

IsoRay, Inc.  
Form DEF 14A  
January 14, 2015

**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**

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 Pursuant to § 240.14a-12

**ISORAY, INC.**

**(Name of Registrant as Specified in Its Charter)**

N/A

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

January 14, 2015

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of IsoRay, Inc. (the "*Company*") to be held at the Westin La Paloma Resort, 3800 East Sunrise Drive, Tucson, Arizona 85718 at 11:00 a.m. local time on Friday, February 27, 2015.

The enclosed Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the Annual Meeting. During the Annual Meeting, we will also report on the operations of the Company and its primary operating subsidiary, IsoRay Medical, Inc. Directors and officers of the Company and a representative of the Company's auditor are expected to be present to respond to appropriate questions from shareholders.

Detailed information concerning our activities and operating performance during the fiscal year ended June 30, 2014 is contained in our Annual Report to Shareholders.

As we have done in the past, this year, in accordance with U.S. Securities and Exchange Commission rules, we are using the Internet as our primary means of furnishing proxy materials to shareholders. Consequently, most shareholders will not receive paper copies of our proxy materials. We will instead send these shareholders a notice with instructions for accessing the proxy materials and voting via the Internet. The notice also provides information on how shareholders may obtain paper copies of our proxy materials if they so choose. We believe this procedure makes the proxy distribution process more efficient, less costly and helps in conserving natural resources.

Whether or not you expect to attend in person, we urge you to vote your shares as soon as possible. As an alternative to voting in person at the meeting, you may vote via the Internet, by telephone or, if you receive a paper proxy card in the mail, by mailing the completed proxy card. Voting by any of these methods will ensure your representation at the meeting and will help ensure the presence of a quorum at the meeting.

**Your vote is important. Whether or not you are able to attend in person, it is important that your shares be represented at the Annual Meeting. Accordingly, we ask that you *please vote over the Internet or by telephone at your earliest convenience*, or, if you receive a paper proxy card and voting instructions by mail, that you**

**complete, sign and date the proxy card and return it in the enclosed envelope (to which no postage need be affixed if mailed in the United States) as soon as possible. If you do attend the Annual Meeting, you may withdraw your proxy and vote personally on each matter brought before the meeting.**

We look forward to seeing you at the Annual Meeting.

**If You Plan to Attend**

**Please note that space limitations make it necessary to limit attendance to shareholders. Admission to the meeting will be on a first-come, first-served basis. Shareholders holding stock in brokerage accounts ("street name" holders) will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date to enter the meeting. Cameras, recording devices and other electronic equipment will not be permitted in the meeting.**

Sincerely,

/s/ Dwight Babcock

Dwight Babcock

CEO and Chairman of the Board

**350 Hills Street, Suite 106**

**Richland, WA 99354**

*[www.isoray.com](http://www.isoray.com)*

**ISORAY, INC.**

**NOTICE OF ANNUAL MEETING**

**OF SHAREHOLDERS**

**TIME AND DATE** 11:00 a.m., MST, on Friday, February 27, 2015

**PLACE** Westin La Paloma Resort, 3800 East Sunrise Drive, Tucson, Arizona 85718

- ITEMS OF BUSINESS**
1. To elect three directors to hold office until the Fiscal 2016 Annual Meeting of Shareholders;
  2. To ratify the appointment of DeCoria, Maichel & Teague, P.S. as the independent registered public accounting firm of the Company for the fiscal year ending June 30, 2015; and
  3. To take action on any other business that may properly be considered at the Annual Meeting or any adjournment thereof.

**BOARD OF DIRECTORS**

**RECOMMENDATION** The Board of Directors recommends that you vote "**FOR**" the election of each nominee for the Board of Directors, and "**FOR**" Item 2.

**ADJOURNMENTS AND**

**POSTPONEMENTS** Any action on the items of business described above may be considered at the Annual Meeting at the time and on the date specified above or at any time and date to which the Annual Meeting may be properly adjourned or postponed.

**RECORD DATE** You may vote at the Annual Meeting if you were a shareholder of record at the close of business on December 29, 2014. If your shares are held in an account at a brokerage firm, bank or similar organization, that organization is considered the record holder for purposes of voting at the Annual Meeting and will provide you with instructions on how you can direct that organization to vote your shares.

**INTERNET ACCESS TO  
PROXY  
MATERIALS**

Under rules adopted by the Securities and Exchange Commission, we are providing access to our 2015 Annual Meeting materials, which include the accompanying Proxy Statement and our June 30, 2014 Annual Report on Form 10-K, over the Internet in lieu of mailing printed copies. We will begin mailing, on or about January 15, 2015, a "Notice of Internet Availability of Proxy Materials" (which is different than this Notice of Annual Meeting of Stockholders) to our stockholders. The Notice of Internet Availability of Proxy Materials will contain instructions on how to access and review the 2015 Annual Meeting materials and vote online. The Notice of Internet Availability

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of Proxy Materials also will contain instructions on how you can request a printed copy of the 2015 Annual Meeting materials, including a proxy card if you are a record holder or a voting instruction form if you are a beneficial owner.

**VOTING**

**Your vote is very important. Whether or not you plan to attend the Annual Meeting, we encourage you to read the accompanying Proxy Statement and our 2014 Annual Report on Form 10-K and vote as soon as possible. For specific instructions on how to vote your shares, please refer to the instructions in the Notice of Internet Availability of Proxy Materials and the section entitled "General Information About the Annual Meeting and Voting" beginning on page 1 of the accompanying Proxy Statement.**

**ADMISSION** Space limitations make it

necessary to limit attendance at the Annual Meeting to shareholders. If your shares are held in an account at a brokerage firm, bank or similar organization and you wish to attend the Annual Meeting, you must obtain a letter from that brokerage firm, bank or similar organization confirming your beneficial ownership of the shares as of the record date and bring it to the Annual Meeting. Admission to the Annual Meeting will be on a first-come, first-served basis. Cameras and recording devices will not be permitted at the Annual Meeting.

By Order of the Board of Directors,

/s/ Krista Cline  
Krista Cline  
Secretary

This Notice of Annual Meeting, Proxy Statement and accompanying proxy card

are being distributed on or about January 15, 2015.

**.ISORAY, INC.**

**350 Hills Street, Suite 106**

**Richland, Washington 99354**

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**PROXY STATEMENT**

**Annual Meeting of Shareholders**

**February 27, 2015**

We are providing these proxy materials in connection with the solicitation by the Board of Directors (the "*Board*") of IsoRay, Inc. of proxies to be voted at the Company's Fiscal 2015 Annual Meeting of Shareholders to be held on February 27, 2015 (the "*Annual Meeting*"), and at any adjournment or postponement of the Annual Meeting. These proxy materials were first sent on or about January 15, 2015 to shareholders entitled to vote at the Annual Meeting.

**GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING**

Why am I receiving these materials?

You are receiving a proxy statement from us because you owned shares of our common or Series B preferred stock at the close of business on the December 29, 2014 record date for the Annual Meeting. This proxy statement describes matters on which we would like you, as a shareholder, to vote. It also gives you information on these matters so that you can make an informed decision.

When you sign and return the proxy card, you appoint Dwight Babcock and Thomas LaVoy, and each of them individually, as your representatives at the meeting. Dwight Babcock and Thomas LaVoy will vote your shares at the meeting as you have instructed them. This way your shares will be voted regardless of whether you attend the Annual Meeting. Even if you plan to attend the meeting, it is a good idea to complete, sign and return the enclosed proxy card in advance of the meeting just in case your plans change. Returning the proxy card will not affect your right to attend or vote at the Annual Meeting.

