

IsoRay, Inc.
Form DEF 14A
January 21, 2014

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:

<input type="checkbox"/>	<input type="checkbox"/>	Preliminary Proxy Statement
<input type="checkbox"/>	<input type="checkbox"/>	Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
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<input type="checkbox"/>	<input type="checkbox"/>	Definitive Additional Materials
<input type="checkbox"/>	<input type="checkbox"/>	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):

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

January 21, 2014

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 Wednesday, March 5, 2014.

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, 2013 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,

Dwight Babcock

CEO and Chairman of the Board

350 Hills Street, Suite 106

Richland, WA 99354

www.isoray.com

ISORAY, INC.

NOTICE OF ANNUAL MEETING

OF SHAREHOLDERS

**TIME AND
DATE**

11:00 a.m., MST, on Wednesday, March 5, 2014

PLACE

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

**ITEMS OF
BUSINESS**

1. To elect four directors to hold office until the Fiscal 2015 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, 2014;

Hold an advisory vote to approve the compensation of the Company's named executive officers as disclosed pursuant to the compensation rules of the Securities and Exchange Commission in this Proxy Statement under the caption "Executive Compensation;"

4. Hold an advisory vote on whether the Company should include an advisory vote of the shareholders on the compensation of the Company's named executive officers pursuant to Section 14A of the Securities Exchange Act every year, two years or three years;

5. To approve the Company's 2014 Employee Stock Option Plan;

To approve an amendment to the warrants to purchase 5,648,737 shares of common stock issued in the August 2013 public offering to (i) reduce the exercise price to \$0.535 per share, (ii) reduce the call price to \$0.85 per share, and (iii) reduce the exercise term to 18 months; and

7. 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,
"FOR"
Items 2, 3, 5
and 6 and **"3**
YEARS" on
Item 4.

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 January 6, 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 2014 Annual Meeting materials, which include the accompanying Proxy Statement and our June 30, 2013 Annual Report on Form 10-K, over the Internet in lieu of mailing printed copies. We will begin mailing, on or about January 21, 2014, 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 2014 Annual Meeting materials and vote online. The Notice of Internet Availability of Proxy Materials also will contain instructions on how you can request a printed copy of the 2014 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 2013 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,

Krista Cline
Secretary

This Notice of Annual Meeting, Proxy Statement and accompanying proxy card are being distributed on or about January 21, 2014.

ISORAY, INC.

350 Hills Street, Suite 106

Richland, Washington 99354

PROXY STATEMENT

Annual Meeting of Shareholders

March 5, 2014

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 2014 Annual Meeting of Shareholders to be held on March 5, 2014 (the "*Annual Meeting*"), and at any adjournment or postponement of the Annual Meeting. These proxy materials were first sent on or about January 21, 2014 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 January 6, 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 Robert Kauffman, and each of them individually, as your representatives at the meeting. Dwight Babcock and Robert Kauffman 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 Robert Kauffman 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 2014 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 21, 2014.

Under rules adopted by the Securities and Exchange Commission (the "*SEC*"), we are providing access to our 2014 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 2014 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 2014 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 2014 Annual Meeting materials and materials for 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 2014 Annual Meeting materials?

The Notice will provide you with instructions regarding how to view the 2014 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 January 6, 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 January 6, 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?

Six proposals are scheduled to be voted on at the Annual Meeting. The first is the election of four directors to hold office until the Fiscal 2015 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, 2014. The third is an advisory vote by the shareholders to approve the compensation of the Company's named executive officers as disclosed in the compensation tables and the related disclosure contained in this proxy statement under the caption "Executive Compensation." The fourth is an advisory vote by the shareholders on whether to include an advisory vote of the shareholders on the compensation of the Company's named executive officers pursuant to Section 14A of the Securities Exchange Act either every year, every two years, or every three years. The fifth is the approval of the 2014 Employee Stock Option Plan. The sixth is the approval of an amendment to the warrants to purchase 5,648,737 shares of common stock issued in the August 2013 public offering to (i) reduce the exercise price to \$0.535 per share, (ii) reduce the call price to \$0.85 per share, and (iii) reduce the exercise term to 18 months.

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 January 6, 2014, there were 38,419,502 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*"), with regard to the advisory shareholder approval of our executive compensation ("*Proposal 3*"), with regard to the proposal to adopt the 2014 Stock Option Plan ("*Proposal 5*"), and with regard to the proposal to amend the exercise price, call price and exercise term of the August 2013 warrants ("*Proposal 6*"), you may vote in favor of the proposals, vote against the proposals or abstain from voting. In voting with regard to the advisory shareholder vote on the frequency of future advisory shareholder votes on executive compensation ("*Proposal 4*"), you may vote "1 year," "2 years," "3 years" or "abstain."

