ACCURAY INC
Form 10-Q
February 08, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018

or

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

For the transition period from to

Commission File Number: 001-33301

ACCURAY INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-8370041
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

1310 Chesapeake Terrace

Sunnyvale, California 94089

(Address of Principal Executive Offices Including Zip Code)

(408) 716-4600

(Registrant’s Telephone Number, Including Area Code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

As of January 31, 2019, there were 87,879,541 shares of the Registrant’s Common Stock, par value $0.001 per share, outstanding.

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We own or have rights to various trademarks and tradenames used in our business in the United States or other countries, including the following: Accuray®, Accuray Logo®, CyberKnife®, Hi Art®, RayStation®, RoboCouch®, Synchrony®, TomoTherapy®, Xsight®, Accuray Precision®, AutoSegmentation™, CTrue™, H™ Series, iDMS®, InCise™, Iris™, M6™ Series, OIS Connect™, PlanTouch®, PreciseART®, PreciseRTX®, Treatment Planning System™, QuickPlan®, TomoDirect™, TomoEdge™, TomoH®, TomoHD®, TomoHDA™, TomoHelical™, Tomo Quality Assurance™, Radixact®, Onrad ™, StatRT™, and VoLO™. Imaging Ring® is a registered trademark belonging to medPhoton GmbH. RayStation® is a registered trademark belonging to RaySearch Laboratories, AB.

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

Accuray Incorporated

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except share amounts and par value)

	December 31, 2018	June 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$59,428	$83,083
Restricted cash	5,182	9,830
Accounts receivable, net of allowance for doubtful accounts of $539 and $251 as of December 31, 2018 and June 30, 2018, respectively	86,333	65,994
Inventories	119,494	108,540
Prepaid expenses and other current assets	18,476	15,569
Deferred cost of revenue	273	1,141
Total current assets	289,186	284,157
Property and equipment, net	21,103	23,698
Goodwill	57,764	57,855
Intangible assets, net	750	821
Restricted cash	742	620
Other assets	16,528	11,576
Total assets	$386,073	$378,727
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$31,396	$19,694
Accrued compensation	20,883	28,992
Other accrued liabilities	24,101	22,448
Customer advances	19,900	22,896
Deferred revenue	72,726	75,404
Total current liabilities	169,006	169,434
Long-term liabilities:		
Long-term other liabilities	10,693	8,608
Deferred revenue	23,406	20,976
Long-term debt	136,823	131,077
Total liabilities	339,928	330,095

Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.001 par value; authorized: 200,000,000 shares as of December 31, 2018 and June 30, 2018, respectively; issued and outstanding: 87,885,603 and 86,129,256 shares at December 31, 2018 and June 30, 2018, respectively	88	86
Additional paid-in-capital	528,254	521,738
Accumulated other comprehensive income	759	1,093
Accumulated deficit	(482,956)	(474,285)
Total stockholders' equity	46,145	48,632
Total liabilities and stockholders' equity	$386,073	$378,727

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

Accuray Incorporated

Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss

(in thousands, except per share amounts)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net revenue:				
Products	$48,051	$47,106	$89,568	$86,022
Services	54,267	53,223	108,579	105,257
Total net revenue	102,318	100,329	198,147	191,279
Cost of revenue:				
Cost of products	29,062	26,857	53,586	48,959
Cost of services	34,876	34,117	68,302	64,859
Total cost of revenue	63,938	60,974	121,888	113,818
Gross profit	38,380	39,355	76,259	77,461
Operating expenses:				
Research and development	13,640	14,664	27,529	28,757
Selling and marketing	15,139	13,872	28,175	28,629
General and administrative	10,469	11,836	26,111	23,144
Total operating expenses	39,248	40,372	81,815	80,530
Loss from operations	(868)	(1,017)	(5,556)	(3,069)
Other expense, net	(3,321)	(3,738)	(7,304)	(10,309)
Loss before provision for income taxes	(4,189)	(4,755)	(12,860)	(13,378)
Provision for (benefit from) income taxes	451	(36)	986	723
Net loss	$(4,640)	$(4,719)	$(13,846)	$(14,101)
Net loss per share - basic and diluted	$(0.05)	$(0.06)	$(0.16)	$(0.17)
Weighted average common shares used in computing net loss per share:				
Basic and diluted	87,237	84,586	86,858	84,167
Net loss	$(4,640)	$(4,719)	$(13,846)	$(14,101)
Foreign currency translation adjustment	61	212	(334)	558
Unrealized gain on investments, net of tax	—	102	—	124
Comprehensive loss	$(4,579)	$(4,405)	$(14,180)	$(13,419)