If a matter comes up for vote at the Annual Meeting that is not described in this proxy statement or listed on the proxy card, Dwight Babcock and Thomas LaVoy will vote your shares, under your proxy, in their discretion. As of the date of this proxy statement, we do not expect that any matters other than those described in this proxy statement will be voted upon at the Annual Meeting.

Will I be receiving printed copies of the 2015 Annual Meeting materials?

You will not receive printed copies unless you request them by following the instructions in the "Notice of Internet Availability of Proxy Materials" (the "*Notice*") that you will receive in the mail. The Notice is different than the Notice of Annual Meeting of Stockholders that accompanies this Proxy Statement. We will begin mailing the Notice to stockholders on or about January 15, 2015.

Under rules adopted by the Securities and Exchange Commission (the "*SEC*"), we are providing access to our 2015 Annual Meeting materials, which include this Proxy Statement and our Annual Report, over the Internet in lieu of mailing printed copies. The Notice will contain instructions on how to access and review the 2015 Annual Meeting materials and vote online. This electronic access process is designed to expedite shareholders' receipt of materials, lower the cost of the Annual Meeting and help conserve natural resources. The Company encourages you to take advantage of the availability of the proxy materials on the Internet.

The Notice also will contain instructions on how you can request, at no cost, a printed copy of the 2015 Annual Meeting materials, including a proxy card if you are a record holder or a voting instruction form if you are a beneficial owner. By following the instructions in the Notice, you may request to receive, at no cost, a copy via e-mail of the 2015 Annual Meeting materials and materials or future proxy solicitations. Your request to receive materials via e-mail will remain in effect until you terminate it.

Can I mark my votes on the Notice and send it back to the Company or my broker?

No. The Notice is not a ballot. You cannot use it to vote your shares. If you mark your vote on the Notice and send it back to the Company or your broker, your vote will not count.

How can I get electronic access to the 2015 Annual Meeting materials?

The Notice will provide you with instructions regarding how to view the 2015 Annual Meeting materials on the Internet.

This Proxy Statement and our Annual Report are also available without charge on the Company's website at *isoray.com* and the SEC's website at *sec.gov*. By referring to our website, we do not incorporate the website or any portion of the website by reference into this Proxy Statement.

The Notice will also contain instructions on how you can elect to receive future proxy materials electronically by e-mail. Choosing to receive future proxy materials by e-mail will save the Company the cost of printing and mailing documents to you and will reduce the impact of the Company's annual meetings on the environment. If you choose to receive future proxy materials by e-mail, you will receive an e-mail message next year with instructions containing a link to those materials and a link to the proxy voting website. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

Who may vote at the Annual Meeting?

The Board has set December 29, 2014 as the record date for the Annual Meeting. If you were the owner of Company common or Series B preferred stock at the close of business on December 29, 2014 (the "*record date*"), you may vote at the Annual Meeting. You are entitled to one vote for each share of common or Series B preferred stock you held on

the record date. If your shares are held in an account at a brokerage firm, bank or similar organization, that organization is considered the record holder for purposes of voting at the Annual Meeting and will provide you with instructions on how to direct that organization to vote your shares.

**What proposals will be voted on at the Annual Meeting?**

Two proposals are scheduled to be voted on at the Annual Meeting. The first is the election of three directors to hold office until the Fiscal 2016 Annual Meeting of Shareholders. The second is the ratification of the appointment by the Audit Committee of DeCoria, Maichel & Teague, P.S. as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2015.

### **How many votes are required to approve the proposals?**

The presence, in person or by proxy, of a majority of the outstanding shares of our common stock and Series B preferred stock voting together as one class is necessary to constitute a quorum at the Annual Meeting. In counting the votes to determine whether a quorum exists at the Annual Meeting, we will use the proposal receiving the greatest number of all votes "for" or "against" and abstentions (including instructions to withhold authority to vote). As of December 29, 2014, there were 54,883,445 shares of common stock and 59,065 shares of Series B preferred stock outstanding.

In voting with regard to the proposal to elect directors ("*Proposal 1*"), you may vote in favor of all nominees, withhold your vote as to all nominees or vote in favor of or withhold your vote as to specific nominees. The vote required to approve Proposal 1 is governed by Minnesota law and is a plurality of the votes cast by the holders of shares represented and entitled to vote at the Annual Meeting, provided a quorum is present. As a result, in accordance with Minnesota law, votes that are withheld will be counted in determining whether a quorum is present but will have no other effect on the election of directors.

In voting with regard to the proposal to ratify the Audit Committee's appointment of the independent registered public accounting firm ("*Proposal 2*"), the vote required to approve Proposal 2 is governed by Minnesota law and is the affirmative vote of the holders of a majority of the shares represented and entitled to vote at the Annual Meeting, provided a quorum is present. As a result, abstentions will be considered in determining whether a quorum is present and the number of votes required obtaining the necessary majority vote and therefore will have the same legal effect as voting against Proposal 2. Because your vote on Proposal 2 is advisory, it will not be binding on the Board or the Company. However, the Board and the Audit Committee will consider the outcome of the advisory vote when making future decisions regarding the selection of our independent registered public accounting firm.

You may either vote "FOR", "AGAINST" or "ABSTAIN" on Proposal 2, and "FOR" or "WITHHOLD" authority to vote for each nominee for the Board. If you withhold authority to vote for the election of directors, your shares will not be voted with respect to the director or directors identified. If you sign and submit your proxy card without voting instructions, your shares will be voted "FOR" Proposal 2 and "FOR" all director nominees.

Under the rules of the New York Stock Exchange (the "*Exchange*") that govern most domestic stock brokerage firms, member firms that hold shares in street name for beneficial owners may, to the extent that such beneficial owners do not furnish voting instructions with respect to any or all proposals submitted for shareholder action, vote in their discretion upon proposals which are considered "discretionary" proposals under the rules of the Exchange. These votes by brokerage firms are considered as votes cast in determining the outcome of any discretionary proposal. Member brokerage firms that have received no instructions from their clients as to "non-discretionary" proposals do not have discretion to vote on these proposals. If the brokerage firm returns a proxy card without voting on a non-discretionary proposal because it received no instructions, this is referred to as a "broker non-vote" on the

proposal. "Broker non-votes" are considered in determining whether a quorum exists at the Annual Meeting, but are not considered as votes cast in determining the outcome of any proposal. We believe that Proposal 2 is the only discretionary proposal.

In summary, if you do not vote your proxy, your brokerage firm or other nominee may either:

· vote your shares on routine matters (Proposal 2) and cast a "broker non-vote" on non-routine matters (Proposal 1); or

· leave your shares unvoted altogether.

We encourage you to provide instructions to your brokerage firm or other nominee by voting your proxy. This action ensures that your shares will be voted in accordance with your wishes at the Annual Meeting.

As of December 29, 2014, our directors and executive officers held or controlled approximately 367,591 shares of our common stock, constituting approximately 0.67% of the outstanding common stock. As of December 29, 2014, our directors and executive officers did not hold or control any shares of our preferred stock. We believe that these holders will vote all of their shares of common stock in accordance with the Board's recommendations on each of the proposals.

### **How does the Board recommend that I vote?**

The Board recommends that you vote your shares "FOR" Proposal 2 and all of the director nominees.

Can my shares be voted on matters other than those described in this Proxy Statement?

Only under limited circumstances. We have not received proper notice of, and are not aware of, any business to be transacted at the Annual Meeting other than as indicated in this Proxy Statement. If any other item or proposal properly comes before the meeting, the proxies received will be voted on those matters in accordance with the discretion of the proxy holders.

