

ACCURAY INC  
Form DEF 14A  
October 07, 2016

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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

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**ACCURAY INCORPORATED**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
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**NOTICE OF  
2016 ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON NOVEMBER 17, 2016**

To our Stockholders:

You are cordially invited to attend the 2016 Annual Meeting of Stockholders, and any adjournment, postponement or other delay thereof (the "Annual Meeting"), of Accuray Incorporated, a Delaware corporation ("Accuray" or the "Company"), which will be held at the Company's headquarters located at 1310 Chesapeake Terrace, Sunnyvale, California 94089 on Thursday, November 17, 2016 at 9:00 am PST. We are holding the Annual Meeting for the following purposes:

1. To elect two Class I directors named in the proxy statement to hold office until our 2019 Annual Meeting of Stockholders, or until their respective successors have been duly elected or appointed;
2. To approve the Accuray Incorporated 2016 Equity Incentive Plan and the number of shares reserved for issuance thereunder;
3. To approve an amendment and restatement of the Accuray Incorporated 2007 Employee Stock Purchase Plan including, among other things, an increase in the number of shares of the Company's common stock available for issuance thereunder by 1,000,000 shares;
4. To re-approve the Company's Performance Bonus Plan;
5. Advisory vote to approve the compensation of our named executive officers;
6. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2017; and
7. To transact any other business as may properly come before the Annual 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 Annual Meeting are more fully described in the proxy statement (the "Proxy Statement") that accompanies this Notice of 2016 Annual Meeting of Stockholders. 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 September 22, 2016, the record date, are entitled to notice of, to attend, and to vote at the Annual Meeting. If you are a beneficial owner and wish to vote in person at the Annual Meeting, you must obtain a "legal proxy" from the bank, broker or other nominee that holds your shares, giving you the right to vote your shares at the Annual Meeting.

It is important that you use this opportunity to take part in the affairs of Accuray by voting on the business to come before the stockholders at the Annual Meeting. After reading the Proxy Statement and Annual Report on Form 10-K for the fiscal year ended June 30, 2016 (the "Annual Report"), you are urged to cast your vote as promptly as possible. If you are accessing the Proxy Statement and Annual Report using notice and access, you will have received a Notice of Internet Availability of Proxy Materials and should vote by telephone or over the Internet. If you have received your proxy materials by mail, please promptly sign, date and return the enclosed proxy card in the prepaid envelope provided to you or vote by telephone or over the Internet to ensure that your shares are represented at the Annual Meeting. For more information, see "*Why did I receive a Notice of Internet Availability of Proxy Materials?*" in the Proxy Statement.

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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 promptly as possible by telephone, Internet or by signing and dating your proxy card and returning it promptly. This will 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 Annual Meeting.

By order of the Board of Directors,

/s/ JOSHUA H. LEVINE

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Joshua H. Levine  
*President and Chief Executive Officer*  
Sunnyvale, California  
October 7, 2016

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**PROXY STATEMENT FOR  
ACCURAY INCORPORATED  
2016 ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON NOVEMBER 17, 2016**

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This proxy statement ("Proxy Statement") is furnished to our stockholders of record as of the close of business on September 22, 2016 (the "Record Date"), in connection with the solicitation of proxies by our Board of Directors (the "Board") for use in connection with our 2016 Annual Meeting of Stockholders, and any adjournment, postponement or other delay thereof (the "Annual Meeting"), to be held at the Company's headquarters located at 1310 Chesapeake Terrace, Sunnyvale, California 94089 on Thursday, November 17, 2016, at 9:00 a.m. PST. This Proxy Statement and the proxy card are first being made available to our stockholders on or about October 7, 2016. Our Company's fiscal year ended on June 30, 2016.

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

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

We are pleased to again be using the U.S. Securities and Exchange Commission (the "SEC") rule that allows companies to furnish proxy materials to their stockholders primarily over the Internet instead of mailing printed copies of those materials to each stockholder. On October 7, 2016, 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 on Form 10-K (the "Annual Report"), online. The Notice of Internet Availability of Proxy Materials also instructs you as to how to access your proxy card to vote over 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 have not elected to receive printed proxy materials and would prefer to receive them, please follow the instructions included in the Notice of Internet Availability of Proxy Materials to request printed 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 access the Annual Report and the Proxy Statement online 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 because you were a stockholder of record or beneficial owner at the close of business on the Record Date. As such, you are invited to attend our Annual Meeting 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 and Annual Report, which include information that you may find useful in determining how to vote.

***Who is entitled to attend and vote at the Annual Meeting?***

Stockholders as of the Record Date are entitled to attend and to vote at the Annual Meeting.

***How many shares are outstanding?***

On the Record Date, 81,637,270 shares of our common stock were issued and outstanding. Each share of common stock outstanding on the Record Date is entitled to one vote on each item brought before the stockholders at the Annual Meeting.

***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 as of 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 no business shall be conducted and either the chairperson 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 I directors named in the Proxy Statement to hold office until our 2019 Annual Meeting of Stockholders, or until their respective successors have been duly elected or appointed;
2. The approval of the Accuray Incorporated 2016 Equity Incentive Plan and the number of shares reserved for issuance thereunder;

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3. The approval of an amendment and restatement of the Accuray Incorporated 2007 Employee Stock Purchase Plan (the "ESPP") including, among other things, an increase to the number of shares of the Company's common stock available for issuance thereunder by 1,000,000 shares;
4. The re-approval of the Company's Performance Bonus Plan;
5. An advisory vote to approve the compensation of our named executive officers; and
6. The ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2017.

***What happens if additional matters are presented at the Annual Meeting?***

The only items of business that our Board 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. However, if any other matter or matters are properly brought before the Annual Meeting, you or the person(s) named as your proxyholder(s) will have the discretion to vote your shares on such 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 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 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 bank, 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 beneficially owned.

**Stockholders of Record.** If your shares are registered directly in your name with our transfer agent, Computershare, you are considered, with respect to those shares, the *stockholder of record*, and we are sending our proxy materials directly to you. As the *stockholder of record*, you have the right to vote in person or direct a proxyholder to vote your shares on your behalf at the Annual Meeting by 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 over the Internet or by telephone.

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***How can I vote my shares without attending the Annual Meeting?***

**Beneficial Owner.** If your shares are held by a bank, broker or other nominee, you are considered the *beneficial owner* of those shares and they are considered to be held *in street name* for your account. Proxy materials are made available to you together with a voting instruction card by delivery to your bank, broker or other nominee. As the beneficial owner, you have the right to direct your bank, broker or nominee to vote your shares as you instruct with your voting instruction card. The bank, broker or other nominee will vote your shares at the Annual Meeting as you have instructed on your voting instruction card. As a beneficial owner, you may also vote in person at the Annual Meeting, but only after you obtain and present a "legal proxy" from your bank, broker or other nominee, giving you the right to vote your shares at the Annual Meeting.

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, by phone, or by proxy 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 with no further instructions, or if you electronically transmit your proxy card but do not direct your vote on particular items, your shares will be voted in accord with the Board's recommendation on those items. If you hold your shares in street name as a beneficial owner and you do not instruct your bank, broker or other nominee how to vote your shares, your bank, broker or other nominee will only be able to vote your shares with respect to the routine matter of appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2017. Please see "*What is a broker non-vote?*" below.

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***How can I attend the Annual Meeting?***

Whether you hold shares in your name as the stockholder of record or beneficially own shares held in street name, you should be prepared to present photo identification for admittance to the Annual Meeting. Please also note that if you are a street name holder, 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 bank, broker or other nominee, or other similar evidence of ownership for admittance to the Annual Meeting. The Annual Meeting will begin promptly at 9:00 a.m. PST. Check-in will begin at 8:30 a.m. PST. However, if you are a street name holder, you may not vote at the Annual Meeting unless you have obtained a proxy from your broker, bank or other nominee. ***Even if you plan to attend the Annual Meeting, we recommend that you also vote by Internet, telephone, or 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 (i) granting a new proxy bearing a later date, which automatically revokes your earlier proxy, (ii) providing a written notice of revocation to our Corporate Secretary at our principal executive offices prior to the Annual Meeting, or (iii) attending the Annual Meeting and voting in person. However, 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 (i) submitting a new voting instruction card to your bank, broker or other nominee, or (ii) if you have obtained a legal proxy from your broker or other 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"?***

Brokers that hold shares in street name for the benefit of their clients, banks, brokers and other nominees have the discretion to vote such shares on routine matters only. At the Annual Meeting, only the ratification of the appointment of independent registered public accounting firms is considered a routine matter. Therefore, if you do not otherwise instruct your bank, broker or other nominee on how to vote your shares, your bank, broker or other nominee may vote your shares on this matter only. Your bank, broker or other nominee *will not* be able to vote your shares for the election of two Class I directors, the approval of the Company's 2016 Equity Incentive Plan and the number of shares reserved for issuance thereunder, the approval of the amendment and restatement of the Company's 2007 Employee Stock Purchase Plan, including the increase to the number of shares reserved for issuance thereunder, the re-approval of the Company's Performance Bonus Plan, the advisory vote to approve the compensation of named executive officers, or any other matters properly brought before the Annual Meeting without your specific instruction because these are not considered routine matters. A "broker non-vote" occurs when a broker or other nominee 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 at the Annual Meeting for the purpose of determining the presence or absence of a quorum for the transaction of business, but they will *not* be considered to be present and entitled to vote for purposes of tabulating the voting results for any non-routine matter. Accordingly, broker non-votes, if any, will have no effect on the outcome of the votes at the Annual Meeting.

***What happens if the Annual Meeting is adjourned?***

If our Annual Meeting is adjourned until another time, no additional notice will be given regarding the time or location that the Annual Meeting will be continued, if this information is announced at the time of the adjournment, unless the adjournment is for more than 30 days, in which case a notice of the time and location will be given to each stockholder of record entitled to vote at the Annual Meeting. Any items of business that might have been properly transacted at the Annual Meeting may be transacted after any adjournment.

***Who will serve as inspector of elections?***

A representative of Computershare, 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 Notice 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 from 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 Notice of Internet Availability of Proxy Materials or proxy card. Please vote over the Internet, by telephone, or sign, date and return each proxy card and voting instruction card that you receive to ensure that all of your shares are voted.

We have adopted a procedure called "householding," which the SEC has approved. Under this procedure, we deliver a single copy of the Notice of Internet Availability of Proxy Materials and, if applicable, the proxy materials to multiple stockholders who share the same address unless we received contrary instructions from one or more of the stockholders. This procedure reduces our printing costs, mailing costs, and fees. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards. Please see "*Stockholders Sharing the Same Address*" for further information regarding householding and how to request additional copies of the materials or enroll in householding.

***Who is soliciting my vote and who will bear the costs of this solicitation?***

The proxy is being solicited on behalf of our Board. The Company 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 banks, brokers 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 brokers and other nominees for the costs of forwarding the proxy materials.

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***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 "*Recommendations and Nominations of Director Candidates*" below.

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Our Amended and Restated Certificate of Incorporation provides that our Board shall be divided into three classes, designated Class I, Class II and Class III, with each class serving for staggered three-year terms. Emad Rizk, M.D., a Class III director, resigned from our Board on September 16, 2016 to dedicate his full time and efforts to his new role as Chief Executive Officer of Verscend Technologies, Inc. given the time commitment necessary for service on a public company Board. As a result, our Board currently consists of seven directors: two Class I directors, three Class II directors and two Class III directors. The terms of our Class I directors will expire at the Annual Meeting. Class I consists of two directors and the Board has nominated two directors for election at the Annual Meeting. Proxies cannot be voted for more than two persons.

The following information is provided for each of the nominees and directors: name, class in which each director or nominee serves, age as of July 31, 2016, principal occupation and length of service on our Board.

<b>Name</b>	<b>Term Expires</b>	<b>Age</b>	<b>Principal Occupation</b>	<b>Director Since</b>
<b>Class I Directors/Nominees</b>				
Robert S. Weiss	2016	69	Chief Executive Officer and President, The Cooper Companies, Inc.	2007
Richard Pettingill	2016	68	Retired President and Chief Executive Officer of Allina Hospitals and Clinics and California Division of Kaiser Foundation Health Plans and Hospitals and Board Member of Tenet Healthcare Corporation and Hanger Inc.	2012
<b>Class II Directors</b>				
Louis J. Lavigne, Jr.	2017	68	Chairperson of the Board, Independent Management Consultant and Board Member, Depomed, Inc., DocuSign, Inc., Novocure Limited, Puppet, Inc., Rodan & Fields, LLC and Zynga, Inc.	2009
Dennis L. Winger	2017	68	Retired Chief Financial Officer and Board Member, Nektar Therapeutics, Inc. and Pacira Pharmaceuticals, Inc.	2009
Jack Goldstein, Ph.D.	2017	69	Independent Consultant, Chairman of the Board of Directors of OncoGenex Pharmaceuticals, Inc.	2010
<b>Class III Directors</b>				
Elizabeth Dávila	2018	72	Vice Chairperson of the Board, Retired Chief Executive Officer and Board Member, NuGEN Technologies, Inc. and Afaxys, Inc.	2008
Joshua H. Levine	2018	58	President, Chief Executive Officer and Board Member, Accuray Incorporated	2012

**Director Nominees Class I Directors**

Our Board has nominated Messrs. Weiss and Pettingill for election as Class I directors. 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

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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 of the Board (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.

*Robert S. Weiss* has served as a member of our Board 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 also serves on the board of trustees of the University of Scranton. Mr. Weiss holds a B.S. in Accounting from the University of Scranton.

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.

*Richard Pettingill* has served as a member of our Board 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 Tenet Healthcare Corporation, a medical services provider, and Hanger, Inc., an orthotic and prosthetic solutions company. Within the last five years, Mr. Pettingill also served on the public company board of directors of MAKO Surgical Corp., a medical device company that was acquired by Stryker Corporation in 2013. 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.

If elected, Messrs. Weiss and Pettingill will hold office as Class I directors until our 2019 Annual Meeting of Stockholders, or until each of their earlier resignation or removal.

**Continuing Directors Class II and Class III Directors**

Listed below are the biographies of each of our Class II and Class III directors. The biographies include information regarding each director's service as a director of the Company, business experience

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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 since September 2009 and as the Chairperson of our Board of Directors since April 2010. Mr. Lavigne currently serves as a Managing Director of Lavrite, LLC, a management consulting firm specializing in the areas of corporate finance, accounting, growth strategy and management. He also currently serves as a member of the board of directors of Depomed, Inc., a specialty pharmaceutical company, DocuSign Inc., a private eSignature transaction management company, Novocure Limited, a public oncology company, Puppet, Inc., a private information technology cloud automation security and DevOps system management company, Rodan & Fields, LLC, a private skincare company, and Zynga, Inc., a leading provider of social electronic games. Within the last five years, Mr. Lavigne also served on the public company board of directors of BMC Software, Inc., an independent systems software vendor that was acquired by a private investor group in 2013, and Allergan, Inc., a technology-driven, global health care company that provides specialty pharmaceutical products worldwide, from 2005 to 2015. 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 was named the Best CFO in Biotech in 2005 in the Institutional Investor Survey and in June 2006 he received the Bay Area CFO of the Year-Hall of Fame Lifetime Achievement Award. He is Chairman of the Board of UCSF Benioff Children's Hospitals and their foundation. Mr. Lavigne holds a B.S. in Finance from Babson College and an M.B.A. from Temple University.

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.

*Dennis L. Winger* has served as a member of our Board since September 2009. Mr. Winger most recently served as Senior Vice President and Chief Financial Officer of Applied Biosystems, Inc. from 1997 until his retirement in 2008. Mr. Winger currently serves on the boards of directors of Nektar Therapeutics, a biopharmaceutical company, and Pacira Pharmaceuticals, a specialty pharmaceutical company. In the past five years, Mr. Winger also served on the following public company boards of directors: Vertex Pharmaceuticals and Cephalon, Inc. Mr. Winger also serves on the Board of Trustees of Siena College. Mr. Winger holds a B.A. in History from Siena College and an M.B.A. from Columbia University.

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.

*Jack Goldstein, Ph.D.*, has served as a member of our Board 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

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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., a drug discovery and development company. 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.

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.

*Elizabeth Dávila* has served as a member of our Board since February 2008 and as Vice Chairperson of our Board 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. 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 and an M.B.A. from Stanford University.

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

*Joshua H. Levine* has served as our President and Chief Executive Officer and as a member of our Board since October 2012. Mr. Levine brings diverse, global healthcare industry experience and a strong track record of creating and unlocking strategic value for the companies he has led. He has been the President, Chief Executive Officer, and a director of two other publicly traded global medical device firms, with Mentor Corporation, a surgical implant/medical device manufacturer in the aesthetics space from 2004 to 2009, and most recently with Immucor Corporation, a diagnostics manufacturer of automated instrumentation and reagents used in blood transfusion procedures in 2011. Mr. Levine holds a B.A. from the University of Arizona.

Mr. Levine's qualifications to serve on our Board include, among other skills and qualifications, his strategic business development skills, commercial leadership experience, and executive vision. In addition, Mr. Levine brings expertise in the medical device and medical technology industries from years of experience as a chief executive officer with two other publicly traded, small cap medical device manufacturing companies.

Under our Corporate Governance Guidelines, each director submits an advance, contingent, irrevocable resignation that the Board may accept if that director fails to be elected by a majority of votes cast. In that situation, our Nominating and Corporate Governance Committee would make a recommendation to the Board about whether to accept such resignation. The Nominating and Corporate Governance Committee and the Board may consider any factors they deem relevant in deciding whether to accept a director's resignation.

**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

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votes cast, meaning that the number of shares voted "FOR" a director's election exceeds 50% of the number of votes cast with respect to that director's election. 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 have no effect on the outcome of the vote. Broker non-votes, if any, will have no effect on the outcome of the vote.

**Board of Directors' Recommendation**

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

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**PROPOSAL TWO**

**APPROVAL OF THE ACCURAY INCORPORATED 2016 EQUITY INCENTIVE PLAN AND THE NUMBER OF SHARES RESERVED FOR ISSUANCE THEREUNDER**

We are asking our stockholders to approve a new equity incentive plan, the 2016 Equity Incentive Plan (the "2016 Plan"). Subject to our stockholders' approval at the Annual Meeting, our Board adopted the 2016 Plan on August 24, 2016, based on the recommendation of the Compensation Committee of the Board (the "Compensation Committee"). If approved by our stockholders, the 2016 Plan will replace our 2007 Incentive Award Plan (the "2007 Plan") and will remain in effect until 2026, unless it is terminated earlier by the 2016 Plan's administrator (as defined below). We will cease granting awards under the 2007 Plan once the 2016 Plan is approved by our stockholders.

