

IsoRay, Inc.  
Form 10-K  
September 26, 2018

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United States Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended June 30, 2018

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-33407

IsoRay, Inc.

(Exact name of registrant as specified in its charter)

Minnesota  
(State of incorporation)

41-1458152  
(I.R.S. Employer Identification No.)

350 Hills St., Suite 106  
Richland, Washington

99354

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(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (509) 375-1202

Securities registered pursuant to Section 12(b) of the Act

| <u>Title of each class</u>      | <u>Name of exchange on which registered</u> |
|---------------------------------|---|
| Common Stock, \$0.001 par value | NYSE American                               |

Securities registered pursuant to Section 12(g) of the Act:

Series C Preferred Share Purchase Rights

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter – \$22,040,092 as of December 31, 2017.

The number of shares outstanding of the registrant’s common stock, \$0.001 par value per share, as of September 24, 2018 was 67,331,147.

Documents incorporated by reference – none.

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**Caution Regarding Forward-Looking Information**

*In addition to historical information, this Form 10-K contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). This statement is included for the express purpose of availing IsoRay, Inc. of the protections of the safe harbor provisions of the PSLRA.*

*All statements contained in this Form 10-K, other than statements of historical facts, that address future activities, events or developments are forward-looking statements, including, but not limited to, statements containing the words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project,” and similar expressions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products, services, developments or industry rankings; any statements regarding future revenue, economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results will conform to the expectations and predictions of management is subject to a number of risks and uncertainties described under Item 1A – Risk Factors beginning on page 24 below that may cause actual results to differ materially.*

*Consequently, all of the forward-looking statements made in this Form 10-K are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations. Readers are cautioned not to place undue reliance on such forward-looking statements as they speak only of the Company’s views as of the date the statement was made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

**PART I**

As used in this Form 10-K, unless the context requires otherwise, “we” or “us” or “IsoRay” or the “Company” means IsoRay, Inc. and its subsidiaries.

As used in this Form 10-K, unless the context requires otherwise, “fiscal year”, “FY” or “fiscal” means the Company’s financial year that begins on July 1 and ends on June 30 of the following year (for example: fiscal year 2018 is equivalent to the year ended June 30, 2018).

**ITEM 1 – BUSINESS**

**General**

IsoRay, Inc. (formerly known as Century Park Pictures Corporation) was incorporated in Minnesota in 1983. On July 28, 2005, IsoRay Medical, Inc. (Medical) became a wholly-owned subsidiary of IsoRay, Inc. pursuant to a merger. Medical was formed under Delaware law on June 15, 2004 and on October 1, 2004 acquired two affiliated predecessor companies that began operations in 1998. Medical, a Delaware corporation, develops, manufactures and sells isotope-based medical products and devices for the treatment of cancer and other malignant diseases. Medical is headquartered in Richland, Washington.

IsoRay International LLC (International), a Washington limited liability company, was formed on November 27, 2007 and is a wholly-owned subsidiary of the Company. International has entered into various international distribution agreements.

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**Available Information**

Our website address is [www.IsoRay.com](http://www.IsoRay.com). Information on this website is not a part of this Form 10-K (this “Report”). We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4, and 5 filed on behalf of directors and executive officers, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) available free of charge on our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). You can also read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

Information regarding our corporate governance, including the charters of our audit committee, our nominations and corporate governance committee and our compensation committee, and our Codes of Conduct and Ethics is available on our website ([www.IsoRay.com](http://www.IsoRay.com)). We will provide copies of any of the foregoing information without charge upon request to Mark Austin, Controller, 350 Hills Street, Suite 106, Richland, WA, 99354.

**Business Operations**

**Overview**

In 2003, IsoRay obtained clearance from the Food and Drug Administration (FDA) for the use of Cesium-131 (Cesium-131) radioisotope in the treatment of all malignant tumors. As of the date of this Report, such applications include prostate cancer, brain cancer, breast cancer, colorectal cancer, gynecological cancer, lung cancer, liver cancer, ocular melanoma and pancreatic cancer. The brachytherapy seed form (a sealed source) of Cesium-131 may be used in surface, interstitial and intra-cavity applications for tumors with known radio-sensitivity. Management believes the combination of a short half-life and relatively high-energy of Cesium-131 will allow it to become a leader in the brachytherapy market, and Cesium-131 represents the first major advancement in brachytherapy technology in approximately 30 years with attributes that could make it the long-term “seed of choice” for internal radiation therapy procedures.

The Company’s core product is its Cesium-131 sealed source brachytherapy “seed.” These seeds can be inserted individually or in combination into various locations in the body until the physician is satisfied with the radiation dose delivered. The Company also sells seeds in strands to keep them from individually moving and to allow the physician to put multiple seeds in a row as desired. In addition, “pre-loaded” needles may have Cesium-131 brachytherapy seeds



inserted in them, or a strand with seeds in the strand, inserted into the needle. Seeds can also be loaded into suture material, which can be sewn by IsoRay into a piece of bio-absorbable mesh which can be sewn or stapled into tissue by the physician for use in lung, pelvic floor and other cancer locations.

Brachytherapy seeds are small devices containing a therapeutic dose of radiation used in an interstitial radiation procedure. The procedure has become one of the primary treatments for prostate cancer. The brachytherapy procedure places radioactive seeds as close as possible to (in or near) the cancerous tumor (the word “brachytherapy” is derived from Greek and means close therapy). A primary advantage of seed brachytherapy is the ability of the seeds to deliver therapeutic radiation thereby killing the cancerous tumor cells while minimizing exposure (damage) to adjacent healthy tissue. This procedure allows doctors to administer a higher dose of radiation directly to the tumor. A seed contains a radioisotope sealed within a titanium capsule. The number of seeds used varies based on the size of the cancerous area being treated, the isotope used and the activity level specified by the physician. When brachytherapy is combined with another treatment method (dual-therapy), fewer seeds are used in the procedure. The isotope decays over time (half-life) and eventually the seeds become inert (typically over 6 half-lives). The seeds may be used as a primary treatment (monotherapy) or as an adjunct therapy with other treatment modalities, or as treatment for residual disease after excision of primary tumors. The number of seeds for treatment sites vary widely (as few as 8 seeds to more than 100 seeds) depending on the type of cancer, the tumor location, the prescribed activity level and any additional type of therapy being utilized.

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In the cases of lung and brain tumors (and other solid tumors), a surgeon will remove the tumor if it is medically prudent and this offers the patient some benefit in terms of controlling the growth of the cancer or its symptoms. In many cases, radiation therapy is added following the surgery; this is known as “adjuvant” radiation therapy. The Company believes that its form of adjuvant radiation therapy deployable in such cases offers advantages over external beam methods. However, external beam holds the vast majority of the market for adjuvant radiation therapy.

### *Prostate Cancer*

IsoRay began the production and sales of Cesium-131 brachytherapy seeds in October 2004 for the treatment of prostate cancer after receiving clearance of its premarket notification (510(k)) by the Food and Drug Administration. Prostate cancer treatment represents over 85% of the business of IsoRay today.

When brachytherapy is the only treatment (monotherapy) used in the prostate, approximately 70 to 120 seeds are permanently implanted in the prostate during an outpatient procedure. Typically, physicians use loose seeds in needles or in a cartridge or seeds loaded into strands which can also be loaded into needles from the treatment of prostate cancer. Seeds may be combined with another treatment method (dual therapy) when treating prostate cancer.

In late 2017, the first report with long-term follow-up clinical outcomes for patients treated with Cesium-131 brachytherapy for low-risk patients was presented at the annual meeting of the American Society for Therapeutic Radiation Oncology.

Moran, B. J. and M. H. Braccioforte (2017). *Long-term PSA outcomes in a single institution, prospective randomized 131-Cs/125-I permanent prostate brachytherapy trial*. *Int J Radiat Oncol Biol Phys* **99**(2 (Suppl)): E255. In this randomized study of 140 patients no statistically significant difference in biochemical failure was seen with long-term follow-up between the Cesium-131 group and the group implanted with I-125.

In addition to the long-term cancer control data mentioned above, a report from 2017 describes favorable long-term quality of life outcomes following Cesium-131 brachytherapy in the treatment of prostate cancer (S.M. Glaser, et al., *Long-Term Quality of Life in Prostate Cancer Patients Treated With Cesium-131*, *Int J Radiat Oncol Biol Phys*. 98(5):1053-1058 (2017)).

The Company continues to identify and support work that seeks to employ and study Cesium-131 brachytherapy seeds in combination with external beam radiation therapy (“EBRT”). Compelling evidence is emerging supporting the use of such combination brachytherapy and EBRT in intermediate and high-risk prostate cancer cases. (Kwok, Y., et al.

(2018). *Recent advances in radiation oncology: multimodal targeting of high risk and recurrent prostate cancer*. Curr Opin Oncol **30**(3): 165-171).

For low-risk prostate cancer, studies are ongoing to evaluate the use of Cesium-131 in “focal,” or sub-total brachytherapy of the prostate. It is hypothesized that low-risk patients using focal brachytherapy may achieve rates of prostate cancer control comparable to that of full gland treatment while significantly reducing side effects. (M.H. Mendez, et al., *Current trends and new frontiers in focal therapy for localized prostate cancer*, Current Urology Report 16, 35 (June 2015)).

Early results from a series of men treated with Cesium-131 focal therapy were presented at the 2018 Annual Meeting of the American Brachytherapy Society, Kalash, R., et al., (2018), *Focal brachytherapy using Cesium-131 in low-risk prostate cancer*. Brachytherapy 17 (Suppl):S89. The authors conclude that, while too early to estimate disease specific outcomes, serum PSAs in these men have declined in the short term and there was no residual effect on urinary, bowel or erectile symptoms.

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### *Gynecologic Cancer*

Individual seeds can also be placed via needle into the female reproductive tract for the treatment of various gynecologic cancers. This effort has been led by Dr. Jonathan Feddock, formerly of the University of Kentucky, and currently of Baptist Health Lexington. In June 2016, Dr. Feddock conducted two presentations on gynecological cancer patients who underwent treatment with permanent implantation of Cesium-131 brachytherapy seeds. In the first presentation, it was noted that 21 out of 26 recurrent cancer patients remained visually free of cancer at a median of 14 months after implantation which equates to 80.7% local control (J. Feddock, et al., *Permanent interstitial re-irradiation with cesium-131: a highly successful second chance for cure in recurrent pelvic malignancies*, *Brachytherapy* 15 (S1):S78-9 (2016)). In the second presentation, a series of 22 women with pelvic cancer underwent Cesium-131 brachytherapy seed implantation with other forms of radiation therapy treating patients who were recently diagnosed and had not yet undergone any treatment. All these cancers were successfully controlled at a median follow-up of 16 months. Side effects using the Cesium-131 brachytherapy seeds were minor and all treatments were performed as outpatient procedures. (J. Feddock, et al., *Outpatient interstitial implants - integrating cesium-131 permanent interstitial brachytherapy into definitive treatment for gynecologic malignancies*, *Brachytherapy* 15 (S1):S93-4 (2016)). Dr. Feddock and his team are continuing ongoing research.

The FDA clearance granted in August 2009 to permit loading Cesium-131 seeds into bio-absorbable braided sutures or “braided strands” gives the Company the ability to treat brain, lung, head and neck, colorectal, and chest wall cancers. The Company is currently pursuing the brain, head and neck, and lung cancer applications in addition to its primary focus on prostate cancer. The Company has also received CE Mark clearance to commercially deliver Cesium-131 brachytherapy seeds that are pre-loaded into braided strands in Europe. This clearance permits the product to be commercially distributed in Europe for treatment of prostate, brain, lung, and head and neck tumors as well as tumors in other organs.

### *Brain and Head and Neck Cancer*

Starting in 2012, multiple institutions began utilizing Cesium-131 brachytherapy seeds loaded in braided strands for treatment of brain and head and neck cancers. The application of Cesium-131 brachytherapy seeds loaded in braided strands to date has been primarily in salvage cases as a treatment of last resort for brain and head cancers where aggressive tumors had reoccurred multiple times following standard of care treatment. From 2014 to 2016 there have been numerous published abstracts and society presentations which have been presented and support the effectiveness of treating very difficult and aggressive cancers with Cesium-131 in multiple body sites. Dr. Gabriella Wernicke’s group, at Weill Cornell Medical College at the NY Presbyterian Hospital, published four papers on the efficacy, favorable side-effect profile and cost-effectiveness of Cesium-131 brachytherapy seeds in the treatment of metastatic brain cancer. (A. Pham, et al., *Neurocognitive function and quality of life in patients with newly diagnosed brain metastasis after treatment with intra-operative cesium-131 brachytherapy: a prospective trial*, *J Neurooncol* 127(1):63-71 (2016); A.G. Wernicke, et al., *Surgical technique and clinically relevant resection cavity dynamics following implantation of cesium-131 brachytherapy in patients with brain metastases*, *Operative Neurosurgery* 12(1):49-60 (2016); A.G. Wernicke, et al., *Cesium-131 brachytherapy for recurrent brain metastases: durable*

*salvage treatment for previously irradiated metastatic disease*, J Neurosurg DOI: 10.3171/2016.3.JNS152836 (Published online June 3, 2016); A.G. Wernicke, et al., *The cost-effectiveness of surgical resection and cesium-131 intraoperative brachytherapy versus surgical resection and stereotactic radiosurgery in the treatment of metastatic brain tumors*, J Neurooncol 127(1):145-53 (2016)). At the same institution, Dr. Bhupesh Parashar has published two journal articles on the effectiveness of Cesium-131 brachytherapy seeds in the treatment of both head and neck and lung cancer. (B. Parashar, et al., *Analysis of stereotactic radiation vs. wedge resection vs. wedge resection plus Cesium-131 brachytherapy in early stage lung cancer*, Brachytherapy 14(5):648-54 (2015); A. Pham, et al., *Cesium-131 brachytherapy in high risk and recurrent head and neck cancers: first report of long-term outcomes*, J Contemp Brachytherapy 7(6):445-52 (2015).) In 2017, Dr. Wernicke's group published favorable results on a series of patients with large brain metastases treated with Cesium-131 in braided strands. A. G. Wernicke, et al., *Clinical Outcomes of Large Brain Metastases Treated With Neurosurgical Resection and Intraoperative Cesium-131 Brachytherapy: Results of a Prospective Trial*, Int J Radiat Oncol Biol Phys. 98 (5):1059-1068 (2017)).

During fiscal 2013, the Company began providing technical assistance and selling Cesium-131 brachytherapy seeds for embedding in collagen tiles by physicians at Barrow Neurological Institute (Barrow) to treat malignant meningioma, primary brain cancers and metastases of cancers to the brain. From this a company was formed, GammaTile LLC, now GT Medical Technologies, Inc. ("GT Med Tech"), and further refined this technology which integrates Cesium-131 brachytherapy seeds and has resulted in the issuance of multiple patents to GT Med Tech for the treatment of brain cancers. In December 2014 and June 2016, physicians representing Barrow presented their findings at two society conferences for neuro-oncologists. Highlights of the presentation included a new treatment delivery system of Cesium-131 brachytherapy seeds to the brain while embedded in collagen tiles by applying directly to brain tissue after tumor removal. The trial presented included 16 patients with 20 tumors. The patients in the study had multiple reoccurrences of tumors following previous surgeries in conjunction with treatments with external beam radiation and had an increased risk for additional reoccurrences. Following treatment with Cesium-131, 95% of the treated tumors had no evidence of regrowth at the operative site (local control). The incidence of radiation side effects to the brain from Cesium-131 brachytherapy seeds (a common side effect) occurred in only 2 of the 20 treatments. (D. Brachman, *Prospective trial of surgery and permanent intraoperative brachytherapy (S+BT) using a modular, biocompatible radiation implant for recurrent aggressive meningiomas*, Society of Neuro-Oncology Conference on Meningioma, Toronto, Canada (June 18, 2016)).

In November of 2016, Dr. Emad Youssef of the Barrow Neurological Institute presented a study conducted on 13 patients with recurrent high grade gliomas (primary brain cancer) at the annual meeting of the Society for Neuro-Oncology meeting. (E. Youssef, et al; *Rthp-23. Cs131 Implants For Salvage Therapy Of Recurrent High Grade Gliomas (Hgg)*, Neuro-Oncology Volume 18, Issue suppl\_6, 1 November 2016, Pages vi179). These patients were reported to have achieved a 92% rate of local control of their cancers during the follow-up interval. Due to the fact that the GammaTile™ treatment has displayed promising results in difficult to control recurrent brain cancers, the Company has collaborated with GT Med Tech, in filing applications to: the U.S. Food and Drug Administration (FDA) to clear GammaTile™ for clinical use; and a New Technology Add-on Payment to the Center for Medicare and Medicaid Services (CMS) seeking re-imburement for the GammaTile™ treatment in the in-patient setting. The application with the FDA was cleared on July 6, 2018, however, the NTAP referenced herein is not currently under consideration and the Company plans to re-file the NTAP in October 2018. In the meantime, CMS has allowed properly licensed medical centers to apply for re-imburement under an existing Diagnostic Related Groups (DRG) code that allows partial recovery of the GammaTile™ treatment cost.



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**Industry Information**

*Prostate Cancer Treatment*

According to the American Cancer Society, one in seven men will be diagnosed with prostate cancer during his lifetime. It is the most common form of cancer in men after skin cancer, and the second leading cause of cancer deaths in men following lung cancer. The American Cancer Society estimates there will be about 164,690 new cases of prostate cancer diagnosed and an estimated 29,430 deaths associated with the disease in the United States in 2018.

Prostate cancer treatment remains a key focus of the Company. Most doctors use the American Joint Committee on Cancer (AJCC) TNM system to stage prostate cancer. This system is based on three key pieces of information:

- The extent of the main tumor (T category);
- Whether the cancer has spread to nearby lymph nodes (N category); and
- Whether the cancer has metastasized (spread) to other parts of the body (M category).