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

Shareholders of record can vote as follows:

- *Via the Internet:* Shareholders may vote through the Internet by following the instructions included with your Notice Regarding the Availability of Proxy Materials.
- *By Telephone:* Shareholders may vote by telephone by following the instructions included with your Notice Regarding the Availability of Proxy Materials.
- *By Mail:* Those shareholders who receive a paper proxy card in the mail may sign, date and return their proxy cards in the pre-addressed, postage-paid envelope that is provided with the mailed proxy materials. If you have misplaced

your return envelope or need to return a proxy card from outside the United States, you may mail your proxy card to the address listed on the proxy card.

• *At the Meeting:* If you attend the Annual Meeting, you may vote in person by ballot, even if you have previously returned a proxy card or otherwise voted.

If your shares are held in "street name" through a broker, bank or other nominee, that institution will send you separate instructions describing the procedure for voting your shares. Please follow the directions you are given carefully so your vote is counted. "Street name" shareholders who wish to vote in person at the Annual Meeting will need to obtain a proxy form from the institution that holds your shares and present it to the inspector of elections with your ballot.

### **How do I vote my shares in person at the Annual Meeting?**

If you are a shareholder of record and prefer to vote your shares at the Annual Meeting, you should bring the enclosed proxy card or proof of identification to the Annual Meeting. You may vote shares held in street name at the Annual Meeting only if you obtain a signed proxy from the record holder (broker or other nominee) giving you the right to vote the shares.

*Even if you plan to attend the Annual Meeting, we encourage you to vote in advance by Internet, telephone or proxy card so your vote will be counted even if you later decide not to attend the Annual Meeting.*

May shareholders ask questions at the Annual Meeting?

Yes. Representatives of the Company will answer a limited number of shareholders' questions of general interest at the end of the Annual Meeting. In order to give a greater number of shareholders an opportunity to ask questions, individuals or groups will be allowed to ask only one question and no repetitive or follow-up questions will be permitted.

**What does it mean if I receive more than one proxy card?**

It generally means you hold shares registered in more than one account. To ensure that all your shares are voted, sign and return each proxy card.

**May I change my vote?**

Yes. If you vote by mail, Internet or telephone, you may later change your vote and revoke your proxy card by:

- Sending a written statement to that effect to the Secretary of the Company that is received before the commencement of the Annual Meeting on February 27, 2015;
  - Voting again via the Internet or telephone;
  - Submitting a properly signed proxy card with a later date;
  - Voting in person at the Annual Meeting; or
- If you hold shares through a bank or brokerage firm, by contacting your financial institution and following its procedure to revoke your prior voting instructions.

**Where can I find the voting results of the meeting?**

We will announce preliminary voting results at the Annual Meeting. We will publish the final results in a report on Form 8-K that we will file with the SEC shortly after the Annual Meeting.

## **PROPOSAL 1 – ELECTION OF DIRECTORS**

### **Nominees**

Our Board currently consists of three members. The Board of Directors oversees our business affairs and monitors the performance of management. In accordance with basic principles of corporate governance, the Board does not involve itself in day-to-day operations. The directors keep themselves informed through discussions with the Chairman, key executive officers and our principal external advisers (legal counsel, auditors, and other professionals), by reading reports and other materials that are sent to them and by participating in Board and committee meetings.

The Board, on the recommendation of the Nominations and Corporate Governance Committee, has nominated the following three existing members of the Board for re-election to the Board at the Fiscal 2015 Annual Meeting: Dwight Babcock, Thomas LaVoy and Philip J. Vitale, M.D. If elected as a director at the Annual Meeting, each of the nominees would serve a one-year term expiring at the Fiscal 2016 Annual Meeting of Shareholders and until his successor has been duly elected and qualified. There are no family relationships among our directors, nominees for director or our executive officers.

Each of the nominees has consented to serve as a director if elected. If any of the nominees should be unavailable to serve for any reason, the Board, upon the recommendation of the Nominations and Corporate Governance Committee, may designate a substitute nominee or nominees (in which event the persons named on the enclosed proxy card will vote the shares represented by all valid proxy cards for the election of such substitute nominee or nominees), allow the vacancies to remain open until a suitable candidate or candidates are located, or by resolution provide for a lesser number of directors.

**The Board unanimously recommends that the shareholders vote "FOR" Proposal 1 to elect Dwight Babcock, Thomas LaVoy and Philip J. Vitale, M.D. as directors for a one year term expiring at the Fiscal 2016 Annual Meeting of Shareholders and until their successors have been duly elected and qualified.**

## Directors

Set forth below is certain information as of January 12, 2015 regarding our current directors that have been nominated for re-election, including biographical information.

Mr. LaVoy took office in July 2005, Mr. Babcock took office in March 2006 and Dr. Vitale took office in January 2014.

<b>Name</b>	<b>Age</b>	<b>Position Held</b>	<b>Term</b>
Dwight Babcock	67	Chairman, Chief Executive Officer	Annual
Thomas LaVoy	55	Director	Annual
Philip J. Vitale	68	Director	Annual

Dwight Babcock – Mr. Babcock was appointed CEO of the Company on February 18, 2009. He was previously appointed Chairman and Interim CEO of the Company on February 26, 2008 and has served as a Director of the Company since 2006. Mr. Babcock has served as Chairman and Chief Executive Officer of Apex Data Systems, Inc., an information technology company, since 1975. Apex Data Systems automates the administration and claims adjudication needs of insurance companies both nationally and internationally. Mr. Babcock was formerly President and CEO of Babcock Insurance Corporation (BIC) from 1974 until 1985. BIC was a nationally recognized third party administrator operating within 35 states. Mr. Babcock has knowledge and experience in the equity arena and has participated in various activities within the venture capital, private and institutional capital markets. Mr. Babcock studied marketing and economics at the University of Arizona where he currently serves on the University of Arizona Astronomy Board. Mr. Babcock brings over 35 years of CEO-level experience to his service on the Company's Board.

Thomas LaVoy – Mr. LaVoy has been a Director of the Company since 2005. Mr. LaVoy has served as Deputy Chief Operations Officer and President of Corporate Services of Veolia Transportation on Demand (VTOD), the parent company of SuperShuttle International Inc. and its subsidiaries, since January 2014. He concurrently serves as Chief Financial Officer of SuperShuttle International, Inc. and its subsidiaries as he has since July 1997, and as Secretary since March 1998. VTOD through SuperShuttle is the largest shuttle transportation company in the U.S. in addition to operating bus and cab services throughout the U.S. He has also served as a director of Alanco Technologies, Inc. (OTCBB: ALAN) since 1998 and presently serves on its audit committee. From September 1987 to February 1997, Mr. LaVoy served as Chief Financial Officer of NASDAQ-listed Photocomm, Inc. Mr. LaVoy was a Certified Public Accountant with the firm of KPMG Peat Marwick from 1980 to 1983. Mr. LaVoy has a Bachelor of Science degree in Accounting from St. Cloud University, Minnesota, and is a Certified Public Accountant (Inactive) in the State of Minnesota. Mr. LaVoy brings over 25 years of CFO experience for progressively growing companies in multiple industries to his service on the Company's Board.