The vote required to approve Proposals 2, 3, 4, 5 and 6 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 Proposals 2, 3 and 4. Any broker non-votes with respect to Proposals 3, 4, 5 and 6 will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this proposal. Because your votes on Proposals 2, 3 and 4 are advisory, they will not be binding on the Board or the Company. However, the Board and the appropriate committees will consider the outcome of each of the advisory votes when making future decisions regarding the selection of our independent registered public accounting firm, when making future compensation decisions for our executive officers, and when making future decisions regarding the frequency of the advisory vote on the compensation of our executive officers.

You may either vote "FOR", "AGAINST" or "ABSTAIN" on Proposals 2, 3, 5 and 6, "1 YEAR", "2 YEARS", "3 YEARS" or "ABSTAIN" on Proposal 4, and "FOR" or "WITHHOLD" authority to vote for each nominee for the

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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" Proposals 2, 3, 5 and 6, "3 YEARS" on Proposal 4, 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 (Proposals 1, 3, 4, 5 and 6); 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 January 6, 2014, our directors and executive officers held or controlled approximately 679,494 shares of our common stock, constituting approximately 1.77% of the outstanding common stock. As of January 6, 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.

Sabby Healthcare Volatility Master Fund, Ltd. and Sabby Volatility Warrant Master Fund, Ltd. (collectively, the "*Sabby Funds*"), the beneficial owners, collectively, of less than 1% of the outstanding shares of Common Stock and voting power of the Company as of January 6, 2014 (excluding unexercised warrants and unconverted Series D preferred stock), have informed the Company that they intend to vote in favor of Proposal 6. However, under NYSE MKT rules, any votes by the Sabby Funds or their affiliates will not be counted in determining whether Proposal 6 is approved. For more information on shares beneficially owned by the Sabby Funds, see "Security Ownership of Certain Beneficial Owners and Management" herein.

How does the Board recommend that I vote?

The Board recommends that you vote your shares "FOR" Proposals 2, 3, 5 and 6 and all of the director nominees, and vote "3 YEARS" for Proposal 4.

With respect to Proposals 3 and 4, the Board believes that the compensation of the Company's named executive officers is fair and reasonable and that requiring future advisory votes on executive compensation every three years is the preferred approach, as this will minimize the costs associated with soliciting shareholder approval of executive compensation arrangements, while still providing shareholders with a meaningful opportunity to provide input into the executive compensation process. It will also provide time for the Company to implement any changes it deems advisable following each advisory vote. As the Company's named executive officers are few in number, and both the named executive officers themselves, and their compensation arrangements, do not change frequently, holding the advisory vote every three years is the recommendation of the Board.

With respect to Proposal 6, the Company is under a contractual obligation to recommend a "FOR" vote.

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?

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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 March 5, 2014;

· 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 four 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 four existing members of the Board for re-election to the Board at the Fiscal 2014 Annual Meeting: Dwight Babcock, Robert Kauffman, 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 2015 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, Robert Kauffman, Thomas LaVoy and Philip Vitale, M.D. as directors for a one year term expiring at the Fiscal 2015 Annual Meeting of Shareholders and until their successors have been duly elected and qualified.

Directors

Set forth below is certain information as of January 16, 2014 regarding our current directors that have been nominated for re-election, including biographical information.

Mr. LaVoy and Mr. Kauffman took office in July 2005, Mr. Babcock took office in March 2006 and Dr. Vitale took office on January 15, 2014 following the resignation of former director Al Smith. Dr. Vitale was recommended to serve on the Board by a non-management director of the Company.

Name	Age	Position Held	Term
Dwight Babcock	66	Chairman, Chief Executive Officer	Annual
Robert Kauffman	73	Vice-Chairman	Annual
Thomas LaVoy	54	Director	Annual
Philip Vitale	67	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.

Robert Kauffman – Mr. Kauffman has been a Director of the Company since 2005 and was appointed Vice-Chairman of the Company on February 26, 2008. Mr. Kauffman has served as Chief Executive Officer and Chairman of the Board of Alanco Technologies, Inc. (OTCBB: ALAN), an Arizona-based company previously in the information technology industry, since July 1, 1998. Mr. Kauffman was formerly President and Chief Executive Officer of NASDAQ-listed Photocomm, Inc., from 1988 until 1997 (since renamed Kyocera Solar, Inc.). Photocomm was the nation's largest publicly owned manufacturer and marketer of wireless solar electric power systems with annual revenues in excess of \$35 million. Prior to Photocomm, Mr. Kauffman was a senior executive of the Atlantic