These factors are combined to determine an overall stage, using Roman numerals I through IV (1-4). The lower the number, the less the cancer has spread. A higher number, such as stage IV, means a more advanced cancer.

Once diagnosed, prostate cancer can generally be divided into either localized or advanced disease. Further, within the localized category the disease can be further categorized to one of the three “risk groups”: low, intermediate and high risk. As the risk increases so does the probability of advanced cancer at diagnosis and the probability of failing treatment with cancer progression or recurrence.

*Low Dose Rate Permanent Brachytherapy (LDR).* IsoRay’s Cesium-131 brachytherapy seeds are an option in the treatment of prostate cancers of all risk levels of localized disease. In this approach, seeds of radioactive material are placed inside thin needles, which are inserted through the skin in the area between the scrotum and anus and into the prostate. The seeds are left in place as the needles are removed and give off low doses of radiation for weeks or months. Radiation from the seeds travels a very short distance, so the seeds can give off a large amount of radiation in a very small area. As compared to other treatments, this limits the amount of damage to nearby healthy tissues.

IsoRay’s Cesium-131 brachytherapy seeds are an option in the treatment of prostate cancers of all risk levels of localized disease. The diagnosis of prostate cancer – and especially low risk prostate cancer – has been potentially

reduced with the introduction of guidelines dissuading the use of serum PSA screening at the general practitioner level as a means to detect prostate cancer early in men with no symptoms of prostate cancer. Effective July 2012, the U.S. Preventative Services Task Force (USPSTF) recommended against the use of the PSA test as a screening tool. As a result of the recommendation, prostate cancer diagnosis dropped by 12.2% the month after the recommendation and has continued to drop. (D.A. Barocas, et al., *Effect of the USPSTF Grade D Recommendation against Screening for Prostate Cancer on Incident Prostate Cancer Diagnoses in the United States*, J Urol 194(6) The Journal of Urology (2015)).

In 2017, the USPSTF changed its recommendation from advising against screening to the position that the decision for men between 55 and 69 to undergo PSA-based screening should be made by a man in consultation with his doctor. This change may contribute to an increased incidence of prostate screening (and therefore more prostate cancer cases) as opposed to an unscreened population – although this conclusion will await future trending information.

Furthermore, the deferral of potentially cancer-eradicating (definitive) prostate cancer treatments such as surgery and radiation therapy has become more popular as some men with prostate cancer have decided to “watch” the cancer using a variety of diagnostic tools – a trend known as “active surveillance.”



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As such, the industry has experienced an overall decrease in the number of low risk cases of prostate cancer diagnosed due to reduced PSA screening, as well as a larger number of men who are deferring treatment altogether at a higher rate than seen historically. Intense competition in the space due to numerous established treatment options along with added entrants such as robotic surgery and proton therapy has further eroded the overall brachytherapy market share. The industry continues to focus on the significant data that supports the use of brachytherapy in treating prostate cancer. Management believes the current review of cost effective treatment comparisons with other treatment options, the aging population worldwide and the efficacy of treatment could contribute to the revitalization of brachytherapy treatment for prostate cancer in the future.

Minimally invasive brachytherapy such as that provided by the Company's Cesium-131 brachytherapy seeds provides significant advantages over competing treatments including lower cost, equal or better survival data, fewer side effects, faster recovery time and the convenience of a single outpatient implant procedure that generally lasts less than one hour (Grimm, et al., *Comparative analysis of prostate-specific antigen free survival outcomes for patients with low, intermediate and high risk prostate cancer treatment by radical therapy. Results from the Prostate Cancer Results Study Group*, British Journal of Urology International, Vol. 109 (Suppl 1), (2012); Merrick, et al., *Effect of prostate size and isotope selection on dosimetric quality following permanent seed implantation*, Techniques in Urology Vol. 7 (2001); Potters, et al., *12-Year Outcomes Following Permanent Prostate Brachytherapy in Patients with Clinically Localized Prostate Cancer*, Journal of Urology (May 2005); Sharkey, et al., *Brachytherapy versus radical prostatectomy in patients with clinically localized prostate cancer*, Current Urology Reports, (2002)).

Iodine-125 (I-125) and Palladium-103 (Pd-103) are two isotopes, other than Cesium-131, that are currently used for LDR permanent brachytherapy. A number of published studies describing the use of I-125 and Pd-103 LDR brachytherapy in the treatment of early-stage prostate cancer have been very positive when compared to other treatment options. A study of 2,963 prostate cancer patients who underwent brachytherapy as their sole therapeutic modality at 11 institutions across the U.S. concluded that low-risk patients (who make up the majority of localized cases) who underwent adequate implants experienced rates of PSA relapse survival of greater than 90% between eight and ten years (M.J. Zelefsky et al., *Multi-institutional analysis of long-term outcome for stages T1-T2 prostate cancer treated with permanent seed implantation* International Journal of Radiation Oncology, Biology, Physics Volume 67, Issue 2, 327-333 (2007)).

In addition to permanent, low-dose rate (LDR) brachytherapy, such as Cesium-131, localized prostate cancer can be treated with prostatectomy surgery (RP for radical prostatectomy), external beam radiation therapy (EBRT), three-dimensional conformal radiation therapy (3D-CRT), intensity modulated radiation therapy (IMRT), dual or combination therapy, permanent, high dose rate brachytherapy (HDR), cryosurgery, hormone therapy, proton therapy and active surveillance (watchful waiting). The success of any treatment is measured by the feasibility of the procedure for the patient, morbidities associated with the treatment, overall survival, and cost. When the cancerous tissue is not completely eliminated, the cancer typically returns to the primary site, often with metastases to other areas of the body.

*Prostatectomy Surgery Options.* In the radical prostatectomy operation, a surgeon will remove the entire prostate gland plus some of the tissue around it, including the seminal vesicles. New methods such as laparoscopic and robotic prostatectomy surgeries are currently being used more frequently in order to minimize the damage that leads to impotence and incontinence, but these techniques require a high degree of surgical skill. (American Cancer Society, 2016) Surgical resection accounted for approximately 44% of treatments before the introduction of robotic prostatectomy in the early 2000s and then rose to 60% in 2010. (J.M. Martin, et al. *The rise and fall of prostate brachytherapy: Use of brachytherapy for the treatment of localized prostate cancer in the National Cancer Data Base*, Cancer 120:2114–2121 (2014); J.M. Martin, et al., *Use of brachytherapy for the treatment of localized prostate cancer in the National Cancer Data Base*, Cancer 120:2114–2121 (2014), Duke University, International Focal Therapy Conference, (June 2016)).

*External Radiation Therapy.* Primary External Beam Radiation Therapy (EBRT), Three-dimensional Conformal Radiation Therapy (3D-CRT), Stereotactic Radiotherapy (SBRT), Intensity Modulated Radiation Therapy (IMRT) and Proton Therapy all involve directing a beam of radiation from outside the body at the prostate gland to destroy cancerous tissue. Treatments are received on an outpatient basis with the patient usually receiving five treatments per week over a period of several weeks (up to nine). While the treatments each last only a few minutes, getting the patient and equipment in place for each treatment takes longer. The use of EBRT as a proportion of all radiation treatments for prostate cancer increased from 50.6% in 2004 to 74.0% in 2013, while brachytherapy declined from 36.7% to 18.2% over the same time interval. (Malouff, T., et al. *Trends in the use of radiation therapy for stage IIA prostate cancer from 2004 to 2013: a retrospective analysis using the National Cancer Database*. Prostate Cancer Prostatic Dis **20**(3): 334-338 (2017)). Side effects of these treatments can include bowel problems, bladder problems, urinary incontinence, impotence, fatigue, lymphedema, and urethral stricture.

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*Proton beam radiation therapy.* Proton beam therapy focuses beams of protons instead of x-rays on the cancer. Unlike x-rays, which release energy both before and after they hit their target, protons cause little damage to tissues they pass through and release their energy only after traveling a certain distance. This means that proton beam radiation can, in theory, deliver more radiation to the prostate while doing less damage to nearby normal tissues. Proton beam radiation can be aimed with techniques similar to 3D-CRT and IMRT.

Although in theory proton beam therapy might be more effective than using x-rays, so far studies have not shown if this is true. As of the filing of this Annual Report, proton beam therapy is not widely available. The machines needed to make protons are very expensive, and they are not available in many centers in the United States. Management believes proton beam radiation is not always covered by all insurance companies.

*Dual or Combination Therapy.* Dual therapy is the combination of IMRT or 3-dimensional conformal external beam radiation and seed brachytherapy to treat extra-prostatic disease or high-risk prostate cancers. Combination therapy treats high risk patients with a course of IMRT or EBRT over a period of several weeks. When this initial treatment is completed, the patient must then wait for several more weeks to months to have the prostate seed implant. The process may be reversed with the seed implant performed first, followed by the course of external radiation. Management estimates that at least 25% of all U.S. prostate implants are now dual therapy cases.

*High Dose Rate Temporary Brachytherapy (HDR).* HDR temporary brachytherapy involves placing soft nylon tubes (catheters) into the prostate gland and then giving a series of radiation treatments through these catheters. The catheters are then removed and no radioactive material is left in the prostate gland. A radioactive source typically containing Iridium-192 is placed into the catheters. This procedure is typically repeated multiple times over a period of several days while the patient is hospitalized.

*Watchful Waiting and Active Surveillance.* Because prostate cancer often grows very slowly, some men (especially those who are older or who have other major health problems) may never need treatment for their cancer. Instead, their doctor may suggest watchful waiting or active surveillance, terms physicians may use differently or interchangeably.

Active surveillance is often used to mean watching the cancer closely with PSA blood tests, digital rectal exams (DREs), and ultrasounds at regular intervals to see if the cancer is growing. Prostate biopsies may be done as well to see if the cancer is starting to grow faster. If there is a change in a patient's test results, the doctor would then talk to the patient about treatment options.

Watchful waiting (observation) is sometimes used to describe a less intense type of follow-up that may mean fewer tests and relying more on changes in a man's symptoms to decide if treatment is needed.

So far, no large randomized studies have compared active surveillance to treatments such as surgery or radiation therapy.

*Additional Treatments.* Additional, but less frequently used, treatments include cryotherapy, hormone therapy, and chemotherapy.

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*Clinical Series for Prostate Low Dose Rate Brachytherapy*

Other studies have demonstrated similar, durably high rates of control following brachytherapy for localized prostate cancer out to 15 years post-treatment (J. Sylvester, et al., *15-year biochemical relapse free survival in clinical stage T1-T3 prostate cancer following combined external beam radiotherapy and brachytherapy; Seattle experience* International Journal of Radiation Oncology Biology Physics, Vol. 67, Issue 1, 57-64 (2007)). The cumulative effect of these studies has been the conclusion by leaders in the field that brachytherapy offers a disease control rate as high as surgery, though with a lesser side-effect profile than surgery (J.P. Ciezki, *Prostate brachytherapy for localized prostate cancer*, Current Treatment Options in Oncology Volume 6, 389-393 (2005)).

Long-term survival data is now available for brachytherapy with I-125 and Pd-103, supporting the efficacy of brachytherapy in the treatment of clinically localized cancer of the prostate gland. Clinical data indicate that brachytherapy offers success rates for early-stage prostate cancer treatment that are equal to or better than those of RP or EBRT. While historically clinical studies of brachytherapy have focused primarily on results from brachytherapy with I-125 and Pd-103, management believes that these data are also relevant for brachytherapy with Cesium-131. In fact, it appears that Cesium-131 offers comparable and potentially improved clinical symptom outcomes over I-125 and Pd-103, perhaps due to its shorter half-life. (A.B. Shah, et al., *A comparison of AUA symptom scores following permanent low dose rate prostate brachytherapy with iodine-125 and cesium-131*, Brachytherapy 12 (Suppl. 1) S64 (2013)). In addition, a report from 2017 describes favorable long-term quality of life outcomes following Cesium-131 brachytherapy in the treatment of prostate cancer (S.M. Glaser, et al., *Long-Term Quality of Life in Prostate Cancer Patients Treated With Cesium-131*, Int J Radiat Oncol Biol Phys. 98(5):1053-1058 (2017)).

In May 2017, a collaborative group of Canadian researchers published the results of a study that randomized intermediate- to high-risk localized prostate cancer to an external beam dose escalation and a permanent implant brachytherapy dose escalation (W. J. Morris, et al. *Androgen Suppression Combined with Elective Nodal and Dose Escalated Radiation Therapy (the ASCENDE-RT Trial): An Analysis of Survival Endpoints for a Randomized Trial Comparing a Low-Dose-Rate Brachytherapy Boost to a Dose-Escalated External Beam Boost for High- and Intermediate-risk Prostate Cancer*, International Journal of Radiation Oncology, Biology, Physics Volume 98, 275-285, 2017). These patients all underwent standard external beam radiation therapy and hormonal therapy. This study, known as the “ASCENDE-RT” study, demonstrated a significant therapeutic advantage to the patients who underwent permanent implant brachytherapy boost, reporting a 20% advantage (83% versus 63%) in biochemical relapse-free survival at nine years following treatment.

This study is the first in many years to successfully randomize a group of newly diagnosed, localized prostate cancer patients and demonstrate a statistically significant advantage to one treatment over another – in this case iodine-125 brachytherapy boost over external beam radiation therapy boost. The impact on the number of patients considered for “combination therapy” (external beam and brachytherapy) could be substantial, especially once men are informed of these study results.

Sexual impotence and urinary incontinence are two major concerns men face when choosing among various forms of treatment for prostate cancer. Studies have shown that brachytherapy with existing sources results in lower rates of impotence and incontinence than surgery (C. Buron, et al., *Brachytherapy versus prostatectomy in localized prostate cancer: results of a French multicenter prospective medico-economic study*, International Journal of Radiation Oncology, Biology, Physics Volume 67, 812-822 (2007)). Combined with the high disease control rates described in many studies, these findings have driven the adoption of brachytherapy as a front-line therapy for localized prostate cancer.

*Comparing Cesium-131 to I-125 and Pd-103 Clinical Results*

The Company’s Cesium-131-based permanent brachytherapy treatment was introduced in 2004, as compared to the other permanent brachytherapy sources - Iodine-125 (introduced 1965) and Palladium-103 (introduced 1986). Thus, it has only been recently that the achievement of significant follow-up in patient studies has occurred for the Company’s Cesium-131 product.

Management believes that the Cesium-131 brachytherapy seed has specific clinical advantages for treating cancer over I-125 and Pd-103, the other isotopes currently used in brachytherapy seeds. The table below highlights the key differences of the three seeds. The Company believes that the short half-life, high-energy characteristics of Cesium-131 will increase brachytherapy growth and facilitate meaningful penetration into the treatment of other forms of cancer such as brain cancer.

| <b>Isotope Delivery<br/>Over Time</b> |                  |               |                 |
|---------------------------------------|------------------|---------------|-----------------|
| <b>Isotope</b>                        | <b>Half-Life</b> | <b>Energy</b> | <b>90% Dose</b> |
| Cesium-131                            | 9.7 days         | 30.4 keV      | 33 days         |
| Pd-103                                | 17 days          | 20.8 keV      | 58 days         |
| I-125                                 | 60 days          | 28.5 keV      | 204 days        |

As stated earlier, Company management believes that the long-term results already reported for Iodine-125 and Palladium-103 based prostate brachytherapy confirm the validity of permanent prostate brachytherapy, and at least comparable long-term outcomes are likely with Cesium-131 treatment. A recent clinical report supports this contention (Moran, B. J. and M. H. Braccioforte (2017). *Long-term PSA outcomes in a single institution, prospective randomized 131-Cs/125-I permanent prostate brachytherapy trial*. Int J Radiat Oncol Biol Phys **99**(2 (Suppl)): E255).

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However, management also believes that Cesium-131 will ultimately prove to possess clinical advantages over the two other permanently implantable isotopes. These advantages include better performance in rapidly growing cancers and a more favorable side effect profile. Both advantages are related to the combination of a shorter half-life of Cesium-131 and high energy level as compared to the other two isotopes.

In late 2017, the first report with long-term follow-up of clinical outcomes for patients treated with Cesium-131 brachytherapy for low-risk patients was presented at the annual meeting of the American Society for Radiation Oncology.

Moran, B. J. and M. H. Braccioforte (2017). *Long-term PSA outcomes in a single institution, prospective randomized 131-Cs/125-I permanent prostate brachytherapy trial*. *Int J Radiat Oncol Biol Phys* **99**(2 (Suppl)): E255. In this randomized study of 140 patients no statistically significant difference in biochemical failure was seen with the long-term follow-up between the Cesium-131 group and the group implanted with I-125. At 2014 annual meeting of the American Brachytherapy Society in April 2014, Dr. Rajagopalan of the University of Pittsburgh Medical Center reported a six-year success rate of 95.4% in 243 Cesium-131 treated patients (*Six-year biochemical outcome in patients treated with Cesium-131 brachytherapy as monotherapy for prostate cancer*, Brachytherapy 13(S1) S38 (2014)).

When taken together with the multi-institutional five-year outcome presentation by Dr. Prestidge and others, where a group of 100 patients from multiple institutions exhibited a PSA disease-free rate of 98% at five years (B. Prestidge, et al., *Five-year biochemical control following Cesium-131 Permanent Prostate Brachytherapy in a Multi-Institutional Trial*, Brachytherapy 10(3S1) S27 (2011)), a strong case exists for an outstanding rate of success for durable PSA (biochemical).

Furthermore, in all three reports a significant proportion of “intermediate risk” patients (who are at greater risk of failure following any treatment compared to most prostate cancer patients) were included in the studies. Despite this added risk – 37% of patients across all three studies were intermediate risk — the three studies together average a 95% rate of success at five-years and beyond for a total of 412 patients under study.