Philip J. Vitale, MD – Dr. Vitale is a board certified urologist. He practiced Urology from 1978 to 2005 at Lovelace Health Systems in Albuquerque. He also served on the Board of Governors for nine years and held various administrative positions including Chief Medical Officer and Senior Vice President at Lovelace. He was a staff urologist at Albuquerque VA Medical Center from 2005 until his retirement in November 2014. He served as Chief of the Urology section from 2008 to November 2013. Dr. Vitale was also an Assistant Professor at the University of New Mexico, Division of Urology. He is a member of the American Urological Association and the South Central Section of the American Urological Association. Prior to his retirement, Dr. Vitale's clinical trials included: chemotherapy after prostatectomy (cap); a phase III randomized study for high risk prostate carcinoma; RTOG 0415 a phase III randomized study of hypofractionated 3d-crt/imrt versus conventionally fractionated 3d-crt/imrt in patients with favorable-risk prostate cancer; RTOG 0815 a phase III prospective randomized trial of dose-escalated radiotherapy with or without short-term androgen deprivation therapy for patients with intermediate-risk prostate cancer; and YP19A1 gene and pharmacogenetics of response to testosterone therapy. Dr. Vitale holds a BA in Biology from LaSalle College and obtained his M.D. from the New Jersey College of Medicine and Dentistry. He received his M.S. in Health Services Administration from the College of St. Francis. Dr. Vitale brings to the Board medical expertise in the industries the Company is targeting.

## **Board Leadership Structure**

Our CEO also serves as Chairman of our Board of Directors. The Board has determined that this structure is appropriate because it believes that at this time it is optimal to have one person speak for and lead the Company and the Board, and that the CEO should be that person. We believe that the strength of our independent directors and our overall governance practices minimize any potential conflicts that otherwise could result from combining the positions of Chairman and CEO.

Our Vice Chairman from February 2008 until his passing in March 2014 was Robert Kauffman, an independent director. During his tenure, the Vice Chairman presided at meetings of our independent directors. The Vice Chairman had authority to during his tenure to call for other meetings of the independent directors or of the full Board if he deemed it necessary. The Vice Chairman also consulted with the Chairman regarding meeting agendas, and served as the principal liaison between the independent directors and the Chairman.

## **Risk Oversight**

Management is responsible for the day-to-day management of the risks we face, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. The Board as a whole exercises its oversight responsibilities with respect to strategic, operational and competitive risks, as well as risks related to crisis management and executive succession issues. The Board has delegated oversight of certain other types of risks to its committees. The Audit Committee oversees our policies and processes relating to our financial statements and financial reporting, risks relating to our capital, credit and liquidity status, and risks related to related person

transactions. The Compensation Committee oversees risks related to our compensation programs and structure, including our ability to motivate and retain talented executives. The Nominations and Corporate Governance Committee oversees risks related to our governance structure and succession planning for Board membership.

In addition, our Compensation Committee has reviewed risks related to our compensation programs and structure, and has determined that the Company's compensation policies and practices do not encourage excessive or unnecessary risk taking reasonably likely to result in a material adverse effect on the Company.

We believe that our Board leadership structure as discussed above promotes effective oversight of the Company's risk management for the same reasons that we believe the structure is most effective for the Company in general, namely, by providing unified leadership through a single person, while allowing for input from our independent directors, all of whom are fully engaged in Board deliberations and decisions.

### **Board Committees and Meetings**

During the fiscal year ended June 30, 2014, the Board held four regularly scheduled and special meetings and took action by written consent on eighteen separate occasions. The Board has an Audit Committee, a Compensation Committee and a Nominations and Corporate Governance Committee.

*Audit Committee.* The Audit Committee is responsible to the Board for the areas of audit and compliance and oversees the Company's financial reporting process, including monitoring the integrity of the financial statements and the independence and performance of the auditors and supervises the Company's compliance with legal and regulatory requirements. The Committee operates under a charter approved by the Board. The Committee's Charter as approved by the Board is attached as Appendix A to this Proxy Statement. The current members of the Audit Committee are Mr. LaVoy (Chairman) and Dr. Vitale. The Board has determined that Mr. LaVoy is an "audit committee financial expert" as defined under SEC rules. The Board has affirmatively determined that none of the members of the Audit Committee have a material relationship with the Company that would interfere with the exercise of independent judgment and each of the members of the Audit Committee are "independent" as independence is defined in Section 121(A) of the listing standards of the NYSE MKT and Rule 10A-3 under the Securities Exchange Act of 1934, as amended.

*Compensation Committee.* The Compensation Committee is responsible for establishing and reviewing the compensation and employee benefit policies of the Company. The members of the Compensation Committee are Dr. Vitale (Chairman) and Mr. LaVoy, each of whom are "independent" directors within the meaning of SEC rules and NYSE MKT listing standards. The Committee operates under a charter approved by the Board. The Committee's Charter as approved by the Board was attached as Appendix A to the Proxy Statement for the Annual Meeting held in March 2014. The Compensation Committee reviews and recommends to the Board for approval the compensation for the Company's Chief Executive Officer and all of its other executive officers, including salaries, bonuses and grants of awards under, and administration of, the Company's equity incentive plans. The Compensation Committee, among other things, reviews the candidates that the CEO recommends to the Board to whom awards will be made under the Company's equity incentive plans, determines the number of options to be awarded, and the time, manner of exercise and other terms of the awards. Although the Committee's charter authorizes the committee to retain an independent

consultant, no third party compensation consultant was engaged for fiscal year 2014. The Chief Executive Officer provides input to the Compensation Committee with respect to the individual performance and compensation recommendations for all executive officers and employees.

*Nominations Committee.* The Nominations and Corporate Governance Committee consists of two directors who have each been determined to be "independent" as defined by applicable SEC rules and NYSE MKT listing standards. Dr. Vitale (Chairman) and Mr. LaVoy currently serve on the Nominations and Corporate Governance Committee. The Committee identifies and solicits recommendations from management of qualified individuals as prospective Board members. The Committee also recommends the director nominees to the Board for election at the annual meeting of shareholders. The Committee oversees the annual review and evaluation of the performance of the Board and its committees, and develops and recommends corporate governance guidelines to the Board. In addition, the Committee examines, evaluates, and monitors the independence of directors for general Board positions as well as for specific committee duties, and evaluates specific qualifications for members serving as audit committee financial experts. The Committee's charter as approved by the Board is attached as Appendix B to this Proxy Statement.

The Board and its committees may retain outside advisors as they determine necessary to fulfill their responsibilities. All committees report their activities to the full Board. Each committee charter is posted on the IsoRay website – [www.isoray.com](http://www.isoray.com).

Each current Board member attended at least 75% of the aggregate meetings of the Board and of the Committees on which he served that were held during the period for which he was a Board or Committee member in the Company's fiscal year ended June 30, 2014.

The following table summarizes the membership of the Board and each of its committees during the fiscal year ended June 30, 2014, as well as the number of times each committee met or took action by written consent during the fiscal year ended June 30, 2014.

	<b>Board</b>	<b>Audit</b>	<b>Compensation</b>	<b>Nominations</b>
Dwight Babcock	Chair			
Thomas LaVoy	Member	Chair	Member	Member
Philip Vitale, M.D.	Member	Member	Chair	Chair
Number of Meetings Held and Consents Taken in Fiscal 2014	22	4	8	2

#### Executive Sessions

Pursuant to the listing standards of the NYSE MKT, the independent directors are required to meet at least annually in executive sessions. Historically, those sessions were chaired by the Vice Chairman. During fiscal 2014, the Vice Chairman was Mr. Kauffman (until March 2014). During these executive sessions, the Vice Chairman had the power to lead the meeting, set the agenda and determine the information to be provided. During fiscal 2014, the Board held one executive session.

Report of the Audit Committee of the Board of Directors

The Audit Committee consists of two outside directors, each of whom has been determined to be financially literate and meets the independence standards for members of public company audit committees set forth in SEC rules adopted under the Sarbanes-Oxley Act of 2002 and applicable NYSE MKT listing standards. The Committee operates under a written charter adopted by the Board. Committee members are independent directors Thomas LaVoy (Chair), and Philip J. Vitale, M.D. Mr. LaVoy has been determined to be qualified as an "audit committee financial expert" as defined in Item 407 of Regulation S-K.