**Reasons for Voting for Approval of the 2016 Plan**

*The 2016 Plan Will Help Us to Continue Effectively Recruiting Talented Service Providers*

The ability to grant equity awards is vital to our success because it enables us to attract and retain the most talented service providers. Equity awards also align the interests of such individuals with the interests of stockholders by giving such individuals an opportunity to acquire an ownership interest in the Company, which incentivizes such individuals to drive the Company to achieve outstanding performance.

Our 2007 Plan is scheduled to expire in January 2017, and if stockholders do not approve the 2016 Plan at the Annual Meeting, we will be unable to continue our equity incentive program after the expiration of the 2007 Plan. In that case, in order to remain competitive in the recruitment of service providers without providing equity-based compensation, we would need to replace equity-based compensation with cash compensation. We believe this would not be practical or advisable because any significant increase in cash compensation in lieu of equity-based compensation could substantially increase our operating expenses and reduce our cash flow from operations, which could adversely affect our business results and could adversely affect our business strategy by reducing the cash available for strategic acquisitions and for research and development of new products and of improvements to existing products. Accordingly, we believe that, rather than using cash alone, a combination of equity-based compensation and cash compensation provides a more effective means of incentivizing our service providers and rewarding them for their contributions to our success.

*A Reasonable Number of Shares Will Be Reserved Under the 2016 Plan*

If the 2016 Plan is approved by our stockholders, the total number of shares of our common stock that will be reserved for issuance under the 2016 Plan will be 4,000,000 shares plus any shares of our common stock that been reserved but not issued pursuant to any awards granted under the 2007 Plan and any shares of our common stock subject to outstanding equity awards granted under our 2007 Plan that are added to the 2016 Plan (as described in the summary of the 2016 Plan below). We expect the number of shares of our common stock to be reserved for issuance under the 2016 Plan to be sufficient to permit us to continue granting equity-based compensation at appropriate levels for the next two years. The following factors were considered by the Compensation Committee and the Board when determining the number of shares of our common stock to reserve for issuance under the 2016 Plan:

*Historical Grant Practices.* The Compensation Committee and the Board considered the number of equity awards that we granted in the last three fiscal years. In fiscal years 2014, 2015, and 2016, we granted equity awards covering 2,930,149, 2,212,106, and 3,148,375 shares of our common stock, respectively, for a total of approximately 8,290,630 shares over that three-year period.

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*Forecasted Grants.* The Compensation Committee and the Board reviewed a forecast that considered the following factors in order to project the rate at which shares of our common stock will be issued under the 2016 Plan: (i) the shares of our common stock available for grant under the 2016 Plan, including the estimated number of shares of our common stock to be added to the 2016 Plan from 2007 Plan, and (ii) forecasted future grants, determined based on our stock price and the competitive dollar value to be delivered to the participant. However, we determine the size of equity awards to be granted based on such value, and therefore, our actual share usage could deviate significantly from our forecasted share usage if our stock price on the date the award is granted is significantly different from the stock price assumed in the forecast. For example, if our stock price on the date the award is granted is significantly lower than the stock price assumed in the forecast, we would need a larger number of shares than the number projected by the forecast in order to deliver the same value to participants.

*Number of Shares Remaining under Stock Incentive Plans.* As of August 31, 2016, we had two outstanding stock incentive plans: the 2007 Plan and the 1998 Stock Incentive Plan (the "1998 Plan"). As of August 31, 2016, the number of shares of our common stock that remained available for issuance under the 2007 Plan was 2,916,423 plus any shares of our common stock subject to outstanding equity awards granted under our 2007 Plan that return to the 2007 Plan under the 2007 Plan's terms and (ii) there were no shares of our common stock that remained available for issuance under our 1998 Plan. As of the same date, the total number of shares of our common stock covered by outstanding equity awards under the 2007 Plan and 1998 Plan was 7,185,088, which consisted of (i) 2,268,231 shares of our common stock subject to outstanding, unexercised options (with a weighted average exercise price of \$8.034 and a weighted term of 3.93 years), 2,234,410 shares of which were subject to outstanding, unexercised options under the 2007 Plan and 33,821 shares of which were subject to outstanding, unexercised options under the 1998 Plan, and (ii) 4,916,857 shares of our common stock subject to outstanding unvested awards of restricted stock units ("RSUs"), market-based performance units ("MSUs"), and other performance units ("PSUs"), all of which were granted under the 2007 Plan.

*Proxy Advisory Firm Guidelines.* In light of our significant institutional stockholder base, the Compensation Committee and the Board considered proxy advisory firm guidelines.

***The 2016 Plan Is Less Dilutive to Stockholders than the 2007 Plan***

*No Annual "Evergreen" Provision.* The 2016 Plan reserves a fixed number of shares of our common stock, which means that stockholder approval is required to increase the maximum number of shares of our common stock reserved under the 2016 Plan. Unlike the 2007 Plan, the 2016 Plan does not contain an annual "evergreen" provision that automatically increases the number of shares of our common stock available for issuance each year.

*Full Value Awards Count 1.71 Times Against the Share Reserve.* For purposes of determining the number of shares of our common stock that remains available for issuance under or are returned to the 2016 Plan's share reserve, shares of our common stock subject to awards under the 2016 Plan other than stock options, stock appreciation rights, and other awards based solely on an increase in value of the shares following the date of grant will count as 1.71 shares for every one share subject to the award. In contrast, each share subject to similar awards under the 2007 Plan count as one share for purposes of determining the number of shares of our common stock that remain available for issuance under or are returned to the 2007 Plan's share reserve.

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***The 2016 Plan Gives Us the Ability to Fully Deduct Certain Performance-based Awards for Federal Income Tax Purposes***

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), generally denies us a corporate tax deduction for annual compensation exceeding \$1 million paid to our chief executive officer and other "covered employees," as determined under Section 162(m) of the Code ("Section 162(m)") and applicable guidance. However, certain types of compensation, such as performance-based compensation, are generally excluded from this deductibility limit.

The 2016 Plan is designed to enable (but not require) us to grant equity awards that qualify as fully deductible performance-based compensation under Section 162(m) by setting limits on the size of awards that may be granted under the 2016 Plan to employees in a single year, as further described below. If our stockholders approve the 2016 Plan, they will be approving these limits, the eligibility requirements for participation in the 2016 Plan, the performance measures upon which specific performance goals for certain awards would be based, and the other material terms necessary to grant awards under the 2016 Plan that qualify as performance-based compensation under Section 162(m).

We are not, however, required to structure equity award grants to qualify as performance-based compensation under Section 162(m), and the 2016 Plan gives the Company the flexibility to grant equity awards that do not qualify as performance-based compensation under Section 162(m).

***The 2016 Plan Includes Compensation and Governance Best Practices***

The 2016 Plan includes provisions that are considered best practice for compensation and corporate governance purposes. These provisions protect our stockholders' interests, as follows:

*No Annual Evergreen.* Since the 2016 Plan does not contain an annual "evergreen" provision that automatically increases the number of shares of our common stock available for issuance each year, the number of shares of our common stock reserved for issuance under the 2016 Plan may not be increased without approval from our stockholders. This is a change from the 2007 Plan, which included an annual "evergreen."

*Administration.* The 2016 Plan will be administered by the Compensation Committee, which consists entirely of independent non-employee directors.

*Certain Shares Will Not Be Returned to the Share Reserve.* Shares of our common stock used to pay the exercise price of an award or to satisfy the tax withholding obligations for awards will not become available for future grant under the 2016 Plan.

*Repricing or Exchange Programs are Not Allowed.* The 2016 Plan does not permit outstanding awards to be repriced or exchanged for other awards.

*Annual Limits on Awards to Non-Employee Directors.* The 2016 Plan sets reasonable, annual limits as to the awards that non-employee directors may receive during each fiscal year.

*Minimum Vesting Requirements.* Any option, stock appreciation right, or award of restricted stock units granted under the 2016 Plan generally cannot vest before the one-year anniversary of the date of grant unless the vesting of such award is accelerated due to a termination of the participant's service under certain circumstances, due to the participant's death or disability, or upon a "Change in Control" (as defined in the 2016 Plan). However, an option, stock appreciation right, or award of restricted stock units may be granted without regard to this limitation as long as the shares subject to the award would not represent more than 5% of the shares of our common stock subject to all outstanding options, stock appreciation rights, and awards of restricted stock units under the 2016 Plan as of the grant date. The 2007 Plan does not impose any minimum vesting limitations.

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*No Single-Trigger Vesting Acceleration upon a Change in Control.* Awards under the 2016 Plan will be treated in a Change in Control (as defined in the Plan) in the manner determined by the administrator, and the terms of the 2016 Plan provide for an award to vest upon a Change in Control only if the award is not assumed or substituted. For any award that vests in whole or in part based on the achievement of performance goals or other performance-based vesting criteria, those goals or criteria will be deemed achieved at 100% of target levels, but prorated based on the portion of the performance period that has elapsed as of immediately prior to the Change in Control.

*Limited Transferability.* Awards under the 2016 Plan generally may not be sold, assigned, transferred, pledged, or otherwise encumbered, unless otherwise approved by the administrator. Awards under the 2016 Plan and the shares of our common stock issued pursuant to such awards are also subject to our insider trading policy.

*No Tax Gross-ups.* The 2016 Plan does not provide for any tax gross-ups.

*Forfeiture Events.* Each award under the 2016 Plan will be subject to any clawback policy of ours, and the administrator may require a participant to forfeit, return, or reimburse us for all or a portion of the award and any amounts paid under the award in order to comply with the applicable clawback policy, the recoupment policy set forth in the 2016 Plan (which applies in the absence of a clawback policy), or applicable laws. We intend to adopt a clawback policy covering our annual and long-term incentive award plans and arrangements once the SEC adopts final rules implementing the requirement of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Our executive officers and directors have an interest in the approval of the 2016 Plan because they are eligible to receive equity awards under the 2016 Plan.

***The 2016 Plan Gives Us the Ability to Grant RSUs under the Loi Macron***

In August 2015, a new French law (Loi Macron) introduced changes to the terms under which RSUs may be granted to employees of our French subsidiary. Among the conditions for granting RSUs under the Loi Macron is that the RSUs are granted pursuant to an equity incentive plan approved by our stockholders after August 7, 2015. Therefore, the approval of the 2016 Plan will also afford us the opportunity to grant RSUs under the Loi Macron. Approval of the 2016 Plan will also satisfy one of the requirements of the Loi Macron for granting tax-qualified RSUs to employees of our subsidiary in France ("French-qualified RSUs"). Under the Loi Macron, French-qualified RSUs granted to employees of our French subsidiary may benefit from certain tax and social security treatment, provided certain conditions are met.

We are not proposing any specific provisions be included in the 2016 Plan in order to grant French-qualified RSUs under the Loi Macron. The 2016 Plan provides that the administrator has the full authority, in its sole discretion, to prescribe, amend and rescind rules and regulations relating to sub-plans. Therefore, should we obtain stockholder approval for the 2016 Plan and determine to grant French-qualified RSUs under the Loi Macron to employees of our French subsidiary, our Board or Compensation Committee may grant French-qualified RSUs under a French sub-plan to the 2016 Plan setting forth any required terms and conditions.

We are not required to grant French-qualified RSUs in France and may choose, at our discretion, to grant non-qualified awards to employees of our French subsidiary depending on the circumstances.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE APPROVAL OF THE 2016 EQUITY INCENTIVE PLAN AND THE NUMBER OF SHARES RESERVED FOR ISSUANCE THEREUNDER.**

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**Summary of the 2016 Plan**

The following paragraphs provide a summary of the main features of the 2016 Plan and its operation. However, this summary does not provide a complete description of all of the 2016 Plan's provisions and is qualified in its entirety by the specific language of the 2016 Plan. A copy of the 2016 Plan is provided as *Appendix A* to this Proxy Statement.

***Purposes of the 2016 Plan***

The purposes of the 2016 Plan are to attract and retain the best available personnel; to provide additional incentive to employees, directors, and consultants; and to promote the success of our business. These incentives are provided through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, and performance shares as the plan administrator (as defined below) may determine.

***Shares Available for Issuance***

Subject to the adjustment provisions contained in the 2016 Plan, our stockholders are being asked to approve a number of shares of our common stock for issuance under the 2016 Plan equal to the sum of (i) 4,000,000 Shares, (ii) any shares of our common stock that have been reserved but not issued pursuant to any awards granted under the 2007 Plan as of the date the 2016 Plan is approved by our stockholders, and (iii) any shares of our common stock subject to outstanding stock options, restricted stock units, performance shares, performance units, or similar awards that were previously granted under the 2007 Plan that, on or after the date the 2016 Plan is approved by our stockholders, expire or otherwise terminate without having been exercised in full, or that are forfeited to or repurchased by us, with the maximum number of shares of our common stock to be added from the 2007 Plan equal to 10,084,101 shares. The shares of our common stock may be authorized, but unissued or reacquired common stock.

If any award granted under the 2016 Plan expires or becomes unexercisable without having been exercised in full or is forfeited to or repurchased by us due to failure to vest, then the expired, unexercised, forfeited, or repurchased shares of our common stock subject to such award will become available for future grant or sale under the 2016 Plan. With respect to the exercise of stock appreciation rights, the gross shares of our common stock issued pursuant to a stock appreciation right will cease to be available under the 2016 Plan. Shares of our common stock used to pay the exercise price of an award or to satisfy the tax withholding obligations related to an award will not become available for future grant or sale under the 2016 Plan. If an award is paid out in cash rather than shares of our common stock, such payment will not reduce the number of shares of our common stock available for issuance under the 2016 Plan.

For purposes of determining the number of shares of our common stock that remain available for issuance under the 2016 Plan and the number of shares of our common stock returned to the 2016 Plan's share reserve, each share subject to an award other than an option, a stock appreciation right, or any other award that is based solely on an increase in value of the shares following the grant date will count as 1.71 shares.

***Limitation***

The 2016 Plan contains annual grant limits intended to satisfy Section 162(m). Specifically, while the Company is a "publicly held corporation" within the meaning of Section 162(m) and the deduction limitations of Section 162(m) apply to the Company's "covered employees" within the meaning of Section 162(m), the number of shares of our common stock covered by and the initial value of awards

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that can be issued to any particular employee or consultant under the 2016 Plan in any fiscal year are limited to the amounts set forth below:

<b>Award Type</b>	<b>Annual Number of Shares or Dollar Value</b>
Stock Options	Maximum of 4,000,000 shares of our common stock
Stock Appreciation Rights	Maximum of 4,000,000 shares of our common stock
Restricted Stock	Maximum of 2,000,000 shares of our common stock
Restricted Stock Units	Maximum of 2,000,000 shares of our common stock
Performance Shares	Maximum of 2,000,000 shares of our common stock
Performance Units	Maximum initial value of \$10,000,000

The 2016 Plan also provides that in any fiscal year, a non-employee board member may not be granted awards with a grant date fair value (determined in accordance with GAAP) exceeding \$500,000. Any award granted to a participant while he or she was an employee or a consultant (other than a non-employee director) will not count for purposes of this limitation.

In the event of any dividend or other distribution (whether in the form of cash, shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares or other securities or other change in the corporate structure affecting our common stock, the 2016 Plan administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the 2016 Plan, will adjust the number and class of shares that may be delivered under the 2016 Plan, and/or the number, class and price of shares of stock subject to outstanding awards, and the award grant limitations discussed above.

**Administration**

The Board has delegated administration of the 2016 Plan to the Compensation Committee. The Board and the Compensation Committee may further delegate administration of the 2016 Plan to any committee of the Board, or a committee of individuals satisfying applicable laws appointed by the Board in accordance with the terms of the 2016 Plan. For purposes of this summary of the 2016 Plan, the term "administrator" will refer to the Board or any committee designated by the Board to administer the 2016 Plan. To make grants to certain officers and key employees, the members of the committee must qualify as "non-employee directors" under Rule 16b-3 of the Securities Exchange Act of 1934, as amended. In the case of awards intended to qualify for the performance-based compensation exemption under Section 162(m), administration must be by a committee comprised solely of two or more "outside directors" within the meaning of Section 162(m).

Subject to the terms of the 2016 Plan, the administrator has the sole discretion to select the service providers who will receive awards; to determine the terms and conditions of awards; and to approve forms of award agreements for use with the 2016 Plan; to modify or amend each award (subject to the repricing restrictions of the 2016 Plan), including to accelerate vesting or waive forfeiture restrictions, and to interpret the provisions of the 2016 Plan and outstanding awards. The administrator may allow a participant to defer the receipt of payment of cash or delivery of shares that otherwise would be due to such participant. The administrator may make rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws and may make all other determinations deemed necessary or advisable for administering the 2016 Plan. The administrator will issue all awards pursuant to the terms and conditions of the 2016 Plan.

The administrator may not implement a program allowing for the cancellation of awards in exchange for different awards and/or cash, the transfer of an outstanding award to a financial institution or other person or entity selected by the administrator, or the increase or reduction of the exercise price of any outstanding award.

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***Eligibility***

All types of awards may be granted to our non-employee directors and to employees and consultants of any parent, subsidiary, or affiliate corporation of ours. Incentive stock options may be granted only to employees of the Company or any parent or subsidiary corporation of the Company. As of July 31, 2016, we had approximately 956 employees (including one employee director), seven non-employee directors, and 144 consultants.

***Stock Options***

An option gives a participant the right to purchase a specified number of shares of our common stock for a fixed exercise price during a specified period of time. Each option granted under the 2016 Plan will be evidenced by an award agreement specifying the number of shares of our common stock subject to the option and the other terms and conditions of the option, consistent with the requirements of the 2016 Plan.

The exercise price per share of each option may not be less than the fair market value of a share of our common stock on the date of grant. However, any incentive stock option granted to a person who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of our stock or any parent or subsidiary corporation of ours (a "ten percent stockholder") must have an exercise price per share equal to at least 110% of the fair market value of a share on the date of grant. The aggregate fair market value of the shares (determined on the grant date) covered by incentive stock options which first become exercisable by any participant during any calendar year also may not exceed \$100,000. The fair market value of the common stock is generally the closing sales price of our stock as reported on the NASDAQ Stock Market.