*Improved side-effect profile.*

In addition to the cancer-related outcomes described for prostate brachytherapy, a significant portion of patients who undergo I-125 or Pd-103 brachytherapy experience acute urinary irritative symptoms following treatment – more so than with surgery or external beam radiation therapy (S.J. Frank, et al., *An assessment of quality of life following radical prostatectomy, high dose external beam radiation therapy, and brachytherapy Iodine implantation as monotherapies for localized prostate cancer*, Journal of Urology Volume 177, 2151-2156 (2007)). These irritative

symptoms can range from an increased frequency of urination to significant pain upon urination. Because the portion of the urethra that runs through the prostate takes high doses from the implant, these side effects are fairly common following prostate brachytherapy.

Recent completed studies show that Cesium-131, with the shortest available half-life of the commonly used implantable isotopes, results in a quicker resolution of these irritative symptoms based on the shorter time interval over which normal tissue receives radiation from the implanted sources than for longer lived isotopes such as I-125. (A. Shah, et al., *A comparison of AUA symptom scores following permanent low-dose-rate prostate brachytherapy with Iodine-125 and Cesium-131*, Brachytherapy 12(SI) S64 (2013)). These results are seemingly confirmed with long-term quality of life data as described by a study from UPMC, where it was suggested that patients treated with Cesium-131 prostate brachytherapy were able to recover and maintain their baseline quality of life in the long term. Glaser, S. M., et al. (2017). *Long-Term Quality of Life in Prostate Cancer Patients Treated With Cesium-131*. Int J Radiat Oncol Biol Phys **98**(5): 1053-1058.

A Cesium-131 monotherapy trial for the treatment of prostate cancer was fully enrolled in February 2007. The trial was a 100 patient multi-institutional study that sought to (1) document the dosimetric characteristics of Cesium-131 and (2) summarize the side effect profile of Cesium-131 treatment. Some of the significant and specific findings were as follows:

1. Patient reported irritative urinary symptoms (IPSS Scores) were mild to moderate with relatively rapid resolution within 4-6 months. (B.R. Prestidge, et al., *Clinical outcomes of a Phase II, multi-institutional Cesium-131 permanent prostate brachytherapy trial*, Brachytherapy Volume 6, Issue 2, 78 (April-June 2007)).
2. Gland coverage was excellent and the dose delivered to critical structures outside the prostate was well within acceptable limits. (W.S. Bice, et al., *Cesium-131 permanent prostate brachytherapy: The dosimetric analysis of a multi-institutional Phase II trial*, Brachytherapy (6) 88-89 (2007)).



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The advantage of the Company's Cesium-131 brachytherapy seed is the resolution of urinary side effects as pictured in the graphic below has been observed in a second study, presented at the 2013 Annual Meeting of the American Brachytherapy Society (A.B. Shah, et al). The following graph is a comparison of elevated side effect (AUA) symptom scores following permanent low dose rate prostate brachytherapy with Iodine-125 and Cesium-131. (Brachytherapy 12(Suppl. 1) S64 (2013)):

As seen in the plot of these AUA scores, the duration of an elevated side effect score profile resolved to pre-treatment levels more quickly with the Cesium-131 group than with the Iodine-125 group. All patients were treated at the same institution by the same physicians, and the difference in the time to resolution was considered significant.

Further evidence of the favorable side effect profile of Cesium-131 was published by a group from the University of Pittsburgh Medical Center (UPMC) in August 2017 (Glaser 2017). This report concluded that only minimal long-term changes were noted to the urinary and bowel quality of life measures, and that men treated with Cesium-131 for their prostate cancers are able to return to baseline measure of quality of life after treatment.

### *Brain Cancer Treatment Options*

An estimated 23,880 new cases of malignant primary tumors of the brain or spinal cord are expected to be diagnosed in 2018. About 16,830 people are expected to die from brain and spinal cord tumors in 2018. In addition to primary tumors, metastasis of brain tumors from other body sites are estimated at over 65,000 new cases per year. The chance that a person will develop a malignant tumor of the brain or spinal cord is about 1 in 143 for a man and 1 in 185 for a woman. These numbers would be much higher if benign tumors were also included. (American Cancer Society, 2018).

The treatment of brain cancer with Cesium-131 brachytherapy seeds currently has two commercially available delivery methods, those being the use of braided strands, and braided strands sutured to a bioabsorbable mesh to apply the Cesium-131 brachytherapy seeds which generally dissolves after about 45 days. Cesium-131 brachytherapy seeds deliver 90% of their dose in 33 days and are therefore well-suited to use with bioabsorbable mesh, single seed applications, implantable strands, and by implantable device. Beginning in 2012, Barrow began embedding Cesium-131 in collagen tiles (the GammaTile™ technique) and applying these tiles directly to brain tissue after tumor removal which is not currently commercially available. During the fiscal year 2018, there were seventy-eight patients treated with Company products for brain cancer.

In October 2016, the Company filed with the Center for U.S. Center for Medicare and Medicaid Services (CMS) an application for GammaTile™ to be considered for reimbursement under the Diagnosis Related Group (DRG) system, the primary means by which hospitals are reimbursed by Medicare and other payors for in-patient services. The Company also applied for GammaTile™ to be recognized by the International Classification of Diseases (ICD) system version 10. CMS assigned a new specific ICD-10-PCS code to GammaTile™ Therapy in 2017.

In July 2017, the Company announced that it had received a request from FDA to supply further information related to its March 2017 510(k) filing for GammaTile™. The Company finished the requested testing in FY 2018 and provided it to the FDA in the fourth fiscal quarter of 2018. FDA clearance for GammaTile™ was received on July 6, 2018. As a result of the delay in FDA clearance, the Company must re-apply for the New Technology Add-on Payment (NTAP) previously applied for in 2016, which is now scheduled for October 2018 as its prior application is no longer valid.

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### *Gynecological Cancer Treatment Options (Cervical, Vaginal and Vulvar Cancer)*

An estimated 24,600 new cases of cervical (13,240), vaginal (5,170) and vulvar (6,190) cancers are expected to be diagnosed in the United States in 2017. A combined estimate of 6,700 deaths are expected to occur from cervical, vaginal and vulvar cancers in the United States in 2018 (American Cancer Society, 2018). In addition to brachytherapy to treat gynecological cancers such as cervical, vaginal and vulvar cancers, other treatment options include surgery, laser surgery, radiation therapy, chemotherapy, and topical treatments.

During 2016, two abstracts (J. Feddock, et al., *Permanent interstitial re-irradiation with cesium-131: a highly successful second chance for cure in recurrent pelvic malignancies*, Brachytherapy 15(S1):S78-9 (2016); J. Feddock, et al., *Outpatient interstitial implants - integrating cesium-131 permanent interstitial brachytherapy into definitive treatment for gynecologic malignancies*, Brachytherapy 15(S1):S93-4 (2016)) and presentations were presented at the World Brachytherapy Conference in San Francisco on the treatment of Re-Irradiation with Cesium-131 in recurrent pelvic malignancies in women who have recurrent cancers. Physicians at the University of Kentucky, College of Medicine reported local control in 80.7% after Cesium-131 implantation for the recurrent patients and reported successful control of 22 women with pelvic cancer that had not had previous treatment. Based upon the positive results seen in the Cesium-131 treatment of recurrent gynecological cancers, physicians at the University of Kentucky are currently moving Cesium-131 treatment into the primary treatment of these cancers. During the fiscal year 2018, there were forty-four patients treated with Company products for gynecological cancers.

In April 2017, the same professors referred to above from the University of Kentucky published a paper in the journal Brachytherapy that described the early experience with a template-based approach using Cesium-131 in the treatment of gynecologic cancers. Although reporting on only five patients, the University of Kentucky physicians demonstrated the feasibility and safety of replacing a high dose-rate isotope (Iridium-192) with Cesium-131. This report builds on the earlier published and presented work that strongly suggests a role for Cesium-131 in the treatment of gynecologic cancers.

### *Head and Neck Cancer Treatment Options*

An estimated 51,540 new cases of head and neck cancer are expected to be diagnosed in the United States in 2018. (American Cancer Society, 2018).

Surgery is the most common option to treat head and neck cancers. Chemotherapy is often used in conjunction with surgery or radiation therapy depending on the type and stage of the cancer. External beam radiation therapy and brachytherapy have been used together or in combination with surgery or chemotherapy. Immunotherapy is a newer treatment option for advanced or recurrent cancer (American Cancer Society, 2018).

Cesium-131 brachytherapy seeds allow oncologists to add targeted radiation treatment to head and neck cancers after surgical resection. This targeted radiation treatment is especially needed in patients whose neck cancer has recurred following previous radiation therapy. Often these patients cannot tolerate further external beam radiation therapy for fear of over radiating critical head and neck structures.

Management believes Cesium-131 brachytherapy seeds continue to represent an improved approach to brachytherapy treatment of specific head and neck cancers. During the fiscal year 2018, twenty-six patients were treated with Company products for head and neck cancers.

### *Lung Cancer Treatment Options*

An estimated 234,030 new cases of lung cancer are expected in 2018, accounting for 13% of all cancer diagnoses in the United States. Approximately 25% of all cancer deaths are from lung cancer and it accounts for the most cancer related deaths in both men and women in the United States. An estimated 154,505 deaths will result from lung cancer in 2018. (American Cancer Society, 2018).

Lung cancer has historically been treated utilizing surgery, radiofrequency ablation (RFA), radiation therapy, chemotherapy, immunotherapy and targeted therapy including LDR brachytherapy. More than one kind of treatment may be used, depending on the stage of the patient's cancer and other factors. (American Cancer Society, 2018).

The Company believes that Cesium-131, with its shorter half-life (faster rate of decay) and relatively high energy, is better suited for treating lung cancer in Stages I and II than I-125. The bioabsorbable mesh used in this procedure to apply the Cesium-131 brachytherapy seeds generally dissolves after about 45 days. Cesium-131 delivers 90% of its dose in 33 days and is therefore well-suited to use with bioabsorbable mesh. A report was published in May of 2015 describing outcomes from a series of 52 patients treated with a limited surgical resection and Cesium-131 brachytherapy. (B. Parashar, et al., *Analysis of stereotactic radiation vs. wedge resection vs. wedge resection plus Cesium-131 brachytherapy in early stage lung cancer*, *Brachytherapy* 14 (5):648-54 (2015)). During fiscal year 2018, a nominal amount of patients were treated with Company products for lung cancer.

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**Our Strategy**

The key elements of IsoRay's strategy for fiscal year 2019 include:

*Continue to Invest in Sales and Marketing Development Activities.* Prostate cancer treatment represents the original and core business for the Company's Cesium-131 product. With long-term follow-up data relating to biochemical (PSA) control of prostate cancer now presented to the prostate cancer field, IsoRay plans to aggressively increase the number of centers using Cesium-131 through its direct sales force and through its international distributors. Because intermediate- to long-term follow-up data is required to convince clinicians and patients to consider any particular therapy for localized prostate cancer, the availability of long-term data with Cesium-131 in the treatment of prostate cancer represents a significant milestone. IsoRay hopes to capture much of the incremental market growth if and when seed implant brachytherapy recovers market share from other treatments, take market share from existing competitors, and expand the use of Cesium-131 as a dual therapy option where it has experienced success. In 2016, the Company started its aggressive sales and marketing approach by hiring industry sales and marketing veterans to assist in this market development effort, including the hire in March 2016 of a Vice-President of Sales and Marketing and Marketing support personnel, who have developed and continue to develop a comprehensive strategy to expand the presence of the Company's Cesium-131 products in the prostate market. In addition, the Company filled its regional sales positions with experienced sales staff from the prostate brachytherapy industry. A redesigned website for IsoRay.com was launched in September 2016 that focused its message to specific decision makers including the physician, patient, family and friends. The new website supports management's focus on the growth of product sales from the treatment of prostate cancer and the Company's efforts to expand into brain, gynecological, and other cancers. The Company has invested in direct to consumer marketing campaigns through social media to target potential patients and their family and friends. These efforts have resulted in significant year over year growth in web traffic (69.7% increase in total visitors), new visitors (70.1% increase) and organic search results (42.5% increase in resulting site traffic). The Company believes that an increased digital presence is likely to result in increased awareness about brachytherapy overall, and specifically increased awareness about Cesium-131. This increased awareness should ultimately translate to more patients finding a physician with Cesium-131 experience.

*Targeted Expansion into International Markets.* The Company believes that in addition to a significant domestic market for its products, there exists a potential international demand for Cesium-131. The current global market for permanent prostate brachytherapy is larger than the domestic market. Further, many of the surgical applications the Company is exploring domestically may also have significant international opportunities.

Historically, the Company has placed limited resources to marketing its international opportunities, instead keeping the focus of expanding our domestic position. The Company has provided the Cesium-131 product, when requested, to other markets, however, this has been a limited focus. The Company is now looking to pursue these international opportunities, including taking some or all of the following actions:

*Investigating different geographical markets* – In order to maximize return of international investments, the Company will need to understand the regulatory and reimbursement environment, as well as patient and market sizes, as certain international markets may not be available for sale of the Company's product.

*Assessing potential physician / patient interest in Cesium-131* – in addition to reviewing the market receptiveness, the Company will work with its existing network of opinion leaders and partners to determine the clinical interest in Cesium-131, and where it may be most appropriate to assess the fit / adoption of Cesium-131.

*Assessing geographical clinical and resource factors* – It will be key to understand the competitive landscapes in different geographies. For example, in some regions large capital investments made often in the United States for such treatment options as robotic surgeries and external beam radiation centers are difficult, making the use of permanent brachytherapy more attractive.

*Identifying potential partners / strategies* – using the information gained, the Company will assess if there are strategic partners or other potential strategies for addressing the individual geographies.

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The Company believes that learning more about the different international opportunities will provide a better foundation for its international strategy and potential investments in specific markets.

*Blu Build Loader.* The Company believes that customers perform prostate brachytherapy procedures via one of several general procedure techniques, including (but not limited to): pre-plan techniques, intra-operative techniques, and real-time techniques. Further, the Company believes that customers are comfortable with their techniques, and want products to facilitate their preferred methods. Many of the Company's competitors provide a set of standard products (including loose seeds, seeds loaded in cartridges, and seeds pre-loaded in needles) to meet the customer's needs. Furthermore, our two primary brachytherapy competitors, Theragenics Corporation ("Theragenics") and Becton-Dickinson have products that support intra-operative and real-time techniques that allow for stranding or linking seeds together in custom configurations in the operating room. This allows physicians to gain the benefits of stranded or linked seeds while still allowing for customization to the patient anatomy, as determined at the time of the procedure. The Company believes that approximately 25% of procedures are performed with some level of customization in the operating room.

It is this segment of the market – customers which desire customized procedures to their patient's anatomy at the time of the procedure – that the Company expects to address with its new Blu Build loading device. The Blu Build loading device will efficiently configure strands in the operating room, allowing the clinician to make determinations about the product configurations with the most recent picture of the patient's anatomy. The Company believes that this technique may provide advantages in some brachytherapy products and will provide a better solution for this market segment. The Company also believes the efficiency and ease of use of the Blu Build loading device will offer an intriguing opportunity for the approximate 75% of the market which does not use customization today. The Company is in the process of commercializing the Blu Build loading device, which is now expected to be ready in October 2018.

*Commercialization of GammaTile™ Therapy for the treatment of recurrent brain metastases.* The ongoing testing and commercialization of the GammaTile™ system over the past five years has developed a product with consistent and repeatable results as evidenced by the June 2016 presentation at the Society of Neurologic Oncologists. Management intends to continue to support and facilitate the commercialization of the GammaTile™ Therapy by GT Med Tech product.

GammaTile™ Therapy is a technology which uses biodegradable "tiles" to deliver the Cesium-131 brachytherapy seeds into close contact with possible residual tumor cells following surgical removal of tumors in the brain. On March 13, 2017, the Company entered into a Collaborative Development Agreement with GT Med Tech and later on January 3, 2018, the Company entered into a Manufacturing and Supply Agreement. Pursuant to the Collaborative Development Agreement, the parties agreed to collaborate to (a) refine GT Med Tech's manufacturing process to develop the GammaTile™ Product, (b) seek regulatory clearance of the GammaTile™ Product and (c) gain a reimbursement code with Medicare. Pursuant to the Manufacturing and Supply Agreement, the Company will exclusively manufacture and supply the GammaTile™ Therapy product for end users designated by GT Med Tech.

In FY 2018, the Company continued to provide technical assistance in support of the FDA 510(k) application with GT Med Tech. In this process the Company served as the applicant of records with the 510(k) filing. On July 6, 2018 the Company received clearance for the 510(k) filed on the GammaTile™ Therapy and transferred the clearance to GT Med Tech pursuant to the Collaborative Development Agreement executed in March 2017.

GammaTile™ Therapy has been assigned a new specific ICD-10\_PCS code by the CMS for reimbursement purposes in the hospital setting.

The Company continues to work with GT Med Tech in preparation of a commercial launch of GammaTile™ by GT Med Tech, which is the sole commercial agent of the GammaTile™ Therapy, as governed by the exclusive Manufacturing and Supply Agreement. The Company will provide ongoing assistance to GT Med Tech in support of successful product commercialization. GT Med Tech is preparing for a limited market launch in the fourth quarter of calendar 2018, followed by full commercial launch in the middle of calendar 2019. There is no assurance of the timing of this launch and it may be delayed. Every unit purchased by GT Med Tech will help the Company leverage its fixed infrastructure and overhead. In the next year or two, the Company looks forward to working with GT Med Tech to support the potential expansion of the existing FDA label to include new or de novo tumors and thereby bring this groundbreaking technology to more brain cancer patients. GT Med Tech estimates there are about 65,000 patients per year who will benefit under the current FDA label of recurrent brain neoplasms and an additional 110,000 patients who will benefit once the label is expanded to include new or de novo tumors.