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

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Accuray Incorporated

Unaudited Condensed Consolidated Statements of Stockholders' Equity

(in thousands, except share amounts)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance at June 30, 2018	86,129,256	$ 86	$ 521,738	$ 1,093	$ (474,285)	$ 48,632
Exercise of stock options, net	3,500	—	14	—	—	14
Issuance of restricted stock	367,504	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	—	—	—	—	—	—
Share-based compensation	—	—	2,947	—	—	2,947
Tax withholding upon vesting of restricted stock units	—	—	—	—	—	—
Adoption of new revenue recognition standard	—	—	—	—	5,114	5,114
Net loss	—	—	—	—	(9,206)	(9,206)
Cumulative translation adjustment	—	—	—	(395)	—	(395)
Balance at September 30, 2018	86,500,260	$ 86	$ 524,699	$ 698	$ (478,377)	$ 47,106
Exercise of stock options, net	14,550	—	58	—	—	58
Issuance of restricted stock	1,054,539	2	(2)	—	—	—
Issuance of common stock under employee stock purchase plan	442,051	—	1,540	—	—	1,540
Share-based compensation	—	—	1,959	—	—	1,959
Tax withholding upon vesting of restricted stock units	(125,797)	—	—	—	—	—
Adoption of new revenue recognition standard	—	—	—	—	61	61
Net loss	—	—	—	—	(4,640)	(4,640)
Cumulative translation adjustment	—	—	—	61	—	61
Balance at December 31, 2018	87,885,603	88	528,254	759	(482,956)	46,145

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

Accuray Incorporated

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Six Months Ended December 31,	
	2018	2017
Cash flows from operating activities		
Net loss	$(13,846)	$(14,101)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,174	5,007
Share-based compensation	4,899	5,870
Amortization of debt issuance costs	764	868
Amortization and accretion of discount and premium on investments	—	(10)
Accretion of interest on debt	1,626	1,727
Provision for bad debt	3,615	22
Provision for write-down of inventories	1,302	1,189
Loss on disposal of property and equipment	156	11
Loss on extinguishment of debt	—	3,192
Changes in assets and liabilities:		
Accounts receivable	(21,518)	(10,156)
Inventories	(11,718)	(11,832)
Prepaid expenses and other assets	(3,587)	5,855
Deferred cost of revenue	405	1,206
Accounts payable	11,558	8,085
Accrued liabilities	(6,109)	(8,059)
Customer advances	(3,022)	2,787
Deferred revenues	(297)	(5,401)
Net cash used in operating activities	(31,598)	(13,740)
Cash flows from investing activities		
Purchases of property and equipment, net	(2,218)	(1,977)
Purchases of investments	—	(5,940)
Sales and maturities of investments	—	6,000
Net cash used in investing activities	(2,218)	(1,917)
Cash flows from financing activities		
Proceeds from employee stock plans	2,048	2,036
Taxes paid related to net share settlement of equity awards	—	(293)
Proceeds from debt, net of costs	5,000	66,111
Payments made to note and loan holders	—	(29,581)
Repayments under Revolving Credit Facility, net	(1,147)	(26,565)
Net cash provided by financing activities	5,901	11,708
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(266)	891
Net decrease in cash, cash equivalents and restricted cash	(28,181)	(3,058)
Cash, cash equivalents and restricted cash at beginning of period	93,533	85,235

Cash, cash equivalents and restricted cash at end of period	$65,352	$82,177

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

Accuray Incorporated

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. The Company and its Significant Accounting Policies

The Company

Accuray Incorporated (together with its subsidiaries, the “Company” or “Accuray”) designs, develops and sells advanced radiosurgery and radiation therapy systems for the treatment of tumors throughout the body. The Company is incorporated in Delaware and has its principal place of business in Sunnyvale, California. The Company has primary offices in the United States, Switzerland, China, Hong Kong and Japan and conducts its business worldwide.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”), pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and note disclosures have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of the periods presented. The results for the three and six months ended December 31, 2018 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2019, or for any other future interim period or fiscal year.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes for the fiscal year ended June 30, 2018 included in the Company’s Annual Report on Form 10-K filed with the SEC on August 24, 2018.