Options will be exercisable at such times or under such conditions as determined by the administrator and set forth in the award agreement, but an option granted under the 2016 Plan generally cannot vest before the one-year anniversary of the date of grant unless the vesting of such option is accelerated due to a termination of the participant's service under certain circumstances, due to the participant's death or disability, or upon a Change in Control. However, an option may be granted without regard to this minimum vesting limitation as long as the shares subject to such option would not represent more than 5% of the shares subject to all outstanding options, stock appreciation rights, and awards of restricted stock units under the 2016 Plan.

Upon the termination of a participant's service, the unvested portion of the participant's option generally expires. The vested portion of the option will remain exercisable for the period following the participant's termination of service that was determined by the administrator and specified in the participant's award agreement, and if no such period was determined by the administrator, the vested portion of the option will remain exercisable for: (i) 3 months following a termination of the participant's service for reasons other than death or disability (and if the participant dies within the 3-month period, the period will be extended to one year from the date of the participant's death) or (ii) 12 months following a termination of the participant's service due to death or disability. However, if the exercise of an option is prevented by applicable law, the exercise period may be extended under certain circumstances described in the 2016 Plan. In no event will the option be exercisable after the end of the option's term.

The term of an option will be specified in the award agreement but may not be more than ten years (or five years for an incentive stock option granted to a ten percent stockholder).

The 2016 Plan provides that the administrator will determine the acceptable form(s) of consideration for exercising an option. An option will be deemed exercised when we receive the notice of exercise and full payment for the shares of our common stock to be exercised, together with applicable tax withholdings.

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***Stock Appreciation Rights***

A stock appreciation right gives a participant the right to receive the appreciation in the fair market value of our common stock between the date an award is granted and the date it is exercised. Upon exercise of a stock appreciation right, the holder of the award will be entitled to receive an amount determined by multiplying: (i) the difference between the fair market value of a share on the date of exercise and the exercise price by (ii) the number of exercised stock appreciation rights. We may pay the appreciation in cash, in shares of our common stock, or a combination of both. Each stock appreciation right granted under the 2016 Plan will be evidenced by an award agreement specifying the exercise price and the other terms and conditions of the award.

The exercise price per share of each stock appreciation right may not be less than the fair market value of a share of our common stock on the date of grant.

Stock appreciation rights will be exercisable at such times or under such conditions as determined by the administrator and set forth in the award agreement, but a stock appreciation right granted under the 2016 Plan generally cannot vest before the one-year anniversary of the date of grant unless the vesting of such stock appreciation right is accelerated due to a termination of the participant's service under certain circumstances, due to the participant's death or disability, or upon a Change in Control. However, a stock appreciation right may be granted without regard to this limitation as long as the shares subject to such stock appreciation right would not represent more than 5% of the shares subject to all outstanding options, stock appreciation rights, and awards of restricted stock units under the 2016 Plan.

The term of a stock appreciation right may not be more than ten years. The terms and conditions relating to the period of exercise of stock appreciation rights following the termination of a participant's service are similar to those for options described above.

***Restricted Stock Awards***

Awards of restricted stock are rights to acquire or purchase shares of our common stock that vest in accordance with the terms and conditions established by the administrator in its sole discretion. Unless otherwise provided by the administrator, a participant will forfeit any shares of restricted stock that have not vested by the termination of the participant's service. Each restricted stock award granted will be evidenced by an award agreement specifying the number of shares of our common stock subject to the award and the other terms and conditions of the award. The administrator will determine the vesting conditions that apply to an award of restricted stock, but if an award of restricted stock is intended to qualify as performance-based compensation under Section 162(m), the vesting conditions will be based on a specified list of performance goals and certain other requirements, as further discussed below.

Unless the administrator provides otherwise, participants holding shares of restricted stock will have voting rights and rights to dividends and other distributions with respect to such shares without regard to vesting. However, such dividends or other distributions will be subject to the same restrictions and forfeitability provisions that apply to the shares of restricted stock with respect to which they were paid. The administrator has the discretion to reduce or waive any restrictions and to accelerate the time at which any restrictions will lapse or be removed.

***Restricted Stock Units***

A restricted stock unit represents a right to receive cash or a share of our common stock if the performance goals or other vesting criteria set by the administrator are achieved or the restricted stock unit otherwise vests. Each award of restricted stock units granted under the 2016 Plan will be evidenced

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by an award agreement specifying the number of shares of our common stock subject to the award and other terms and conditions of the award.

The administrator may set vesting conditions based upon the achievement of company-wide, divisional, business unit or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws, or any other basis determined by the administrator, in its discretion, but an award of restricted stock units granted under the 2016 Plan generally cannot vest before the one-year anniversary of the date of grant unless the vesting of such award is accelerated due to a termination of the participant's service under certain circumstances, due to the participant's death or disability, or upon a Change in Control. However, an award of restricted stock may be granted without regard to this minimum vesting limitation as long as the shares subject to such award would not represent more than 5% of the shares subject to all outstanding options, stock appreciation rights, and awards of restricted stock units under the 2016 Plan. If an award of restricted stock units is intended to qualify as performance-based compensation under Section 162(m), the vesting conditions will be based on a specified list of performance goals and certain other requirements, as further discussed below.

After an award of restricted stock units has been granted, the administrator has the discretion to reduce or waive any restrictions or vesting criteria that must be met to receive a payout or to accelerate the time at which any restrictions will lapse or be removed. A participant will forfeit any unearned restricted stock units upon termination of his or her service. The administrator in its sole discretion may pay earned restricted stock units in cash, shares of our common stock, or a combination of both.

***Performance Units and Performance Shares***

Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. Performance units will have an initial value established by the administrator on or before the date of grant. Each performance share will have an initial value equal to the fair market value of a share on the grant date. Performance units and performance shares will result in a payment to a participant only if the performance goals or other vesting criteria set by the administrator are achieved or the awards otherwise vest.

Each award of performance units or performance shares granted under the 2016 Plan will be evidenced by an award agreement specifying the performance period and other terms and conditions of the award. The administrator may set vesting criteria based upon the achievement of company-wide, divisional, business unit or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws, or any other basis determined by the administrator, in its discretion. However, if an award of performance shares or performance units is intended to qualify as performance-based compensation under Section 162(m), the vesting conditions will be based on a specified list of performance goals and certain other requirements, as further discussed below.

After an award of performance units or performance shares has been granted, the administrator has the discretion to accelerate, reduce, or waive any performance objectives or other vesting provisions for such performance units or performance shares, but may not increase the amount payable at a given level of performance.

The administrator has the discretion to pay earned performance units or performance shares in the form of cash, shares of our common stock (which will have an aggregate fair market value equal to the earned performance units or performance shares at the close of the applicable performance period), or a combination of both.

A participant will forfeit any performance units or performance shares that have not been earned or have not vested as of the termination of his or her service with us.

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***Performance Goals***

The granting and/or vesting of awards of restricted stock, restricted stock units, performance shares and performance units, and other incentives under the 2016 Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) and may provide for a targeted level or levels of achievement, including: stock price, revenue, profit, bookings, cash flow, customer retention, customer satisfaction, net bookings, net income, net profit, operating cash flow, operating expenses, total earnings; earnings per share, diluted or basic; earnings per share from continuing operations, diluted or basic; earnings before interest and taxes; earnings before interest, taxes, depreciation, and amortization; pre-tax profit; net asset turnover; inventory turnover; capital expenditures; net earnings; operating earnings; gross or operating margin; profit margin, debt; working capital; return on equity; return on net assets; return on total assets; return on capital; return on investment; return on sales; net or gross sales; market share; economic value added; cost of capital; change in assets; expense reduction levels; debt reduction; productivity; new product introductions; delivery performance; individual objectives; and total stockholder return. Any performance goals may be used to measure the performance of our company as a whole or, except with respect to stockholder return metrics, to a region, business unit, affiliate or business segment, and performance goals may be measured either on an absolute basis, a per share basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, and, with respect to financial metrics, which may be determined in accordance with United States Generally Accepted Accounting Principles ("GAAP"), in accordance with accounting principles established by the International Accounting Standards Board ("IASB") or which may be adjusted when established to either exclude any items otherwise includable under GAAP or under IASB principles or include any items otherwise excludable under GAAP or under IASB principles. In all other respects, performance goals will be calculated in accordance with the Company's financial statements, generally accepted accounting principles, or under a methodology established by the administrator prior to or at the time of the issuance of an award and which is consistently applied with respect to a performance goal in the relevant performance period. In addition, the administrator will adjust any performance criteria, performance goal, or other feature of an award that relates to or is wholly or partially based on the number of, or the value of, any stock of the Company, to reflect any stock dividend or split, repurchase, recapitalization, combination, or exchange of shares or other similar changes in such stock. The performance goals may differ from participant to participant and from award to award.

To the extent necessary to comply with the performance-based compensation provisions of Section 162(m), with respect to any award granted subject to performance goals, and within the first 25% of the performance period and no more than 90 days following the commencement of the performance period (or such other time required or permitted by Section 162(m)), the administrator will, in writing: (i) designate one or more participants to whom an award will be made; (ii) select the performance goals applicable to the performance period; (iii) establish the performance goals, and amounts or methods of computation of the awards which may be earned for the performance period; and (iv) specify the relationship between performance goals and the amounts or methods of computation of such awards, as applicable, to be earned by each participant for such performance period. Following the completion of each performance period, the administrator will certify in writing whether the applicable performance goals have been achieved for such performance period. In determining the amounts earned by a participant, the administrator may reduce or eliminate (but not increase) the amount payable at a given level of performance to take into account additional factors that the administrator may deem relevant to the assessment of individual or corporate performance for the performance period. A participant will be eligible to receive payment pursuant to an award for a performance period only if the performance goals for such period are achieved.

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***Transferability of Awards***

Awards generally are not transferable other than by will or by the laws of descent or distribution. However, the administrator may permit an award other than an incentive stock option to be assigned or transferred during a participant's lifetime (i) under a domestic relations order, official marital settlement agreement, or other divorce or separation agreement, (ii) to a "family member" (within the meaning of Form S-8 under the Securities Act of 1933, as amended) in connection with the participant's estate plan, or (iii) or as required by law.

***Dissolution or Liquidation***

In the event of a proposed dissolution or liquidation of our company, the administrator will notify each participant as soon as practicable prior to the effective date of such proposed transaction. An award will terminate immediately prior to consummation of such proposed action to the extent the award has not been previously exercised.

***Change in Control***

The 2016 Plan provides that, in the event of a merger or Change in Control, each award will be treated as the administrator determines, including that each award be assumed or substantially equivalent awards substituted by the acquiring or succeeding corporation or its affiliate. The administrator will not be required to treat all outstanding awards the same in the transaction.

If the successor corporation does not assume or substitute for the award, the participant will fully vest in and have the right to exercise all of his or her outstanding options and stock appreciation rights, and all restrictions on restricted stock and restricted stock units will lapse. With respect to awards with performance-based vesting that are not assumed or substituted for, unless the applicable award agreement provides otherwise, all performance goals or other vesting criteria will be deemed achieved at target levels (prorated based on the portion of the performance period that has elapsed as of immediately prior to the transaction), and all other terms and conditions will be deemed met. In addition, if an option or stock appreciation right is not assumed or substituted for, the administrator will notify the participant in writing or electronically that the option or stock appreciation right will be exercisable for a period of time determined by the administrator, in its sole discretion, and the option or stock appreciation right will terminate upon the expiration of such period.

For awards granted to our non-employee directors that are assumed or substituted for in a merger or Change in Control, upon the termination of a non-employee director's service as a director of ours or the successor corporation (other than a voluntary resignation that is not made at the acquirer's request), then (i) the non-employee director will fully vest in and have the right to exercise all of his or her outstanding options and stock appreciation rights, (ii) all restrictions on the non-employee director's restricted stock and restricted stock units will lapse, and (iii) with respect to the non-employee director's awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at target levels (prorated based on the portion of the performance period that elapsed as of immediately prior to the transaction) and all other terms and conditions will be deemed met.

***Forfeiture Events***

Each award under the 2016 Plan will be subject to any clawback policy of ours, and the administrator also may specify in an award agreement that the participant's rights, payments, and benefits with respect to an award will be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events.

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The 2016 Plan includes a recoupment policy, which provides that in the absence of a clawback policy, in the event the Company is required to restate its financial results or materially reduce publicly disclosed backlog figures, the Board will review the conduct of executive officers in relation to the restatement. If the Board determines that an executive officer has engaged in misconduct, or otherwise violated the Company's Code of Conduct and Ethics, and that such misconduct or violation contributed to the restatement or to the improper inclusion of a proposed system sale in publicly disclosed backlog, then the Board may, in its discretion, take appropriate action to remedy the misconduct or violation, such as seeking reimbursement of any portion of any performance-based or incentive compensation paid or awarded to the executive officer that is greater than what would have been paid or awarded if calculated based on the restated financial results or materially reduced backlog figures, to the extent not prohibited by governing law.

The administrator may require a participant to forfeit, return, or reimburse us all or a portion of the award and any amounts paid under the award in order to comply with such clawback policy, the recoupment policy described above, or applicable laws.

***Termination or Amendment***

The 2016 Plan will automatically terminate ten years from the date of its adoption by the Board, unless terminated at an earlier time by the Board. The administrator may amend, alter, suspend, or terminate the 2016 Plan at any time; provided that no amendment may be made without stockholder approval to the extent approval is necessary or desirable to comply with any applicable laws. No amendment, alteration, suspension, or termination may impair the rights of any participant unless mutually agreed otherwise between the participant and the administrator.

**Summary of U.S. Federal Income Tax Consequences**

The following summary is intended only as a general guide to the U.S. federal income tax consequences of participation in the 2016 Plan. The summary is based on existing U.S. laws and regulations as of the Record Date, and there can be no assurance that those laws and regulations will not change in the future. The summary does not purport to be complete and does not discuss the tax consequences upon a participant's death, or the provisions of the income tax laws of any municipality, state or foreign country in which the participant may reside. As a result, tax consequences for any particular participant may vary based on individual circumstances.

***Incentive Stock Options***

A participant recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an option that qualifies as incentive stock option under Section 422 of the Code. If a participant exercises the option and then later sells or otherwise disposes of the shares of our common stock acquired through the exercise the option after both the two-year anniversary of the date the option was granted and the one-year anniversary of the exercise, the participant will recognize a capital gain or loss equal to the difference between the sale price of the shares and the exercise price, and we will not be entitled to any deduction for federal income tax purposes.

However, if the participant disposes of such shares either on or before the two-year anniversary of the date of grant or on or before the one-year anniversary of the date of exercise (a "disqualifying disposition"), any gain up to the excess of the fair market value of the shares of our common stock on the date of exercise over the exercise price generally will be taxed as ordinary income, unless the shares are disposed of in a transaction in which the participant would not recognize a loss (such as a gift). Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. Any ordinary income recognized by the participant

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upon the disqualifying disposition of the shares generally should be deductible by us for federal income tax purposes, except to the extent such deduction is limited by applicable provisions of the Code.

For purposes of the alternative minimum tax, the difference between the option exercise price and the fair market value of the shares of our common stock on the exercise date is treated as an adjustment item in computing the participant's alternative minimum taxable income in the year of exercise. In addition, special alternative minimum tax rules may apply to certain subsequent disqualifying dispositions of the shares or provide certain basis adjustments or tax credits for purposes.

***Nonstatutory Stock Options***

A participant generally recognizes no taxable income as the result of the grant of such an option. However, upon exercising the option, the participant normally recognizes ordinary income equal to the amount that the fair market value of the shares of our common stock on such date exceeds the exercise price. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of the shares of our common stock acquired by the exercise of a nonstatutory stock option, any gain or loss (based on the difference between the sale price and the fair market value on the exercise date) will be taxed as capital gain or loss. No tax deduction is available to us with respect to the grant of a nonstatutory stock option or the sale of the shares acquired through the exercise of the nonstatutory stock option.

***Stock Appreciation Rights***

In general, no taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant generally will recognize ordinary income in an amount equal to the fair market value of any shares of our common stock received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

***Restricted Stock Awards***

A participant acquiring shares of restricted stock generally will recognize ordinary income equal to the fair market value of the shares on the vesting date. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. The participant may elect, pursuant to Section 83(b) of the Code, to accelerate the ordinary income tax event to the date of acquisition by filing an election with the Internal Revenue Service no later than thirty days after the date the shares are acquired. Upon the sale of shares of our common stock acquired pursuant to a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value on the date the ordinary income tax event occurs, will be taxed as capital gain or loss.

***Restricted Stock Unit Awards***

There are no immediate tax consequences of receiving an award of restricted stock units. A participant who is awarded restricted stock units generally will be required to recognize ordinary income in an amount equal to the fair market value of shares of our common stock issued to such participant at the end of the applicable vesting period or, if later, the settlement date elected by the administrator or a participant. Any additional gain or loss recognized upon any later disposition of any shares received would be capital gain or loss.

***Performance Shares and Performance Unit Awards***

A participant generally will recognize no income upon the grant of a performance share or a performance unit award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of receipt in an amount equal to the cash received and the fair market value of any unrestricted shares of our common stock received. If the participant is an employee, such

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ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of any shares of our common stock received, any gain or loss, based on the difference between the sale price and the fair market value on the date the ordinary income tax event occurs, will be taxed as capital gain or loss.

**Section 409A**

Section 409A provides certain requirements for non-qualified deferred compensation arrangements with respect to an individual's deferral and distribution elections and permissible distribution events. Awards granted under the 2016 Plan with a deferral feature will be subject to the requirements of Section 409A. If an award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that award may recognize ordinary income on the amounts deferred under the award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an award that is subject to Section 409A fails to comply with Section 409A's provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation.

**Tax Effect for the Company**

We generally will be entitled to a tax deduction in connection with an award under the 2016 Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option) except to the extent such deduction is limited by applicable provisions of the Code. Special rules limit the deductibility of compensation paid to our chief executive officer and other "covered employees" as determined under Section 162(m) and applicable guidance. Under Section 162(m), the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, we can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met. These conditions include (among others) stockholder approval of the 2016 Plan and its material terms, setting limits on the number of awards that any individual may receive and for awards other than certain stock options and stock appreciation rights, establishing performance criteria that must be met before the award actually will vest or be paid. The 2016 Plan has been designed to permit (but not require) the plan administrator to grant awards that are intended to qualify as performance-based for purposes of satisfying the conditions of Section 162(m).

**THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF U.S. FEDERAL INCOME TAXATION UPON PARTICIPANTS AND THE COMPANY WITH RESPECT TO AWARDS UNDER THE 2016 PLAN. IT DOES NOT PURPORT TO BE COMPLETE AND DOES NOT DISCUSS THE IMPACT OF EMPLOYMENT OR OTHER TAX REQUIREMENTS, THE TAX CONSEQUENCES OF A PARTICIPANT'S DEATH, OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE, OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.**

**Number of Awards Granted to Employees and Directors**

The number of awards that an employee, director, or consultant may receive under the 2016 Plan is in the discretion of the administrator and therefore cannot be determined in advance. The following table sets forth: (i) the aggregate number of shares of common stock subject to options granted under the 2007 Plan during the fiscal year 2016 to each of our named executive officers; executive officers, as a group; directors who are not employees, as a group; and all employees who are not executive officers, as a group; (ii) the average per share exercise price of such options; (iii) the aggregate number of shares subject to RSUs, PSUs, and MSUs (at target) granted under the 2007 Plan during the fiscal year 2016 to each of our named executive officers; executive officers, as a group; directors who are not

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executive officers, as a group; and all employees who are not executive officers, as a group; and (iv) the grant-date value of shares subject to such RSUs, PSUs, and MSUs.

	Number of Shares Subject to Options Granted	Average Per Share Exercise Price of Option Grants	Number of Shares Subject to RSUs, PSUs, and MSUs Granted	Dollar Value of Options and RSUs, PSUs, and MSUs Granted(1)
Joshua H. Levine President and Chief Executive Officer	0	N/A	700,000	\$ 4,365,000
Kevin M. Waters Senior Vice President, Chief Financial Officer	0	N/A	255,000	\$ 1,450,525
Kelly Londy Executive Vice President, Chief Operating Officer	0	N/A	265,000	\$ 1,631,550
Alaleh Nouri Senior Vice President, General Counsel and Corporate Secretary	0	N/A	175,000	\$ 1,091,250
Executive officers as a group	0	N/A	1,395,000	\$ 8,538,325
Non-employee director group	0	N/A	119,315	\$ 839,979
Non-executive officers employee group	0	N/A	1,634,060	\$ 10,249,180

(1) Reflects the aggregate grant date fair value of awards computed in accordance with ASC 718.

**How Votes are Counted**

The 2016 Plan must be approved by a majority of the votes cast, meaning that the 2016 Plan will be approved only if the number of votes "FOR" approval of the 2016 Plan exceeds the number of votes "AGAINST" approval of the 2016 Plan.

**Board of Directors' Recommendation**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE 2016 EQUITY INCENTIVE PLAN.**

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**PROPOSAL THREE**

**APPROVAL OF AMENDED AND RESTATED 2007 EMPLOYEE STOCK PURCHASE PLAN AND THE NUMBER OF SHARES RESERVED FOR ISSUANCE THEREUNDER**

The stockholders are being asked to approve an amended and restated version of the Accuray Incorporated 2007 Employee Stock Purchase Plan (the "ESPP"). The ESPP was initially adopted in 2007 and subsequently was amended in 2014. The Board has approved an amended and restated version of the ESPP, the Accuray Incorporated Amended and Restated 2007 Employee Stock Purchase Plan (the "Amended ESPP"), subject to approval from the stockholders at this Annual Meeting. If the stockholders approve the Amended ESPP, the Amended ESPP will replace the current version of our ESPP (the "Existing ESPP"), effective as of the offering period commencing on December 1, 2016.

The Existing ESPP is scheduled to expire in January 2017, and we are asking stockholders to approve the Amended ESPP in order to extend the term of the ESPP and increase the shares of our common stock reserved for issuance thereunder by 1,000,000 shares. If the Amended ESPP is approved by our stockholders, the total number of shares of our common stock that will be reserved for issuance under the Amended ESPP will be 7,263,101 shares (inclusive of the foregoing 1,000,000 share increase), 2,251,009 shares of which will be available for issuance as of the date of the Annual Meeting. The Amended ESPP will no longer have an "evergreen" provision that automatically adds a specified number of shares of our common stock to the ESPP each year. The Amended ESPP also makes certain administrative changes that are consistent with best practices.

The ESPP is a significant component of our equity incentive program and provides our employees the opportunity to buy shares of our common stock at a discount through payroll deductions. We believe that offering an employee stock purchase program is crucial to our ability to continue to successfully compete for top talent in the technology industry and aligns the interests of employees and stockholders by enabling employees to acquire an ownership stake in the Company. Therefore, if stockholders do not approve the Amended ESPP, the expiration of the Existing ESPP in 2017 may limit our ability to offer competitive compensation to existing employees and qualified candidates.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE APPROVAL OF THE AMENDED AND RESTATED 2007 EMPLOYEE STOCK PURCHASE PLAN AND THE NUMBER OF SHARES RESERVED FOR ISSUANCE THEREUNDER.**

**Additional Information Regarding the ESPP**

The actual number of shares of our common stock that will be purchased under the Amended ESPP cannot be determined because such number will depend on a number of indeterminable factors (including the number of participants, the rates at which participants make contributions to the Amended ESPP, and our stock price). However, in fiscal years 2014, 2015 and 2016, the numbers of shares of our common stock purchased under the ESPP were 650,315 shares, 719,279 shares, and 729,259 shares, respectively.

438 employees participated in the most recently completed offering period, purchasing approximately 394,058 shares of our common stock (with an approximate value of \$2,147,616 on the date of purchase) at a purchase price of \$4.6325 per share. As of June 30, 2016, approximately 890 employees were eligible to participate in the ESPP.

As of June 30, 2016, there were 440 employees participating in the offering period then in progress under the ESPP.

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**Summary of the Amended ESPP**

The following paragraphs provide a summary of the principal features of the Amended ESPP and its operation. However, this summary is not a complete description of all of the provisions of the Amended ESPP and is qualified in its entirety by the specific language of the Amended ESPP. A copy of the Amended ESPP is provided as *Appendix B* to this proxy statement.

***General***

The purpose of the Amended ESPP is to provide eligible employees with an opportunity to purchase shares of our common stock through contributions, generally through payroll deductions. The Amended ESPP permits the Board or the Compensation Committee (referred to herein as the "administrator") to grant purchase rights that qualify for preferential tax treatment under Code Section 423 (the "423 Component"). In addition, the Amended ESPP authorizes the grant of purchase rights that do not qualify under Code Section 423 (the "Non-423 Component"), pursuant to rules, procedures or sub-plans adopted by our the Board or a committee of the Board (including the Compensation Committee) administering the Amended ESPP that are designed to achieve desired tax or other objectives.

***Administration***

The Amended ESPP will be administered by the Board or a committee consisting of at least two members of the Board, each of whom is a "non-employee director" for purposes of Rule 16b-3 under the Exchange Act. The Compensation Committee currently administers the Amended ESPP, but the Board may at any time exercise the rights and duties of the administrator of the Amended ESPP.

Subject to the terms and conditions of the Amended ESPP, the administrator has the power to interpret the Amended ESPP and the terms of the options; to adopt, interpret, amend, or revoke any rules for the administration, interpretation, and application of the Amended ESPP; to delegate ministerial duties to any of the Company's employees; to designate separate offerings under the Amended ESPP; to designate subsidiaries of the Company as participating in the 423 Component or Non-423 Component; to determine eligibility; to adjudicate all disputed claims filed under the Amended ESPP; to adopt rules and procedures regarding eligibility to participate, the definition of "compensation" for purposes of the Amended ESPP, handling of contributions, making of contributions to the Amended ESPP, establishment of bank or trust accounts to hold contributions, payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of stock certificates that vary with applicable local requirements; to determine that, to the extent permitted by Treasury Regulation Section 1.423-2(f), the terms of an option granted under the Amended ESPP or an offering to citizens or residents of a non-U.S. jurisdiction will be less favorable than the terms of options granted under the Amended ESPP or the same offering to employees resident solely in the U.S.; and to utilize the services of an agent to assist in the administration of the Amended ESPP. All actions taken and all interpretations and determinations made by the administrator will be final and binding upon all participants, the Company and all other interested persons.

***Eligibility***

Generally, our employees and the employees of our designated subsidiaries who customarily work more than 20 hours per week and more than five months per calendar year are eligible to participate in the Amended ESPP. However, no employee is eligible to participate in the Amended ESPP if, immediately after the election to participate, such employee would own stock (including stock such employee may purchase under outstanding rights under the Amended ESPP) representing 5% or more of the total combined voting power or value of all classes of our stock or the stock of any of our parent

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or subsidiary corporations. In addition, no employee is permitted to participate if the rights of the employee to purchase our common stock under the Amended ESPP and all similar purchase plans maintained by us or our subsidiaries would accrue at a rate which exceeds \$25,000 of the fair market value of such stock (determined at the time the right is granted) for each calendar year. As of June 30, 2016, approximately 890 employees were eligible to participate in the ESPP.

***Shares Reserved***

Subject to certain adjustments set forth in the Amended ESPP, our stockholders are being asked to approve an increase to the number of shares of our common stock reserved for issuance under the ESPP equal to 1,000,000 shares. Unlike the Existing ESPP, the Amended ESPP does not contain an annual "evergreen" provision that automatically increases the number of shares available for issuance under the ESPP each year. If the Amended ESPP is approved by our stockholders, the total number of shares of our common stock that will be reserved for issuance under the Amended ESPP will be 7,263,101 shares (inclusive of the foregoing 1,000,000 share increase), 2,251,009 shares of which will be available for issuance as of the date of the Annual Meeting.

***Enrollment***

Eligible employees become participants in the Amended ESPP by executing a subscription agreement and filing it with us 15 days (or such shorter or longer period as may be determined by the Amended ESPP's administrator) prior to the applicable enrollment date. By enrolling in the Amended ESPP, a participant is deemed to have elected to purchase the maximum number of whole shares of our common stock that can be purchased with the compensation withheld during each offering period for which the participant is enrolled. Once an employee becomes a participant in the ESPP, the employee automatically will participate in each successive offering period until the employee withdraws from the ESPP or the employee's employment with the Company or one of the Company's designated subsidiaries terminates.

***Terms***

*Offerings; exercise dates.* The Amended ESPP will have successive offering periods, with the length of each offering period determined by the administrator up to a maximum of 27 months. As currently operated, a new 12-month offering period will begin on June 1<sup>st</sup> and December 1<sup>st</sup> of each year during the term of the Amended ESPP. Each offering period will have two successive purchase periods (each approximately 6 months in length). Purchases will be made once during each purchase period on the last trading day of such purchase period (the "exercise date"). If the fair market value of a share of our common stock on the exercise date is less than the fair market value of a share of our common stock on the first trading day of the offering period, participants will be withdrawn from such offering period following their purchase of shares on the exercise date and will be automatically re-enrolled in a new offering period. The Amended ESPP's administrator may change the duration and timing of offering periods and purchase periods under the Amended ESPP.

*Price and payment.* Employees electing to participate in the Amended ESPP will authorize payroll deductions made on each pay day during each offering period until the employee instructs us to stop the deductions or until the employee's employment is terminated. Participants may contribute from 1% to 10% of their compensation through payroll deductions, and the accumulated deductions will be applied to the purchase of shares of our common stock on each exercise date. Compensation for purposes of the Amended ESPP includes an employee's base straight time gross earnings and commissions but excludes payments for overtime, shift premium, incentive compensation, incentive payments, bonuses, expense reimbursements, fringe benefits and other compensation. A participant generally may not make contributions into his or her account other than through payroll deductions. During an offering period, a participant generally may change the rate of payroll deductions, including

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reducing the contribution rate to 0%, but the administrator has the discretion to limit the type and number of such rate changes during any offering period. Participant contributions are generally credited to the participant's account, withheld in whole percentages (from 1% to 10% of "compensation"), and are included with the Company's general funds.

The purchase price per share of our common stock generally will be equal to 85% of the fair market value of a share of our common stock on the first trading day of the applicable offering period or, if lower, 85% of the fair market value of a share of our common stock on the last trading day of the applicable purchase period. No employee is permitted to purchase more than 2,500 shares during each purchase period. The administrator has the ability to change the purchase price per share of our common stock and purchase limits for future offering periods. The fair market value of a share of our common stock on any date generally will equal the closing sales price of a share on The NASDAQ Stock Market for such date, or if no sale occurred on such date, the first trading date immediately prior to such date during which a sale occurred, as reported in *The Wall Street Journal* or such other source as the Amended ESPP's administrator may deem reliable for such purposes.

*Termination of participation.* Employees may withdraw from an offering period and end their participation in the Amended ESPP at any time during the offering period. Once a participant withdraws from an offering period, however, that participant may not participate again in the same offering period and would be required to deliver a new subscription agreement to the Company in order to participate in a future offering period. In addition, participation in the Amended ESPP automatically will end in the event a participant ceases to qualify as an eligible employee for any reason. Upon termination of participation in the Amended ESPP, the former participant's payroll deductions not already used to purchase shares of our common stock under the Amended ESPP will be returned to him or her.

***Adjustments***

In the event of a stock split, reverse stock split, stock dividend, combination or reclassification of the Company's common stock, or any other increase or decrease in the number of shares effected without receipt of consideration by the Company, appropriate adjustments will be made to the number of shares of our common stock available for issuance under the Amended ESPP, the purchase price and number of shares of our common stock covered by options outstanding under the Amended ESPP, and the maximum number of shares of our common stock that may be purchased by each participant during each purchase period.

***Dissolution or Liquidation***

In the event of the Company's proposed dissolution or liquidation, the administrator will shorten any purchase periods then in progress by setting a new purchase date and any offering periods will end on the new purchase date. The new purchase date will be prior to the dissolution or liquidation. If the administrator shortens any purchase periods then in progress, the administrator will notify each participant in writing, at least ten business days prior to the new purchase date, that the purchase date has been changed to the new purchase date and that the right to purchase shares of our common stock under the ESPP will be exercised automatically on the new purchase date, unless the participant has already withdrawn from the offering period.

***Merger or Change in Control***

In the event of a merger or Change in Control (as defined in the Amended ESPP), the outstanding rights under the Amended ESPP will be assumed or an equivalent right substituted by the successor company or its parent or subsidiary. If the successor company or its parent or subsidiary refuses to assume the outstanding rights or substitute an equivalent right, then the purchase period

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then in progress will be shortened by setting a new exercise date prior to the effective date of the transaction and all outstanding purchase rights will automatically be exercised on the new exercise date. The purchase price will be equal to 85% of the fair market value of a share of our common stock on the first trading day of the applicable offering period in which an acquisition occurs or, if lower, 85% of the fair market value of a share of our common stock on the date the purchase rights are exercised.

***Termination or Amendment***

The Board may at any time and for any reason terminate or amend the Amended ESPP. Generally, no amendment may make any change in any option previously granted which adversely affects the rights of any participant without such participant's consent, provided that an offering period may be terminated by the Board if it determines that the termination of the offering period or the Amended ESPP is in the best interests of our company and our stockholders. To the extent necessary to comply with Section 423 of the Code, we will obtain stockholder approval of any amendment to the Amended ESPP.

Without stockholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Amended ESPP's administrator may change the offering periods or purchase periods, designate separate offerings, limit the frequency and/or number of changes in the amount withheld during an offering period, and establish such other limitations or procedures as it determines consistent with the Amended ESPP. In addition, in the event the Board determines that the ongoing operation of the Amended ESPP may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Amended ESPP to reduce or eliminate such accounting consequence. Such modifications or amendments will not require stockholder approval or the consent of any of the Amended ESPP's participants.

The Amended ESPP will remain in effect until terminated by the Amended ESPP's administrator.

***Plan Benefits***

Participation in the Amended ESPP is voluntary and is dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Accordingly, future purchases under the Amended ESPP are not determinable. Non-employee directors are not eligible to participate in the Amended ESPP. No purchases have been made under the Amended ESPP since its adoption by the Board.

**Summary of U.S. Federal Income Tax Consequences**

The following brief summary of the effect of the U.S. federal income taxation upon the participant and the Company with respect to the shares of our common stock purchased under the Amended ESPP does not purport to be complete and does not discuss the tax consequences of a participant's death or the income tax laws of any state or foreign country in which the participant may reside.

The Amended ESPP, and the right of U.S. participants to make purchases thereunder, is intended to qualify under the provisions of Sections 421 and 423 of the Code. Under these provisions, no income will be taxable to a participant until the shares of our common stock purchased under the Amended ESPP are sold or otherwise disposed of. Upon sale or other disposition of the shares, the participant will generally be subject to tax in an amount that depends upon the holding period. If the shares of our common stock are sold or otherwise disposed of more than two years from the first day of the applicable offering period and one year from the applicable date of purchase, the participant will recognize ordinary income measured as the lesser of (i) the excess of the fair market value of the shares of our common stock at the time of such sale or disposition over the purchase price or (ii) an amount equal to 15% of the fair market value of the shares of our common stock as of the first day of

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the applicable offering period. Any additional gain will be treated as long-term capital gain. If the shares of our common stock are sold or otherwise disposed of before the expiration of these holding periods, the participant will recognize ordinary income generally measured as the excess of the fair market value of the shares of our common stock on the date the shares are purchased over the purchase price. Any additional gain or loss on such sale or disposition will be long-term or short-term capital gain or loss, depending on how long the shares have been held from the date of purchase. The Company generally is not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant except to the extent of ordinary income recognized by participants upon a sale or disposition of shares of our common stock prior to the expiration of the holding periods described above.

**THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF THE U.S. FEDERAL INCOME TAXATION UPON PARTICIPANTS AND THE COMPANY UNDER THE AMENDED ESPP. IT DOES NOT PURPORT TO BE COMPLETE AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A PARTICIPANT'S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE, OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.**

**How Votes Are Counted**

The Amended ESPP must be approved by a majority of the votes cast, meaning that the Amended ESPP will be approved only if the number of votes "FOR" approval of the Amended ESPP exceeds the number of votes "AGAINST" approval of the Amended ESPP.