*Increase utilization of Cesium-131 in treatment of other solid tumor applications such as brain, gynecological, and other cancers.* The Company has clearance from the FDA for its premarket notification (510(k)) for Cesium-131 brachytherapy seeds that are preloaded into bioabsorbable braided sutures and bioabsorbable braided sutures attached to bio absorbable mesh. This FDA clearance allows commercial distribution for treatment of brain, gynecological, head and neck and lung tumors as well as tumors in other organs. The Company continues to sell product to physicians treating brain, gynecological, head and neck and lung cancer while continuing to support the compilation of treatment outcomes for publication. IsoRay will continue to explore licenses or joint ventures with other companies to develop the appropriate technologies and therapeutic delivery systems for treatment of other solid tumors.

Early clinical data support management's initiatives into brain cancers, gynecological, head and neck, and early stage non-small cell lung cancers. Local control – defined as success in preventing the re-growth of cancer in the immediate vicinity of the treatment area – has been excellent to date.

*Support Clinical Research and sustained product development.* The publication and presentation of speculative and real-world data contribute to the acceptability of Cesium-131 in the oncologic marketplace. Discussion in the medico-scientific community of established and novel Cesium-131 applications is considered a prerequisite to expansion into untapped markets. The Company structures and supports clinical studies on the therapeutic benefits of Cesium-131 for the treatment of solid tumors and other patient benefits. We are and will continue to support clinical studies with several leading radiation oncologists to clinically document patient outcomes, provide support for our



product claims, and compare the performance of our seeds to competing seeds. IsoRay plans to sustain long-term growth by implementing research and development programs with leading medical institutions in the U.S. and other countries to identify and develop other applications for IsoRay's core radioisotope technology. The Company has deployed a secure, regulatory environment compliant, online information system capable of large usable databases to participating investigators.

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During fiscal year 2018, four presentations were accepted at the annual meeting of the American Society for Radiation Oncology (ASTRO) in October 2017 covering topics related to Cesium-131 treatment of gynecologic cancers and prostate cancer. Four presentations were also made at the 2018 annual meeting of the American Brachytherapy Society in June 2018. The Company will continue to seek to increase the number of reports made to society meetings and the peer reviewed literature in order to seek to enhance the standing of its products in the scientific community.

**Cesium-131 Manufacturing Process and Suppliers**

*Product Overview*

IsoRay markets the CS-1 Cesium-131 brachytherapy seed for the treatment of prostate cancer, brain cancer, lung cancer, head and neck cancers, gynecological cancer, pelvic/abdominal cancer, colorectal cancer, and ocular melanoma. The Company intends to market Cesium-131 for the treatment of other malignant diseases as opportunities are identified in the future through the use of existing proven technologies that have received FDA-clearance. The strategy of utilizing existing FDA-cleared technologies reduces the time and cost required to develop new applications of Cesium-131 and deliver them to market.

Cesium-131 is a radioactive isotope that can be produced by the neutron bombardment of Barium-130 (Ba-130). To produce the Cesium-131 brachytherapy seed, a proprietary chemical separation is performed that results in 99.9% pure Cesium-131 isotope. Purified Cesium-131 is adsorbed onto a ceramic core containing a gold X-ray marker. This internal core assembly is subsequently inserted into a titanium capsule that is then welded shut and becomes a sealed radioactive source and a biocompatible medical device.

*Product Offerings*

In addition to providing loose seeds to customers, most brachytherapy manufacturers offer their seed product to the end user packaged in various configurations provided in a sterile or non-sterile package depending on the customer's preference. These include:

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*Pre-loaded needles* (loaded typically with three to five seeds and spacers);  
*Pre-loaded Mick® cartridges* (fits the Mick® applicator);  
*Strands of seeds* (consists of seeds and spacers in a bioabsorbable rigid “carrier sleeve”);  
*Preloaded strands* (strands of seeds loaded into a needle);  
*Pre-loaded braided strands* (seeds loaded into a flexible bioabsorbable braided suture); and  
*Pre-loaded braided strands attached to bioabsorbable mesh* (creates planar implants out of braided sutures and bioabsorbable mesh).

In fiscal year 2018, the Company delivered approximately 46% of its Cesium-131 seeds to customers configured in Mick® cartridges, approximately 30% of its Cesium-131 seeds configured in stranded and pre-loaded in a needle form, 11% of its Cesium-131 seeds configured in a braided strand form, 3% of its Cesium-131 seeds sold in a loose configuration and the remaining 10% configured in either a pre-loaded in a needle or stranded form.

In fiscal year 2012, IsoRay obtained a CE mark which allows shipment of seeds loaded into flexible braided strands and flexible strands attached to bioabsorbable mesh into the European Union. This CE Mark is subject to renewal in the last quarter of calendar year 2018.

*Maintain ISO 13485:2016*

In August 2008, the Company obtained its initial ISO 13485:2003 certification. This permitted the Company to register its products in Europe in 2008 and in Canada and Russia during fiscal year 2009. The ISO 13485:2003 certification demonstrates that the Company is in compliance with this internationally recognized quality standard and the initial certification was valid for a three-year period. In June 2012, the Company received a recertification to ISO 13485:2003 for an additional three-year period, which was affirmed through a surveillance audit in June 2013. The Company has subsequently maintained timely compliance with ISO 13485:2003.

In March 2017, British Standards Institution (“BSI”) conducted its full system inspection and recertification and found no nonconformities to ISO 13485:2003 medical device standards. In April 2018, BSI certified the Company’s successful transition to ISO 13485:2016. This transition moved IsoRay’s quality system into the current state of the art Quality Management System per the ISO standard. It was imperative that the Company complied with ISO 13485:2016 by end of February 2019 in order to maintain its CE Marks. The Company is subject to a recertification audit by BSI every three years, two annual maintenance audits and one additional unannounced audit during each three-year period for a total of four audits during each three-year period. The successful audits confirm the Company’s success in meeting the standards of manufacturing and quality systems required for the Company to market its products in Europe.

*Isotope Suppliers*

The Company has identified key reactor facilities in Russia, the U.S., Canada, Poland, Belgium, and South Africa. On December 15, 2016, Medical entered into a new supply contract (the INM Agreement) with The Open Joint Stock Company, Isotope, a Russian company (JSC Isotope). With the INM Agreement, Medical can purchase Cesium-131 from the Institute of Nuclear Materials, within the quality standards and within the time periods specified, through December 31, 2018.

Due to the planned outage at the INM reactor from November 2017 to July 2018, the Company negotiated an agreement in order to receive supply from the Research Institute of Atomic Reactors (RIAR) during the outage. INM began re-supplying isotope in August 2018. INM will reach a supply on a 50/50 basis with RIAR beginning approximately January 2019, and INM will again be the 100% supplier of Russian-sourced Cesium-131 beginning in approximately March 2019 when RIAR begins a planned outage until early 2020.

In order to maximize the efficiency of Cesium-131 production from the RIAR reactor, the Company has consigned its supply of “enriched” Barium to the RIAR facility. “Enriched” in this context refers to a Barium Carbonate supply that contains a greater proportion of the non-radioactive isotope Barium-130 than is found in nature. This higher proportion of Barium-130 leads to a greatly increased yield of Cesium-131 when it is placed in a high flux neutron environment such as that available at RIAR and a small number of other reactors worldwide.

The Company also receives irradiated barium from the University of Missouri Research Reactor (“MURR”), located in the United States. For the fiscal year 2017, approximately eighty percent (80%) of our Cesium-131 was supplied by our Russian supplier and approximately twenty percent (20%) of Cesium-131 was generated by the irradiated barium from MURR. Beginning in Q1 2019, the Company has reduced the amount of Cesium-131 provided by the MURR reactor by approximately 35%. After a thorough review of the capacity and cost of production at the MURR facility, the Company has decided to not locate a hot cell there to ramp up domestic production. The Company has also notified MURR of its decision to terminate its supply agreement thereby eliminating all domestic suppliers of this critical component of its product effective in December 2018. This decision means that the Company has no domestic supply capabilities for Cesium-131 except with enough notice it may issue a purchase order as needed from time to time. Even if Cesium-131 was supplied by MURR, the cost is significantly more than Russia, requires additional processing by the Company, and MURR cannot manufacture enough supply to meet the Company’s increasing needs.

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Management believes that failure to obtain deliveries of Cesium-131 from its Russian supplier, <<JSC Isotope>> (which provides supply from both the INM and RIAR reactors), would have a material adverse effect on seed production. Over a two-year period of time, the Company has reviewed its isotope strategy and negotiated with both the U.S. and Russian reactors. Management has determined that the U.S. based supply alone would never prove capable of meeting current company requirements and at current quality control and cost measures is no longer a viable supply source. Additionally, expanding on-site chemical processing at the U.S. reactor will not meet company demand and is not cost effective.

As the Company has now determined to rely solely on its Russian suppliers, it is critical to rely on a strategy for outages. Management has developed a three-step process to insulate the Company isotope supply from unplanned outages at the Russian supplier. Step One: the Company has transferred its stock of enriched barium to the Russian RIAR reactor as a contingency in the case of an outage at one of its current isotope providers or at a new isotope supplier in Russia. Step Two: identifying close-proximity Russian reactors that could irradiate targets to transfer to INM or RIAR for further processing. This provides the Company additional capacity to meet demand. Step Three: the Company is performing due diligence to identify other reactors that can supply isotope to us.

## *Quality Controls*

In July 2008, IsoRay had its baseline inspection by the FDA at its manufacturing and administrative offices in Richland, WA. This inspection was carried out over a five day period during which the investigator performed a complete inspection following Quality Systems Inspection Techniques (QSIT). At the end of the inspection, no report of deviations from Good Manufacturing Practices or list of observations (FDA Form 483) was issued to IsoRay. An additional inspection of IsoRay was conducted by FDA in April 2013. Again the FDA reported no deviations from Good Manufacturing Practices and did not list any observations (FDA Form 483). In August 2017, FDA conducted an announced QSIT inspection of the Richland facility and again, did not find any nonconformance to U.S. medical device regulations and did not issue a Form 483.

In October 2015, IsoRay underwent an unannounced inspection by British Standards Institution (BSI), IsoRay's representative to the European Union and designator of IsoRay's CE Marks with no nonconformities found. BSI also conducted a microbiologic audit and a surveillance audit in November 2015 and March 2016 respectively. In March 2017, BSI conducted its full system inspection and recertification and found no nonconformities to ISO 13485:2003 medical device standards. In April 2018, BSI certified the Company's successful transition to ISO 13485:2016. This transition moved IsoRay's quality system into the current state of the art Quality Management System per the ISO standard. It was imperative that the Company complied with ISO 13485:2016 by end of February 2019 in order to maintain its CE Marks. The Company is subject to a recertification audit by BSI every three years, two annual maintenance audits and one additional unannounced audit during each three-year period for a total of four audits during each three-year period. The successful audits confirm the Company's success in meeting the standards of manufacturing and quality systems required for the Company to market its products in Europe.

The Federal Aviation Administration (FAA) also conducted an unannounced audit in May 2016. Because IsoRay ships hazardous materials on flights in the U.S., IsoRay is subject to regulation by the FAA. No findings were made in this audit.

### *Regulatory Developments*

In July of 2017, the Company received a five-year renewal from the Washington State Department of Health (WA DOH) in response to its application to renew the Company's Radioactive Materials License. The WA DOH acts as an agent of the U.S. Nuclear Regulatory Commission and grants Company its ability to receive and ship radioactive material.

### *Order Processing*

The Company has implemented a just-in-time production process that is responsive to customer input and orders to ensure that individual customers receive a higher level of customer service than received from our competitors who have the luxury of longer lead times due to longer half-life products. Time from order confirmation to completion of product manufacture is reduced to several working days, including receipt of irradiated barium (from the domestic supplier's reactor) or unpurified Cesium-131 (from the international supplier's reactor), separation and purification of Cesium-131, isotope labeling of the core, loading of cores into pre-welded titanium "cans" for final welding, testing, quality assurance and shipping.

It is up to each physician to determine the dosage necessary for implants and acceptable dosages vary among physicians. Many physicians order more seeds than necessary to assure themselves that they have a sufficient quantity. Upon receipt of an order, the Company either delivers the seeds from its facility directly to the physician in either loose or preloaded form or sends the order to an independent preloading service that delivers the seeds preloaded into needles or cartridges just prior to implant. If the implant is postponed or rescheduled, the short half-life of the seeds makes them unsuitable for use and therefore they must be re-ordered.

Due to the lead time for obtaining and processing the Cesium-131 isotope and its short half-life, the Company relies on sales forecasts and historical knowledge to estimate the proper inventory levels of isotope needed to fulfill all customer orders. Consequently, some portion of the isotope is lost through decay and is not used in an end product. Management continues to reduce the variances between ordered isotope and isotope deliveries and is continually improving its ordering process efficiencies.

### *Manufacturing Facility*

The Company maintains a production facility located at Applied Process Engineering Laboratory (APEL) in Richland, Washington. The APEL facility became operational in September 2007. The production facility has over 15,000 square feet and includes space for isotope separation, seed production, order dispensing, a clean room for assembly of our product offerings, and a dedicated shipping area. In 2015, the Company entered into a modification to the production facility lease that modified the requirement to return the facility to ground at the time of exit at Company discretion, exercised an extension in 2017 to increase the lease term to April 30, 2021, and reduced the required notice to terminate the lease early from twelve months to six months. This lease modification provides the flexibility required for the Company to plan, design and construct its own production facility, which is expected to reduce operational cash flow requirements and provide for long-term security of production capabilities for the Company. The Company has completed the design process for a new facility and has permit ready plans to build if and when the Company needs to move into a new facility. Management believes that construction of the facility will take 18 to 24 months to complete from the time that ground is broken.

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**Sales and Marketing**

*Marketing Strategy*

In 2018, the Company continued to implement and execute on the established sales and marketing strategy. This strategy involves a more direct focus on the prostate cancer market and existing Cesium-131 customers, with a secondary focus on developing opportunities in emerging applications, including brain tumors, gynecological cancers and head and neck tumors. This focus was supported by a complete redesign of the Company brand, website and collateral materials. This effort was initiated in fall 2016. This follows the changes to the sales and marketing team that occurred in 2016, when the Company hired a Vice President of Sales and Marketing, Michael Krachon, brought more than twenty years of experience of progressive growth in sales and marketing with the past 15 years in the brachytherapy market.

Further to support the new marketing strategy, the Company has started the process of reestablishing its medical advisory boards to provide professional input and insight regarding the Company's current products and research and developments efforts. The boards will vary by cancer type/site and the supporting specialties that treat that cancer. They will include, but not be limited to, radiation oncologists, surgeons, urologists, and physicists. The boards will be a mix of customers and non-customers, which the Company believes will provide increased insight regarding the perception of its products and opportunities to meet the needs of the market. The Company held its first advisory meeting for prostate cancer in September 2016. The Company held an additional meeting in September 2017 and is planning on continuing this strategy in 2018. The Company is looking to continue to build additional advisory boards as the other applications grow in viability.

The market for treatments for localized prostate cancer is very competitive and largely hinges upon two factors: the demonstration of long term follow-up data that has been presented to the prostate cancer treatment profession and the economic and strategic dynamics of the different therapeutic options. Cesium-131 was introduced to the prostate cancer marketplace more than a decade after Iodine-125 and Palladium-103, and the resulting time for mature clinical data to be developed has proven an obstacle to widespread market acceptance. The time to publish these results is lengthy and includes time to enroll patients in protocols which may take multiple years depending on the size of the enrollment population, time to aggregate the results at five years from the final patient treatment, time to analyze the data and author the article followed by the time for peer review, and publication in a medical journal. The total time for this process may approach a decade from start to publication. Management believes that the impressive results achieved for treatment with Cesium-131 at the five-year mark should create further scientific support for Cesium-131 as an attractive treatment for localized prostate cancer, overcoming at least some of the initial resistance predicated on the lack of long-term follow-up reports. The data that was published in fiscal year 2015 is discussed in the section titled Industry Information, Prostate Cancer Treatment, "*Comparing Cesium-131 to I-125 and Pd-103 Clinical Results.*" In addition to the challenges presented by the limited published results for Cesium-131, the prostate brachytherapy market has been pressured by the economic differences and strategic dynamics of competing treatment options such as robotic surgical devices and external beam radiation facilities. These factors have combined to result in the current multi-year contraction of the prostate brachytherapy market. The declining market has impacted the



competitive landscape, reducing the number of competitors and their respective investments in sales, marketing and product development efforts. Based upon Company market review and research, there appears to be an opportunity for IsoRay to expand its current market opportunity with an investment in sales and marketing efforts. The Company believes its hires of both sales and marketing veterans with regional sales support will lead to growth of their market share in the prostate cancer treatment business. The Company also believes that an increased share of the prostate brachytherapy market share will assist in facilitating Cesium-131 brachytherapy cancer treatment growth in other body sites.

The professional and patient market segments each play a role in the ultimate choice of cancer treatment and the specific isotope chosen for seed brachytherapy treatment. The Company has developed a customized brand message for each audience. The Company's website was launched in the fall of 2016 and delivers the message that Cesium-131 is a treatment option for cancers throughout the body. IsoRay continues to develop and/or refresh print, visual and digital media (including physician brochures discussing the clinical advantages of Cesium-131, clinical information materials, and digital content for the website and social media awareness efforts). In addition, the Company attends national professional meetings, including:

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American Brachytherapy Society (ABS);  
American Society for Therapeutic Radiation and Oncology (ASTRO);  
Association of American Physicists in Medicine (AAPM);  
American Urological Association (AUA);  
Society for Neuro-Oncology (SNO);  
American Association of Neurological Surgeons (AANS);  
American Association for Thoracic Surgery (STS); and  
various local chapter meetings.