Significant Accounting Policies

The Company adopted the Accounting Standard Codification (“ASC”) 606, Revenue from Contracts with Customers as of July 1, 2018, using the modified retrospective method. See Note 2. Recent Accounting Pronouncements and Note 3. Revenue, to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for additional details. Except for the changes in the revenue recognition policy, there have been no other material changes to the Company’s accounting policies from the information provided in Note 1. The Company and its

Significant Accounting Policies to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2018.

Revenue Recognition

The Company's revenue is primarily derived from sales of CyberKnife and TomoTherapy Systems and services, which include post-contract customer support ("PCS"), installation services, training and other professional services.

The Company has a contract with a customer when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

The Company's revenues are measured based on consideration specified in the contract with each customer, net of any sales incentives and amounts collected on behalf of third parties such as sales taxes, excise taxes, and VAT.

The majority of the Company's revenue arrangements consists of multiple performance obligations, which can include system, upgrades, installation, training, services, construction, and consumables. For bundled arrangements, the Company accounts for individual products and services separately if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer.

The Company's products are generally not sold with a right of return, and the Company's contracts generally provide a fixed transaction price. However, the Company from time to time offers variable consideration such as volume discounts. The Company also from time to time offers extended payment terms beyond one year, trade-in allowance for old systems, and commissions or other forms of payment to customers. The Company elected to use the practical expedient to not adjust for a significant financing component if the gap between payment and delivery was expected, at the contract inception, to be less than one year.

The stand-alone selling price ("SSP") of performance obligations is determined based on observable prices at which the Company separately sells the products and services. If the SSP is not directly observable, then the Company will estimate the SSP considering market conditions, entity-specific factors, and information about the customer or class of customer that is reasonably available. The SSP is generally assessed as a percentage of the list price. The contract consideration allocation is based on the SSP at contract inception. The consideration (net of any discounts) is allocated among separate products and services in a bundle based on their individual SSP. For contract modifications that add additional goods or services or changes pricing, the most recent SSP is used for allocation to the remaining performance obligations.

The Company recognizes revenue for certain performance obligations at the point in time when control is transferred, such as delivery of products. The Company recognizes revenue for certain other performance obligations over a period of time as control of the goods or services is transferred, such as PCS and construction contracts.

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if the Company expects the benefit of those costs to be longer than one year. The Company capitalizes incremental contract acquisition costs, and amortizes such costs over the period which the Company expects to benefit, which may extend beyond the initial contract term. Most of the Company's contract costs are associated with its internal sales force compensation program and a portion of its employee bonus program. The Company amortizes capitalized bonuses and a portion of sales commissions over a period of five years commencing upon the initial transfer of control of the system to the customer. The pattern of amortization is commensurate with the pattern of transfer of control of the performance obligations to the customer. The Company elected to use the practical expedient in ASC 340-40-25-4 and expense as incurred commissions related to service renewals and upgrades because the contract term is less than a year.

Note 2. Recent Accounting Pronouncements

Accounting Pronouncement Recently Adopted

In June 2018, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-7, Compensation – Stock Compensation (Topic 718))— Improvements to Nonemployee Share-Based Payment Accounting. This guidance supersedes ASC 505-50 and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The guidance permits early adoption and was adopted by the Company in the first quarter of fiscal year 2019. The adoption of this ASU did not have any impact on the Company’s consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718)—Scope of Modification Accounting. This guidance redefines which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting for a share-based payment. Modification accounting will not be applied if the following are the same immediately before and after the change: fair value, vesting conditions, and classification. The Company adopted ASU No. 2017-09 as required in the first quarter of fiscal year 2019 on a prospective basis. The adoption of this ASU did not have any impact on the Company’s consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715)—Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This guidance revises the presentation of employer-sponsored defined benefit pension and other postretirement plans for the net periodic benefit cost in the statement of operations and requires that the service cost component of net periodic benefit be presented in the same income statement line items as other employee compensation costs for services rendered during the period. The other components of the net benefit costs are required to be presented in the statement of operations separately from the service cost component and outside the subtotal of income from operations. This guidance allows only the service cost component of net periodic benefit costs to be eligible for capitalization. In addition, changes to the presentation of benefit costs were required to be adopted retrospectively, while changes to the capitalization of service costs into inventories were required to be adopted prospectively. The standard permits, as a practical expedient, use of the amounts disclosed in the pension plans footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation requirement. The Company adopted ASU No. 2017-07 as required in the first quarter of fiscal year 2019, and the adoption of this ASU did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The amendments in the update provide guidance on eight specific cash flow issues. The amendments to the guidance should be applied using a retrospective transition method for each period presented and, if it is impracticable to apply all of the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company adopted ASU No. 2016-15 as required in the first quarter of fiscal year 2019. The adoption of this ASU did not have any impact on the Company's consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance changes accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. In addition, it clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The Company adopted this ASU No. 2016-01 as required in the first quarter of fiscal year 2019 on a required modified retrospective approach. The adoption of this ASU did not have any impact on the Company's consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other Topics (Topic 350)-Simplifying the Test for Goodwill Impairment. This guidance simplifies the measurement of goodwill by eliminating the Step 2 impairment test. The new guidance requires companies to perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. This guidance will be effective for the Company beginning in its first quarter of fiscal 2021. The amendment is required to be adopted prospectively. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted this guidance in the first quarter of fiscal year 2019 and adoption of this ASU did not have any impact on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is required to be adopted, using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures. The Company adopted the new revenue standards as of July 1, 2018, using the modified retrospective transition method applied to those contracts which were not completed as of that date.