Management is responsible for the Company's internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Committee's responsibility is to monitor and oversee these processes.

The Committee provides assistance to the Board in fulfilling its oversight responsibilities relating to corporate accounting and reporting practices of the Company toward assurance of the quality and integrity of its consolidated financial statements. The purpose of the Committee is to serve as an independent and objective party to monitor the Company's financial reporting process and internal control system; oversee, review and appraise the audit activities of the Company's independent auditors and internal auditing function; and maintain complete, objective and open communication between the Board, the independent accountants, financial management, and the internal audit function. The Audit Committee met four times during the 2014 fiscal year.

The Company's independent auditor reports directly to the Committee. The Audit Committee is solely responsible to appoint or replace the Company's independent auditor, and to assure the auditor's independence and to provide oversight and supervision thereof. The Committee determines compensation of the independent auditor and has established a policy for approval of non-audit related engagements awarded to the independent auditor. Such engagements must not impair the independence of the auditor with respect to the Company, as prescribed by the Sarbanes-Oxley Act of 2002; thus payment amounts are limited and non-audit related engagements must be approved in advance by the Committee. The Committee determines the extent of funding that the Company must provide to the Committee to carry out its duties, and has determined that such amounts were sufficient in fiscal 2014.

With respect to the fiscal year ended June 30, 2014, in addition to its other work, the Committee:

Reviewed and discussed with management the audited consolidated financial statements of the Company as of June 30, 2014 and the year then ended;

Discussed with DeCoria, Maichel & Teague, P.S. the matters required to be discussed by the statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T, with respect to its review of the findings of the independent auditor during its examination of the Company's financial statements; and

Received from DeCoria, Maichel & Teague, P.S. the written disclosures and the letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding its communications with the Audit Committee concerning independence. In addition, discussed with the auditors the firm's independence and determined that independence had been maintained.

The Committee recommended, based on the review and discussion summarized above, that the Board include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended June 30, 2014 for filing with the SEC.

AUDIT COMMITTEE

Thomas LaVoy, Chair  
Philip J. Vitale, M.D.

*The foregoing report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act, except to the extent the Company specifically incorporates this report by reference therein.*

Nomination Process

The Nominations and Corporate Governance Committee is the nominating committee of the Board. The Committee is governed by the Company's Articles of Incorporation and Bylaws with respect to the nominations process. The Committee is responsible for recommending nominees for nomination by the Board for election to the Board. The Committee will consider nominations from shareholders, provided that such nominations are received by the Company's Secretary in accordance with the Articles of Incorporation, the Bylaws, and the date set in the prior year's proxy statement.

The Committee will perform the following duties with respect to director nominations: (a) consider the criteria for identifying and recommending individuals who may be nominated for election to the Board; (b) provide a recommendation to the Board of the slate of nominees for election to the Board; (c) as the need arises, make recommendations to fill vacancies and actively seek individuals qualified to become Board members; and (d) consider shareholder nominations for the Board when properly submitted in accordance with the Company's Articles of Incorporation and Bylaws.

The Committee will consider candidates for the Board who are recommended by its members, other Board members, shareholders and management, as well as those identified by a third party search firm the Company may retain to assist in identifying and evaluating possible candidates. The Committee evaluates candidates recommended by shareholders in the same manner that it evaluates other candidates. The Committee's evaluations will be based upon several criteria, including the candidate's broad-based business and professional skills and experiences; commitment to representing the long-term interests of shareholders; an inquisitive and objective perspective; the willingness to take appropriate risks; leadership ability; personal and professional ethics; personal integrity and judgment; and practical wisdom and sound judgment. Candidates should have reputations, both personal and professional, consistent with the Company's image and reputation.

At a minimum, the majority of directors on the Board should be "independent," not only as that term may be legally defined, but also without the appearance of any conflict in serving as a director. In addition, directors must have time available to devote to Board activities and to enhance their knowledge of the medical isotope industry. Accordingly,

the Committee seeks to attract and retain highly qualified directors who have sufficient time to attend to their substantial duties and responsibilities to the Company. The Company does not have a formal policy related to consideration of diversity in identifying director nominees.

The Committee will utilize the following process for identifying and evaluating nominees to the Board. In the case of incumbent directors whose terms of office are set to expire, the Committee will review such directors' overall service to the Company during their term, including the number of meetings attended, level of participation and quality of performance. In the case of new director candidates, the members of the Committee will be polled for suggestions as to potential candidates that may meet the criteria above, discuss candidates suggested by Company shareholders and may also engage, if the Committee deems appropriate, a professional search firm. To date, the Board and the Committee have not engaged professional search firms to identify or evaluate potential nominees but may do so in the future, if necessary. The Committee will then meet to discuss and consider these candidates' qualifications and then choose a candidate to recommend by majority vote.

## Compensation Process

We design our named executive officer compensation programs to attract, motivate and retain the key executives who drive our success and help us maintain a strong position in our industry. We are committed to industry standards for the region in which we operate for base pay, and equity payable to our named executive officers based on our performance. In addition, we design our named executive compensation to encourage long-term commitment by our named executive officers to IsoRay.

Please read the "Executive Compensation" section of this proxy statement, beginning on page 18. That section of the proxy statement, which includes our named executive officer compensation tables and related narrative discussion, provides historical details on our compensation programs and policies for our named executive officers. The executive officers named in the summary compensation table and deemed to be a "named executive officer" are Dwight Babcock, Brien Ragle, and William Cavanagh.

The compensation paid to the Company's named executive officers is intended to align their interests with their long term interests of the Company's shareholders and is based on a pay-for-performance philosophy. It is straightforward, consisting principally of salary, which must be competitive to retain the skills and experience of excellent employees, and equity compensation to encourage long term commitment and team performance. Not all elements of our compensation package may be provided every year, depending on the performance of the Company and the executive.

Highlights of our named executive officer compensation programs and policies are as follows:

We generally do not enter into employment agreements with our named executive officers, which results in a lack of severance pay obligations, lack of change in control payments, and the ability of the Board and the CEO to dismiss named executive officers at will, all of which the Board believes ultimately can save the Company ongoing severance obligations and encourage performance by the named executive officers.

The discretionary option grants available to our CEO are linked to the success of the Company in raising capital and reducing costs.

The compensation of our named executive officers is not linked to the performance of the Company, except for discretionary bonuses and option grants, but is instead based on industry standards.

The compensation of our CFO is less than the industry norm for a CFO, as our CFO was recently promoted to this position and does not have past CFO experience.

We provide named executive officers with long-term incentives in the form of stock options. These equity-based awards, which generally vest over a period of three years (except for grants to our CEO which vest immediately), link compensation with the long-term price performance of our stock, and also provide a substantial retention incentive.

We do not provide perquisites to our named executive officers.



## Shareholder Approval of Executive Compensation

The Company's last shareholder advisory vote to approve the compensation of its named executive officers was held at the Annual Meeting on March 5, 2014. The Board determined in 2014 to hold subsequent advisory votes every three years, and as a result, the next shareholder advisory vote to approve the compensation of its named executive officers will be held at the Annual Meeting to occur in 2017. The next shareholder advisory vote on the frequency of future shareholder advisory votes on the compensations of the Company's named executive officers will be held at the Annual Meeting to occur in 2020.

## Director Compensation

During fiscal year 2014, each non-employee director received cash compensation of \$2,000 per month. In addition, each non-employee director received \$1,000 per Board meeting attended in person or \$500 per Board meeting attended via phone and \$500 per committee meeting held.

