



CEOCFO

Interviews & News!

ceocfointerviews.com – All rights reserved. – Issue: May 30, 2008

Accuray Offers A Non-Invasive, Painless, Bloodless, Scar-less Alternative To Many Patients Whose Tumors Would Otherwise Be Inoperable With Their CyberKnife®, Which Is A Medical Robot That Delivers Radiation To Kill Tumors With Sub-Millimeter Accuracy



Healthcare
Medical Appliances & Equipment
(ARAY-NASDAQ)

Accuray Incorporated

1310 Chesapeake Terrace
Sunnyvale, CA 94089
Phone: 408-716-4600



Robert E. McNamara
Senior Vice President, CFO

BIO:

Robert E. McNamara has served as Accuray's Senior Vice President, Chief Fi-

ancial Officer since December 2004. He led the company's initial public offering in February of 2007. He has over 25 years experience in a variety of senior executive roles in the medical and software industries. Prior to Accuray, Robert McNamara served as CEO of InDefense, Inc, a security software firm engaged in developing software to defend computers and networks against cyber attacks including viruses, trojans and worms. Mr. McNamara repositioned InDefense from a consumer oriented company to an enterprise oriented company and negotiated the ultimate sale of the company to Microsoft Corporation in July 2004. Prior to InDefense, Mr. McNamara served as Senior Vice President and Chief Financial Officer of Recourse Technologies and was a key member of the negotiating team that closed the sale of the company to Symantec for \$135 million. He has over 20 years of business experience in a wide variety of financial, managerial and operational roles. In addition, Mr. McNamara co-founded ebDirect, an online medical benefits provider where he raised several rounds of venture funds and negotiated the merger of his company with InsuranceWize. Prior to ebDirect, Mr. McNamara was Executive Vice President and Chief Financial Officer for Somnus Medical Technologies, a medical device company that manufactures and markets a device to treat upper airway breathing disorders. As EVP and CFO, Mr. McNamara led Somnus' IPO strategy, resulting in the largest IPO of the year for all medical device companies. Before Somnus, he served as Chief Financial Officer for Target Therapeutics, a public medical device company with products designed for the treatment of stroke and ruptured

brain aneurysms. Mr. McNamara was a key member of the negotiating team when Target was acquired by Boston Scientific for \$1.1 billion. He currently sits on the board of directors of Northstar Neuroscience Inc. Mr. McNamara holds a Bachelor of Science from the University of San Francisco and an M.B.A. from the Wharton School at the University of Pennsylvania. He has served as a Mayor and Council member for the City of Menlo Park, California.

Company Profile:

Accuray Incorporated (Nasdaq: ARAY), based in Sunnyvale, Calif., is a global leader in the field of radiosurgery dedicated to providing an improved quality of life and a non-surgical treatment option for those diagnosed with cancer. Accuray develops and markets the CyberKnife® Robotic Radiosurgery System, which extends the benefits of radiosurgery to include extracranial tumors, including those in the spine, lung, prostate, liver and pancreas. To date, the CyberKnife System, the world's only robotic radiosurgery system designed to treat tumors anywhere in the body non-invasively, has been used to treat more than 40,000 patients worldwide and currently more than 130 systems have been installed in leading hospitals in the Americas, Europe and Asia.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. McNamara, what is the vision for Accuray today?

Mr. McNamara: "The vision for Accuray is to provide an alternative to can-

cer patients such that they can find treatment for their disease. The CyberKnife, which is a medical robot that delivers radiation to kill tumors offers an alternative to patients whose tumors would otherwise be inoperable. The machine has the ability to deliver pinpoint precision sub-millimeter accuracy to deliver the radiation from an infinite number of angles so that you can hit the target i.e. the tumor and spare the sensitive healthy tissues and nearby critical structures surrounding the tumor. We have the ability to correct during mid-treatment. In other words, we can track and detect movement of the tumor and then accordingly correct that movement during the treatment. It is something that is very different than anything else out there.”

CEOFCFO: Is this applicable for all types of cancer or all types of tumors?

Mr. McNamara: “Although the genesis of the company was intracranial tumors, that is, solid tumors in the brain, we now have the ability to treat solid tumors anywhere in the body.”

CEOFCFO: Could you tell us a little more about the product and the procedure?

Mr. McNamara: “The CyberKnife Robotic Radiosurgery System is the world’s only robotic radiosurgery system designed to treat tumors anywhere in the body non-invasively. Using continual image guidance technology and computer controlled robotic mobility, the CyberKnife System automatically tracks, detects and corrects for tumor and patient movement in real-time throughout the treatment. This enables the CyberKnife System to deliver high-dose radiation with pinpoint precision, which minimizes damage to surrounding healthy tissue and eliminates the need for invasive head or body stabilization frames. It’s completely non-invasive to the patient. There is no anesthesia. It is bloodless, painless and leaves no scar. It’s an outpatient procedure that is replacing traditional surgery. That’s what we are offering, a pain-free, non-invasive alternative for patients, including those diagnosed with previously

inoperable or surgically complex tumors, or for patients who are looking for an alternative to surgery.”

