cardiovascular Innovation Center and the Cleveland Clinic Foundation in which we are entitled to proceeds of up to $500,000 in the form of a forgivable loan to fund certain remaining preclinical work using MultiStem to treat congestive heart failure and for preparing the program for an investigational new drug application, or IND, with the FDA. Interest on the loan accrues at a fixed rate of 4.25% per annum and is added to the outstanding principal. The loan is forgivable based on the achievement of a certain milestone within three to four years. As of September 30, 2014, we had drawn $166,000 of this financing, which is recorded as a current liability of $181,000 (including accrued interest) since the note is due in the first quarter of 2015 if the forgiveness conditions are not met.

We will require substantial additional funding in order to continue our research and product development programs, including preclinical evaluation and clinical trials of our product candidates and manufacturing process development. At September 30, 2014, we had available cash and cash equivalents of $32.4 million, and we intend to meet our short-term liquidity needs with available cash. Over the longer term, we will make use of available cash, but will have to continue to generate additional funding to meet our needs, through business development opportunities, as well as grant-funding opportunities. Additionally, we are raising capital from time to time through the equity purchase agreement with Aspire Capital, subject to its volume and price limitations. We also manage our cash by deferring certain discretionary costs and staging certain development costs to extend our operational runway, as needed. Over time, we may consider the sale of additional equity securities, or possibly borrowing from financing institutions.

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Our capital requirements over time depend on a number of factors, including progress in our clinical development programs, our clinical and preclinical pipeline of additional opportunities and their stage of development, additional external costs such as payments to contract research organizations and contract manufacturing organizations, additional personnel costs, and the costs in filing and prosecuting patent applications and enforcing patent claims. The availability of funds impacts our ability to advance multiple clinical programs concurrently, and any shortfall in funding could result in our having to delay or curtail research and development efforts. Further, these requirements may change at any time due to technological advances, business development activity or competition from other companies. We cannot assure you that adequate funding will be available to us or, if available, that it will be available on acceptable terms.

We expect to continue to incur substantial losses through at least the next several years and may incur losses in subsequent periods. The amount and timing of our future losses are highly uncertain. Our ability to achieve and thereafter sustain profitability will be dependent upon, among other things, successfully developing, commercializing and obtaining regulatory approval or clearances for our technologies and products resulting from these technologies.

Cash Flow Analysis

Net cash used in operating activities was $19.7 million for the nine months ended September 30, 2014 and $18.3 million for the nine months ended September 30, 2013, representing the use of cash to fund operations, clinical trials, and preclinical and process development activities. We expect that net cash used in operating activities will be higher in total in 2014 compared to 2013 in connection with increased clinical development activities for our MultiStem product candidates and platform. Net cash used in operating activities has fluctuated significantly on a quarter-to-quarter basis over the past few years primarily due to the receipt of collaboration fees and payment of specific clinical trial costs, such as clinical manufacturing campaigns, contract research organization costs, and manufacturing process development projects.

Net cash used in investing activities was $0.3 million for each of the nine months ended September 30, 2014 and 2013 related to the purchase of equipment supporting our operations. We anticipate that our overall capital equipment expenditures will be similar in 2014 as compared to 2013.

Financing activities provided cash of $20.3 million for the nine months ended September 30, 2014 related to the January 2014 registered direct offering, the exercise of common stock warrants, and equity sales to Aspire Capital, net of treasury stock purchases. Financing activities provided cash of $10.9 million for the nine months ended September 30, 2013 as a result of equity sales to Aspire Capital and the exercise of common stock warrants during the period.

Investors in certain of our equity offerings have received warrants to purchase shares of our common stock, of which warrants to purchase an aggregate of 9.3 million shares remain outstanding at September 30, 2014 with a weighted average exercise price of $2.49 per share. The exercise of warrants could provide us with cash proceeds. During the three months ended September 30, 2014, no warrants were exercised.

We have no off-balance sheet arrangements.

Critical Accounting Policies and Management Estimates

The SEC defines critical accounting policies as those that are, in management s view, important to the portrayal of our financial condition and results of operations and demanding of management s judgment. Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, which have been

prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates on experience and on various assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. A description of these accounting policies and estimates is included in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes in our accounting policies and estimates as described in our Annual Report. For additional information regarding our accounting policies, see Note B to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013.