The Company also continues to consult with noted contributors from the medical physics community and expects that articles for professional journals regarding the benefits of and clinical trials involving Cesium-131 will continue to be submitted.

In addition, the Company continues to promote the clinical findings of the various protocols and publications through presentations by respected thought leaders. The Company will continually review and update all marketing materials as more clinical information is gathered from the protocols and studies. Apart from clinical studies and papers sponsored by the Company, several physicians across the country have independently published papers and studies on the benefits of Cesium-131.

In today's U.S. health care market, patients are more informed and involved in the management of their health than in the past. Many physicians relate incidents of their patients coming for consultations armed with articles researched on the Internet and other sources describing new treatments and medications. In many cases, these patients are demanding a certain therapy or drug and the physicians are complying when medically appropriate.

Because of this consumer-driven market factor, we also promote our products directly to the general public. We target the prostate cancer patient, his spouse, family, care givers and loved ones. We emphasize to these segments the specific advantages of the Cesium-131 brachytherapy seed through our website (located at [www.isoray.com](http://www.isoray.com)), patient advocacy efforts, informational patient materials and patient testimonials, other awareness efforts through social media channels, and advertisements in specific markets supporting brachytherapy. None of our websites should be considered a part of this Report. Over the past year, the Company has continued to increase its efforts to raise awareness about Cesium-131 and IsoRay Medical. One key method we have pursued for this is to increase our digital footprint, with consistent updates to our website and outreaches through social media, including Twitter, LinkedIn and Facebook. These efforts have resulted in significant year over year growth in web traffic (69.7% increase in total visitors), new visitors (70.1% increase) and organic search results (42.5% increase in resulting site traffic). The Company believes that an increased digital presence will result in increased awareness about brachytherapy overall, and specifically increased awareness about Cesium-131. This increased awareness will ultimately translate to more patients finding a physician with Cesium-131 experience.

The Company's marketing plan with regard to non-prostate segments includes identifying and exhibiting at scientific meetings attended by specialty physicians who perform procedures related to Company's product offerings, direct sales contact with such physicians (for example thoracic surgeons and neuro-surgeons), the development and dissemination of training videos and other media that outline the Company's products, and the implementation of local training events to provide product and procedure information to potential customers.

Further, the Company is partnering with key clinicians within each application to support early experiences and identify additional facilities that may be interested in the applications. The Company continues to work with its existing radiation oncology physician customers and to educate them as to additional or new Company products and expand utility of Cesium-131 within the facility and across different disease sites. To facilitate this expanded position, the Company's sales managers call on existing radiation oncology physicians and other key decision makers within an organization to discuss the available clinical results and experiences in coordination with key Company scientific personnel to educate the customer representatives about different Cesium-131 applications and comparisons to competing treatments.

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*Sales and Distribution*

In the prostate cancer market, the sales organization targets radiation oncologists and medical physicists as well as urologists and facility administrators as key clinical decision-makers in the type of radiation therapy offered to prostate cancer patients.

With respect to non-prostate applications, the Company targets neurosurgeons, thoracic surgeons, gynecologic oncologists and other surgeons in addition to radiation oncologists. After these clinicians identify the value of the Company's Cesium-131 products, the Company then also needs support for the procedure from the medical physicists on staff and facility administrators. The sales cycle for non-prostate applications has proved to be a longer process than for prostate applications and often takes nine months or longer before the Company is licensed in a new hospital and can make its first sale.

IsoRay has a direct sales organization consisting of territory sales managers, and a Vice-President of Sales and Marketing responsible for the development of the team and the execution of the sales plan. The Company's territory sales managers are responsible for all sales activities in their respective territories and solicit potential specialist physicians in all areas of the body. This approach allows our territory sales managers to call on a single location for all applications of our products, resulting in a more efficient sales approach.

The Company expects to continue to explore the opportunity to extend its customer base outside the U.S. market through use of established distributors in target markets of other countries. As of September 19, 2018, the Company had independent distributors for Italy, Switzerland and Russia. The Company's initial focus on the international markets was for the sale of the GliaSite® RTS, which was discontinued in March 2016. This has shifted to targeted prostate and gynecological centers in the targeted markets. Although it still has two international distribution agreements in place, the Company continues to experience difficulties in generating sales of Cesium-131 products through its international distributors.

*Reimbursement*

Reimbursement by third party payers is the primary means of payment for all IsoRay products. The Centers for Medicare and Medicaid Services (CMS) is the primary payer, providing coverage for approximately 65% of all prostate brachytherapy cases and a majority of non-prostate procedures. Well established brachytherapy coverage and payment policies are currently in place by CMS and other non-governmental payers for out-patient procedures. For surgical procedures provided in an in-patient setting, payment is provided as part of a DRG code, which includes the surgical elements of the procedure.

In the hospital outpatient prospective payment system (HOPPS) out-patient setting, brachytherapy sources are legislated to be paid individually. Under this umbrella, in 2003, CMS established a unique HCPCS code for Cesium-131 brachytherapy seeds that permitted providers to report the use of Cesium-131 directly to payers. In July 2007, CMS established two separate Cesium-131 codes for providers to report loose seeds and stranded seeds due to the cost differential of these two products. Reimbursement for prostate brachytherapy services and sources is well established in the U.S. and most providers (hospitals and physicians) are not faced with reimbursement challenges when providing this treatment option to patients.

In June 2016, the Company rejoined the Coalition for the Advancement of Brachytherapy (CAB). CAB is a national non-profit association composed of manufacturers and developers of sources, needles and other brachytherapy devices and ancillary products used in the fields of medicine and life sciences. CAB has dedicated significant resources to the clinical use of brachytherapy including the treatment of prostate and other types of cancer as well as vascular disease. In addition, on an annual basis, CAB performs a review of the existing reimbursement structure for its members, allowing CAB members to have input into the future reimbursement structure for their products. In July 2017, CAB disbanded, due to shrinking funding as a result of the consolidation of the brachytherapy market. The Company has established consulting relationships with key support members of the former CAB organization to ensure that the key actions are performed, with a dedicated focus to the impact of reimbursement policies on Cesium-131.

As noted above, there are two different methodologies for CMS payment. The first, the out-patient setting, includes prostate brachytherapy, and a limited range of other procedures, including some gynecological implants, and as such, is covered by the CMS Outpatient Prospective Payment System, which since 2010 has provided a fixed reimbursement per seed for stranded and loose seeds. Iodine, Palladium and Cesium each have their own reimbursement values for stranded and loose seeds. If reported correctly when seeds are submitted for payment to CMS, providers are reimbursed at a flat rate that is determined by median costs of the seeds. It is expected that this reimbursement system established in January 2010 will continue as currently scheduled through calendar 2019 but there is no assurance that this will occur. CMS has generally continued its historical trend of declining year over year reimbursement with few exceptions. Private insurance companies have historically followed the CMS reimbursement policies. The Company expects that CMS will continue its annual review of payments provided as reimbursement for our various products and that CMS will continue to provide favorable reimbursement rates for our Cesium-131 brachytherapy seeds, but there is no assurance this will continue.

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The other payment method is for in-patient procedures, where the patient remains in the hospital for more than 24 hours. Lung, brain and head and neck implant procedures utilizing brachytherapy sources require the patient to be admitted to the hospital. In-patient procedures are covered by CMS which remits a set amount depending on the kind of surgery being performed and the status of the patient. Under this Diagnostic Related Group (DRG) system, the hospital pays for all the items involved in the care of the patient excluding physician fees. The brachytherapy seeds in these in-patient cases are not paid for separately by CMS, but rather included as part of the DRG payments from CMS. Because the Company's seeds may not be reimbursed by CMS, there can be difficulty in convincing hospitals to use the Company's products. The Company contracted with a reimbursement consultant in April 2016 to review opportunities to establish incremental reimbursement from CMS for in-patient care for brachytherapy. The Company submitted for and was granted an ICD-10 code for the use of Cesium-131 with surgical brain procedures.

The Company plans on considering additional applications for DRG codes for intraoperative brachytherapy treatments in the future. Receipt of additional DRG codes in the future for brachytherapy applications will assist in the sales to hospitals and institutions that currently are not reimbursed for brachytherapy radiation for intraoperative care. Management believes the lack of incremental reimbursement for brachytherapy by CMS and private insurers placed at the time of surgery rather than delivered at a point in time following surgery may be impeding the faster and broader adoption of intraoperative brachytherapy and unfortunately short of new legislation changing this system will remain an ongoing deterrent for use of these products.

In October 2016, the Company submitted a New Technology Add-on Payment (NTAP) application. This filing formally requested additional reimbursement for the Cesium-131 based GammaTile™ treatment for brain cancer. For an applicant to be eligible for approval of the NTAP payment, the proposed treatment must receive 510(k) clearance from the U.S. Food and Drug Administration (FDA) no later than June 30th of the same year as the application is reviewed. As the Company had not attained 510(k) clearance by the deadline, the Company withdrew its application and re-submitted in October 2017. This second submission was also not accepted as the Company's 510(k) filing with the U.S. Food and Drug Administration did not receive clearance until July 6, 2018. GT Medical Technologies plans to re-file the NTAP application in October 2018 as the prior applications are no longer valid.

The GammaTile™ Therapy is currently eligible for payment under an existing DRG. The Company believes that prior to successfully attaining an NTAP, this existing coding will allow centers using the GammaTile™ Therapy to gain some payment to cover cost of the procedure. The Company believes that this existing coding strategy will support the initial product sales prior to transitioning to the full NTAP payment.

## **Financial Information About Segments**

The Company has determined that it operates in only one segment, as it only reports profit and loss information on an aggregate basis to its chief operating decision maker.

## **Financial Information About Geographic Areas**

All of the Company's long-lived assets are located in the United States. Revenue by geographic region is based on the shipping addresses of the Company's customers. The following summarizes revenue by geographic region:

|                     | <b>For the year ended June 30,</b> |   |             |   |             |   |
|---------------------|------------------------------------|---|-------------|---|-------------|---|
|                     | <b>2018</b>                        |   | <b>2017</b> |   | <b>2016</b> |   |
| United States       | 99.33                              | % | 99.94       | % | 99.64       | % |
| Non – United States | 0.67                               | % | 0.06        | % | 0.36        | % |
| Total               | 100.00                             | % | 100.00      | % | 100.00      | % |

## **Other Information**

### *Customers*

The following are the Company's top three customers, facilities or physician practices that utilize multiple surgical facilities at which primarily prostate brachytherapy procedures are performed, accounted for approximately 36.6% of the total Company product sales for the twelve months ended June 30, 2018:

| <b>Facility</b>   | <b>Location</b> | <b>% of revenue</b> |   |
|---|-----------------|---------------------|---|
| El Camino, Los Gatos, and other facilities <sup>1</sup> | Northern CA     | 24.2                | % |
| University of Pittsburgh Medical Center – Mercy         | PA              | 7.3                 | % |
| Advanced Radiation Centers of NY                        | NY              | 5.1                 | % |
| Total   |                 | 36.6                | % |

The head of the single largest physician practice also serves as the Company's medical director. As the medical director, this physician advises the Company Board of Directors and management, provides technical advice related to product development and research and development, and provides internal training to the Company sales staff and professional training to our sales staff and to other physicians. Revenue from this practice increased by \$345,000 in the year ended June 30, 2018 when compared to the year ended June 30, 2017. This increase was due to the addition of new centers located by the local senior territory manager and within the practice range of the medical director.

The loss of either the single largest physician practice or a combination of the other significant facilities and customers could have a material adverse effect on the Company's revenues, which would continue until the Company located new customers to replace them. There can be no assurance this would occur in a timely manner or at all.

*Proprietary Rights*

The Company relies on a combination of patent, copyright and trademark laws, trade secrets, software security measures, license agreements and nondisclosure agreements to protect its proprietary rights. Some of the Company's proprietary information may not be patentable.



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Our management believes that certain aspects of the IsoRay seed design and construction techniques are patentable innovations. These innovations resulted in a patent granted by the USPTO under Patent Number 7,410,458, in August 2008, with an expiration date of December 5, 2025. Certain methodologies regarding isotope production, separation, and seed manufacture are retained as trade secrets and are embodied in IsoRay's procedures and documentation. Four patents have been granted by the USPTO relating to methods of deriving Cesium-131 developed by IsoRay employees: Patent Number 7,479,261, with an expiration date of April 6, 2027; Patent Number 7,531,150, with an expiration date of July 13, 2027; Patent Number 7,316,644, with an expiration date of August 5, 2025; and Patent Number 7,510,691, with an expiration date of July 19, 2027. The Company has two patents that were issued on April 23, 2014 and are effective in Canada (Canada 2576907 and 2571349). The Company has patents granted in the Russian Federation which expire at various times in 2024 and 2025. The Company has a single patent granted in each of the Netherlands and India that both expire on June 22, 2025. The Company has a single patent pending in the EU and Hong Kong. The Company is continuing its efforts to develop and patent additional methods of deriving Cesium-131 and other isotopes.

There are specific conditions attached to the assignment of the Cesium-131 Trust patent from the late Lane Bray. In particular, the associated Royalty Agreement provides for 1% of gross profit payment from seed sales to Lane Bray and 1% of gross profit from any use of the Cesium-131 process patent for non-seed products. If IsoRay reassigns the Royalty Agreement to another company, these royalties increase to 2%. The Royalty Agreement has an anti-shelving clause that requires IsoRay to return the patent if IsoRay permanently abandons sales of products using the invention. During fiscal years 2018 and 2017, the Company recorded royalty expense of \$27,000 and \$21,000, respectively, related to this patent.

### *Research and Development*

During the two-year period ended June 30, 2018, IsoRay and its subsidiaries incurred approximately \$2.71 million in costs related to research and development activities. The Company expects to continue ongoing research and development activities for the foreseeable future. Chief among R&D expenditures in fiscal year 2018 are new product development (GammaTile™ and others) and the support of clinical research studies that are accumulating data on the subjects of prostate and head and neck cancers. Other clinical research, including the study of Cesium-131 in the treatment of brain, gynecological and other cancers, are currently funded by sources other than the Company.

### *Government Regulation*

The Company's present and future intended activities in the development, manufacture and sale of cancer therapy products are subject to extensive laws, regulations, regulatory approvals and guidelines. Within the United States, the Company's therapeutic radiological devices must comply with the U.S. Federal Food, Drug and Cosmetic Act, which is enforced by the U.S. Food and Drug Administration (FDA). The Company is also required to adhere to applicable FDA Quality System Regulations, also known as the Good Manufacturing Practices, which include extensive record

keeping and periodic inspections of manufacturing facilities. The Company's predecessor obtained FDA 510(k) clearance in March 2003 to market its Cesium-131 seed for the treatment of localized solid tumors and other malignant disease and IsoRay obtained FDA 510(k) clearance in November 2006 to market preloaded brachytherapy seeds and in August 2009 for preloading flexible braided strands and bioabsorbable mesh. In July 2018, the Company obtained 510(k) clearance for the GammaTile™ Therapy which it subsequently transferred to GT Med Tech per the Collaborative Development Agreement executed in March 2017.

In the United States, the FDA regulates, among other things, new product clearances and approvals to establish the safety and efficacy of these products. We are also subject to other federal and state laws and regulations, including the Occupational Safety and Health Act and the Environmental Protection Act.

The Federal Food, Drug, and Cosmetic Act and other federal statutes and regulations govern or influence the research, testing, manufacture, safety, labeling, storage, record keeping, approval, distribution, use, reporting, advertising and promotion of such products. Noncompliance with applicable requirements can result in civil penalties, recall, injunction or seizure of products, refusal of the government to approve or clear product approval applications, disqualification from sponsoring or conducting clinical investigations, preventing us from entering into government supply contracts, withdrawal of previously approved applications, and criminal prosecution.

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In the United States, medical devices are classified into three different categories over which the FDA applies increasing levels of regulation: Class I, Class II, and Class III. Most Class I devices are exempt from premarket notification 510(k); most Class II devices require premarket notification 510(k); and most Class III devices require premarket approval. Our Cesium-131 seed is a Class II device and received 510(k) clearance in March 2003.

Approval of new Class III medical devices is a lengthy procedure and can take a number of years and require the expenditure of significant resources. There is a shorter FDA review and clearance process for Class II medical devices, the premarket notification or 510(k) process, whereby a company can market certain Class II medical devices that can be shown to be substantially equivalent to other legally marketed devices. Since brachytherapy seeds have been classified by the FDA as a Class II device, we have been able to achieve market clearance for our Cesium-131 seed using the 510(k) process.

As a registered medical device manufacturer with the FDA, we are subject to inspection to ensure compliance with FDA's current Good Manufacturing Practices, or cGMP. These regulations require that we and any of our contract manufacturers design, manufacture and service products, and maintain documents in a prescribed manner with respect to manufacturing, testing, distribution, storage, design control, and service activities. Modifications or enhancements that could significantly affect the safety or effectiveness of a device or that constitute a major change to the intended use of the device require a new 510(k) premarket notification for any significant product modification.

The Medical Device Reporting regulation requires that we provide information to the FDA on deaths or serious injuries alleged to be associated with the use of our devices, as well as product malfunctions that are likely to cause or contribute to death or serious injury if the malfunction were to recur. Labeling and promotional activities are regulated by the FDA and, in some circumstances, by the Federal Trade Commission.

As a medical device manufacturer, we are also subject to laws and regulations administered by governmental entities at the federal, state and local levels. For example, our facility is licensed as a medical device manufacturing facility in the State of Washington and is subject to periodic state regulatory inspections. Our customers are also subject to a wide variety of laws and regulations that could affect the nature and scope of their relationships with us.