## FY 2014 Director Compensation

Name	Fees earned or paid in cash (\$)	Stock awards (\$)	Option awards (\$)	Non-equity incentive plan compensation (\$)	Nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Robert Kauffman <sup>(1)</sup>	47,000	-	-	-	-	-	47,000
Thomas LaVoy <sup>(2)</sup>	50,500	-	-	-	-	-	50,500
Albert Smith <sup>(3)</sup>	15,500	-	-	-	-	-	15,500
Philip Vitale M.D. <sup>(4)</sup>	12,500	-	-	-	-	-	12,500

(1) Mr. Kauffman received an additional \$3,000 per month for serving as Vice-Chairman through the month of March 2014 when Mr. Kauffman passed away.

(2) Mr. LaVoy received an additional \$2,000 per month for serving as Audit Committee Chairman.

(3) Mr. Smith received payment for his service as a non-employee director through his resignation from Board service and all committees of the Board on January 15, 2014.

(4) Dr. Vitale received payment for his service as a non-employee director beginning in the month that his Board service and service on committees of the Board commenced on January 15, 2014.

Each non-employee director had stock options to purchase shares of the Company's common stock outstanding as of June 30, 2014 as follows – Mr. LaVoy had stock options to purchase 150,000 shares of common stock and Dr. Vitale had stock options to purchase 25,000 shares of common stock.

#### Code of Ethics

We have adopted a Code of Conduct and Ethics that applies to all of our officers, directors and employees and a separate Code of Ethics for Chief Executive Officer and Senior Financial Officers that supplements our Code of Conduct and Ethics. The Code of Conduct and Ethics was previously filed as Exhibit 14.1 to our Form 10-KSB for the period ended June 30, 2005, and the Code of Ethics for Chief Executive Officer and Senior Financial Officers was previously filed as Exhibit 14.2 to this same report. The Code of Ethics for Chief Executive Officer and Senior Financial Officers is also available to the public on our website at <http://www.isoray.com/about>. Each of these policies comprises written standards that are reasonably designed to deter wrongdoing and to promote the behavior described in Item 406 of Regulation S-K promulgated by the Securities and Exchange Commission.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following tables set forth certain information regarding the beneficial ownership of the Company's common stock and voting preferred stock as of December 29, 2014 for (a) each person known by the Company to be a beneficial owner of five percent or more of the outstanding common or Series B preferred stock of the Company, (b) each executive officer, director and nominee for director of the Company, and (c) directors and executive officers of the Company as a group. As of December 29, 2014, the Company had 54,883,445 shares of common stock and 59,065 shares of Series B preferred stock outstanding. Except as otherwise indicated below, the address for each listed beneficial owner is c/o IsoRay, Inc., 350 Hills Street, Suite 106, Richland, Washington 99354.

**Common Stock Share Ownership**

Name of Beneficial Owner	Common Shares Owned	Common Stock Options(1)	Percent of Class (2)	
Dwight Babcock(3)	284,068	800,000	1.98	%
Brien Ragle	-	48,666	0.09	%
Thomas LaVoy	83,523	150,000	0.43	%
Philip J. Vitale, M.D.	-	25,000	0.05	%
Fredric Swindler	-	75,000	0.14	%
William Cavanagh III	-	13,333	0.02	%
Directors and Executive Officers as a group	367,591	1,111,999	2.70	%

1) Only includes those common stock options that could be exercised for common stock within 60 days after December 29, 2014.

Percentage ownership is based on 54,883,445 shares of Common Stock outstanding on December 29, 2014. Shares of Common Stock subject to stock options which are currently exercisable or will become exercisable within 60 days after December 29, 2014 are deemed outstanding for computing the percentage ownership of the person or group holding such options, but are not deemed outstanding for computing the percentage ownership of any other person or group.

3) Mr. Babcock's common shares owned include 2,695 shares owned by his spouse.

**Series B Preferred Stock Share Ownership**

Series B  
Preferred  
Shares

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Name of Beneficial Owner	Owned	Percent of Class (1)
Aissata Sidibe (2)	20,000	33.86 %
William and Karen Thompson Trust (3)	14,218	24.07 %
Jamie Granger (4)	10,529	17.83 %
Hostetler Living Trust (5)	9,479	16.05 %
Leslie Fernandez (6)	3,688	6.24 %

1)Percentage ownership is based on 59,065 shares of Series B Preferred Stock outstanding on December 29, 2014.

2)The address of Ms. Sidibe is 229 Lasiandra Ct, Richland, WA 99352.

3)The address of the William and Karen Thompson Trust is 285 Dondero Way, San Jose, CA 95119.

4)The address of Jamie Granger is 53709 South Nine Canyon Road, Kennewick, WA 99337.

5)The address of the Hostetler Living Trust is 9257 NE 175th Street, Bothell, WA 98011.

6)The address of Leslie Fernandez is 2615 Scottsdale Place, Richland, WA 99352.

No officers or directors beneficially own shares of any class of Preferred Stock.

## **COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

Section 16(a) of the Securities Exchange Act of 1934 (the "*Exchange Act*") requires the Company's directors and executive officers, and persons who beneficially own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission (the "*Commission*") initial reports of beneficial ownership and reports of changes in beneficial ownership of our Common Stock. The rules promulgated by the Commission under Section 16(a) of the Exchange Act require those persons to furnish us with copies of all reports filed with the Commission pursuant to Section 16(a). The information in this section is based solely upon a review of Forms 3, Forms 4, and Forms 5 received by us.

We believe that IsoRay's executive officers, directors, and 10% shareholders timely complied with their filing requirements during the year ended June 30, 2014, except as follows – Dwight Babcock (three Form 4s); William Cavanagh (one Form 4); Brien Ragle (one Form 4) and Philip J. Vitale (one Form 4). Each of these Form 4s was filed late.

### **Executive Officers**

Set forth below is certain information as of January 12, 2015 regarding our current executive officers, including biographical information.

Mr. Babcock took office on February 26, 2008, Mr. Ragle became our principal accounting officer and principal financial officer on October 2, 2009 and was promoted to chief financial officer on October 1, 2013, and Mr. Swindler and Mr. Cavanagh were deemed to be executive officers by the Board effective October 12, 2010. Our Board appoints our officers, and their terms of office are at the discretion of the Board. None of our officers have employment contracts, except for Mr. Swindler.

On September 6, 2013, the Company and its wholly-owned subsidiary IsoRay Medical, Inc. ("*Medical*") entered into an Employment Agreement (the "*Employment Agreement*") with Fredric Swindler, Medical's existing Vice President, Regulatory Affairs and Quality Assurance. Pursuant to the Employment Agreement, Mr. Swindler continues to be employed by Medical as a Vice President, but on a part-time basis of up to 20 hours per month, as part of the transition process for Mr. Swindler's planned future retirement. The Employment Agreement provides for (i) a monthly retainer of \$2,000, and (ii) other customary provisions contained in similarly situated employment

agreements. The Employment Agreement does not provide for any severance payments. As amended in September 2014, the Employment Agreement provides for a term through September 9, 2015.

Name	Age	Position Held
Dwight Babcock	67	CEO
Brien Ragle	45	CFO
Fredric Swindler <sup>#</sup>	67	Vice-President
William Cavanagh	49	Vice President, Research and Development

<sup>#</sup> Mr. Swindler transitioned to part-time employment in September 2013, as part of retirement planning.