CEOFCFO: Who’s using your system today?

Mr. McNamara: “At the end of March we had 134 installations worldwide, with about 87 of those in the US. They are used at hospitals as well as freestanding centers. The procedure is done by a team of physicians which includes a surgeon and that can be a neurosurgeon, thoracic surgeon, spine surgeon, or urologist. It will also include radiation oncologists as well as physicists and dosimetrists. That is the team that would work to deliver the

“If you are a patient, you should remember that Accuray’s CyberKnife is an alternative to surgery. It’s a non-invasive, painless out-patient procedure. The Cyberknife can treat inoperable tumors, and even if operable, you don’t want to cut open the patient, crack open their rib cage, and deflate their lungs in order to treat a lung tumor or invasively treat a tumor that is wrapped around the spine. It may be inoperable in that case. Our technology offers the means to deliver high doses of radiation with pinpoint precision sub-millimeter accuracy from hundreds of different angles such that, you can hit the tumor but not damage healthy tissue and nearby critical structures surrounding the tumor. That is the real beauty and elegance of the technology.” - Robert E. McNamara

treatment to the patient.”

CEOFCFO: Does the same piece of equipment work on all different tumors or there are bells and whistles that need to be added depending on what’s targeted?

Mr. McNamara: “Yes. The basic foundation technology works on all solid tumors in the body. The delivery mechanism, the robot and the imaging system is basically the same in all cases. However, there are different components of the Cyberknife System that may be used for different types of tumor. For example, a lung tumor that moves with respiration would be treated using the *Synchrony* technology while a spine tumor might use the *Xsight Spine* software.”

CEOFCFO: How aware is the Medical community about your revolutionary treatment?

Mr. McNamara: “Yes, it is quite revolutionary and every day the medical community is becoming more aware of the CyberKnife and its capabilities. There are over 250 clinical papers that have been published on the CyberKnife. Most recently, a paper was published in the April edition of the *International Journal of Radiation Oncology Biology / Physics (the Red Journal)*, demonstrating that the CyberKnife® Robotic Radiosurgery System can serve as a non-invasive means for delivering high dose rate (HDR) brachytherapy dosing. The study supports the CyberKnife System’s clinical flexibility in treating prostate cancer and expands the non-invasive options available to clinicians and patients.

In addition, we recently announced that, MD Anderson, the Cancer Center, is leading a study that compares traditional surgery to the CyberKnife. MD Anderson is a world-class organization. They are going to be doing a study that compares directly, traditional surgery in the lung to treating lung cancer with the CyberKnife. This is a huge milestone for us and this prospective clinical trial is something that we want to be very supportive of.”

CEOFCFO: What about the general public?

Mr. McNamara: “Absolutely. With the Internet one of the things that have happened over the last ten years is that patients are seeking their own information regarding their ailments. Whether it be simple headaches or whether it be brain tumors or cancer anywhere in the body. We have put together various outreach programs for patients. This includes where they can find out about the Cyberknife technology, and hospitals that offer the non-invasive Cyberknife treatment. Hospitals are also doing advertisements on the radio. We also support the CyberKnife Society, which is a society dedicated to sharing ideas between doctors but also acts as a source of information

for patients seeking information about the CyberKnife.”

CEO CFO: Is there much training involved for the medical team?

Mr. McNamara: “There’s not a lot of training relative to Medical School, but there is four to five days of training for the team of clinicians. That training includes three days on site at our CyberKnife Worldwide Training Center in Sunnyvale, California. Then there is training at an existing CyberKnife site and finally there is training at the actual site where the CyberKnife is going to be installed, or has been installed. Hence, the three components of training include: Accuray headquarters, at a hospital that has been using the CyberKnife and at the hospital where the CyberKnife and those physicians and clinicians will be using the CyberKnife. In addition, we have on-going training throughout the year, either on-site or web-based training.”

CEO CFO: Is this a one-time sale; what is your revenue model?

Mr. McNamara: “The business model is very interesting. It begins with selling the CyberKnife System, which is great technology. One of the things that make us unique is our service offering. We sell four-year service contracts for \$460,000 per year. This includes six upgrades when and if available over the four-year period. The customers like it as over 90% of our US customers have signed up for this kind of service.