In fiscal 2008 we obtained our first European CE Mark and during the fiscal year 2014, the CE Mark was renewed for an additional five years. In support of the Company's global strategy to expand marketing to the European Union (EU) and Russia, the Company determined in FY 2018 in order to meet all European Union requirements, it needed to migrate to the ISO 13485:2016 standard. In April 2018, BSI certified the Company's successful transition to ISO 13485:2016. This transition moved IsoRay's quality system into the current state of the art Quality Management System per the ISO Medical Device Quality Management System standard. It was imperative that the Company complied with ISO 13485:2016 by end of February 2019 in order to maintain its CE Marks. During fiscal year 2019, the Company will apply to renew its CE Mark on its CE Mark family of products. European law requires that medical devices sold in any EU Member State comply with the requirements of the European Medical Device Directive

(MDD) or the Active Implantable Medical Device Directive (AIMDD). IsoRay's brachytherapy seeds are classified in Europe as an active implantable and are subject to the AIMDD. Compliance with the AIMDD and obtaining a CE Mark involves being certified to ISO 13485:2003 and obtaining approval of the product technical file by a notified body that is recognized by competent authorities of a Member State. Compliance with ISO 13485:2003 is also required for registration of a company for sale of its products in Canada. Many of the recognized EU Notified Bodies are also recognized by Health Canada to conduct the ISO 13485:2003 inspections for Canadian registration. During fiscal year 2009, the Company received its certification to ISO 13485:2003 and obtained approval from Health Canada for its Canadian registration. The Company has had no success in selling the product in the Canadian market and through its distributors is currently focusing on the markets in Switzerland, Italy, and the Russian Federation. On June 18, 2014, the Company entered into an agreement with MedikorPharma-Ural LLC as the distributor in the Russian Federation. The agreement provides the distributor with the ability to sell the entire product line. As of June 30, 2017, this agreement was no longer in effect. On July 14, 2017, the Company entered into an agreement with a new distributor in Russia that provides for the ability to sell the entire product line in the Russian Federation. The agreement has a one-year initial term with two additional one-year terms which automatically renew unless either party invoke their right to terminate earlier under the provisions of the agreement. On August 1, 2016, the Company entered into an agreement with a distributor in Italy for the territory of Italy and Switzerland, as its prior Italian distribution agreement, with an affiliate of the new distributor, had expired without any sales. The agreement has a one-year initial term with two additional one-year terms which automatically renew unless either party invokes its right to terminate earlier under the provisions of the agreement.

In the United States, as a manufacturer of medical devices and devices utilizing radioactive byproduct material, we are subject to extensive regulation by not only federal governmental authorities, such as the FDA and FAA, but also by state and local governmental authorities, such as the Washington State Department of Health, to ensure such devices are safe and effective. In Washington State, the Department of Health, by agreement with the federal Nuclear Regulatory Commission (NRC), regulates the possession, use, and disposal of radioactive byproduct material as well as the manufacture of radioactive sealed sources to ensure compliance with state and federal laws and regulations. Our Cesium-131 brachytherapy seeds constitute both medical devices and radioactive sealed sources and are subject to these regulations.

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Moreover, our use, management, and disposal of certain radioactive substances and wastes are subject to regulation by several federal and state agencies depending on the nature of the substance or waste material. We believe that we are in compliance with all federal and state regulations for this purpose.

The Company believes the costs to comply with various federal, state, and local environmental laws include such costs as radioactive waste disposal, radioactive material licenses, and increased shipping costs related to the radioactivity of our products are less than \$100,000 annually.

### *Seasonality*

The Company believes that some seed implantation procedures are deferred around physician vacations (particularly in the summer months), holidays, and medical conventions and conferences resulting in a seasonal influence on the Company's business. These factors cause a momentary decline in revenue which management believes is ultimately realized in prior or following periods. Because a material portion of the Company's business is dependent on three customers, physician practices or facilities, simultaneous or extended vacations by the physicians at these facilities or by our single largest physician whose total revenue alone represents a material portion of the Company's business could cause significant drops in the Company's productivity during those reporting periods.

### *Employees*

As of September 19, 2018, IsoRay employed 38 full-time individuals. The Company's future success will depend, in part, on its ability to attract, retain, and motivate highly qualified sales, technical and management personnel. From time to time, the Company may employ independent consultants or contractors to support its research and development, marketing, sales, accounting and administrative organizations. None of the Company's employees are represented by any collective bargaining unit. On September 19, 2018, the Company employed six direct sales people.

### *Competition*

The Company competes in a market characterized by technological innovation, extensive research efforts, and significant competition. In general, the IsoRay Cesium-131 brachytherapy seed competes with conventional methods of treating localized cancer, including, but not limited to, all forms of prostatectomy surgery and external beam radiation therapy which includes intensity modulated radiation therapy, stereotactic radiosurgery and proton therapy, as well as competing permanent and temporary brachytherapy devices.

Management believes the Company's patented Cesium-131 separation process is likely to provide a sustainable competitive advantage and maintain the Company as the sole producer of medical Cesium-131. Production of Cesium-131 also requires specialized facilities that represent high cost and long lead time if not readily available. In addition, a competitor would need to develop a method for isotope attachment and seed assembly, would need to conduct testing to meet NRC and FDA requirements, and would need to obtain regulatory clearances before marketing a competing device. Best Medical received FDA 510(k) clearance to market a Cesium-131 seed on June 6, 1993 but to date, twenty-five years later, have not produced any products for sale.

The permanent brachytherapy seed market includes companies that manufacture and / or distribute Cesium-131, Iodine-125 (I-125) and Palladium-103 (Pd-103). The Company believes the performance characteristics of Cesium-131, specifically the shorter half-life and higher energy that either Pd-103 or I-125 will ultimately prove to be advantageous. Both other permanent brachytherapy isotopes, I-125 and Pd-103 were introduced to the market prior to Cesium-131, allowing many customers to become comfortable with the performance of both isotopes and requiring the Company to overcome these preferences to convert customers to Cesium-131.

Key competitors which provide permanent prostate brachytherapy products include: Theragenics Corporation, Becton-Dickinson (formerly C. R. Bard), IsoAid, and Best Medical. While none of these companies publicly report specific information about their brachytherapy business, the Company believes the following about their product offerings and market positions:

*Theragenics Corporation* introduced Pd-103 into the market approximately 20 years ago. This company is the market leader in Pd-103 production. In the 2000's, Theragenics introduced its own I-125 product. It delivers product in a variety of configurations, including products that allow for intra-operative needle preparation and stranding. It also provides product (primarily I-125) for international distribution. The majority of its brachytherapy sales are for prostate treatment. This company also manufactures Pd-103 for Becton Dickinson.

*Becton-Dickinson (previously C. R. Bard)* manufactures its own I-125 and distributes Pd-103 through Theragenics. It is a historical market leader, and historically focused on dedicated delivery devices to support different physician procedure techniques. This company continues to distribute I-125 internationally, with the majority of its brachytherapy sales for prostate treatment.

*IsoAid* manufactures both I-125 and Pd-103, with a focus on domestic prostate brachytherapy customers. This company has focused on providing seeds to customers in standard configurations. We do not believe that IsoAid offers a product for intra-operative needle preparation and stranding.

*Best Medical* manufactures both I-125 and Pd-103, with a focus on domestic prostate brachytherapy customers. This company has focused on providing seeds to customers in standard configurations. We do not believe that Best Medical offers a product for intra-operative needle preparation and stranding.

The Company believes that customers perform prostate brachytherapy procedures via one of several general procedure techniques, including (but not limited to): pre-plan techniques, intra-operative techniques, and real-time techniques. Further, the Company believes that customers are comfortable with their techniques, and want products to facilitate their preferred methods. Many of the Company's competitors provide a set of standard products (including loose seeds, seeds loaded in cartridges, and seeds pre-loaded in needles) to meet the customer's needs. Furthermore, our two primary brachytherapy competitors, Theragenics Corporation ("Theragenics") and Becton-Dickinson have products

that support intra-operative and real-time techniques that allow for stranding or linking seeds together in custom configurations in the operating room. This allows physicians to gain the benefits of stranded or linked seeds while still allowing for customization to the patient anatomy, as determined at the time of the procedure. The Company believes that approximately 25% of procedures are performed with some level of customization in the operating room.

It is this segment of the market – customers which desire customized procedures to their patient's anatomy at the time of the procedure – that the Company expects to address with its new Blu Build loading device. The Blu Build loading device will efficiently configure strands in the operating room, allowing the clinician to make determinations about the product configurations with the most recent picture of the patient's anatomy. The Company believes that this technique may provide advantages in some brachytherapy products and will provide a better solution for this market segment. The Company also believes the efficiency and ease of use of the Blu Build loading device will offer an intriguing opportunity for the approximately 75% of the market which does not use customization today. The Company is in the process of commercializing the Blu Build loading device, which is now expected to be ready in October 2018.

The Company's brachytherapy products used in non-prostate applications typically compete with temporary (high dose-rate, HDR), external beam radiation therapy (EBRT), which can be provided as conventional or intensity modulated radiation therapy, or as stereotactic radiosurgery, a technique that delivers high doses of radiation to a target in a much lower number of sessions than other forms of EBRT. Manufacturers of EBRT equipment include Varian Medical Systems, Siemens Healthcare, Elekta AB, and Accuray Incorporated, among others.

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**ITEM 1A – RISK FACTORS**

*You should carefully consider the following factors regarding information included in this Report. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be materially adversely affected.*

*Risks Related to Our Industry and Operations*

*Our Revenues Depend Upon One Product with Multiple Applications.* Our revenues depend solely upon the successful production, marketing, and sales of the Cesium-131 brachytherapy seed in its various delivery formats. The rate and level of market acceptance of this product varies depending on the perception by physicians and other members of the healthcare community of its safety and efficacy as compared to that of competing products, if any; the clinical outcomes of the patients treated; the effectiveness of our sales and marketing efforts or those of our distributors in the United States, Italy, Switzerland and the Russian Federation; any unfavorable publicity concerning our product or similar products; our product's price relative to other products or competing treatments; any decrease in current reimbursement rates from the Centers for Medicare and Medicaid Services or third-party payers; regulatory developments related to the manufacture or continued use of the product; availability of sufficient supplies of barium for Cesium-131 seed production; ability to produce sufficient quantities of Cesium-131; the ability of physicians to apply the correct dosage of seeds and avoid excessive levels of radiation to patients; and the ability to use this product to treat multiple types of cancers in various organs. Because of our reliance on this product as the sole source of our revenue, any material adverse developments with respect to the commercialization of this product may cause us to continue to incur losses rather than profits in the future.

*Although Cleared To Treat Any Malignant Tissue, Our Product Is Primarily Used To Treat A Single Type Of Cancer Which Is In A Declining Market.* Currently, the Cesium-131 seed is used almost exclusively for the treatment of prostate cancer (approximately 86% of our sales). We have been treating brain cancer which amounted to approximately seven percent of our product sales, gynecological cancer which amounted to approximately two percent of our product sales, head and neck cancer which amounted to approximately two percent of our product sales, lung cancer which amounted to less than one percent of our product sales, and other cancers including groin cancer, pelvic cancer and colorectal cancer that combined constituted two percent of our product sales in fiscal year 2018. Management believes the Cesium-131 brachytherapy seed will continue to be used to treat other types of cancers as the Company identifies existing delivery systems that can be utilized or develops new delivery methods for the product, however these delivery systems may not prove as effective as anticipated. Management believes that clinical data gathered by select groups of physicians under treatment protocols specific to other organs will be needed prior to widespread acceptance of our product for treating other cancer sites. If our current and future products do not become accepted in treating cancers of other sites, our sales will continue to depend primarily on treatment of prostate cancer, a market with increasing competition and ongoing loss of market share by all brachytherapy products. Even though the past three fiscal years have shown improvements in prostate revenue, since the U.S. Preventive Services Task Force ("USPSTF") recommendation in 2012 to no longer routinely conduct prostate exams, the market for all prostate



procedures has dramatically declined. In 2017, the USPSTF changed its recommendation from advising against screening to the position that the decision for men between 55 and 69 to undergo PSA-based screening should be made by a man in consultation with his doctor (<https://screeningforprostatecancer.org/>). This change may have contributed to an increased incidence of screening (and therefore more prostate cancer cases) as opposed to an unscreened population.

*Unfavorable Industry Trends in the Prostate Market.* Beginning in the fall of 2008, U.S. consumers significantly curtailed all spending (even for life saving medical procedures) which impacted the brachytherapy industry as a whole. In February 2009, noted urologists announced at a medical conference that prostate specific antigen (PSA) testing was not as necessary as previously believed. Their statements were widely publicized. In May 2012, the USPSTF recommended against routine PSA screenings for healthy men without symptoms. This recommendation has led to substantial declines in PSA screenings. In addition, there has been an increase in “active surveillance,” a practice where no immediate medical treatment is provided but the physician and patient closely monitor the patient’s cancer for signs that the cancer is growing. We believe that declines in PSA screenings have led to a decline in the number of men diagnosed with prostate cancer, which in turn leads to a decline in the number of procedures to treat prostate cancer, including brachytherapy procedures. An increase in the proportion of men diagnosed with prostate cancer but not seeking immediate medical treatment ultimately also leads to a decline in the number of procedures to treat prostate cancer.

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Also, the emergence of IMRT as the preferred treatment alternative as a result of a much higher reimbursement rate to physicians compared to brachytherapy treatments has resulted in declining market share for brachytherapy treatment. In fiscal 2018, each of these factors continued to impact the performance of the Company in the prostate market and the industry as a whole and there is no assurance that they will not continue to impact sales of the Company in the prostate market through fiscal 2019.

*We Rely Heavily On Three Customers.* Approximately thirty-seven percent (37%) of the Company's revenues are dependent on three customers and approximately twenty-four percent (24%) on one customer. The loss of any of these customers would have a material adverse effect on the Company's revenues which may not be replaced by other customers particularly as these customers are in the prostate sector which is facing substantial competition from other treatments.

*We Rely Heavily On A Limited Number Of Suppliers. Our Most Critical Suppliers Are In Russia And We Periodically Must Rely Solely On One Supplier From Time to Time.* Some materials used in our product are currently available only from a limited number of suppliers. In fiscal 2018, approximately eighty percent (80%) of our Cesium-131 was supplied through JSC Isotope from a reactor located in Russia. Our current contract with JSC terminates on December 31, 2018, and is in the process of being renegotiated. Management will seek to negotiate favorable pricing but there is no assurance as to the outcome of these negotiations. On August 25, 2017, the Company executed a consignment inventory agreement with MedikorPharma-Ural LLC ("Medikor") to process the Company's enriched barium at another nuclear reactor in Russia beginning in November 2017. The term of the consignment agreement is 10 years. Our source of supply of Cesium-131 from Russia is historically produced using one of two nuclear reactors which supply the irradiation needed for Cesium-131 production. One of the Russian nuclear reactors was shut down from December 2017 until August 2018, and the other Russian nuclear reactor is scheduled to be shut down for much of 2019 into early 2020. As a result of these scheduled shutdowns, only one of the Company's historic Russian suppliers of Cesium-131 will be available during these periods. Medikor, located in Russia, is using the barium carbonite consigned by the Company to contract with a third-party manufacturer to produce and supply Cesium-131 to the Company. This arrangement has the effect of minimizing the impact on the Company of the planned temporary shutdown of the nuclear reactors that serve as its sources of Cesium-131 from Russia. After a thorough review of the capacity and cost of production at the MURR facility, the Company has decided to not locate a hot cell there to ramp up domestic production. The Company has also determined to terminate its supply agreement with MURR thereby eliminating all domestic suppliers of this critical component of its product. This decision means that the Company has no domestic supply capabilities for Cesium-131 except for limited amounts with advance notice to MURR on a periodic basis. Even if Cesium-131 was supplied by MURR, the cost is significantly more than Russia, requires additional processing by the Company, and MURR cannot manufacture enough supply to meet the Company's increasing needs.

Reliance on any single supplier increases the risks associated with concentrating isotope production at a single reactor facility which can be subject to unanticipated shutdowns and political or civil unrest. Failure to obtain deliveries of Cesium-131 from multiple sources could have a material adverse effect on seed production and there may be a delay before we could locate alternative suppliers beyond the two we currently use and one which is available.

We may not be able to locate additional suppliers outside of Russia capable of producing the level of output of Cesium at the quality standards we require. Additional factors that could cause interruptions or delays in our source of materials include limitations on the availability of raw materials or manufacturing performance experienced by our suppliers and a breakdown in our commercial relations with one or more suppliers. Some of these factors may be completely out of our and our suppliers' control.

Virtually all titanium tubing used in brachytherapy seed manufacture comes from a single source, Accellent Corporation. We currently obtain a key component of our seed core from another single supplier, C5 Medical Werks, LLC. We do not have a formal written agreement with Accellent Corporation, but simply use purchase orders. We do have a purchase agreement with C5 Medical Werks, LLC which calls for fixed quantity of seed cores to be shipped over a 36-month period at a fixed unit price. Any interruption or delay in the supply of materials required to produce our product could cause harm to our business if we were unable to obtain an alternative supplier or substitute equivalent materials in a cost-effective and timely manner. To mitigate any potential interruptions, the Company continually evaluates its inventory levels and management believes that the Company maintains a sufficient quantity of non-Cesium-131 materials supply to alleviate any potential disruptions.

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While we work closely with suppliers to assure continuity of supply and maintain high quality and reliability, these efforts may not be successful. Manufacturing disruptions experienced by our suppliers may jeopardize our supply of components. The loss or disruption of our relationships with outside vendors could subject us to substantial delays in the delivery of our product to customers. Significant delays in the delivery of our product could result in possible cancellation of orders and the loss of customers.