Dwight Babcock – Mr. Babcock was appointed CEO of the Company on February 18, 2009. He was previously appointed Chairman and Interim CEO of the Company on February 26, 2008 and has served as a Director of the Company since 2006. Mr. Babcock has served as Chairman and Chief Executive Officer of Apex Data Systems, Inc., an information technology company, since 1975. Apex Data Systems automates the administration and claims adjudication needs of insurance companies both nationally and internationally. Mr. Babcock was formerly President and CEO of Babcock Insurance Corporation (BIC) from 1974 until 1985. BIC was a nationally recognized third party administrator operating within 35 states. Mr. Babcock has knowledge and experience in the equity arena and has participated in various activities within the venture capital, private and institutional capital markets. Mr. Babcock studied marketing and economics at the University of Arizona where he currently serves on the University of Arizona Astronomy Board. Mr. Babcock brings over 35 years of CEO-level experience to his service on the Company's Board.

Brien Ragle – Mr. Ragle has over 15 years of finance and accounting experience, including SEC reporting, financial reporting, cost, project, and management accounting in addition to performing operational analysis. Mr. Ragle became IsoRay's Chief Financial Officer on October 1, 2013. Mr. Ragle was IsoRay's Controller – Principal Financial and Accounting Officer from October 2009 to September 2013. Mr. Ragle was IsoRay's Cost Accounting Manager from January 2007 until October 2009. Before joining IsoRay in January 2007 as Cost Accounting Manager, Mr. Ragle was employed by BNG America, LLC, a wholly-owned subsidiary of Energy Solutions, LLC (ES), from 2005 to 2006 as Project Accounting Manager for all projects located in the Western United States and from 2000 to 2004 as a Business Unit Controller by SCM Consultants, Inc, a wholly-owned subsidiary of Tetra Tech, Inc (TTEK). Mr. Ragle holds Bachelor of Arts degrees in Business Administration, with an emphasis in accounting, and in Hospitality Management from Washington State University. Mr. Ragle is a Certified Public Accountant in the State of Washington and designated as a Chartered Global Management Accountant by the American Institute of Certified Public Accountants. Mr. Ragle filed for personal bankruptcy under Chapter 13 of the U.S. Bankruptcy Code on January 26, 2011.

Fredric Swindler – Mr. Swindler joined IsoRay Medical in October 2006, serving as Vice President, Regulatory and Quality Affairs until September 6, 2013, when he began serving as Vice President on a part-time basis as part of his transition to retirement. Mr. Swindler has over 40 years experience in manufacturing and regulatory compliance. Mr. Swindler also served as Secretary for IsoRay, Inc. from June 11, 2008 through September 6, 2013. Mr. Swindler served as VP, Quality Assurance and Regulatory Affairs for Medisystems Corporation, a manufacturer and distributor of medical devices, from 1994 until joining the Company. During his tenure at Medisystems Corporation, Mr. Swindler developed a quality system to accommodate vertically integrated manufacturing, developed regulatory strategies, policies and procedures, and submitted nine pre-market notifications (510(k)) to the FDA. Prior to this, Mr.

Swindler held various positions with Marquest Medical Products from 1989 to 1994, Sherwood Medical Products from 1978 to 1989, Oak Park Pharmaceuticals in 1978, and Mead Johnson & Company from 1969 to 1978. Mr. Swindler holds a Bachelor of Science degree in Biomedical Engineering from Rose-Hulman Institute of Technology and a Masters of Business Administration from the University of Evansville.

William Cavanagh III – Mr. Cavanagh joined IsoRay Medical in January 2010 and serves as Vice President, Research and Development. Immediately prior to joining IsoRay Medical, Mr. Cavanagh was engaged in the research and development of dendritic cell therapies for cancer and infectious diseases. He served as Chief Scientific Officer for Sangretech Biomedical, LLC for the six years prior to joining IsoRay Medical. At Sangretech, he oversaw the design and implementation of a novel cancer therapy. Mr. Cavanagh began his extensive career in cancer treatment technologies in the early 1990s, when he helped lead research and development of a therapy involving the insertion of radioactive sources directly into the prostate for the treatment of prostate cancer (prostate brachytherapy). He has designed several cancer treatment-related studies, is listed as an author on 34 peer-reviewed publications, and is the listed inventor on a U.S. patent application detailing a novel treatment for cancer. Mr. Cavanagh has also served as Director of the Haakon Ragde Foundation for Advanced Cancer Studies in Seattle, Washington, where he led the research foundation in the selection of viable research projects directed at treating advanced cancers. Mr. Cavanagh holds a B.S. in Biology from the University of Portland (Oregon) and completed two years of medical school before beginning his career in research management.

### Significant Employees

A significant employee of our subsidiary, IsoRay Medical, Inc., and his age as of January 12, 2015 are set forth in the table below. Also provided is a brief description of the experience of our significant employee during the past five years.

<u>Name</u>	<u>Age</u>	<u>Position Held &amp; Tenure</u>
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Lane Bray	86	Chief Chemist
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Lane Bray – Mr. Bray is known nationally and internationally as a technical expert in separations, recovery, and purification of isotopes and is a noted authority in the use of cesium and strontium ion exchange for Department of Energy's West Valley and Hanford nuclear waste cleanup efforts. In 2013, Mr. Bray received the Glenn T Seaborg Award for Actinide Separations Chemistry. In 2000, Mr. Bray received the “Radiation Science and Technology” award from the American Nuclear Society. Mr. Bray has authored or co-authored over 110 research publications, 12 articles for nine technical books, and holds 28 U.S. and foreign patents. Mr. Bray patented the USDOE/PNNL process for purifying medical grade Yttrium-90 that was successfully commercialized in 1999. Mr. Bray also invented and patented the proprietary isotope separation and purification process that is assigned to IsoRay. Mr. Bray was elected “Tri-Citizen of the Year” in 1988, nominated for “Engineer of the Year” by the American Nuclear Society in 1995, and was elected “Chemist of the Year for 1997” by the American Chemical Society, Eastern Washington Section. Mr. Bray retired from the Pacific Northwest National Laboratory in 1998. Since retiring in 1998, Mr. Bray worked part time for PNNL on special projects until devoting all of his efforts to IsoRay in 2004. Mr. Bray has been a Washington State Legislator, a Richland City Councilman, and a Mayor of Richland. Mr. Bray has a B.A. in Chemistry from Lake Forest College.



**EXECUTIVE COMPENSATION**

The following summary compensation table sets forth information concerning compensation for services rendered in all capacities during our past two fiscal years awarded to, earned by or paid to each of the following individuals. Salary and other compensation for these officers are set or recommended to the Board by the Compensation Committee. No other executive officer received total compensation of over \$100,000 during fiscal year 2014.

## Summary Compensation Table

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock awards (\$)	Option awards (\$)(1)	Non-equity incentive plan compensation (\$)	Nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total compensation (\$)
Dwight Babcock	2014	284,712	50,000	-	116,095	-	-	-	450,807
Chairman and CEO	2013	284,394	-	-	-	-	-	-	284,394
Brien Ragle	2014	117,834	-	-	39,401	-	-	-	157,235
CFO	2013	99,215	-	-	-	-	-	-	99,215
William Cavanagh	2014	154,500	-	-	37,099	-	-	-	191,599
VP – R&D	2013	154,327	-	-	-	-	-	-	154,327

Amounts represent the ASC 718, *Compensation – Stock Compensation* valuation for the fiscal years ended June 30, 2014 and 2013, respectively. All such options were awarded under one of the Company's four stock option plans.

All options awarded (with the exception of Mr. Babcock's stock option grants that were immediately vested on the (1) grant date) vest in three equal annual installments beginning with the first anniversary from the date of grant and expire ten years after the date of grant. All options were granted at the fair market value of the Company's stock on the date of grant and the Company used a Black-Scholes methodology as discussed in the footnotes to the financial statements to value the options.