**Board of Directors' Recommendation**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE AMENDED AND RESTATED 2007 EMPLOYEE STOCK PURCHASE PLAN.**

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**PROPOSAL FOUR**

**RE-APPROVAL OF THE PERFORMANCE BONUS PLAN**

On September 21, 2016, the Compensation Committee of our Board unanimously re-approved the Accuray Incorporated Performance Bonus Plan (the "Bonus Plan") and directed that the Bonus Plan be submitted to stockholders at the Annual Meeting.

The purpose of the Bonus Plan is to motivate certain executives to achieve corporate or business unit performance objectives and to reward them with cash bonuses when those objectives are satisfied.

Section 162(m) of the Internal Revenue Code, as amended (the "Code"), generally denies a corporate tax deduction for annual compensation exceeding \$1 million paid to the chief executive officer and other "covered employees" as determined under Section 162(m) of the Code ("Section 162(m)") and applicable guidance. However, certain types of compensation, including qualified performance-based compensation, are generally excluded from this deductibility limit.

The Bonus Plan allows the Company the opportunity to choose to pay incentive compensation that is intended to be performance-based and therefore potentially fully tax deductible on the Company's federal income tax return. In order for compensation to qualify as performance-based, the plan under which the compensation is paid must (among other things) be approved by stockholders. By re-approving the Bonus Plan, the stockholders will be approving the material terms of the Bonus Plan (such as the eligibility requirements for participation in the Bonus Plan, performance measures upon which specific performance goals applicable to certain awards would be based, and limits on the compensation that could be made to participants), so that we may qualify performance-based cash incentives made under the Bonus Plan as "performance-based compensation" under Section 162(m). If stockholders do not approve the Bonus Plan, we will not use the Plan and it will be terminated. In that case, we may choose to pay bonuses or other incentives to our employees under another plan or arrangement.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE RE-APPROVAL OF THE PERFORMANCE BONUS PLAN.**

**Summary of the Bonus Plan**

The following paragraphs provide a summary of the main features of the Bonus Plan and its operation. However, this summary does not provide a complete description of all of the Bonus Plan's provisions and is qualified in its entirety by the specific language of the Bonus Plan. A copy of the Bonus Plan is provided as *Appendix C* to this proxy statement.

***Eligibility***

Our senior management, including our executive officers, are eligible to participate in the Bonus Plan and become participants in the Bonus Plan by being chosen at the sole discretion of the Compensation Committee. Because our executive officers are eligible to receive awards under the Bonus Plan, our executive officers have an interest in this proposal. No person is automatically entitled to participate in the Bonus Plan in any performance period, and participation in one performance period does not guarantee participation in any future performance period. We may also pay discretionary bonuses, or other types of compensation, outside of the Bonus Plan. As of September 30, 2016, approximately six of our senior management were eligible to participate in the Bonus Plan.

***Purpose***

The purpose of the Bonus Plan is to increase stockholder value and the success of the Company by motivating key executives to perform to the best of their abilities and achieve the Company's

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objectives. If certain requirements are satisfied, bonuses issued under the Plan may qualify as deductible "performance-based compensation" within the meaning of Section 162(m).

***Administration***

The Bonus Plan is administered by the Compensation Committee, consisting of no fewer than two independent members of the Board.

***Target Awards and Performance Goals***

Under the Bonus Plan, the Compensation Committee assigns each participant a target award and performance goal or goals for a performance period set by the Committee. The participant's target award typically will be expressed as a formula, a dollar amount or as a percentage of his or her base salary.

Each performance period will last for at least one fiscal quarter, one fiscal year or such longer period, as determined by the Compensation Committee in its discretion. More than one performance period may exist at any one time and the performance periods may vary in length.

For each performance period, the Committee will specify one or more performance goal(s) that must be achieved before an award actually will be paid to the participant for that performance period. The performance goals set by the Committee may require the achievement of objectives for one or more of the following: (i) cash flow (including operating cash flow or free cash flow), (ii) revenue (on an absolute basis or adjusted for currency effects), (iii) gross margin, (iv) operating expenses or operating expenses as a percentage of revenue, (v) earnings (which may include earnings before interest and taxes, earnings before taxes and net earnings), (vi) earnings per share, (vii) stock price, (viii) return on equity, (ix) total stockholder return, (x) growth in stockholder value relative to the moving average of the S&P 500 Index or another index, (xi) return on capital, (xii) return on assets or net assets, (xiii) return on investment, (xiv) economic value added, (xv) operating profit or net operating profit, (xvi) operating income, (xvii) operating margin, (xviii) market share, (xix) contract awards or backlog, (xx) overhead or other expense reduction, (xxi) credit rating, (xxii) objective customer indicators, (xxiii) new product invention or innovation, (xxiv) attainment of research and development milestones, (xxv) improvements in productivity, (xxvi) attainment of objective operating goals, (xxvii) contingent or non-contingent orders; and (xxviii) growth rates in any of such performance criteria. The performance criteria may differ for each participant.

The Compensation Committee may choose to set target goals: (1) in absolute terms, (2) in combination with another performance goal or goals, (3) in relative terms, (4) with respect to equity, assets or human resources of the Company, (5) against the performance of the Company as a whole or a specific business unit(s) (including acquired business units), business segment(s) or product(s) of the Company, (6) on a pre-tax or after-tax basis, (7) in accordance with United States Generally Accepted Accounting Principles ("GAAP") or non-GAAP basis, and/or (8) in accordance with accounting principles established by the International Accounting Standards Board ("IASB Principles") or non IASB Principles. Performance goals may differ from participant to participant, from performance period to performance period and from award to award. The Committee also will determine whether any element(s) (for example, the effect of mergers or acquisitions) will be included in or excluded from the calculations (whether or not such determinations result in any performance goal being measured on a basis other than GAAP).

***Payment of Awards***

After a performance period ends, the Compensation Committee will certify in writing the extent to which the specified performance goals actually were achieved. The actual award that is earned, if any, will be determined using an objective formula that increases or decreases the participant's award based

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on the level of actual performance attained. The Compensation Committee has discretion to reduce or eliminate (but not to increase) the actual award otherwise payable to any participant based on actual performance, which may include assessment of additional performance criteria not used to qualify a bonus as "performance-based compensation." In any case, the maximum bonus payment that any participant may receive under the Bonus Plan with respect to any bonuses earned in any fiscal year is \$3,000,000, even if actual performance versus the specified goals otherwise would entitle the participant to a greater payout.

All awards will be paid in cash as soon as is practicable following determination and certification of the award. The payment of an award may be deferred in a manner that complies with Section 409A if (i) the Compensation Committee determines such deferral necessary or desirable to preserve the deductibility of such award under Section 162(m), or (ii) the applicable participant, with the Compensation Committee's permission, elects to make such a deferral.

***Recoupment***

The Bonus Plan includes a recoupment policy, which provides that, in the event the Company is required to restate its financial results or materially reduce publicly disclosed backlog figures, the Board will review the conduct of executive officers in relation to the restatement. If the Board determines that an executive officer has engaged in misconduct, or otherwise violated the Company's Code of Conduct and Ethics, and that such misconduct or violation contributed to the restatement or to the improper inclusion of a proposed system sale in publicly disclosed backlog, then the Board may, in its discretion, take appropriate action to remedy the misconduct or violation, such as seeking reimbursement of any portion of any performance-based or incentive compensation paid or awarded to the executive officer that is greater than what would have been paid or awarded if calculated based on the restated financial results or materially reduced backlog figures, to the extent not prohibited by governing law.

***Amendment and Termination***

The Compensation Committee may amend, modify, suspend, or terminate the Bonus Plan, in whole or in part, at any time, including the adoption of amendments deemed necessary or desirable to correct any defect or supply omitted data or reconcile any inconsistency in the Bonus Plan or in any award granted thereunder. However, in no event may such amendment, modification, suspension, or termination (i) impair any prior Bonus Plan payments (unless the Compensation Committee determines that such amendment or modification is in the best interests of all persons to whom awards have previously been granted), (ii) increase the amount of compensation payable pursuant to any award, or (iii) cause compensation to fail to qualify as performance-based compensation for purposes of Section 162(m).

***Indemnification***

Our Board of Directors and Compensation Committee are generally indemnified by the Company for any liability arising from claims relating to the Bonus Plan.

**Summary of U.S. Federal Income Tax Consequences**

Under present federal income tax law, participants will recognize ordinary income equal to the amount of the award received in the year of receipt. That income will be subject to applicable income and employment tax withholding by the Company. If and to the extent that the Bonus Plan payments satisfy the requirements of Section 162(m) and otherwise satisfy the requirements for deductibility under federal income tax law, we will receive a deduction for the amount constituting ordinary income to the participant. Plan payments have been structured to qualify for the short-term deferral exception to Section 409A of the Code, which regulates certain deferred compensation arrangements.

Table of Contents**Awards to be Granted to Certain Individuals and Groups**

Because awards under the Bonus Plan are determined based on actual performance, it is not presently possible to determine the dollar amounts that will be received by participants in the Bonus Plan in fiscal 2017 or in future years. However, set forth below are the target awards approved by the Compensation Committee for fiscal 2017. Payment of an actual award will be subject to the achievement of the pre-established performance goals.

	<b>Dollar Value of Fiscal 2017 Target Award under Bonus Plan (\$)</b>
Joshua H. Levine President and Chief Executive Officer	\$ 852,000
Kevin M. Waters Senior Vice President, Chief Financial Officer	\$ 228,960
Kelly Londy Executive Vice President, Chief Operating Officer	\$ 337,875
Alaleh Nouri Senior Vice President, General Counsel and Corporate Secretary	\$ 190,850
Executive officers as a group	\$ 1,609,685
Non-executive director group	N/A
Non-executive officers employee group	\$ 385,120

**How Votes Are Counted**

The re-approval Bonus Plan must be approved by a majority of the votes cast, meaning that the Bonus Plan will be re-approved only if the number of votes "FOR" re-approval of the Bonus Plan exceeds the number of votes "AGAINST" re-approval of the Bonus Plan.

**Board of Directors' Recommendation**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RE-APPROVAL OF THE PERFORMANCE BONUS PLAN.**

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**PROPOSAL FIVE**

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

**General**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") requires us to submit to our stockholders for approval, on an advisory (non-binding) basis, no less frequently than once every three years, the compensation of our named executive officers ("NEOs," or each, an "NEO") as disclosed in our proxy statement in accordance with the SEC's rules (a "say-on-pay" vote). This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the philosophy, policies and practices described in this Proxy Statement. The Compensation Committee and Board have decided to hold advisory votes on our NEOs' compensation program annually until the next advisory vote on the frequency of future advisory votes on the compensation of our named executive officers occurs. Accordingly, unless the Compensation Committee and Board modifies its policy on the frequency of such future votes, the next advisory vote to approve the compensation of our NEOs will be held at the 2017 Annual Meeting of Stockholders. In this proposal, we are asking our stockholders to provide advisory approval of the compensation of our 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.

At the 2015 Annual Meeting of Stockholders, our stockholders expressed support for the compensation of the then-named executive officers, with approximately 82% of the votes cast for approval of the say-on-pay proposal. The Compensation Committee carefully evaluated the results of the fiscal 2015 say-on-pay vote in connection with its annual review of our executive compensation program more generally. After consideration, no material changes to our executive compensation program and policies for fiscal 2016 were made in response to the say-on-pay vote.

**Summary of Fiscal 2016 Executive Compensation Program**

In fiscal 2016, our executive compensation program was 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 urges you to consider the following factors, which are more fully discussed in the "*Compensation Discussion and Analysis*" section below:

*We link pay to performance.*

We target our NEO base salaries at the middle of the competitive market (as reported in the Radford January 2015 High-Tech Industry Survey) for companies with \$200 million to \$1 billion in annual revenue and based on an analysis of the compensation practices of a peer group of 15 medical device companies with whom we compete for executive talent, which are in our industry sector and/or which have comparable financial and organizational characteristics. In an effort to maintain this positioning and to appropriately reflect executive performance and responsibilities in fiscal 2016, the base salary of our Chief Executive Officer ("CEO") was moderately increased by approximately 3.5%, the base salaries of our Chief Financial Officer ("CFO") and Chief Operating Officer ("COO") were increased in recognition of their promotions and increased responsibilities, and the base salary of our General Counsel was increased to better align with the 50<sup>th</sup> percentile of the competitive market and her performance.

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The fiscal 2016 bonus pool was funded, in accordance with the funding methodology established at the beginning of the year, at approximately 19% of the target level. Each NEO's annual bonus was based solely on our actual performance as measured against three performance measures and the Compensation Committee did not exercise any discretion to decrease the award for any executive. Accordingly, for fiscal 2016, each NEO received approximately 19% of his or her target bonus award opportunity, ranging from \$33,835 to \$156,787.

Our executives, including the NEOs, were granted market stock unit ("MSU") awards in fiscal 2016 providing for the opportunity to earn shares of our common stock based on our actual total stockholder return ("TSR") as measured against the Russell 2000 Index over two-year and three-year performance periods. A target number of 200,000 shares are subject to the MSU award granted to our CEO and an aggregate target number of 185,000 shares are subject to the MSU awards granted to our other NEOs.

With respect to the MSU awards granted in fiscal 2014, the Compensation Committee calculated the number of shares of our common stock earned using a sliding scale based on stock price performance above and below the Russell 2000 benchmark, up to a maximum of 150% of the target number of shares. There were two performance periods, each beginning on July 1, 2013. The first performance period ended at the end of fiscal 2015 and the second performance period ended at the end of fiscal 2016. For the first performance period ending in fiscal 2015, the Compensation Committee determined that the performance requirements were met at 132.1% of target. For the second performance period ending in fiscal 2016, the Compensation Committee determined that the performance requirements were met at 70.5% of target.

*We have reasonable employment agreements.* Each NEO's employment agreement has reasonable post-employment cash benefit levels and contains a "double trigger" acceleration provision for unvested and unearned equity awards in the event of a change in control. For the terms of the employment agreements for our CEO and the other NEOs, please refer to the information set forth under "*Employment, Change in Control and Severance Arrangements*".

*We mitigate unnecessary compensation-related risk.* We have implemented robust Board and management-level processes to identify compensation-related risks, and we mitigate undue risk with business controls, including limits on payout levels under our annual incentive award plan and a compensation recovery ("clawback") policy that applies to both our annual cash incentive award and long-term incentive compensation plans.

*We have strong corporate governance standards.* The Compensation Committee has retained an independent compensation consultant and makes use of various analytical tools as part of its annual executive compensation review.

*We have adopted stock ownership requirements.* The Compensation Committee believes it is important for our executives and non-employee directors to hold a minimum amount of our equity securities in order to align their interests with those of our stockholders. Consistent with this belief, we have adopted a stock ownership policy with stock holding requirements for our executives and non-employee directors. All of our NEOs and non-employee directors are in compliance with these stock ownership requirements or are on track to be in compliance within the applicable timeframe specified in our stock ownership policy.

*No hedging or pledging transactions allowed.* Our insider trading policy prohibits all of our employees, including our NEOs, and our non-employee directors from engaging any speculative transactions in Company securities, including purchasing on margin, engaging in short sales, engaging in transactions in derivative securities, or engaging in any other forms of hedging

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transactions. Our employees, including our NEOs, and our non-employee directors are also prohibited from pledging or using Company securities as collateral for loans.

*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 senior executives, including our NEOs.

*We do not provide excise tax gross-ups.*

Our 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 proposal 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 NEOs 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. Broker non-votes, if any, will have no effect on the outcome of the vote. Because your vote is advisory, it will not be binding on the Board or the Compensation Committee. However, the Compensation Committee, which is responsible for designing and approving our executive compensation program, and the Board value the opinions expressed by our stockholders and will consider the outcome of the vote when making future compensation decisions for our NEOs.

**Board's Recommendation**

Based on the information provided above and within the "*Compensation Discussion and Analysis*" 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 NEOs as described in the Company's 2016 Proxy Statement, including the Compensation Discussion and Analysis section, the compensation tables, and the other narrative compensation disclosures."

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

Table of Contents**PROPOSAL SIX****RATIFICATION OF APPOINTMENT  
OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****General**

The Audit Committee of our Board (the "Audit Committee") has selected Grant Thornton LLP as our independent registered public accounting firm to perform the audit of our consolidated financial statements for the fiscal year ending June 30, 2017. Grant Thornton LLP has audited our consolidated financial statements since fiscal year 2007.

Stockholder ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2017 is not required by law, by the NASDAQ Stock Market listing requirements, by our Amended and Restated Certificate of Incorporation or by our Amended and Restated Bylaws ("Bylaws"). However, our Board is submitting the selection of Grant Thornton LLP to our stockholders for ratification as a matter of good corporate governance and practice. If the stockholders fail to ratify the appointment, the Audit Committee will reconsider whether or not to retain Grant Thornton LLP. Even if the selection is ratified, we may appoint a different independent registered public accounting firm during the fiscal year if the Audit Committee determines that such a change would be in the best interests of our Company and our stockholders.

Representatives of Grant Thornton LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from our stockholders.

**Audit and Non-Audit Services**

The Audit Committee is directly responsible for the appointment, compensation and oversight of our independent auditors. The Audit Committee retained Grant Thornton LLP to audit our consolidated financial statements for the fiscal year ended June 30, 2016. The estimated aggregate fees billed by Grant Thornton LLP for all services relating to fiscal 2016 and 2015 are as follows:

Service Category	Fiscal Year Ended June 30,	
	2016	2015
Audit Fees(1)	\$ 1,751,275	\$ 1,689,735
Audit Related Fees		
Tax Fees		
All Other Fees		
<b>Total</b>	<b>\$ 1,751,275</b>	<b>\$ 1,689,735</b>

(1)

Audit fees primarily consist of fees for professional services performed for the audit of our consolidated annual financial statements and the review of our unaudited quarterly financial statements. Audit fees also include fees for the audit of our internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, issuance of a comfort letter and fees for statutory audits.

In the above table, in accordance with the SEC's definitions and rules, "audit fees" are fees for professional services for the audit of our consolidated financial statements included in our Annual Report, for the review of our financial statements included in our quarterly reports on Form 10-Q, for the review of registration statements and issuance of consents and for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements except those not required by statute or regulation; "audit-related fees" are fees for assurance and related

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services that were reasonably related to the performance of the audit or review of our financial statements, including attestation services that are not required by statute or regulation; "tax fees" are fees for tax compliance, tax advice and tax planning; and "all other fees" are fees for any services not included in the first three categories.