Everyone benefits from this arrangement. The customers like this for a number of reasons. They know that they will be able to maintain the state-of-the art technology. That is important because as we come up with these upgrades every year, it broadens the clinical application. They may be able to treat intracranial brain tumors and because of these upgrades they will be able to treat the lung or they will be able to treat the prostate. Last year, we came out with 6 upgrades to the existing technology. These upgrades were designed to better the patient’s experience, improve the efficacy of the treatment and actually decrease the actual treatment time. This is a very important part of our business, because for us, we get the on-going revenue stream and we get to maintain that four-year minimum

relationship with that customer.

We also offer a shared ownership model where we place the unit in the hospital and we maintain title. The customer makes the minimum payment to us and then we share revenue over and above that amount. To the customer, it’s a great way to finance the machine. To us we get an on-going revenue stream. When the customer is most comfortable with the volume of patients and the economics involved, then they would typically buy it out of the contract and keep 100% of the revenues for themselves.”

CEO CFO: Are the procedures reimbursable by insurance?

Mr. McNamara: “Yes they are reimbursed by Medicare as well as Medicaid. The typical reimbursement is just under \$20,000 per patient. Let me tell you what the treatment includes and the difference between radiosurgery and radiation therapy. Radiosurgery is one to five treatments, so during the course of one calendar week, the patient will go through this outpatient setting, so there is no Operating Room time per se. There is no sitting in the hospital. It’s not overnight. They will come in for treatment that can last anywhere from 30 minutes to 90 minutes. They will go through one to five treatments during the course of the calendar week. This time depends on what is being treated, whether it’s a brain tumor, which takes about 30 minutes, or a lung which can take about 90 minutes. The average reimbursement is just under \$20,000 per patient. For a hospital to break even on this, they need just over 50 patients on an annual basis. It’s a pretty low threshold. Our typical utilization is closer to 200 patients per year and at that point the CyberKnife becomes a very profitable enterprise for the hospitals. They are attracting new patients, particularly those patients who have inoperable tumors and would not have any other option. While the volume of patients goes up, they are also able to retain if you will, those patients who would otherwise not be available for traditional surgery.”

CEO CFO: What’s the financial picture like today for Accuray?

Mr. McNamara: “Business is good. Our last quarter revenue was \$58.8 million and we are profitable so financially we

are quite successful. We have had record revenues the last four quarters. Our year-over-year growth was 65%, and at the end of March 2008 we had \$165.5 million in cash and investments. So, good solid financial base with no debt. We’re on very solid financial ground.”

CEO CFO: What’s ahead for Accuray?

Mr. McNamara: “We talked a little bit about the service program and the upgrades associated with that, so every year we anticipate coming out with new upgrades that can improve the technology and broaden the clinical applications. That’s clearly ahead for us though for competitive reasons, we don’t typically show a technology road map.

Each year we come up with these new upgrades so that is clearly on our path for success, as well as broadening the message of the CyberKnife. We want to widen our marketing message not only to the clinical population but also to the patient population so that we can offer an alternative treatment to those inoperable patients who would otherwise be facing a death sentence. We want to broaden our worldwide footprint. We are in about 40 countries right now. We will strive to continue our worldwide success.”

CEO CFO: Address potential investors; why should they be interested and what might people overlook that really should be understood?

Mr. McNamara: “What people would be most interested in is probably the technology, how it really is disruptive technology and how this technology when brought to a worldwide population, provides a very large market opportunity for the company. If you think about just the US, there is approximately over 80,000 brain tumors per year that could be treated by the CyberKnife. If you take that approach and if you calculate the number of spine tumors, lung tumors, prostate tumors, kidney tumors, breast cancer etc, there is a lot of opportunity for the technology to grow and treat that market. It’s a very large market. We are just scraping the surface of that market at this time.”

CEO CFO: What should people remember most about Accuray?

Mr. McNamara: "If you are a patient, you should remember that Accuray's CyberKnife is an alternative to surgery. It's a non-invasive, painless out-patient procedure. The Cyberknife can treat inoperable tumors, and even if operable, you don't want to cut open the patient, crack open their rib cage, and deflate their lungs in order to treat a lung tumor or

invasively treat a tumor that is wrapped around the spine. It may be inoperable in that case. Our technology offers the means to deliver high doses of radiation with pinpoint precision sub-millimeter accuracy from hundreds of different angles such that, you can hit the tumor but not damage healthy tissue and nearby critical structures surrounding the tumor.

That is the real beauty and elegance of the technology.

If you are an investor, you should think about the financial stability of the company and the huge market that is in front of us and the incredible technology that we offer to the market place."

In addition, our corporate website, www accuray.com, has extensive information for clinicians, patients or anyone interested in learning more about the CyberKnife System.



**Accuray Incorporated
1310 Chesapeake Terrace
Sunnyvale, CA 94089
Phone: 408-716-4600**