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Cautionary Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These forward-looking statements relate to, among other things, the expected timetable for development of our product candidates, our growth strategy, and our future financial performance, including our operations, economic performance, financial condition, prospects, and other future events. We have attempted to identify forward-looking statements by using such words as anticipates, believes, can, continue, could, estimates, expects, intends, may, plans, potential, should, suggest, will, expressions. These forward-looking statements are only predictions and are largely based on our current expectations. These forward-looking statements appear in a number of places in this Quarterly Report on Form 10-Q.

In addition, a number of known and unknown risks, uncertainties, and other factors could affect the accuracy of these statements. Some of the more significant known risks that we face are the risks and uncertainties inherent in the process of discovering, developing, and commercializing products that are safe and effective for use as human therapeutics, including the uncertainty regarding market acceptance of our product candidates and our ability to generate revenues. These risks may cause our actual results, levels of activity, performance, or achievements to differ materially from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements.

Other important factors to consider in evaluating our forward-looking statements include:

- our ability to raise capital to fund our operations;
- the timing and nature of results from our MultiStem clinical trials;
- the possibility of delays in, adverse results of, and excessive costs of the development process;
- our ability to successfully initiate and complete clinical trials of our product candidates;
- uncertainty regarding market acceptance of our product candidates and our ability to generate revenues, including MultiStem cell therapy for the prevention of GvHD and the treatment of IBD, AMI, stroke and other disease indications;
- changes in external market factors;
- changes in our industry s overall performance;
- changes in our business strategy;

our ability to protect and defend our intellectual property and related business operations, including the successful prosecution of our patent applications and enforcement of our patent rights, and operate our business in an environment of rapid technology and intellectual property development;

our possible inability to realize commercially valuable discoveries in our collaborations with pharmaceutical and other biotechnology companies;

our ability to meet milestones under our collaboration agreements;

our collaborators ability to continue to fulfill their obligations under the terms of our collaboration agreement;

the success of our efforts to enter into new strategic partnerships and advance our programs, including, without limitation, in Japan;

our possible inability to execute our strategy due to changes in our industry or the economy generally;

changes in productivity and reliability of suppliers; and

the success of our competitors and the emergence of new competitors.

Although we currently believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee our future results, levels of activity or performance. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You are advised, however, to consult any further disclosures we make on related subjects in our reports on Forms 10-Q, 8-K and 10-K furnished to the SEC. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

Our exposure to interest rate risk is related to our investment portfolio and our borrowings. Fixed rate investments and borrowings may have their fair market value adversely impacted from changes in interest rates. Due in part to these factors, our future investment income may fall short of expectations. Further, we may suffer losses in investment principal if we are forced to sell securities that have declined in market value due to changes in interest rates. When appropriate based on interest rates, we invest our excess cash primarily in debt instruments of the United States government and its agencies and corporate debt securities, and as of September 30, 2014, we had no investments. Over the past several years, we have been investing conservatively due to economic conditions and have prioritized liquidity and the preservation of principal in lieu of potentially higher returns. As a result, we have experienced no losses on the principal of our investments.

We enter into loan arrangements with financial institutions when needed and when available to us. At September 30, 2014, we had no borrowings outstanding other than a potentially forgivable note payable associated with local grant funding bearing fixed, forgivable interest of 4.25% per annum.

Item 4. Controls and Procedures.

Disclosure controls and procedures

Our management, under the supervision of and with the participation of our Chief Executive Officer and our Vice President of Finance, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as of the end of the period covered by this quarterly report on Form 10-Q. Based upon this evaluation, our Chief Executive Officer and Vice President of Finance have concluded that, as of the end of the period covered by this quarterly report on Form 10-Q, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting

During the third quarter of 2014, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Gil Van Bokkelen, Chairman and Chief Executive Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Laura K. Campbell, Vice President of Finance, pursuant to SEC Rules 13a-14(a) and 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Gil Van Bokkelen, Chairman and Chief Executive Officer, and Laura Campbell, Vice President of Finance, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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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 thereunto duly authorized.

ATHERSYS, INC.

Date: November 10, 2014

/s/ Gil Van Bokkelen
Gil Van Bokkelen
Chairman and Chief Executive Officer
(principal executive officer authorized to sign on behalf of the registrant)

/s/ Laura K. Campbell
Laura K. Campbell
Vice President of Finance
(principal financial and accounting officer authorized to sign on behalf of the registrant)

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