The Company completed its assessment of the impact this guidance has on its consolidated financial statements and related disclosures. Based on that assessment, the Company concluded the significant impact areas were the capitalization and amortization of incremental costs of obtaining a contract, primarily related to certain bonuses and sales commissions, change in SSP and the removal of software revenue recognition rules along with the elimination of revenue deferral for cash basis customers. Under the new standards, the Company capitalizes incremental contract acquisition costs, such as certain bonuses and sales commissions, and amortizes such costs over the period which the Company benefits, as estimated by management, which may extend beyond the initial contract term. The Company amortizes capitalized bonuses and sales commissions over a period of five years commencing upon the initial transfer of control of the system to the customer. The pattern of amortization is commensurate with the pattern of transfer of control of the performance obligations to the customer. The Company elected to use the practical expedient in ASC 340-40-25-4 and expense commissions related to service renewals and upgrades with a renewal contract term of one year or less as incurred. The Company recorded a net reduction to opening accumulated deficit of $5.1 million, net of tax, as of July 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact primarily related to the deferral of incremental costs to obtain contracts.

Under ASC 606, product revenue for direct sales are accelerated to reflect transfer of control upon delivery while an element of installation is deferred until performed. Prior to the adoption of ASC 606, the Company deferred revenue until installation had occurred. The revenue recognition method for indirect sales and service revenues is unchanged under the new guidance.

Refer to Note 3, Revenue, to the Unaudited Condensed Consolidated Financial Statement on this Quarterly report for the detailed impact of adopting ASC 606.

Accounting Pronouncements Not Yet Effective

In February 2018, the FASB issued ASU No. 2018-2, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, that allows companies to reclassify from Accumulated Other Comprehensive Income to Retained Earnings stranded tax effects resulting from the enactment of the Tax Cuts and Jobs Act (the "Tax Act"). The guidance will be effective for the Company in its first quarter of fiscal 2020. Early adoption is permitted. The guidance should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has not yet selected a transition method, has not yet determined whether it will elect early adoption and is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging. This guidance simplifies the application and administration of hedge accounting. The guidance amends the presentation and disclosure requirements and changes how companies assess effectiveness. The guidance is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance will be effective for the Company in its first quarter of fiscal 2020. Early adoption is permitted. The guidance is required to be adopted on a prospective basis. The Company will not early adopt and does not believe the adoption of this standard will have a material impact on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 Measurement of Credit Losses on Financial Instruments. ASU No. 2016-13 requires measurement and recognition of expected credit losses for financial assets held. This guidance will be effective for the Company in the first quarter of fiscal 2021 and must be adopted using a modified retrospective approach, with certain exceptions. Early adoption is permitted beginning in the first quarter of fiscal 2020. The Company has not yet decided whether it will early adopt and is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under the new guidance, a lessee will be required to recognize assets and liabilities for all leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. This guidance will be effective for the Company in the first quarter of fiscal 2020 and early adoption is permitted. In July 2018, the FASB issued ASU No. 2018-11, Targeted Improvements, which provides another transition method in addition to the existing modified retrospective transition approach. Accordingly, the new method allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company intends to adopt the allowed transition method allowed under ASU 2018-11, but will not elect early adoption, and is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

Note 3. Revenue

On July 1, 2018 the Company adopted ASC 606 electing the modified retrospective method for contracts that were still open as of July 1, 2018. Results for reporting periods after July 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with legacy accounting guidance under ASC 605.