Due to the stringent regulations and requirements of the FDA and similar non-U.S. regulatory agencies regarding the manufacture of our product, we may not be able to quickly establish additional or replacement sources for certain components or materials. A change in suppliers could require significant effort or investment in circumstances where the items supplied are integral to product performance or incorporate unique technology. A reduction or interruption in manufacturing, or an inability to secure alternative sources of raw materials or components, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Any casualty, natural disaster or other significant disruption of any of our suppliers' operations, or any unexpected loss of any existing exclusive supply contract could have a material adverse effect on our business.

Although we expect our suppliers to comply with our contract terms, we do not have control over these suppliers. Our inability to provide a product that meets delivery schedules could have a material adverse effect on our reputation in the industry, which could have a material adverse effect on our financial condition and results of operations.

Further, any single source suppliers or contract manufacturers may operate through a single facility. If an event occurred that resulted in material damage to this manufacturing facility or our supplier/manufacturing contractor lacked sufficient labor to fully operate the facility, we may be unable to transfer the manufacture of our product or supply of the component to another facility or location in a cost-effective or timely manner, if at all. This potential inability to transfer production could occur for a number of reasons, including but not limited to a lack of necessary relevant manufacturing capability at another facility, or the regulatory requirements of the FDA or other governmental regulatory bodies. Even if there are many qualified suppliers or contract manufacturers available around the country and our product or its components are relatively easy to manufacture, such an event could have a material adverse effect on our financial condition and results of operations.

*Doctors And Hospitals May Not Adopt Our Product And Technologies At Levels Sufficient To Sustain Our Business Or To Achieve Our Desired Growth Rate.* To date, we have attained very limited penetration of the total potential market for our product, particularly in non-prostate applications. Our future growth and success depends upon creating broad awareness and acceptance of our product by doctors, hospitals and freestanding clinics, as well as patients. This will require substantial marketing and educational efforts, which will be costly and may not be successful. The target customers for our product may not adopt its related technologies or may adopt them at a rate that is slower than desired. We depend extensively on long term protocol results and publications by independent physicians. Unfavorable protocol results or publications would have an impact on the success of our product. In addition, potential

customers who decide to utilize any of our devices may later choose to purchase competitors' products. Important factors that will affect our ability to attain broad market acceptance of our product include:

- doctor and/or patient awareness and acceptance of our product;
- the real or perceived effectiveness and safety of our product;
  - the relationship between the cost of our product and the real or perceived medical benefits of our product;
- the relationship between the cost of our product and the financial benefits to our customers using our product, which will be greatly affected by the coverage of, and reimbursement for, our product by governmental and private third-party payors; and
- market perception of our ability to continue to grow our business and develop enhancements to our product.

We must promote our product effectively. Factors that could affect our success in marketing our product include:

- the adequacy and effectiveness of our sales force and that of any distributor's sales force;
- the adequacy and effectiveness of our production, distribution and marketing capabilities and those of our distributors;

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the success of competing treatments or products; and  
the availability and extent of reimbursement from third-party payors for our product.

If we fail to maintain our working relationships with health care professionals, many of our products may not be developed and marketed in line with the needs and expectations of the professionals who use and support our products, which could cause a decline in our earnings and profitability. The research, development, marketing, and sales of many of our new and improved products is dependent upon our maintaining working relationships with health care professionals. We rely on these professionals to provide us with considerable knowledge and experience regarding the development, marketing, and sale of our products. Physicians assist us as researchers, marketing and product consultants, inventors, and public speakers. If we are unable to maintain our strong relationships with these professionals and continue to receive their advice and input, the development and marketing of our products could suffer, which could have a material adverse effect on our consolidated earnings, financial condition, and/or cash flows.

If our product fails to achieve market acceptance, we may not be able to market and sell the product successfully, which would limit our ability to generate revenue and could harm our business.

*Increased Prices For, Or Unavailability Of, Raw Materials Used In Our Product Could Adversely Affect Our Revenues.* Our revenues are affected by the prices of the raw materials and sub-assemblies used in the manufacture of our product. These prices may fluctuate based on a number of factors beyond our control, including changes in supply and demand, general economic conditions, labor costs, fuel related delivery costs, competition, import duties, tariffs, currency exchange rates, and government regulation. Due to the highly competitive nature of the healthcare industry and the cost containment efforts of our customers and third-party payers, we may be unable to pass along cost increases for key components or raw materials through higher prices to our customers. If the cost of key components or raw materials increases, and we are unable fully to recover these increased costs through price increases or offset these increases through other cost reductions, we could experience lower margins and profitability. Significant increases in the prices of raw materials or sub-assemblies that cannot be recovered through productivity gains, price increases or other methods could adversely affect our results of operations.

*We Are Subject To Uncertainties Regarding Reimbursement For Use Of Our Product.* Hospitals and freestanding clinics may be less likely to purchase our product if they cannot be assured of receiving favorable reimbursement for treatments using our product from third-party payers, such as Medicare and private health insurance plans. Currently, Medicare reimburses hospitals at fixed rates that cover the cost of stranded and loose seeds. Clinics and physicians performing procedures in a free-standing center are reimbursed at the actual cost of the seeds. It is expected that CMS will continue to reimburse providers using this same methodology in 2019 but there is no assurance this will occur.

Brachytherapy seeds have two CMS codes – one code for loose seeds and a second code for stranded seeds. Reimbursement amounts are reviewed and revised annually based upon information submitted to CMS on claims by providers. Changes in reimbursement can positively or negatively affect market demand for our product. We monitor

these changes and provide comments, as permitted, when changes are proposed, prior to implementation.

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In-patient procedures are covered by CMS and hospitals are paid based on the type of surgery and the status of the patient. These procedures are done as part of a Diagnostic Related Group or DRG system under which the hospital pays for all items involved in the care of the patient exclusive of the physician fees. Hospitals are less receptive to treatments which require out of pocket costs such as procedures we use for certain non-prostate applications. Certain of our DRG reimbursement amounts coupled with out-of-pocket costs imposed on hospitals make some of our non-prostate procedures not financially viable. We rely on our reimbursement consultant to assist us to improve the rate of reimbursement so that our product reimbursement will create greater incentives to be used. There is no assurance we will obtain the increase necessary to keep certain procedures viable and improve the margins of others.

Historically, private insurers have followed Medicare guidelines in establishing reimbursement rates. However, third-party payers are increasingly challenging the pricing of certain medical services or devices, and we cannot be sure that they will reimburse our customers at levels sufficient for us to maintain favorable sales and price levels for our product. There is no uniform policy on reimbursement among third-party payers, and we can provide no assurance that our product will continue to qualify for reimbursement from all third-party payers or that reimbursement rates will not be reduced. A reduction in or elimination of third-party reimbursement for treatments using our products would likely have a material adverse effect on our revenues.

Our success in international markets also depends upon the eligibility of our product for coverage and reimbursement through government-sponsored health care payment systems and third-party payors. Reimbursement practices vary significantly by country. Many international markets have government-managed insurance systems that control reimbursement for our new product and procedures. Other foreign markets have both private insurance systems and government-managed systems that control reimbursement for our new product and procedures. Market acceptance of our product may depend on the availability and level of coverage and reimbursement in any country within a particular time. In addition, health care cost containment efforts similar to those we face in the United States are prevalent in many of the other countries in which we intend to sell our product and these efforts are expected to continue.

Furthermore, any federal and state efforts to reform government and private healthcare insurance programs, such as those passed by the federal government in 2010, could significantly affect the purchase of healthcare services and our product in general and demand for our product in particular. Approximately 60% of men diagnosed with prostate cancer are of Medicare age (65+), providing Medicare with a significant influence in the marketplace. We are unable to predict the ultimate impact of current healthcare reform rates, those reforms that may be enacted in the future both in the United States and in other countries, whether other healthcare legislation or regulations affecting the business may be proposed or enacted in the future or what effect any such legislation or regulations would have on our business, financial condition or results of operations.

*Our Operating Results Will Be Subject To Significant Fluctuations.* Our quarterly revenues, expenses, and operating results are likely to fluctuate significantly in the future. Fluctuation may result from a variety of factors, which are discussed in detail throughout this “RISK FACTORS” section, including:



demand and pricing for the Company's product;  
effects of aggressive competitors;  
hospital, clinic and physician purchasing decisions often impacted by vacation schedules of our primary physician customers;  
research and development and manufacturing expenses;  
patient outcomes from our product and unfavorable recommendations related to PSA testing;  
physician acceptance of our product;  
government or private healthcare reimbursement policies;  
healthcare reform;  
    our manufacturing performance and capacity;  
incidents, if any, that could cause temporary shutdown of our manufacturing facility;  
the amount and timing of sales orders;  
rate and success of future product approvals;  
timing of FDA clearance, if any, of competitive product and the rate of market penetration of competing product;  
seasonality of purchasing behavior in our market;  
overall economic conditions;  
the successful introduction or market penetration of alternative therapies; and  
the outcome of the FDA's evaluation of the clearance process for class II devices.

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*We Are Subject To The Risk That Certain Third Parties May Mishandle Our Product.* We rely on third parties, such as Federal Express, to deliver our Cesium-131 seed, and on other third parties to package our product in certain specialized packaging forms requested by customers. We are subject to the risk that these third parties may mishandle our product, which could result in adverse effects, particularly given the radioactive nature of our product.

*We May Encounter Manufacturing Problems Or Delays That Could Result In Lost Revenue.* Manufacturing our product is a complex process. We (or our critical suppliers) may encounter difficulties in scaling up or maintaining production of our product, including:

problems involving production yields;  
quality control and assurance;  
component supply shortages;  
import or export restrictions on components, materials or technology;  
shortages of qualified personnel; and  
compliance with state, federal and foreign regulations.

If demand for our product exceeds our manufacturing capacity, we could develop a substantial backlog of customer orders. If we are unable to maintain larger-scale manufacturing capabilities, our ability to generate revenues will be limited and our reputation in the marketplace could be damaged.

*Failure Of Any Clinical Studies Or Third-Party Assessments To Demonstrate Desired Outcomes In Proposed Endpoints May Reduce Physician Usage Or Result In Pricing Pressures That Could Have A Negative Impact On Business Performance.* We may directly conduct or support third party clinical studies designed to test a variety of endpoints associated with product performance and use across a number of applications. If, as a result of poor design, implementation or otherwise, a clinical study conducted by us or others fails to demonstrate statistically significant results supporting performance or use benefits or comparative or cost effectiveness of our product, physicians may elect not to use our product as a treatment for conditions that may benefit from them. Furthermore, in the event of an adverse clinical study outcome, our product may not achieve “standard-of-care” designations, where they exist, for the conditions in question, which could deter the adoption of our product. Also, if serious device-related adverse events are reported during the conduct of a study it could affect continuation of the study, product approval and product adoption. If we are unable to develop a body of statistically significant evidence from our clinical study program, whether due to adverse results or the inability to complete properly designed studies, domestic and international public and private payers could refuse to cover our product, limit the manner in which they cover our product, or reduce the price they are willing to pay or reimburse for our product. In the case of a pre-approval study or a study required by a regulatory body as a condition of clearance or approval, a regulatory body can revoke, modify or deny clearance or approval of the study and/or the product in question.

*Other Treatments May Be Deemed Superior To Brachytherapy.* Our Cesium-131 seed may face competition not only from companies that sell other radiation therapy products, but also from companies that are developing alternative

therapies for the treatment of cancers. It is possible that advances in the pharmaceutical, biomedical, or gene therapy fields could render some or all radiation therapies, whether conventional or brachytherapy, obsolete. If alternative therapies are proven or even perceived to offer treatment options that are superior to brachytherapy, physician adoption of our brachytherapy product could be negatively affected and our revenues from our brachytherapy product could decline.

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*Our Industry Is Intensely Competitive.* The medical device industry is intensely competitive. We compete with both public and private medical device, biotechnology and pharmaceutical companies that have been in existence longer than we have, have a greater number of products on the market, have greater financial and other resources, and have other technological or competitive advantages. As physicians migrate to medical devices such as external beam radiation and robotic surgery that have a much higher capital cost to repay and higher profit margins, this puts increasing pressure on all brachytherapy products to compete regardless of their superior treatment results. The market share for brachytherapy continues to decline as a result of this pressure from increasing usage by oncologists of external beam radiation. In addition, centers that wish to offer the Cesium-131 seed must comply with licensing requirements specific to the state, province, and/or country in which they do business and these licensing requirements may take a considerable amount of time to comply with. Certain centers may choose not to offer our Cesium-131 seed due to the time required to obtain necessary license amendments. We also compete with academic institutions, government agencies, and private research organizations in the development of technologies and processes and in acquiring key personnel. Although we have patents granted and patents applied for to protect our isotope separation processes and Cesium-131 seed manufacturing technology, we cannot be certain that one or more of our competitors will not attempt to obtain patent protection that blocks or adversely affects our product development efforts. In the case of brain tumors, a surgeon will remove the tumor and radiation therapy is used as supplemental treatment following the surgery; this is known as “adjuvant” radiation therapy. The Company believes that its form of adjuvant radiation therapy offers advantages over external beam methods. However, external beam holds the vast majority of the market for adjuvant radiation therapy.

*Cost-Containment Efforts Of Our Customers, Purchasing Groups, Third-Party Payers And Governmental Organizations Could Adversely Affect Our Sales And Profitability.* The continuing efforts of governments, insurance companies and other payors of healthcare costs to contain or reduce these costs, combined with closer scrutiny of such costs, could lead to patients being unable to obtain approval for payment from these third-party payors. The cost containment measures that healthcare providers are instituting both in the U.S. and internationally could harm our business. Some healthcare providers in the U.S. have adopted or are considering a managed care system in which the providers contract to provide comprehensive healthcare for a fixed cost per person. Healthcare providers may attempt to control costs by authorizing fewer elective surgical procedures or by requiring the use of the least expensive devices possible, which could adversely affect the demand for our product or the price at which we can sell our product. Some healthcare providers have sought to consolidate and create new companies with greater market power, including hospitals. As the healthcare industry consolidates, competition to provide our product has become and will continue to become more intense. This has resulted and likely will continue to result in greater pricing pressures and the exclusion of certain suppliers from important marketing segments.

Outside the United States, we expect to experience pricing pressure from centralized governmental healthcare authorities due to efforts by such authorities to lower healthcare costs. Implementation of healthcare reforms and competitive bidding contract tenders may limit the price or the level at which reimbursement is provided for our product and adversely affect both our pricing flexibility and the demand for our product. Healthcare providers may respond to such cost-containment pressures by substituting lower cost product or other therapies for our product. We may be required to engage in competitive bidding for the sale of our product to governmental purchasing agents and hospital groups. Our failure to offer acceptable prices to these customers could adversely affect our sales and profitability in these markets. Distributors of our product may also negotiate terms of sale more aggressively to increase their profitability. Failure to negotiate distribution arrangements having advantageous pricing and other terms of sale could cause us to lose market share and would adversely affect our business, results of operations, financial

condition and cash flows.

*If We Fail To Comply With Applicable Healthcare Regulations, We Could Face Substantial Penalties And Our Business, Operations And Financial Condition Could Be Adversely Affected.* Certain federal and state healthcare laws and regulations pertaining to fraud and abuse and patients' rights may be applicable to our business. We could be subject to healthcare fraud and abuse and patient privacy regulation by both the federal government and the states in which we conduct our business, without limitation. The laws that may affect our ability to operate include, but are not limited to:

the federal Anti-Kickback Statute, which prohibits, among other things, knowingly and willfully soliciting, receiving, offering or paying any remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind, to induce, or in return for, the referral of an individual for the furnishing or arranging for the furnishing of any item or service, or the purchase, lease, order, arrangement for, or recommendation of the purchase, lease, or order of any good, facility, item or service for which payment may be made, in whole or in part, under a federal healthcare program, such as the Medicare and Medicaid programs;

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the civil federal False Claims Act, which imposes civil penalties, including through civil whistleblower or qui tam actions, against individuals or entities for, among other things, knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent; knowingly making, using or causing to be made or used, a false record or statement to get a false or fraudulent claim paid or approved by the government; conspiring to defraud the government by getting a false or fraudulent claim paid or approved by the government; or knowingly making, using or causing to be made or used a false record or statement to avoid, decrease or conceal an obligation to pay money to the federal government;

the criminal federal False Claims Act, which imposes criminal fines or imprisonment against individuals or entities who make or present a claim to the government knowing such claim to be false, fictitious or fraudulent;

the civil monetary penalties statute, which imposes penalties against any person or entity who, among other things, is determined to have presented or caused to be presented a claim to a federal health program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent;

the Veterans Health Care Act of 1992, which requires manufacturers of “covered drugs” to offer them for sale to certain federal agencies, including but not limited to, the Department of Veterans Affairs, on the Federal Supply Schedule, which requires compliance with applicable federal procurement laws and regulations and subjects manufacturers to contractual remedies as well as administrative, civil and criminal sanctions;

the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA), which created new federal criminal statutes that prohibit knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or obtain, by means of false or fraudulent pretenses, representations or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (e.g., public or private), knowingly and willfully embezzling or stealing from a health care benefit program, willfully obstructing a criminal investigation of a health care offense and knowingly and willfully falsifying, concealing or covering up by any trick or device a material fact or making any materially false statements in connection with the delivery of, or payment for, healthcare benefits, items or services relating to healthcare matters;

HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and their respective implementing regulations, which impose requirements on certain covered healthcare providers, health plans and healthcare clearinghouses as well as their respective business associates that perform services for them that involve individually identifiable health information, relating to the privacy, security and transmission of individually identifiable health information without appropriate authorization, including mandatory contractual terms as well as directly applicable privacy and security standards and requirements;

the federal Physician Payment Sunshine Act, created under the Patient Protection and Affordable Care Act (ACA), and its implementing regulations, which require manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children’s Health Insurance Program (with certain exceptions) to report annually to the United States Department of Health and Human Services information related to payments or other transfers of value made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members, with data collection required reporting to CMS by the 90th day following each calendar year;

federal consumer protection and unfair competition laws, which broadly regulate marketplace activities and activities that potentially harm consumers;

the Foreign Corrupt Practices Act, a U.S. law that regulates certain financial relationships with foreign government officials (which could include, for example, certain medical professionals), and state law equivalents of the federal laws, such as anti-kickback, false claims, consumer protection and unfair competition laws which may apply to our business practices, including but not limited to, research, distribution, sales and marketing arrangements as well as submitting claims involving healthcare items or services reimbursed by any third-party payors, including commercial insurers, and state laws governing the privacy and security of health information in certain circumstances many of which differ from each other in significant ways, with differing effect.