**Audit Committee Pre-Approval Policies and Procedures**

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services and tax services, as well as, to a very limited extent, specifically designated non-audit services that, in the opinion of the Audit Committee, will not impair the independence of the registered public accounting firm. Pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, including the fees for the services performed to date. In addition, the Audit Committee also may pre-approve particular services on a case-by-case basis, as required.

**How Votes Are Counted**

The proposal 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 appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2017 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. Broker non-votes, if any, will have no effect on the outcome of the vote.

Stockholder ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2017 is not required by law. However, our Board is submitting the selection of Grant Thornton LLP to our stockholders for ratification as a matter of good corporate governance and practice. If the stockholders fail to ratify the appointment, the Audit Committee will reconsider whether or not to retain Grant Thornton LLP.

**Board of Directors' Recommendation**

**OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING JUNE 30, 2017.**

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**AUDIT COMMITTEE REPORT**

The Audit Committee is responsible for overseeing our accounting and financial reporting processes and internal control systems, the appointment, compensation, retention and oversight of Grant Thornton LLP, our independent registered public accounting firm, and audits of our financial statements, all pursuant to the Audit Committee's written charter. Grant Thornton LLP reports directly to the Audit Committee. The Audit Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties and to receive appropriate funding, as determined by the Audit Committee, from our Company for such advice and assistance.

Management is responsible for preparing our financial statements and for our financial reporting processes, accounting policies, systems of internal controls and disclosure controls and procedures. For our fiscal year ended June 30, 2016, Grant Thornton LLP was responsible for expressing an opinion on the effectiveness of our internal control over financial reporting. Grant Thornton LLP was also responsible for performing an independent audit and expressing an opinion on the conformity of our audited financial statements with accounting principles generally accepted in the United States. In this context, the Audit Committee hereby reports as follows:

1. The Audit Committee has reviewed and discussed our audited financial statements for fiscal 2016 with our management.
2. The Audit Committee has discussed with Grant Thornton LLP the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 16, *Communications with Audit Committees*, and Rule 2-07 of SEC Regulation S-X.
3. The Audit Committee has received the written disclosures and the letter from Grant Thornton LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and has discussed with Grant Thornton LLP its independence.
4. Based on the review and discussions referred to in paragraphs (1) through (3) above, the Audit Committee recommended to our Board that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016, for filing with the SEC.

**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

Dennis L. Winger, Chairperson  
Elizabeth Dávila  
Robert S. Weiss

*The foregoing Audit Committee report shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under these acts, except to the extent we incorporate by reference into such filings.*

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**COMPENSATION COMMITTEE REPORT**

This report, filed in accordance with Item 407(e)(5) of Regulation S- K, should be read in conjunction with the other information relating to executive compensation which is contained elsewhere in this Proxy Statement and is not repeated here.

In this context, the Compensation Committee hereby reports as follows:

1. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section contained in this Proxy Statement with management.
2. Based on the review and discussions referred to in paragraph (1) above, the Compensation Committee recommended to our Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

**COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS**

Louis J. Lavigne, Jr., Chairperson  
Elizabeth Dávila  
Jack Goldstein, Ph.D.

*The foregoing Compensation Committee Report shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under these acts, except to the extent that we expressly incorporate it by reference into such filings.*

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**COMPENSATION DISCUSSION AND ANALYSIS**

**Introduction**

This Compensation Discussion and Analysis provides information regarding the fiscal 2016 compensation program for our Named Executive Officers ("NEOs"), which includes our principal executive officer, our principal financial officer and our other two executive officers who at fiscal year-end were as follows:

Joshua H. Levine, our President and CEO;

Kevin Waters, our Senior Vice President and CFO (who was promoted to CFO on September 14, 2015);

Kelly Lundy, our Executive Vice President and Chief Operating Officer; and

Alaleh Nouri, our Senior Vice President, General Counsel and Corporate Secretary.

Under the SEC rules, our NEOs for fiscal 2016 also include Gregory Lichtwardt, our former Executive Vice President, Operations and CFO who retired and resigned from the Company effective September 14, 2015.

This Compensation Discussion and Analysis describes the material elements of our executive compensation program during fiscal 2016. It also provides an overview of our executive compensation philosophy, including our principal compensation policies and practices. Finally, it analyzes how and why the Compensation Committee arrived at its specific compensation decisions for our NEOs in fiscal 2016, and discusses the key factors that the Compensation Committee considered in determining NEO compensation.

**Fiscal 2016 Executive Summary**

*Fiscal 2016 Business Results*

In fiscal 2016, we achieved financial results that were lower than expected at the start of the fiscal year as follows:

Generated gross system dollars to backlog of \$278.4 million (measured on a constant foreign currency basis using the exchange rate set forth in our fiscal 2016 operating plan), which was 88% of our bonus plan target;

Achieved total revenue of \$388.2 million (measured on a constant foreign currency basis using the exchange rate set forth in our fiscal 2016 operating plan), which was 92% of our bonus plan target; and

Achieved adjusted EBITDA (excluding bonus accrual and certain other costs) of \$30.3 million, which was 56% of our bonus plan target.

The foregoing financial metrics are the measures selected by the Compensation Committee for our fiscal 2016 Performance Bonus Plan and are further discussed under the heading "*Fiscal 2016 Cash Incentive Award Opportunities and Payouts*" below.

*Compensation Philosophy*

Our NEOs' compensation for fiscal 2016 reflects our compensation philosophy of maintaining an executive compensation program that emphasizes paying for performance, drives business growth and links stockholder value and executive performance. Consistent with this philosophy, a significant portion of our NEOs' target total direct compensation in fiscal 2016 was comprised of variable cash incentives (i.e., annual bonus opportunities) and equity-based compensation, consisting of market stock unit



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awards ("MSUs") and time-based restricted stock unit awards ("RSUs"), in order to align compensation with our business performance and the long-term interests of our stockholders.

The compensation ultimately earned by our NEOs in fiscal 2016 reflects the fact that we did not fully achieve all of our performance objectives in fiscal 2016. As a result of our performance to plan in fiscal 2016, below-target annual cash incentives were earned by our NEOs in accordance with the terms of our Performance Bonus Plan (described below). In addition, as a result of our stock price performance, the shares of our common stock earned in respect of the second performance period beginning on July 1, 2013 and ending on June 30, 2016 under the market stock unit program adopted by the Compensation Committee for fiscal 2014 (the "2014 MSU Program") were issued at 70.5% of their target performance level. Similarly, no shares were earned or issued in respect of the first performance period beginning on July 1, 2014 and ending on June 30, 2016 under the market stock unit program adopted by the Compensation Committee for fiscal 2015 (the "2015 MSU Program") as a result of our stock price performance.

Target Pay Mix

The following charts illustrate the allocation of fiscal 2016 target total direct compensation for our NEOs (other than Mr. Lichtwardt) between base salary, variable cash incentives and equity-based compensation elements, excluding the one-time retention equity awards that were granted at the end of fiscal 2016 to our NEOs and other key employees, which are further discussed under the heading "*Significant Executive Compensation Actions*" below. Each of these elements, except base salary, is considered "at-risk" as it is directly dependent upon the achievement of pre-established performance goals and/or stock price performance. Mr. Lichtwardt retired and resigned from the Company on September 14, 2015 before the Compensation Committee had an opportunity to determine his target bonus opportunity and equity awards for fiscal 2016.

**CEO 2016 Target Pay Mix**

**Average Other NEO 2016 Target Pay Mix**

Significant Executive Compensation Actions

For fiscal 2016, the Compensation Committee again determined that new gross orders to backlog, revenue performance and improving adjusted EBITDA represented the objectives most important to creating long-term stockholder value. At the same time, the Compensation Committee sought to continue to properly incentivize and retain our current management team for fiscal 2016 because it believed that it had the right leadership in place to successfully execute our long-term business objectives. Accordingly, the Compensation Committee addressed the primary elements of our executive

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officers' compensation packages (base salary, annual cash incentive awards and equity awards) with these goals in mind. In addition, in light of our ongoing assessments of industry best practices and a desire to more closely align our executive officers' compensation with our performance, the Compensation Committee and Board took additional actions to enhance our executive compensation and governance practices for fiscal 2016 and intend to continue this practice going forward.

The significant actions taken by the Compensation Committee with respect to the compensation of our NEOs for fiscal 2016 were as follows:

*Base salaries.* The base salary of our CEO was increased by approximately 3.5% to \$688,275. The base salaries of our CFO and COO were increased to \$360,000 and \$425,000, respectively, in recognition of their promotions and increased responsibilities. The base salary of our General Counsel was increased by approximately 22.5% to \$336,900 to better align her salary with the 50<sup>th</sup> percentile of the competitive market and her performance. Mr. Lichtwardt's base salary was not increased for fiscal 2016.

*Funded the bonus pool for annual cash incentive awards for our NEOs at approximately 19% of the target award level.* The Compensation Committee determined that the fiscal 2016 annual cash incentive award payouts under our Performance Bonus Plan for our NEOs (other than Mr. Lichtwardt), collectively, would equal approximately 19% of their aggregate target award opportunity. Accordingly, for fiscal 2016, each NEO received approximately 19% of his or her target bonus award opportunity.

*Approved a performance-based equity program for fiscal 2016.* The Compensation Committee approved a market stock unit program for fiscal 2016 (the "2016 MSU Program"), which is designed to further tie NEO compensation to performance over two-year and three-year performance periods ending on October 31, 2017 and October 31, 2018, respectively, with the target number of shares of our common stock subject to such awards to be earned based on our total stockholder return ("TSR") measured against the Russell 2000 Index.

*Approved annual refresh equity awards.* In approving annual refresh equity awards, the Compensation Committee took into consideration the fact that, consistent with our compensation philosophy, such awards further increase our NEOs' stake in the Company, thereby reinforcing their incentive to manage our business as owners and tying a significant portion of their total compensation to our stock price performance. During fiscal 2016, the independent members of the Board granted our CEO an annual "refresh" award in October 2015 consisting of RSUs for 200,000 shares of our common stock and MSUs with a target number of 200,000 shares of our common stock under the 2016 MSU Program. The Compensation Committee granted:

- (i) Mr. Waters an annual "refresh" award in September 2015 (in connection with his promotion to CFO) and October 2015 consisting of RSUs for 65,000 shares of our common stock and MSUs with a target number of 65,000 shares of our common stock under the 2016 MSU Program;
- (ii) Ms. Lundy an annual "refresh" award in October 2015 (in connection with her promotion to COO) consisting of RSUs for 70,000 shares of our common stock and MSUs with a target number of 70,000 shares of our common stock under the 2016 MSU Program; and
- (iii) Ms. Nouri an annual "refresh" award in October 2015 consisting of RSUs for 50,000 shares of our common stock and MSUs with a target number of 50,000 shares of our common stock under the 2016 MSU Program.

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*Approved one-time retention RSU awards.* In May of 2016, we launched internal company initiatives and objectives with a three-year time horizon, which included, but were not limited to, achieving the goals of increased operating income and adjusted EBITDA margins that were discussed by our senior management during our Analyst and Investor Day presentation on May 20, 2016. In order to help drive such initiatives and achieve such objectives, we made organizational changes in June of 2016 that resulted in increased responsibilities for certain members of management and other key employees. Recognizing the importance of the continuity and continued dedication of the management team and other key employees to achieving such initiatives and objectives, and after carefully considering the equity participation of such employees, any increased responsibilities allocated to such employees, the highly competitive labor market in which we compete to attract and retain employees, and our other near term and long term business objectives, on June 30, 2016, the Compensation Committee (and, in the case of our CEO, the independent members of the Board) approved one-time retention RSU awards to certain members of management and other key employees, including, as follows:

- (i) our CEO was granted a time-based RSU award for 300,000 shares of our common stock; and
- (ii) our other NEOs were granted time-based RSU awards for an aggregate of 325,000 shares of our common stock.

The Board and Compensation Committee believe that time-based RSU awards have strong retention value and granting such awards to members of management and key employees, including our NEOs, was in the best interests of the Company and its stockholders given the importance of such personnel to achieving our internal company initiatives and objectives and any increased responsibilities allocated to them. For further information, please see *"One-Time RSU Retention Awards"* below.

*Reaffirmed our stock ownership requirements for our executive officers and non-employee directors by requiring mandatory ownership levels rather than suggested guidelines.*

Pay for Performance

We believe that there should be a strong relationship between pay and performance, and our executive compensation program reflects this belief. In particular, annual cash incentive awards and equity awards represent a significant portion of our executive compensation program, as reflected in the chart below. These variable compensation elements are considered "at-risk" as they are directly dependent upon the achievement of pre-established performance goals and/or stock price performance:

Our annual Performance Bonus Plan only funds if we achieve pre-established financial performance objectives, placing our NEOs' target annual cash incentive opportunities entirely at risk.

The ultimate value of our NEOs' time-based RSU awards is tied entirely to the performance of our stock price.

Our NEOs' MSU awards are contingent on our TSR performance over two-year and three-year performance periods relative to the TSR performance of the Russell 2000 Index.

As reflected in the chart below, based on our performance in fiscal 2016, a significant portion of the "at-risk" compensation was not earned because the bonus pool for annual cash incentive awards was funded at approximately 19% and each NEO received only a corresponding percentage of his or her target annual cash incentive opportunity.

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**FY 2016 NEO Target and Realized Compensation (\$ in thousands)**

Target compensation includes base salary, annual cash incentive plan compensation and equity awards but excludes other compensation as reported in the Summary Compensation Table under "*Executive Compensation*" below. Realized compensation includes base salary paid, the actual cash incentive bonus paid, the value of time-based RSUs vesting in fiscal 2016, and the grant date value of MSUs issued under the 2014 MSU Program that were earned based on the achievement of the performance threshold of the second performance period under the 2014 MSU Program, which began on July 1, 2013 and ended on June 30, 2016.

**Governance Standards and Executive Compensation Practices**

We maintain good governance standards in our executive compensation practices. The following policies and practices were in effect in fiscal 2016:

Our executive officers' employment agreements contain "double trigger" acceleration provisions for equity awards, which requires both a change in control of the Company and an involuntary termination of employment before the vesting of outstanding and unvested equity awards is accelerated.

Each of our Performance Bonus Plan, 2007 Incentive Award Plan, and the 2016 Equity Incentive Plan include provisions allowing for potential recovery of performance-based or incentive compensation paid to our executive officers if (i) we are required to restate our financial results or materially reduce publicly disclosed backlog figures and (ii) the compensation received by our executive officers who received awards under such plans is greater than would have been paid or awarded if calculated based on the restated financial results or the materially reduced backlog figures.

Generally, we do not provide perquisites or other personal benefits to our senior executives, including our NEOs. Our executive officers participate in broad-based company-sponsored health and welfare benefits programs on the same basis as our other full-time, salaried employees.

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We maintain separation of our Board of Directors Chairperson and Chief Executive Officer positions. We have operated with these roles separated for several years and continue to believe separation of the two roles is in the best interests of our stockholders.

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 senior executives, including our NEOs.

The Compensation Committee has engaged its own independent compensation consultant.

Our insider trading policy prohibits our employees, including our NEOs, and our directors from engaging any speculative transactions in our securities, including purchasing on margin, engaging in short sales, engaging in transactions in derivative securities, or engaging in any other forms of hedging transactions. Our employees, including our NEOs, and our directors are also prohibited from pledging or using our securities as collateral for loans.

**Results of "Say-on-Pay" Advisory Vote**

At our 2015 Annual Meeting of Stockholders, we provided our stockholders an opportunity to approve, on an advisory basis, the compensation of our NEOs (a so-called "say-on-pay" vote). At the 2015 Annual Meeting, stockholders expressed support for the compensation of our NEOs, with approximately 82% of the votes cast for approval of the "say-on-pay" proposal. The Compensation Committee carefully evaluated the results of the fiscal 2015 vote in connection with its annual review of our executive compensation program. After consideration, no material changes to our executive compensation program and policies for fiscal 2016 were made in response to the say-on-pay vote.

**Background and Compensation Philosophy**

To achieve our objectives, we need a highly talented and seasoned management team with the integrity, skills and dedication necessary to oversee a dynamic and growing organization and the vision to anticipate and respond to future market developments. Our executive officers must be capable of fulfilling our long-term business strategy, including expanding the growth of our products into the market.

The overarching compensation philosophy approved by the Compensation Committee for fiscal 2016, consistent with prior years, was to maintain an executive compensation program that emphasizes pay for performance, drives business growth and links stockholder value and executive interests.

The key objectives of the compensation philosophy include:

attracting, retaining, motivating and rewarding the top talent that is necessary to drive future business success;

linking short-term rewards with our performance and individual performance; and

linking long-term rewards with the creation of stockholder value.

The foregoing principles and objectives form the foundation of our executive compensation philosophy, which is reflected in the various compensation elements base salary, annual cash incentives, long-term incentives in the form of equity awards, and other benefits.

**Compensation Process**

The Compensation Committee oversees our executive compensation philosophy and administers our executive compensation program. The Compensation Committee is responsible for reviewing the performance and approving the compensation of our executive officers, including our NEOs (other than our CEO). The independent members of our Board are responsible for reviewing the performance



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of our CEO and approving his compensation. The Compensation Committee is also responsible for reviewing and recommending to the Board the compensation of our non-employee directors and establishing and regularly reviewing the compensation and benefits policies for our executive officers. For additional information on the Compensation Committee, including the scope of its authority, see "*Corporate Governance and Board of Directors Matters - Compensation Committee*," below.

At the beginning of each fiscal year, the Board, after consulting with management, establishes our corporate performance objectives, and the Compensation Committee, after consulting with management, reviews and approves the individual performance objectives for each executive officer (other than our CEO) and makes decisions with respect to any base salary adjustment, target annual cash incentive award opportunities, and equity awards for our executive officers, including our NEOs (other than our CEO), for the upcoming fiscal year. The independent members of the Board, based on the recommendations of the Compensation Committee, approves the individual performance objectives for our CEO and make decisions with respect to his base salary adjustment, target annual cash incentive award opportunities and equity awards. After the end of the fiscal year, the Compensation Committee assesses the performance of our executive officers, including our NEOs (other than our CEO), to determine the payouts for the annual cash incentive award opportunities for the previous year, and the independent members of the Board assess the performance of our CEO to determine his annual cash incentive award payout.