The beginning net cumulative-effect adjustment to retained earnings for the adoption of ASC 606 is as follows:

(Dollars in thousands)	Balance at July 1, 2018	Adjustment Due to ASC 606	Balance at June 30, 2018
Assets:			
Account receivable, net	$66,251	$ 257	$65,994
Deferred cost of revenue - current	677	(464)	1,141
Prepaid expenses and other current assets	16,239	670	15,569
Other assets	17,416	5,840	11,576
Liabilities and Stockholders' Equity:			
Other accrued liabilities	23,059	611	22,448
Deferred revenue - current	75,515	111	75,404
Long-term other liabilities	9,075	467	8,608
Accumulated deficit	(469,171)	5,114	(474,285)

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Select unaudited condensed consolidated balance sheets line items, which reflect the adoption of ASC 606 are as follows:

	December 31, 2018		
(Dollars in thousands)	As Reported	Adjustments	Balances Without Adoption
Assets:			
Account receivable, net	$86,333	$ 3,979	$82,354
Deferred cost of revenue - current	273	(12,346)	12,619
Prepaid expenses and other current assets	18,476	1,730	16,746
Other assets	16,528	6,661	9,867
Liabilities and Stockholders' Equity:			
Other accrued liabilities	24,101	755	23,346
Deferred revenue - current	72,726	(20,278)	93,004
Long-term other liabilities	10,693	1,123	9,570
Accumulated deficit	(482,956)	18,424	(501,380)

Select unaudited condensed consolidated statements of operations and comprehensive loss line items for the three and six months ended December 31, 2018, which reflect the adoption of ASC 606 are as follows:

	Three Months Ended December 31, 2018			Six Months Ended December 31, 2018		
(Dollars in thousands)	As Reported	Adjustments	Balances Without Adoption	As Reported	Adjustments	Balances Without Adoption
Net revenue	$102,318	$ 5,128	$ 97,190	$198,147	$ 23,843	$ 174,304
Cost of goods sold	63,938	1,112	62,826	121,888	11,706	110,182
Other expense, net	3,321	(171)	3,492	7,304	(259)	7,563
Research and development	13,640	(104)	13,744	27,529	(136)	27,665
Selling and marketing	15,139	(269)	15,408	28,175	(459)	28,634
General and administrative	10,469	(246)	10,715	26,111	(289)	26,400
Provision for income taxes	451	(105)	556	986	(30)	1,016
Net loss	(4,640)	4,911	(9,551)	(13,846)	13,310	(27,156)
Net loss per share - Basic and Diluted	$(0.05)	$ 0.06	$ (0.11)	$(0.16)	$ 0.15	$ (0.31)

The adoption of ASC 606 had no impact to net cash from or used in operating, investing or financing activities in the Company's unaudited condensed consolidated statements of cash flows.

Contract Balances

The timing of revenue recognition, billings, and cash collections results in trade, unbilled receivables, and deferred revenues on the unaudited condensed consolidated statement of balance sheets. The Company may offer longer or extended payments of more than one year for qualified customers in some circumstances. At times, revenue recognition occurs before the billing, resulting in an unbilled receivable, which represents a contract asset. The contract asset is a component of accounts receivable and other assets for the current and non-current portions, respectively.

When the Company receives advances or deposits from customers before revenue is recognized, this results in deferred revenues, which represents a contract liability. It can take up to two and half years from the time of order to revenue recognition due to the Company’s long sales cycle.

Changes in the contract assets and contract liabilities are as follows:

(Dollars in thousands)	December 31, 2018 Amount	July 1, 2018 Amount	Change $	%
Assets:				
Unbilled accounts receivable - current (1)	$ 11,025	$3,218	7,807	71
Long Term Accounts Receivable (2)	4,797	6,833	(2,036)	(42)
Interest receivable - non-current (2)	987	611	376	38
Liabilities:				
Customer advances	19,900	22,896	(2,996)	(15)
Deferred revenue - current	72,726	75,515	(2,789)	(4)
Deferred revenue - non-current	23,406	20,976	2,430	10

(1) Included in accounts receivable on consolidated balance sheets
(2) Included in other assets on consolidated balance sheets

Changes in deferred revenue from contracts with customers are as follows:

(Dollars in thousands)	Three Months Ended December 31, 2018	Six Months Ended December 31, 2018
Balance at beginning of period	$95,010	$96,491
New billings	103,440	197,788
Recognition of deferred revenue	(102,318)	(198,147)
Balance at end of period	$96,132	$96,132

Remaining Performance Obligations

Remaining performance obligations represent deferred revenue from open contracts for which performance has already started and the transaction price from signed contracts for which performance has not yet started. Service contracts in general are considered month-to-month contracts, and the Company has elected the practical expedients available in the guidance related to ASC 606, to not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less.

