

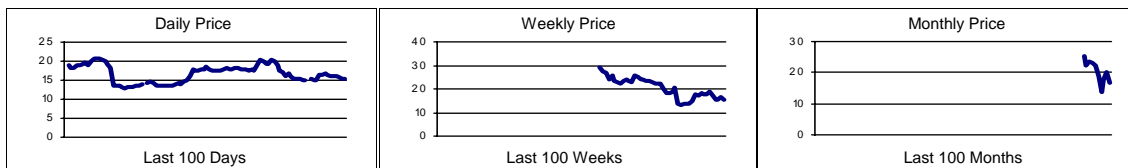
ARAY ACCURAY INC

Current Price \$14.95

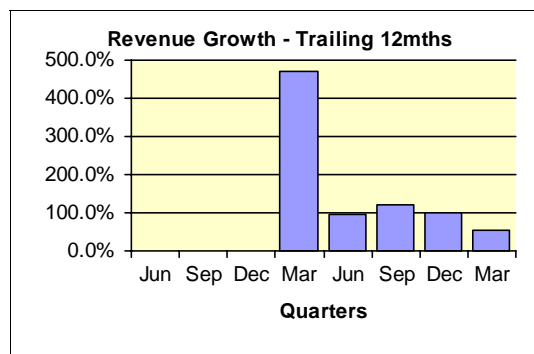
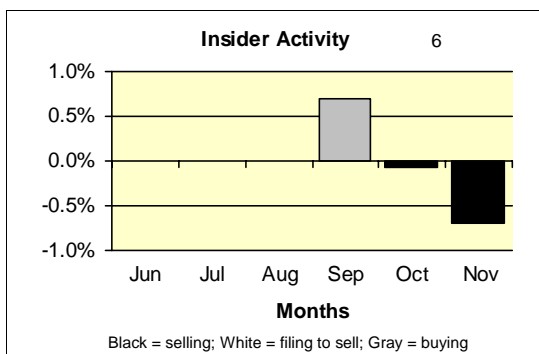
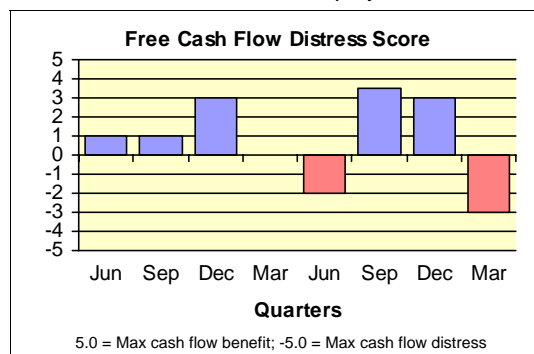
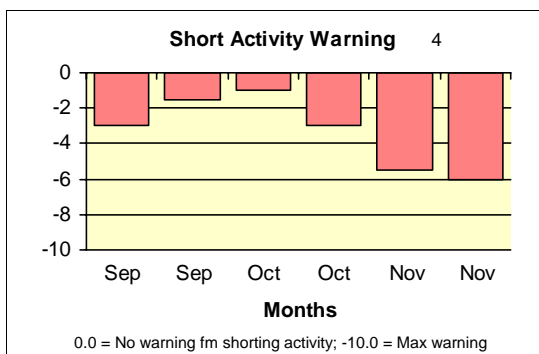
Market cap \$815

Price, 52-wk Hi/Lo \$31.09 / \$12.50

Accuray Incorporated designs develops and sells the CyberKnife system an image-guided robotic radio surgery system for the treatment of solid tumors.



Options?	Yes	Recent convertible	No	Convertible debts and pfd ¹	\$0
PE TTM	NEG x	Insider ownership	27 %	Next earnings due:	2/27/2008
Estimated PE	31.0x	Potential dilution ²	20 %	Bankruptcy Z-Score ³	3.8



RED FLAGS

<p><i>Ability to meet expectations</i></p> <p>High P/S ratio TTM ⁷ <input checked="" type="checkbox"/></p> <p>Negative free cash flow ⁸ <input checked="" type="checkbox"/></p> <p>Sales growth slowdown ⁹ <input type="checkbox"/></p> <p><i>Accounting issues</i></p> <p>Change in actg principles ¹⁰ <input type="checkbox"/></p> <p>Qualified audit language ¹¹ <input type="checkbox"/></p>	<p><i>Early balance sheet warnings</i></p> <p>Rising inventory to sales ¹² <input type="checkbox"/></p> <p>Rising accounts receivable ¹³ <input checked="" type="checkbox"/></p> <p>High long-term debt to capital ¹⁴ <input type="checkbox"/></p> <p><i>Stock and debt ratings</i></p> <p>Recent downward earns ests ¹⁵ <input type="checkbox"/></p> <p>S+P Debt Downgrade ¹⁶ <input type="checkbox"/></p>	<p><i>Stock selling signals</i></p> <p>High insider selling ¹⁷ <input type="checkbox"/></p> <p>Large institutional ownership ¹⁸ <input type="checkbox"/></p> <p>Co sales of common stock ¹⁹ <input checked="" type="checkbox"/></p>
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INVESTMENT CONCERNS

Accuray has again liberalized its revenue recognition policies for sales to international distributors, and revenue from these distributors allowed the company to make its quarter. Two of these international distributors happen to be large stockholders, and one is a director. Accuray's Cyberknife surgery system would seem to be less versatile and more costly than systems from Varian and Electra, which would explain its decline in domestic market share. There are still no Cyberknife installations in many major metro areas. And, there is still no evidence that a robot produces better outcomes than a trained physician in killing cancer with radiation even though it doubles the cost.