## Outstanding Equity Awards at Fiscal Year-End 2014

Option awards

Equity  
Incentive

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Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	plan awards:		Option exercise price (\$)	Option expiration date
			Number of securities underlying unexercised options (#)	Number of securities underlying unearned options (#)		
Dwight Babcock, Chairman and CEO	50,000	(1)	-	-	6.30	03/31/2016
	50,000	(1)	-	-	3.80	06/23/2016
	50,000	(1)	-	-	3.11	08/15/2016
	100,000	(1)	-	-	0.75	05/13/2018
	200,000	(1)	-	-	0.26	06/01/2019
	100,000	(1)	-	-	1.43	06/30/2020
	100,000	(1)	-	-	0.99	06/07/2021
	50,000	(1)	-	-	0.98	06/27/2022
	50,000	(1)	-	-	0.58	09/05/2023
	50,000	(1)	-	-	2.17	05/20/2024
Brien Ragle CFO					4.40	
	5,000	(2)	-	-	4.40	03/02/2017
	2,000	(3)	-	-	4.14	06/01/2017
	20,000	(4)	-	-	1.43	06/30/2020
	20,000	(5)	-	-	0.99	06/07/2021
	1,666	(7)	-	3,334	0.59	09/06/2023
-	(8)	-	20,000	2.46	06/17/2024	
William Cavanagh Vice-President, Research and Development	11,690	(4)	-	-	1.43	06/30/2020
	7,774	(5)	-	-	0.99	06/07/2021
	13,332	(6)	-	6,668	0.98	06/27/2022
	-	(8)	-	20,000	2.46	06/17/2024

- 1) Represents options issued to Mr. Babcock which were all immediately vested and exercisable. The grant dates are 10 years prior to the expiration date in the table above.
- 2) Represents a March 2, 2007 grant, all of which were exercisable as of March 2, 2010.
- 3) Represents a June 1, 2007 grant, all of which were exercisable as of June 1, 2010.
- 4) Represents a June 30, 2010 grant, all of which were exercisable as of June 30, 2013.
- 5) Represents a June 7, 2011 grant, all of which were exercisable as of June 30, 2014.
- 6) Represents a June 27, 2012 grant, one-third of which became exercisable on June 27, 2013, one-third of which became exercisable on June 27, 2014, and the final third will become exercisable on June 27, 2015.
- 7) Represents a September 6, 2013 grant, one-third of which became exercisable on September 6, 2014, one-third of which will become exercisable on September 6, 2015, and the final third will become exercisable on September 6, 2016.
- 8) Represents a June 17, 2014 grant, one-third of which will become exercisable on June 17, 2015, one-third of which will become exercisable on June 17, 2016, and the final third will become exercisable on June 17, 2017.

The Company has a 401(k) plan that covers all eligible full-time employees of the Company. Contributions to the 401(k) plan are made by participants to their individual accounts through payroll withholding. Additionally, the 401(k) plan provides for the Company to make contributions to the 401(k) plan in amounts at the discretion of management. The Company has not made any contributions to the 401(k) plan and does not maintain any other retirement plans for its executives or employees.

## TRANSACTIONS WITH MANAGEMENT AND OTHERS

### Patent and Know-How Royalty License Agreement

Effective August 1, 1998, Pacific Management Associates Corporation (PMAC) transferred its entire right, title and interest in an exclusive license agreement with Donald Lawrence to IsoRay, LLC (a predecessor company) in exchange for a membership interest. The terms of the license agreement require the payment of a royalty based on the Net Factory Sales Price, as defined in the agreement, of licensed product sales. Because the licensor's patent application was ultimately abandoned, only a 1% "know-how" royalty based on Net Factory Sales Price, as defined, remains applicable. To date, management believes that there have been no product sales incorporating the "know-how" and that therefore no royalty is due pursuant to the terms of the agreement. Management believes that ultimately no royalties should be paid under this agreement as there is no intent to use this "know-how" in the future.

The licensor of the Lawrence "know-how" has disputed management's contention that it is not using this "know-how". On September 25, 2007 and again on October 31, 2007, the Company participated in nonbinding mediation regarding this matter; however, no settlement was reached with the Lawrence Family Trust. After additional settlement discussions which ended in April 2008, the parties still failed to reach a settlement. The parties may demand binding arbitration at any time.

#### Director Independence

Using the standards of the NYSE MKT, the Company's Board has determined that Mr. LaVoy and Dr. Vitale each qualify under such standards as an independent director. Mr. LaVoy and Dr. Vitale each meet the NYSE MKT listing standards for independence both as a director and as a member of both the Audit Committee and the Compensation Committee. No other directors are independent under these standards. The Company did not consider any relationship or transaction between itself and these independent directors not already disclosed in this report in making this determination.

#### Review and Approval of Related Party Transactions

The Board reviews all transactions between the Company and any of its officers and directors. The Company's Code of Ethics emphasizes the importance of avoiding situations or transactions in which personal interests may interfere with the best interests of the Company or its shareholders. In addition, the Company's general corporate governance practice includes Board-level discussion and assessment of procedures for discussing and assessing relationships, including business, financial, familial and nonprofit, among the Company and its officers and directors, to the extent that they may arise. The Board and either the Audit Committee or the Nominations and Corporate Governance Committee review any transaction with an officer or director to determine, on a case-by-case basis, whether a conflict of interest exists. The Board ensures that all directors voting on such a matter have no interest in the matter and discusses the transaction with counsel as the Board deems necessary. The Board will generally delegate the task of discussing, reviewing and approving transactions between the Company and any related persons to either the Audit Committee or the Nominations and Corporate Governance Committee.

Since the beginning of fiscal year 2014, we did not enter into any transactions with related persons that were subject to our related transaction policy and required to be disclosed under Item 404(a) of Regulation S-K.

#### Director and Officer Indemnification

Our Articles of Incorporation provide to directors and officers indemnification to the full extent provided by law, and provide that, to the extent permitted by Minnesota law, a director will not be personally liable for monetary damages to us or our shareholders for breach of his or her fiduciary duty as a director, except for liability for certain actions that may not be limited under Minnesota law. In addition, the Company has entered into indemnification agreements with each of its directors and executive officers, pursuant to which the Company has agreed to indemnify such individuals for any claims made against such individuals based on any act, omission or breach of duty committed while acting as director or officer, except under certain circumstances such as cases involving dishonesty or improper personal benefit. The Company also maintains an insurance policy under which its directors and officers are insured against certain liabilities which might arise out of their relationship with the Company as directors and officers.

*Vote Required for Election*

The three persons receiving the highest number of affirmative votes will be elected as directors of the Company. Votes against a nominee or withheld from voting (whether by abstention, broker non-votes or otherwise) will have no legal effect on the vote.

**PROPOSAL 2 – RATIFICATION OF RE-APPOINTMENT OF THE INDEPENDENT**

**REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has re-appointed the firm of DeCoria, Maichel & Teague, P.S. to serve as our independent registered public accounting firm for the fiscal year ending June 30, 2015, and has directed that such re-appointment be submitted to our shareholders for ratification at the Annual Meeting. Our organizational documents do not require that our shareholders ratify the selection of our independent registered public accounting firm. If our shareholders do not ratify the selection, the Audit Committee will reconsider whether to retain DeCoria, Maichel & Teague, P.S., but still may retain it nonetheless. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in our best interests.

A representative of DeCoria, Maichel & Teague, P.S. is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she desires to do so. The representative also is expected to be available to respond to appropriate questions from shareholders.

**Audit and Non-Audit Fees**

Year ended	Year ended
June 30, 2014	June 30, 2013