Role of Management

To aid in its deliberations, each fiscal year our CEO provides recommendations to the Compensation Committee regarding the individual compensation elements for each of our executive officers, including our NEOs (other than himself). Prior to formulating these recommendations, our CEO conducts an annual performance review of our other executive officers to evaluate their performance for the prior fiscal year based on the objectives previously established by the Compensation Committee. Our CEO then presents the results of these evaluations, along with his recommendations with regard to their compensation for the current fiscal year, including base salary adjustments, annual cash incentive award opportunities and payouts and equity awards, to the Compensation Committee for its consideration. In advance of making such recommendations, our CEO often consults with our Senior Vice President of Human Resources, who may discuss a range of pay for him to consider for executive officers other than our Senior Vice President of Human Resources and our CEO, which range is based on our compensation philosophy, market data provided by the Compensation Committee's independent compensation consultant, achievement of individual performance goals and objectives, and internal pay equity.

Our CEO also assists the Compensation Committee in formulating our performance objectives for that fiscal year and the individual performance objectives for each executive officer. The Compensation Committee reviews, discusses and modifies such recommendations as they deem appropriate.

Similarly, our CEO's performance is reviewed annually by the Compensation Committee as well as the other independent members of the Board as part of their deliberations with respect to his compensation. The Compensation Committee makes recommendations regarding the compensation of our CEO to the independent members of the Board, who approve all elements of our CEO's compensation.

Typically, our CEO is present at Compensation Committee meetings where executive compensation and corporate and individual performance are discussed and evaluated (except when his own compensation and performance are determined or reviewed). From time to time, our CFO, General Counsel, and Senior Vice President of Human Resources may also attend Compensation Committee meetings at which executive compensation matters are discussed and participate in those discussions (except when their own compensation and performance are discussed).

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Role of Compensation Consultant

The Compensation Committee has retained Compensia, Inc. ("Compensia") as its independent advisor to provide advice with respect to our executive and non-employee director compensation programs. Compensia advises the Compensation Committee with respect to trends in executive compensation, the development of the Peer Group (as defined below), the determination of compensation programs, the assessment of competitive pay levels and mix (for example, the proportion of fixed pay to incentive pay, and the proportion of annual cash pay to long-term incentive pay) and setting compensation levels. Compensia also consults with the Compensation Committee to formulate and design new programs to better align management performance with the interests of our stockholders.

Compensia did not perform any other services for us or the Compensation Committee in fiscal 2016. Based on its review, the Compensation Committee determined that Compensia's services did not raise any conflict of interest and, after consideration of the factors set forth in the NASDAQ Listing Standards, determined that Compensia was independent within the meaning of those rules.

Competitive Positioning

For fiscal 2016, the Compensation Committee allocated the compensation of our executive officers, including our NEOs, between cash and equity based on an analysis of the data reflected in the Radford January 2015 High-Tech Industry Survey (the "Radford Survey") for companies with \$200 million to \$1 billion in annual revenue, as well as an assessment of our performance and compensation practices against a peer group of 15 medical device companies (the "Peer Group") with whom we compete for executive talent, who are in our industry sector or who have comparable financial and organizational characteristics (collectively, the "Relevant Market Data"). The Peer Group of 15 medical device companies was recommended by Compensia and submitted to the Compensation Committee for its review and approval. The final Peer Group for fiscal 2016 was approved by the Compensation Committee in March 2015.

The criteria used to develop the fiscal 2016 Peer Group include the following:

*Primary Factors:*

Similar business focus (i.e., companies that develop and design highly technical medical devices);

Total revenue of approximately \$190 million to \$950 million; and

Headquartered in the United States.

*Secondary Factors:*

Employee population of up to approximately three and a half times our number of employees; and

Market capitalization of up to approximately four times our market capitalization.

The fiscal 2016 Peer Group remained largely the same as the peer group for fiscal 2015, except that ArthroCare Corporation and Volcano Corporation were removed as they were acquired and Affymetrix, Inc., Analogic Corporation, and ZELTIQ Aesthetics were added as they met many of the

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selection criteria described above, resulting in a fiscal 2016 Peer Group consisting of the following companies:

Affymetrix, Inc.	Haemonetics Corp.	Natus Medical Incorporated
Analogic Corporation	ICU Medical, Inc.	NuVasive, Inc.
AngioDynamics, Inc.	Integra LifeSciences Holdings Corporation	Omniceil, Inc.
CONMED Corporation	Masimo Corporation	Thoratec Corporation
Cyberonics, Inc.	Merit Medical Systems, Inc.	ZELTIQ Aesthetics, Inc.

The following table summarizes where we fell relative to the fiscal 2016 Peer Group when the Compensation Committee conducted its annual review of our executive compensation program at the end of fiscal 2015.

Criteria	Accuray FY 2015	Target for Peer Group	2016 Peer Group Median (Data as of 6/30/15)
Revenue (\$MM)	\$ 380	0.5x - 2.5x	\$ 484
Market Capitalization (\$MM)	\$ 535	0.5x - 4.0x	\$ 1,526
Employees	1,010	0.5x - 3.5x	1,300

The Compensation Committee annually reviews the composition of the Peer Group to ensure it is the most relevant set of companies to use for comparison purposes.

In evaluating the base salaries of our executive officers for fiscal 2016, establishing target annual cash incentive award opportunities and granting equity awards, the Compensation Committee reviewed the Relevant Market Data to inform its decisions on individual compensation elements, in particular the competitive reasonableness of such elements, and to ensure that its decisions were consistent with our compensation philosophy and strategy. While the Compensation Committee considered the Relevant Market Data, it did not make its decisions solely based on targeting compensation to specific benchmarks against the Relevant Market Data. Instead, the Compensation Committee took an approach consistent with its intention to (i) set performance milestones for cash incentive compensation so that target level payouts would only be made if our executive officers and the Company performed at a superior level that would be difficult to achieve and (ii) provide our executive officers with the ability to earn above-market compensation for exceptional performance in order to attract and retain the quality of executive officers necessary to successfully manage our business.

Tally Sheets

As part of our annual compensation process, with the assistance of Compensia, the Compensation Committee reviews each executive officer's compensation history for the past five years or, if an executive officer was hired within the past five years, since his or her date of hire, including each component of compensation and how it compared to the Relevant Market Data for the fiscal year. The Compensation Committee also reviews tally sheets setting forth the expected value of annual compensation and benefits for each NEO, including base salaries, potential annual cash incentive payouts and minimum and maximum levels, long-term incentive compensation, including the number of shares of our common stock subject to outstanding stock options, RSU and MSU awards granted and the fair value at grant, and the annualized cost of other benefits.

These tally sheets also set forth the accumulated value of benefits and compensation to each NEO, including the accumulated value of equity awards and the accumulated value of potential payouts under different separation scenarios, including under our post-employment compensation arrangements. Reviewing tally sheets each year facilitates the Compensation Committee's evaluation of the reasonableness of the total accumulated value of the compensation and benefits provided to each NEO. For fiscal 2016, the tally sheets served to assist the Compensation Committee in understanding the total

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annual compensation opportunity for each executive officer and relative compensation among our executive officers, but did not affect any specific decision relating to our NEOs' compensation.

**Compensation Elements**

During fiscal 2016, the compensation of our executive officers, including our NEOs, consisted of the following elements:

base salary;

an annual cash incentive award opportunity;

equity awards; and

other benefits.

Base Salary

We believe that a competitive base salary is the essential foundation to providing an appropriate total direct compensation package for our executives, including the NEOs. We use base salary to fairly and competitively compensate our executives for the jobs we ask them to perform. We view base salary as the most stable component of our executive compensation program, as this amount is not at risk.

The Compensation Committee makes adjustments to base salary when it believes there is a deviation from market based on a review of the Relevant Market Data, when an individual is promoted or assumes an increase in responsibility, or when the Compensation Committee determines that an individual's performance warrants an increase. The Compensation Committee reviews the base salary levels of our executives each year to determine whether an adjustment is warranted.

For fiscal 2016, the Compensation Committee (and, in the case of our CEO, the independent members of our Board) increased the base salaries of our NEOs from their fiscal 2015 levels. Our CEO's base salary was increased by approximately 3.5%. Mr. Waters' base salary was increased by approximately 34.4% in recognition of his increased responsibilities, having assumed the role of Senior Vice President and CFO. Ms. Londy's base salary was increased by approximately 6.25% in recognition of her increased responsibilities, having assumed the role of Executive Vice President, Chief Operating Officer. The base salary for Ms. Nouri was increased by approximately 22.5% to better align with the 50<sup>th</sup> percentile of the competitive market and in recognition of her individual performance. Mr. Lichtwardt's salary was not increased in fiscal 2016. The base salaries of our NEOs during fiscal 2016 were as follows:

Named Executive Officer	Fiscal 2016 Base Salary
Joshua H. Levine(1)	\$ 688,275
Kevin Waters(2)	\$ 360,000
Kelly Londy(3)	\$ 425,000
Alaleh Nouri(1)	\$ 336,900
Gregory Lichtwardt(4)	\$ 400,000

(1) This base salary became effective on October 1 of such year.

(2) This base salary became effective September 14, 2015 upon his promotion to CFO.

(3) This base salary became effective October 15, 2015 upon her promotion to COO.

(4)

Mr. Lichtwardt retired and resigned from the Company effective September 14, 2015.

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The annual base salaries paid to our NEOs are reported in the Summary Compensation Table under "*Executive Compensation*" below.

Annual Cash Incentives

Annual cash incentive awards under our Performance Bonus Plan serve to reinforce our performance-based culture. The Compensation Committee believes in providing our executive officers, including our NEOs, with a target total cash compensation opportunity above the market median tied to the achievement of challenging, pre-established corporate performance objectives. Historically, due to the challenging nature of the goals that the Compensation Committee has established, payouts under our Performance Bonus Plan have averaged approximately 50.9% of their target level from fiscal 2013 through fiscal 2015. As with base salary, each executive officer's target annual cash incentive award opportunity is set with reference to his or her performance over the previous fiscal year as evaluated by our CEO, his or her experience and responsibilities, the critical nature of his or her position relative to our success, our retention needs, and the Relevant Market Data.

During the first quarter of each fiscal year, the Compensation Committee reviews and approves the corporate performance measures and related target levels for the current fiscal year's annual cash incentive awards and reviews and approves the target annual cash incentive award opportunity for each executive officer, including our NEOs, but excluding our CEO, whose target annual cash incentive award opportunity is reviewed and approved by the independent members of our Board. The table below sets forth the target annual cash incentive award opportunity as a percentage of base salary and in absolute dollars. Except for Mr. Waters, whose target annual cash incentive award opportunity was increased from 40% to 60% in recognition of his increased responsibilities resulting from his promotion to CFO, and Ms. Nouri, whose target annual cash incentive award opportunity was increased from 50% to 55% to better align her target total cash compensation opportunity with the Relevant Market Data and her performance, the target annual cash incentive award opportunities were unchanged from the prior fiscal year for each NEO who was employed by us in the prior fiscal year. Mr. Lichtwardt, our former CFO, did not have a target annual cash incentive award opportunity under the Performance Bonus Plan for fiscal 2016 as he retired and resigned prior to the Compensation Committee's approval of such target annual cash incentive award opportunities for fiscal 2016. The Compensation Committee recognizes that the performance of certain of our NEOs has a greater potential to directly impact the successful implementation of our overall strategy and achievement of our financial and strategic performance and, given that the Performance Bonus Plan only includes corporate performance objectives, it believes it is appropriate that the target annual cash incentive award opportunities of these executive officers should be higher than the opportunities of the other NEOs.

**Fiscal 2016 Performance Bonus Plan Target Award Opportunities**

Named Executive Officer	Target	
	(%)	(\$)
Joshua H. Levine	120%	825,193
Kevin Waters(1)	60%	208,390
Kelly Londy	70%	294,673
Alaleh Nouri(2)	55%	178,078

- (1) This target annual cash incentive award opportunity reflects the increase approved by the Compensation Committee effective September 14, 2015 in connection with his promotion to CFO.
- (2) This target annual cash incentive award opportunity reflects the increase approved by the Compensation Committee effective September 28, 2015 as part of its annual compensation review process.

Table of ContentsFiscal 2016 Cash Incentive Award Opportunities and Payouts

Our executive officers, including our NEOs, are eligible to participate in the Performance Bonus Plan, which was adopted by the Compensation Committee and has been approved by our stockholders. For fiscal 2016, our annual cash incentive awards were designed to reward our executive officers, including our NEOs, based solely on our financial performance. In establishing the fiscal 2016 cash incentive award program, the Compensation Committee determined that the award opportunities for all of our executive officers, including our NEOs, should be directly linked to achieving corporate performance objectives.

The bonus pool under the Performance Bonus Plan only funds if the corporate performance objectives established by the Compensation Committee are achieved at pre-established threshold levels. For each NEO, 100% of the target annual cash incentive award payout is based on our performance, but is contingent on the funding of the bonus pool and, therefore, is entirely at risk. Accordingly, if the bonus pool does not fund, no executive officer would be entitled to any cash incentive award payout under the Performance Bonus Plan, regardless of his or her individual performance.

To the extent that the bonus pool is funded, the Performance Bonus Plan entitles each executive officer to 100% of the funded percentage of his or her target annual cash incentive award opportunity, provided that the Compensation Committee may exercise negative discretion to reduce the overall funding percentage and/or to reduce any individual award payout.

For fiscal 2016, the Compensation Committee established three corporate financial performance measures, gross system dollars into backlog, total revenue and adjusted EBITDA for purposes of the Performance Bonus Plan. These performance measures were applied in the same manner to all of our executive officers, including our NEOs. The Compensation Committee established target levels and minimum funding thresholds with respect to each performance measure, thereby requiring that we achieve the minimum threshold set for each measure in order for any funding to occur relative to that measure. The performance measures and their relative weightings, target levels and minimum funding thresholds for fiscal 2016, as well as the actual performance attained, were as follows:

Performance Measure	Weighting	Target	Minimum Threshold	Actual	% Plan Attained	% Weighted Funding
Gross System Dollars into Backlog	40%	\$315.5 million	\$284.0 million	\$278.4 million	88	0.0
Total Revenue	30%	\$419.8 million	\$377.8 million	\$388.2 million	92	19.0
Adjusted EBITDA	30%	\$53.9 million	\$40.5 million	\$30.3 million	56	0.0

Each performance measure other than adjusted EBITDA was calculated on a GAAP basis, consistent with the GAAP financial measures reported in our quarterly earnings releases adjusted for constant currency. The calculation of adjusted EBITDA, a non-GAAP financial measure, excluded any bonus accrual amounts, foreign exchange, costs related to the early settlement of our 3.75% Convertible Senior Notes due August 1, 2016, and costs related to an arbitration matter that was concluded in February 2016. All three measures were measured on a constant foreign currency basis using the exchange rate assumed in our fiscal 2016 operating plan. The Compensation Committee could, in its discretion, approve exclusions in the nature of one-time occurrences, extraordinary items or events outside management's control. To be reported in our backlog, an order must have met our fiscal 2016 backlog criteria as disclosed in our Annual Report on Form 10-K.

The Compensation Committee assessed corporate performance with respect to each of the three performance measures and determined whether threshold performance had been achieved for each measure. The funding with respect to each performance measure was based on a funding slope in a straight line from 50% at the minimum threshold level, to 100%, at the target level. In the event any of the performance measures had been achieved at greater than the target level, the funding would also

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be based on a straight line from 100% at target to the maximum funding opportunity at 120% funding for the total revenue and gross dollars into backlog measures and 150% funding for the adjusted EBITDA measure.

Based on our actual corporate performance results, the funding methodology resulted in funding of the bonus pool at approximately 19% of the target level. The target annual cash incentive award opportunities and actual payouts made to our NEOs in fiscal 2017 for fiscal 2016 performance were as follows:

**Fiscal 2016 Performance Bonus Plan Payouts**

Named Executive Officer	Target		Fiscal 2016 Total Actual Payout \$(1)
	(%)	(\$)	
Joshua H. Levine	120%	825,193	156,787
Kevin Waters	60%	208,390	39,594
Kelly Londy	70%	294,673	55,988
Alaleh Nouri	55%	178,078	33,835

(1)

The fiscal 2016 Total Actual Payout for each NEO is derived by multiplying the approximate 19% funding level by the gross cash wages earned by such NEO during fiscal 2016 as calculated in accordance with the Performance Bonus Plan.

The annual incentive award payouts for fiscal 2016 performance made to our NEOs are reported in the Summary Compensation Table under "*Executive Compensation*" below.

Equity Compensation

We believe that equity awards provide a strong alignment between the interests of our executive officers, including our NEOs, and our stockholders. Accordingly, the Compensation Committee seeks to provide motivation to our executive officers through the use of equity awards consistent with the reasonable management of our overall equity compensation expense and stockholder dilution. The Compensation Committee grants equity awards to our executive officers, including our NEOs, in the first quarter of each fiscal year, as a reward for past corporate and individual performance, as an incentive for future performance, and as a retention tool. Historically, these equity awards have consisted entirely of stock options and RSU awards, but in fiscal 2012, our executive officers were also granted performance-based RSU awards ("PSUs"). Since fiscal 2013, our executive officers have been granted MSU awards in addition to time-based RSU awards.

The size of an executive officer's equity award is determined by the Compensation Committee after considering his or her performance against his or her individual goals and objectives over the last fiscal year as evaluated by our CEO (or, in the case of our CEO, as evaluated by the independent members of our Board), an evaluation of his or her target total direct compensation, an evaluation of his or her accumulated equity holdings, the critical nature of his or her position relative to our success, our retention needs, the Relevant Market Data, internal equity, role hierarchy and such other factors as the Compensation Committee determines relevant.

Fiscal 2016 Annual Refresh Equity Awards

For fiscal 2016, our CEO recommended equity award amounts to the Compensation Committee for each of our executive officers, other than himself. The Compensation Committee reviewed our CEO's recommendations and, after assessing each of the factors described above, determined the equity awards to be granted for each executive officer as further described below. Equity awards for

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fiscal 2016 consisted of a mix RSUs and MSUs under the 2016 MSU Program. The Compensation Committee decided not to award stock options for fiscal 2016.