Richfield Company (ARCO) whose varied responsibilities included Senior Vice President of ARCO Solar, Inc., President of ARCO Plastics Company and Vice President of ARCO Chemical Company. Mr. Kauffman earned an M.B.A. in Finance at the Wharton School of the University of Pennsylvania, and holds a B.S. in Chemical Engineering from Lafayette College, Easton, Pennsylvania. Mr. Kauffman has substantial experience in serving as CEO for public companies, and brings these skills 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 Chief Financial Officer of SuperShuttle International, Inc., since July 1997 and as Secretary since March 1998. SuperShuttle is one of the largest providers of shuttle services in major cities throughout the West and Southwest regions of the United States. 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 – Dr. Vitale, who began serving on the Board on January 15, 2014, 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 9 years and held various administrative positions including Chief Medical Officer and Senior Vice President at Lovelace. He has been the staff urologist at Albuquerque VA Medical Center since 2005, serving as Chief of the Urology section from 2008 to 2014. Dr. Vitale is 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. Dr. Vitale's current clinical trials include: 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, and we have an independent Vice Chairman. 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 our Vice Chairman position being held by an independent director, 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 since February 2008 has been Robert Kauffman. The Vice Chairman presides at meetings of our independent directors. The Vice Chairman may call for other meetings of the independent directors or of the full Board if he deems it necessary. The Vice Chairman also consults with the Chairman regarding meeting agendas, and serves 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 Vice Chairman and other independent directors, all of whom are fully engaged in Board deliberations and decisions.

Board Committees and Meetings

During the fiscal year ended June 30, 2013, the Board held three regularly scheduled and special meetings and took action by written consent on five 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 Audit Committee Charter was attached as Appendix A to the Proxy Statement for the Annual Meeting held in February 2012. The current members of the Audit Committee are Mr. LaVoy (Chairman), Mr. Kauffman and Dr. Vitale. The Board has determined that Mr. LaVoy and Mr. Kauffman are "audit committee financial experts" 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. Kauffman, 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 is attached as Appendix A to this Proxy Statement. 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 2013. 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 three directors who have all been determined to be "independent" as defined by applicable SEC rules and NYSE MKT listing standards. Mr. LaVoy and Dr. Vitale currently serve on the Nominations and Corporate Governance Committee and Mr. Kauffman serves as its Chairman. 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 was attached as Appendix B to the Proxy Statement for the Annual Meeting held in February 2012.

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.

Each 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, 2013 except for Mr. Kauffman who attended 71% of these meetings.

The following table summarizes the membership of the Board and each of its committees during the fiscal year ended June 30, 2013, as well as the number of times each committee met or took action by written consent during the fiscal year ended June 30, 2013.

	Board	Audit	Compensation	Nominations
Dwight Babcock	Chair			
Robert Kauffman	Vice-Chair	Member	Member	Chair
Thomas LaVoy	Member	Chair		Member
Albert Smith	Member	Member	Chair	Member
Number of Meetings Held and Consents Taken in Fiscal 2013	8	4	1	1

Executive Sessions

Pursuant to the listing standards of the NYSE MKT, the independent directors are required to meet at least annually in executive sessions. Generally, those sessions are chaired by the Vice Chairman. During fiscal 2013, the Vice Chairman was Mr. Kauffman. During these executive sessions, the Vice Chairman has the power to lead the meeting, set the agenda and determine the information to be provided. During fiscal 2013, the Board held one executive session. The Vice Chairman can be contacted by writing to Vice Chairman, IsoRay, Inc., c/o Krista Cline, Secretary, 350 Hills Street, Suite 106, Richland, Washington 99354. We screen mail addressed to the Vice Chairman for security purposes and to ensure that it relates to discrete business matters that are relevant to our Company. Mail that satisfies these screening criteria will be forwarded to the Vice Chairman.

Report of the Audit Committee of the Board of Directors

The Audit Committee consists of three 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 include independent directors Thomas LaVoy (Chair), Robert Kauffman and Philip Vitale. Both Mr. LaVoy and Mr. Kauffman have each 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 2013 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 2013.

With respect to the fiscal year ended June 30, 2013, 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, 2013 and the year then ended;

Discussed with DeCoria, Maichel & Teague, P.S. the matters required to be discussed by Auditing Standard No. 16, "Communications with Audit Committees," as adopted by the Public Company Accounting Oversight Board ("PCAOB"), 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, 2013 for filing with the SEC.

AUDIT COMMITTEE

Thomas LaVoy, Chair
Robert Kauffman

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.

FY 2013 Director Compensation