As of December 31, 2018, total remaining performance obligations amounted to $796.0 million. Of this total amount, $72.0 million related to long-term warranty and service, which is expected to be recognized over the remaining warranty period for systems that have been delivered. For systems that have been delivered but not yet installed, management estimates the timing of installation since warranty starts upon installation.

The following table represents the Company's remaining performance obligations related to long-term warranty and service as of December 31, 2018 and the estimated revenue expected to be recognized:

	Fiscal years of revenue recognition			
(Dollars in thousands)	2019	2020	2021	Thereafter
Long-term warranty and service	$15,816	$25,609	$16,752	$ 13,828

For the remaining $724.0 million of performance obligations, the Company estimates 30% to 40% will be recognized in the next 12 months, and the remaining 60% to 70% will be recognized in the 30 months thereafter. The Company’s historical experience indicates that some of its customers will cancel or renegotiate contracts as economic conditions change or when product offerings change during the long sales cycle. As such, about 15% to 20% of the Company’s contracts may never result in revenue due to cancellation.

The time bands reflect management’s best estimate of when the Company will transfer control to the customer and may change based on timing of shipment, readiness of customers’ facilities for installation, installation requirements, and availability of products.

Capitalized Contract Costs

The Company capitalizes and amortizes the incremental costs of obtaining a contract, primarily related to certain bonuses and sales commissions. The capitalized bonuses and sales commissions are amortized over a period of five years commencing upon the initial transfer of control of the system to the customer. The pattern of amortization is commensurate with the pattern of transfer of control of the performance obligations to the customer.

The opening balance of capitalized costs to obtain a contract was $5.9 million as of July 1, 2018. As of December 31, 2018, the balance of capitalized costs to obtain a contract was $7.0 million. The Company has classified the capitalized costs to obtain a contract as a component of prepaid expenses and other current assets and other assets with respect to the current and non-current portions of capitalized costs, respectively, on the consolidated balance sheets. The Company incurred a de minimum impairment loss for the periods presented. During the three and six months ended December 31, 2018, the Company recognized $0.4 million and $1.3 million, respectively, in expense related to the amortization of the capitalized contract costs.

Note 4. Supplemental Financial Information

Balance Sheet Components

Financing receivables

A financing receivable is a contractual right to receive money, on demand or on fixed or determinable dates, that is recognized as an asset on the Company’s balance sheet. The Company’s financing receivables, consisting of its accounts receivable with contractual maturities of more than one year and sales-type leases, totaled $4.8 million and $6.9 million at December 31, 2018 and June 30, 2018, respectively, and are included in other assets in the unaudited condensed consolidated balance sheets. The Company evaluates the credit quality of an obligor at lease or contract inception and monitors credit quality over the term of the underlying transactions. The Company performs a credit analysis for all new customers and reviews payment history, current order backlog, financial performance of the customers and other variables that augment or mitigate the inherent credit risk of a transaction. Such variables include the underlying value and liquidity of the collateral, the essential use of the equipment, the term of the lease and the inclusion of credit enhancements, such as guarantees, letters of credit or security deposits. The Company classifies accounts as high risk when it considers the financing receivable to be impaired or when management believes there is a significant near-term risk of non-payment. The Company performed an assessment of the allowance for credit losses related to its financing receivables as of December 31, 2018 and June 30, 2018. Based upon such assessment, the Company recorded $3.3 million and zero adjustment to the allowance for credit losses related to such financing receivables as of December 31, 2018 and as of June 30, 2018, respectively.

A summary of the Company’s financing receivables is presented as follows (in thousands):

December 31, 2018	Lease Receivables	Financed Service Contracts and Other	Total
Gross	$ —	$ 12,755	$12,755
Unearned income	—	(990)	(990)
Allowance for credit loss	—	(3,327)	(3,327)
Total, net	$ —	$ 8,438	$8,438
Reported as:			
Current	$ —	$ 3,608	3,608
Non-current	—	4,830	4,830
Total, net	$ —	$ 8,438	$8,438

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June 30, 2018	Lease Receivables	Financed Service Contracts and Other	Total
Gross	$ 1,588	$ 8,009	$9,597
Unearned income	(137)	—	$(137)
Allowance for credit loss	—	—	$—
Total, net	$ 1,451	$ 8,009	$9,460
Reported as:			
Current	$ 432	$ 2,139	$2,571
Non-current	1,019	5,870	