For our CEO, the independent members of our Board assessed his individual performance and the factors describe above to determine the equity awards to be granted to him and awarded him an award comprised of RSUs and MSUs, with each equity vehicle equally weighted.

*Fiscal 2016 MSU Program*

The Compensation Committee believes that linking a portion of our executive officers' equity awards to pre-established performance criteria better aligns their goals and incentives with both our strategic plans and the interests of our stockholders. In fiscal 2016, the Compensation Committee approved our 2016 MSU Program for our executive officers, including our NEOs, with two performance periods, each beginning on November 1, 2015 and ending on October 31, 2017 and October 31, 2018, respectively, further linking the compensation of the participants in this program to the creation of long-term stockholder value. For each award granted, 50% of the shares subject to the award will be earned at the end of each performance period, subject to meeting minimum performance thresholds and upward or downward adjustment based on our performance as further described below.

The 2016 MSU Program uses the Russell 2000 index as the performance benchmark and requires that our TSR meet that of the Russell 2000 for each performance period in order for the target number of shares of our common stock allocated to that performance period to be earned by each participating executive officer. The actual shares earned will be calculated on a sliding scale based on stock price performance above and below the Russell 2000 benchmark, up to a maximum of 150% of the target number of shares. For purposes of the 2016 MSU Program, TSR is measured as the average closing price for the last fiscal quarter of the performance period (adjusted for dividends, if any) minus the average closing price for the fiscal quarter preceding the performance period divided by the average closing price for the fiscal quarter preceding the performance period.

If our TSR for the relevant performance period is below that of the Russell 2000, for each percentage point that we have underperformed relative to the Russell 2000, the actual shares earned will be reduced below the target amount on a 3-for-1 basis. By way of example only, if our TSR is 5 percentage points below the Russell 2000's TSR for the performance period, the shares earned for that period will be 85% of the target amount ( $100\% - (5\% \times 3)$ ). If our TSR for the relevant performance period exceeds that of the Russell 2000, for each percentage point that we have overperformed relative to the Russell 2000, the actual shares earned will be increased above the target amount on a 2-for-1 basis, up to a maximum of 150% of target. By way of example only, if our TSR is 10 percentage points above the Russell 2000's TSR for the performance period, the shares earned for that period will be 120% of the target amount ( $100\% + (10\% \times 2)$ ).

The Compensation Committee believes using a single performance measure for the 2016 MSU Program is appropriate because the measure used is tied directly to stockholder return, which the Compensation Committee believes, ultimately, is the key indicator of whether our executive officers have performed well. In addition, the Compensation Committee set the target amount of the equity awards granted to our executive officers under the 2016 MSU Program at what it deemed was the appropriate level based on his or her performance, experience and retention needs, and assuming our performance would track to the index. If we do not perform as well as anticipated, the executive officers will therefore earn less than their target award amounts.

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In fiscal 2016, each NEO received equity awards in the amounts as follows:

Name	MSUs	
	Target Shares (#)	RSUs (#)(1)
Joshua Levine	200,000	200,000
Kevin Waters	65,000	65,000
Kelly Londy	70,000	70,000
Alaleh Nouri	50,000	50,000

(1)

Each RSU award vests in equal annual installments over four years starting from the vesting commencement date of such award.

One-Time RSU Retention Awards

In May of 2016, we launched internal company initiatives and objectives with a three-year time horizon, which included, but were not limited to, achieving the goals of increased operating income and adjusted EBITDA margins that were discussed by our senior management during our Analyst and Investor Day presentation on May 20, 2016. In order to help drive such initiatives and achieve such objectives, we made organizational changes in June of 2016 that resulted in increased responsibilities for certain members of management and other key employees. Recognizing the importance of the continuity and continued dedication of the management team and other key employees to achieving such initiatives and objectives, and after carefully considering the equity participation of such employees, any increased responsibilities allocated to such employees, the highly competitive labor market in which we compete to attract and retain employees, and our other near term and long term business objectives, we granted one-time retention RSU awards to certain members of management and other key employees, including our NEOs (other than Mr. Lichtwardt), on June 30, 2016. All such awards have a three-year vesting period to align them with the time horizon of the internal company initiatives and objectives that were launched in May of 2016.

Our Board and Compensation Committee contemplated having all or a portion of the retention awards consist of performance-based equity awards instead of having the awards being comprised solely of RSUs subject to time-based vesting. Ultimately, the Board and Compensation Committee believed that time-based RSUs have stronger retention value relative to performance-based awards, particularly given the challenging performance objectives in our MSU programs. Given the criticality to our future success of the experience and functions served by the recipients of the retention awards, including our NEOs, and to better align their compensation as a result of any increase in responsibilities, our Board and Compensation Committee determined that it was in our best interests and the best interests of our stockholders to grant these retention awards in the form of time-based RSU awards.

In fiscal 2016, each NEO received one-time RSU awards in the aggregate amounts as follows:

Name	One-Time Retention Grant
	RSUs (#)(1)
Joshua Levine	300,000
Kevin Waters	125,000
Kelly Londy	125,000
Alaleh Nouri	75,000

(1)

Each RSU award vests as to 33% of the aggregate number of shares subject to the award on each of the first anniversary and second anniversary of the grant date and 34% of the

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aggregate number of shares subject to the award on the third anniversary of the grant date.

Previously-Granted MSU Awards

With respect to the second performance period of the 2014 MSU Program, which ended on the last day of fiscal 2016, the Compensation Committee determined that, based on a comparison of our TSR relative to the TSR of the Russell 2000 Index, the awards had been earned at 70.5% of target. Accordingly, the shares of our common stock associated with the second performance period of the 2014 MSU Program were earned and issued to our NEOs in the following amounts:

Named Executive Officer	Target MSUs for Second Performance Period	Actual MSUs Earned for Second Performance Period
Joshua Levine	100,000	70,548
Kevin Waters	17,500	12,346
Kelly Londy	22,500	15,873
Alaleh Nouri(1)		

(1)

Ms. Nouri did not participate in the 2014 MSU Program.

With respect to the first performance period of the 2015 MSU Program, which ended on the last day of fiscal 2016, the Compensation Committee determined that, based on a comparison of our TSR relative to the TSR of the Russell 2000 Index, the awards had not been earned and, accordingly, the MSUs associated with the first performance period were cancelled. The second performance period of the 2015 MSU Program ends on the last day of fiscal 2017 and, to date, no shares of our common stock subject to the second performance period of the 2015 MSU Program have been earned.

The equity awards made to the NEOs in fiscal 2016 are reported in the Summary Compensation Table under "*Executive Compensation*" below. Additional information about these awards, including the number of shares subject to each award and the award's grant date fair value and applicable vesting schedules, is reported in the Grants of Plan-Based Awards Table under "*Executive Compensation*" below.

**Employment, Change in Control and Severance Arrangements**

Effective January 1, 2015, we entered into amended and restated employment agreements with each of our executive officers, including our NEOs, to document the material terms and conditions of each executive officer's employment, including his or her annual base salary and target annual cash incentive award opportunity. Each executive officer's employment agreement has a three year term (with automatic successive three year term renewal unless we or the executive officer provides timely notice of non-renewal) and specifies the payments and benefits that each executive officer will receive upon a potential termination of his or her employment under certain circumstances, including in connection with a change in control of the Company. In addition, these agreements protect our interests in the event of a termination of employment by stipulating the rights and responsibilities of the parties and prohibiting these individuals from engaging in certain specific activities harmful to us, including disclosing our confidential information, soliciting our employees, and engaging in certain competitive business activities.

These post-employment compensation arrangements were provided for the following reasons:

Assist us in retaining talented executives in a competitive market;

Permit our executive officers to focus on our business;

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Eliminate any potential personal bias of an executive officer against a transaction that is in our best interests and the best interests of our stockholders;

Avoid the need for, and costs associated with, individually negotiating severance payments and benefits with our executive officers at the time of termination of employment; and

Provide us with the flexibility needed to react to a continually changing business environment.

The Compensation Committee believes that these agreements serve several other important objectives. First, they provide a desired level of transparency, both within and outside the Company. Internal transparency benefits us by eliminating the need to negotiate severance payments and benefits on a case-by-case basis at the time of termination. They also assure our executive officers that their severance payments and benefits are based on a consistent framework that differentiates the level of payments and benefits between individuals based on their position and level of responsibility. In addition, this approach is easier for us to administer.

Generally, our executive officers, including our NEOs, are eligible for severance payments and benefits in the event of the termination of their employment by us without "cause" or by the executive officer for "good reason." In addition, our executive officers, including our NEOs, are eligible for certain enhanced severance payments and benefits in the event such termination of employment without cause or resignation for good reason occurs within three months prior to or 12 months following a change in control of the Company. We believe that the agreements offer payments and benefits that are generally comparable to the payments and benefits of similarly situated executives at the companies in our compensation peer group, in each case, provided that the executive officer executes a general release of claims in favor of the Company.

For additional information, see "*Potential Payments and Benefits Upon Termination or Change in Control*" below.

**Post-Employment Compensation Retirement Plans**

Other than our tax-qualified Section 401(k) employee savings plan described in the following paragraph, we do not currently maintain, nor do we have plans to provide, pension arrangements, retirement plans or nonqualified deferred compensation plans or arrangements for our executive officers, including our NEOs.

We maintain a tax-qualified Section 401(k) employee savings plan that provides all regular employees with an opportunity to save for retirement on a tax-advantaged basis. Under this plan, participants may elect to defer a portion of their annual compensation on a pre-tax basis and have it contributed to the plan subject to applicable annual Internal Revenue Code limits. Pre-tax contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to such participant's directions. We match 50% of participant contributions to the plan, up to a maximum contribution of six percent of base salary per participant per year. One hundred percent of our matching contributions made to the Section 401(k) employee savings plan on behalf of an employee vests on the first anniversary of such employee's service. As a tax-qualified retirement plan, contributions to the plan and earnings on those contributions are not taxable to participants until distributed from the plan and all contributions are deductible by us when made.

We view this plan as serving two important objectives. First, it encourages our executive officers, including our NEOs, and other employees to commit to long-term service with us. Second, it enables them to save a portion of their annual compensation for their eventual retirement.

Given that the amounts set aside for retirement under the plan are largely drawn from participants' annual compensation and our matching contribution is modest, the Compensation

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Committee does not consider plan participation when making compensation decisions for our executive officers, including our NEOs.

**Health, Welfare, and Other Employee Benefits (including Perquisites)**

We provide health and welfare benefits to our executive officers, including our NEOs, on the same terms and conditions as all of our full-time, salaried employees. These benefits include group medical, life, and disability insurance.

In circumstances where we are recruiting a candidate who would have to move to accept our job offer, we may agree to reimburse certain of such employee's relocation expenses.

Generally, we do not provide perquisites or other personal benefits to our executives, including our NEOs.

**Other Compensation Policies**

Stock Ownership Requirements

The Board has adopted Corporate Governance Guidelines to help ensure that we are managed in the best long-term interests of our stockholders, to promote effective functioning of the Board and its committees and to provide a flexible framework within which the Board may conduct its oversight of our business. The Corporate Governance Guidelines require that certain executive officers and non-employee members of the Board own shares of our common stock as follows:

*Non-Employee Directors:* the number of shares having a value equal to at least three times the non-employee director's regular annual cash retainer (excluding committee retainer);

*Chief Executive Officer:* the greater of (a) the number of shares having a value equal to three times his annual base salary and (b) 175,000 shares;

*Chief Financial Officer, Chief Operating Officer and any other Executive Vice President:* the greater of (a) the number of shares having a value equal to one times his or her annual base salary and (b) 40,000 shares; and

*General Counsel:* the greater of (a) the number of shares having a value equal to one times her annual base salary and (b) 17,500 shares.

We expect each executive officer and non-employee director to retain at least 25% of the net shares of our common stock he or she receives pursuant to all equity awards received from us (excluding shares sold to cover (i) the exercise price of any stock options and/or (ii) associated taxes), until the foregoing ownership levels are achieved. As of the last day of fiscal 2016, all of the NEOs and all non-employee directors were in compliance with such stock ownership requirements or were on track to be in compliance within the appropriate timeframe specified in the Corporate Governance Guidelines.

Compensation Recovery ("Clawback") Policy

The Performance Bonus Plan, 2007 Incentive Award Plan, and the 2016 Equity Incentive Plan each include a compensation recovery ("clawback") provision, which provides that, in the event we are required to restate our financial results or materially reduce publicly disclosed backlog figures, our Board will review the conduct of executive officers in relation to the restatement. If it determines that an executive officer has engaged in misconduct, or otherwise violated our Code of Conduct and Ethics, and that such misconduct or violation contributed to the restatement or to the improper inclusion of a proposed system sale in publicly disclosed backlog, then our Board may, in its discretion, take appropriate action to remedy the misconduct or violation, including, without limitation, seeking

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reimbursement of any portion of any performance-based or incentive compensation paid or awarded to the executive officer that is greater than what would have been paid or awarded if calculated based on the restated financial results or materially reduced backlog figures, to the extent not prohibited by governing law. These provisions will be updated and revised consistent with any changes in applicable laws, including the adoption of rules implementing Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Equity Award Grant Practices

Historically, the Compensation Committee has granted stock options, RSU awards and/or performance-based equity awards (PSUs or MSUs) to our employees, including our executives, when they first join us. Typically, new hire stock options, RSU awards and performance-based equity awards are granted at the first meeting of the Compensation Committee in the month following an employee's first day of employment.

Follow-on awards are considered as part of our fiscal review process. We do not seek to time the grant of stock options, RSU awards or performance-based equity awards to take advantage of information, either positive or negative, about the Company that has not been publicly disclosed.

We grant stock options with an exercise price that is equal to the fair market value of a share of our common stock on the date of grant. We do not have a policy of granting stock options with an exercise price that is less than the fair market value of our common stock. The exercise price for our stock options is based on the closing price per share of our common stock as reported on the NASDAQ Global Select Market on the date of grant.

Insider Trading, Anti-Hedging and Pledging Policy

We maintain an insider trading policy that prohibits trading in shares of our common stock while in possession of material, non-public information, unless trading is in connection with a previously established Exchange Act Rule 10b5-1 plan, or if sold automatically by us on the date of vesting to cover and pay the withholding tax requirements in accordance with Company policy. In addition, our insider trading policy prohibits all of our employees, including our NEOs, and the non-employee members of the Board from engaging any speculative transactions in our securities, including purchasing on margin, engaging in short sales, engaging in transactions in put options, call options or other derivative securities, or engaging in any other forms of hedging transactions.

Our employees, including our NEOs, and the non-employee members of the Board are also prohibited from pledging or using our securities as collateral for loans.

**Tax Considerations**

Section 162(m) Deductibility of Remuneration in Excess of \$1 Million

Section 162(m) of the Code limits the amount that we may deduct as compensation expense for federal income tax purposes with respect to the remuneration paid to our CEO and each of our three other most highly compensated executive officers (other than our CFO) to \$1 million per person per year. There are certain exemptions to this deduction limit, including an exemption for remuneration that qualifies as "performance-based compensation" (that is, certain compensation that is payable solely upon achieving objective performance criteria).

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The Compensation Committee seeks to operate our executive compensation program to maximize the deductibility of the remuneration paid to our NEOs to the extent that it believes that doing so is in our best interests. Consequently, in determining which compensation elements are to be paid to our executives, and how they are weighted, the Compensation Committee takes into account whether a particular form of compensation will be deductible under Section 162(m) but retains discretion to award compensation that is not deductible under Section 162(m). In addition, the Company's 2007 Incentive Award Plan and 2016 Equity Incentive Plan have each been designed to permit the Compensation Committee to grant stock options and other stock awards which will qualify as "performance-based compensation" under Section 162(m). The rules and regulations promulgated under Section 162(m) are, however, complicated and subject to change from time to time, sometimes with retroactive effective. In addition, a number of requirements must be met for particular compensation to so qualify. As such, there can be no assurance that any compensation awarded or paid under our 2007 Incentive Award Plan or 2016 Equity Incentive Plan will be fully deductible under all circumstances.

While we cannot predict how the \$1 million deduction limit may impact our executive compensation program in future years, the Compensation Committee intends to maintain an approach to executive compensation that strongly links pay to performance. However, the Compensation Committee may, in its judgment, authorize and pay compensation that does not satisfy the requirements of this or any of the other exemptions to the \$1 million deduction limit when it believes that such compensation is necessary and appropriate to attract and retain key executives.

**EXECUTIVE COMPENSATION**

**Fiscal 2016 Summary Compensation Table**

The following table sets forth the compensation for each of fiscal years 2016, 2015, and 2014 earned by the following persons, who we refer to as our named executive officers or NEOs:

our current principal executive officer;

our current principal financial officer;

our former principal financial officer who retired and resigned effective as of September 14, 2015; and

our two other most highly compensated executive officers who were serving as executive officers at the end of fiscal 2016.

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Name and Principal Position	Year	Salary \$(1)	Bonus (\$)	Non-Equity Incentive			Total (\$)	
				Stock Awards \$(2)	Option Award \$(2)	Plan Compensation \$(3)		All Other Compensation \$(4)
Joshua H. Levine, President and Chief Executive Officer	2016	682,188		4,365,000		156,787	24,558	5,228,533
	2015	662,481		2,974,500		333,890	30,567	4,001,438
	2014	637,519		3,270,250		857,592	18,401	4,783,762
Kevin Waters,(5) Senior Vice President, Chief Financial Officer	2016	343,975		1,450,525		39,594	9,972	1,844,066
	2015							
	2014							
Kelly Londy, Executive Vice President, Chief Operating Officer	2016	417,500		1,631,550		55,988	4,557	2,109,595
	2015	401,539		640,245		118,052	5,226	1,165,062
	2014	368,077		342,000		310,240	7,077	1,027,394
Alaleh Nouri, Senior Vice President, General Counsel and Corporate Secretary	2016	320,711		1,091,250		33,835	5,643	1,451,439
	2015	276,058	37,500(6)	121,350		57,972	5,081	497,961
	2014	255,574	37,500(6)	331,193		99,112	8,893	732,272
Gregory Lichtwardt,(7) Executive Vice President, Operations and Chief Financial Officer	2016	145,561					273,571	419,132
	2015	390,116		576,219		114,694	614	1,081,643
	2014	292,989(8)		1,794,375		255,671	631	2,343,666