The U.S. Foreign Corrupt Practices Act (FCPA) and similar anti-bribery laws in non-U.S. jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. government officials for the purpose of obtaining or retaining business. Global enforcement of anti-corruption laws has increased substantially in recent years, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by U.S. and non-U.S. governmental agencies, and assessment of significant fines and penalties against companies and individuals. Our international suppliers create the risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents, or distributors, because these parties are not always subject to our control. Any alleged or actual violations of these regulations may subject us to government scrutiny, severe criminal or civil sanctions and other liabilities, including exclusion from government contracting, and could disrupt our business, and result in a material adverse effect on our reputation, results of operations, financial condition, and cash flows.

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Governmental regulations outside the U.S. have become increasingly stringent and more common, and we may become subject to more rigorous regulation by governmental authorities in the future. In the European Union, for example, a new Medical Device Regulation was approved in 2017 which, when it goes into effect in the spring of 2020, will impose significant additional premarket and post-market requirements. Penalties for a company's non-compliance with governmental regulation could be severe, including fines and revocation or suspension of a company's business license, mandatory price reductions and criminal sanctions. Any governmental law or regulation imposed in the future may have a material adverse effect on us.

Additionally, the compliance environment is changing, with more states, such as California and Massachusetts, mandating implementation of compliance programs, compliance with industry ethics codes, and spending limits, and other states, such as Vermont, Maine, and Minnesota, requiring reporting to state governments of gifts, compensation, and other remuneration to physicians. These laws all provide for penalties for non-compliance. The shifting regulatory environment, along with the requirement to comply with multiple jurisdictions with different compliance and/or reporting requirements, increases the possibility that a company may inadvertently run afoul of one or more laws.

If our past or present operations are found to be in violation of any of the laws described above or the other governmental regulations to which we, our distributors or our customers are subject, we may be subject to the applicable penalty associated with the violation, including civil and criminal penalties, damages, fines, exclusion from Medicare, Medicaid and other government programs and the curtailment or restructuring of our operations. If we are required to obtain permits or licensure under these laws that we do not already possess, we may become subject to substantial additional regulation or incur significant expense. Any penalties, damages, fines, curtailment or restructuring of our operations would adversely affect our ability to operate our business and our financial results. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully or clearly interpreted by the regulatory authorities or the courts, and their provisions are subject to a variety of interpretations and additional legal or regulatory change. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management's attention from the operation of our business and damage our reputation. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security and fraud laws may prove costly.

*Healthcare Reform Measures Could Hinder Our Product's Commercial Success.* In both the United States and certain foreign jurisdictions there have been, and we anticipate there will continue to be, a number of legislative and regulatory changes to the healthcare system that could impact our ability to sell our product profitably. In the United States, the Patient Protection and Affordable Care Act (the "ACA") and the Health Care and Education Affordability Reconciliation Act of 2010 (together "the law" or "the legislation") provide for a number of healthcare policy changes that are or will be applicable to us. However, there are many programs and requirements under the law for which the consequences are not fully understood, and it is unclear what the full impacts will ultimately be from the law. The legislation provides for significant new taxes on medical device makers in the form of a 2.3 percent excise tax on all U.S. medical device sales that commenced in January 2013 which would apply to all of our product sales. Although the excise tax has been suspended by Congress until the end of 2019, its status is unclear for subsequent years. Under the legislation, the total cost to the medical device industry is expected to be approximately \$20 billion over 10 years. The law also focuses on a number of Medicare provisions aimed at improving quality and decreasing costs. It is uncertain at this point what negative unintended consequences these provisions will have on patient access to new



technologies. The Medicare provisions include value-based payment programs, increased funding of comparative effectiveness research, reduced hospital payments for avoidable readmissions and hospital acquired conditions, and pilot programs to evaluate alternative payment methodologies that promote care coordination (such as bundled physician and hospital payments). Additionally, the law includes a reduction in the annual rate of inflation for Medicare payments to hospitals that began in 2011 and the establishment of an independent payment advisory board to recommend ways of reducing the rate of growth in Medicare spending.

The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to make and implement healthcare reforms may adversely affect:

- our ability to set a price we believe is fair for our product;
- our ability to generate revenues and achieve or maintain profitability;
- the availability of capital; and
- our ability to obtain timely approval of any future product modifications.

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CMS has published final regulations that implement provisions in the ACA related to disclosure of payments made by manufacturers to physicians and teaching hospitals, effective April 2013. Because we manufacture devices that are covered by the regulations, all payments that we make to physicians and teaching hospitals are subject to this reporting requirement even if the payment relates to a device that is not considered a covered device. The tracking and reporting of these payments could have an adverse impact on our business and/or consolidated results of operations and financial condition and on our relationships with customers and potential customers.

*We May Be Unable To Adequately Protect Or Enforce Our Intellectual Property Rights Or Secure Rights To Third-Party Patents.* Our ability and the abilities of our distributors to obtain and maintain patent and other protection for our product will affect our success. We are assigned, have rights to, or have exclusive licenses to patents and patents pending in the U.S. and numerous foreign countries. The patent positions of medical device companies can be highly uncertain and involve complex legal and factual questions. Our patent rights may not be upheld in a court of law if challenged. Our patent rights may not provide competitive advantages for our product and may be challenged, infringed upon or circumvented by our competitors. We cannot patent our product in all countries or afford to litigate every potential violation worldwide.

Because of the large number of patent filings in the medical device and biotechnology field, our competitors may have filed applications or been issued patents and may obtain additional patents and proprietary rights relating to our product or processes competitive with or similar to ours. We cannot be certain that U.S. or foreign patents do not exist or will not be issued that would harm our ability to commercialize our product and future product candidates.

*Pending And Future Patent Litigation Could Be Costly And Disruptive And May Have An Adverse Effect On Our Financial Condition And Results Of Operations.* We operate in an industry characterized by extensive patent litigation. Potential patent claims include challenges to the coverage and validity of the Company's patents on our product or processes as well as allegations that the Company's product infringes patents held by competitors or other third parties. A loss in any of these types of cases could result in a loss of patent protection or the ability to market our product, which could lead to a significant loss of sales, or otherwise materially affect future results of operations.

The Company's commercial success will depend in part on not infringing the patents or violating the other proprietary rights of third parties. Intellectual property litigation is expensive and complex and outcomes are difficult to predict. Any pending or future patent litigation may result in significant damage awards, including treble damages under certain circumstances, and injunctions that could prevent the manufacture and sale of an affected product or force us to make significant royalty payments in order to continue selling the affected product. At any given time, we may be involved as either a plaintiff or a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. As a healthcare supplier, we can expect to face claims of patent infringement in the future. A successful claim of patent or other intellectual property infringement against us could adversely affect our results of operations and financial condition.

*The Value Of Our Granted Patents, and Our Patents Pending, Is Uncertain.* Although our management strongly believes that our patent on the process for producing Cesium-131, our patents on additional methods for producing Cesium-131 and other isotopes, our patent on the manufacture of the brachytherapy seed, and anticipated future patent applications, which have not yet been filed, have significant value, we cannot be certain that other like-kind processes may not exist or be discovered, that any of these patents is enforceable, or that any of our patent applications will result in issued patents.

*Failure To Comply With Government Regulations Could Harm Our Business.* As a medical device and medical isotope manufacturer, we are subject to extensive, complex, costly, and evolving governmental rules, regulations and restrictions administered by the FDA, the FAA and other federal and state agencies, and by governmental authorities in other countries. Compliance with these laws and regulations is expensive and time-consuming, and changes to or failure to comply with these laws and regulations, or adoption of new laws and regulations, could adversely affect our business.

In the United States, as a manufacturer of medical devices and devices utilizing radioactive by-product material, we are subject to extensive regulation by federal, state, and local governmental authorities, such as the FDA and the Washington State Department of Health, to ensure such devices are safe and effective. Regulations promulgated by the FDA under the U.S. Food, Drug and Cosmetic Act (“FDC Act”), govern the design, development, testing, manufacturing, packaging, labeling, distribution, marketing and sale, post-market surveillance, repairs, replacements, and recalls of medical devices.

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The FAA has authority to regulate, through its Office of Hazardous Materials Safety, the offering for shipment of hazardous materials, including radioactive materials of the type marketed by the Company. Because we ship hazardous materials on flights in the U.S., the Company is subject to these regulations, including periodic audit and, if applicable, enforcement action by the FAA. As they apply to the Company, the FAA regulations concern the packaging and labeling of hazardous materials. If we fail to comply with these regulations, the Company could face civil or criminal penalties. In Washington State, the Department of Health, by agreement with the federal Nuclear Regulatory Commission (NRC), regulates the possession, use, and disposal of radioactive byproduct material as well as the manufacture of radioactive sealed sources to ensure compliance with state and federal laws and regulations. Our Cesium-131 brachytherapy seeds constitute medical devices and radioactive sealed sources and are subject to these regulations.

Under the FDC Act, medical devices are classified into three different categories, over which the FDA applies increasing levels of regulation: Class I, Class II, and Class III. Our Cesium-131 seed has been classified as a Class II device and has received clearance from the FDA through the 510(k) pre-market notification process. Any modifications to the device that would significantly affect safety or effectiveness, or constitute a major change in intended use, would require a new 510(k) submission. As with any submittal to the FDA, there is no assurance that a 510(k) clearance would be granted to the Company.

The FDA has been considering legislative, regulatory and/or administrative changes to the FDA's 510(k) program. Various committees of the U.S. Congress have also indicated that they may consider investigating the FDA's 510(k) process. Under the current 510(k) rules, certain types of medical devices can obtain FDA approval without lengthy and expensive clinical trials. We have received FDA approval under the 510(k) rules for our product as sold in various formats. Our R&D programs and new product programs contemplate obtaining any required FDA approvals under the current 510(k) rules. Any changes to the current 510(k) or related FDA rules that make such rules more stringent or require more clinical data can significantly increase the time and costs associated with bringing new product formats or product modifications to market. This may have a material adverse effect on our business, financial condition and results of operations.

In addition to FDA-required market clearances and approvals for our product formats, our manufacturing operations are required to comply with the FDA's Quality System Regulation (QSR), which addresses requirements for a company's quality program such as management responsibility, good manufacturing practices, product and process design controls, and quality controls used in manufacturing. Compliance with applicable regulatory requirements is monitored through periodic inspections by the FDA Office of Regulatory Affairs (ORA). We anticipate both announced and unannounced inspections by the FDA. Such inspections could result in non-compliance reports (Form 483) which, if not adequately responded to, could lead to enforcement actions. The FDA can institute a wide variety of enforcement actions ranging from public warning letters to more severe sanctions such as fines; injunctions; civil penalties; recall of our product; operating restrictions; suspension of production; non-approval or withdrawal of pre-market clearances for new products or existing products and criminal prosecution. There can be no assurance that we will not incur significant costs to comply with these regulations in the future or that the regulations will not have a material adverse effect on our business, financial condition and results of operations.

In addition to the ACA, various healthcare reform proposals have also emerged at the state level. Like the ACA, these proposals could reduce medical procedure volumes and impact the demand for our product or the prices at which we sell our product. The impact of these proposals could have a material adverse effect on our business and/or consolidated results of operations and financial condition.

Any cuts to Medicare reimbursement which affect our product could have a material adverse effect on our business and/or our consolidated results of operations and financial condition.

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The marketing of our product in foreign countries will, in general, be regulated by foreign governmental agencies similar to the FDA. Foreign regulatory requirements vary from country to country. The time and cost required to obtain regulatory approvals could be longer than that required for FDA clearance in the United States and the requirements for licensing a product in another country may differ significantly from FDA requirements. We will rely, in part, on foreign distributors to assist us in complying with foreign regulatory requirements. We may not be able to obtain these approvals without incurring significant expenses or at all, and the failure to obtain these approvals would prevent us from selling our product in the applicable countries. This could limit our sales and growth.

*Quality Problems With Our Product Could Harm Our Reputation For Producing A High-Quality Product And Erode Our Competitive Advantage, Sales, And Market Share.* Quality is extremely important to us and our customers due to the serious and costly consequences of product failure, which can include patient harm. Our operating results depend in part on our ability to sustain an effective quality control system and effectively train and manage our employee base with respect to our quality system. Our quality system plays an essential role in determining and meeting customer requirements, preventing defects and improving our product. While we have a network of quality systems throughout our business lines and facilities, quality and safety issues may occur with respect to any of our product formats. A quality or safety issue may result in a public warning letter from the FDA, product recalls or seizures, monetary sanctions, injunctions to halt manufacturing and distribution of products, civil or criminal sanctions, refusal of a government to grant clearances or approvals or delays in granting such clearances or approvals, import detentions of any future products made outside the United States, restrictions on operations or withdrawal or suspension of existing approvals. Negative publicity regarding a quality issue could damage our reputation, cause us to lose customers, or decrease demand for our product and product formats. Any of the foregoing events could disrupt our business and have an adverse effect on our results of operations and financial condition.

*Our Business Exposes Us To Product Liability Claims.* Our design, testing, development, manufacture, and marketing of our product involve an inherent risk of exposure to product liability claims and related adverse publicity. Our brachytherapy seed product delivers a highly concentrated and confined dose of radiation directly to the organ in which it is implanted from within the patient's body. Surrounding tissues and organs are typically spared excessive radiation exposure. It is an inherent risk of the industries in which we operate that we might be sued in a situation where our product results in, or is alleged to result in, a personal injury to a patient, health care provider, or other user. Although we believe that as of the date of this Annual Report, we have adequate insurance to address anticipated potential liabilities associated with product liability, any unforeseen product liability exposure in excess of, or outside the scope of, such insurance coverage could adversely affect our financial condition and operating results. Any such claim brought against us, with or without merit, could result in significant damage to our business. Insurance coverage is expensive and difficult to obtain, and, although we currently have a five million dollar policy, in the future we may be unable to obtain or renew coverage on acceptable terms, if at all. If we are unable to obtain or renew sufficient insurance at an acceptable cost or if a successful product liability claim is made against us, whether fully covered by insurance or not, our business could be harmed. The FDA's medical device reporting regulations require us to report any incident in which our product may have caused or contributed to a death or serious injury, or in which our product malfunctioned in a way that would be likely to cause or contribute to a death or serious injury if the malfunction reoccurred. Any required filing could result in an investigation of our product and possibly subsequent regulatory action against us if it is found that one of our products caused the death or serious injury of a patient.

*Our Business Involves Environmental Risks.* Our business involves the controlled use of hazardous materials, chemicals, biologics, and radioactive compounds. Manufacturing is extremely susceptible to product loss due to radioactive, microbial, or viral contamination; material or equipment failure; vendor or operator error; or due to the very nature of the product's short half-life. Although we believe that our safety procedures for handling and disposing of such materials comply with state and federal standards, there will always be the risk of accidental contamination or injury. In addition, radioactive, microbial, or viral contamination may cause the closure of the manufacturing facility for an extended period of time. By law, radioactive materials may only be disposed of at state-approved facilities. At our leased facility we use commercial disposal contractors. Subject to obtaining financing, we are in the planning process of shutting down our leased manufacturing and office facility, planning the construction of a new manufacturing and office facility to be owned by the Company on an adjacent property and moving to the new manufacturing facility. Assuming it is constructed and licensed, we will incur costs related to the clean-up and disposal of hazardous materials, chemicals and radioactive components of the leased facility. While management believes it has reserved a sufficient amount of funds for this process, the Company may need more than the amount of the asset retirement obligation to meet the lease requirements and to receive clearance from the Washington State Department of Health. We may incur substantial costs related to the disposal of these materials. If we were to become liable for an accident, or if we were to suffer an extended facility shutdown, we could incur significant costs, damages, and penalties that could harm our business.

In addition, certain environmental laws assess liability on current or previous owners or operators of real property for the costs of investigation, removal or remediation of hazardous substances or materials at their properties or at properties which they have disposed of hazardous substances. Liability for investigative, removal and remedial costs under certain U.S. federal and state laws are retroactive, strict and joint and several. In addition to cleanup actions brought by governmental authorities, private parties could bring personal injury or other claims due to the presence of, or exposure to, hazardous substances. The ultimate cost of site cleanup and timing of future cash outflows is difficult to predict, given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods.

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*We Rely Upon Key Personnel.* Our success will depend, to a great extent, upon the experience, abilities and continued services of our executive officers, sales staff and key scientific personnel. If we lose the services of several officers, sales personnel, or key scientific personnel, our business could be harmed. Our success also will depend upon our ability to attract and retain other highly qualified scientific, managerial, sales, and manufacturing personnel and their ability to develop and maintain relationships with key individuals in the industry. Competition for these personnel and relationships is intense and we compete with numerous pharmaceutical and biotechnology companies as well as with universities and non-profit research organizations. We are highly dependent on our direct sales organization who promote and support our brachytherapy product. There is intense competition for skilled sales and marketing employees, particularly for people who have experience in the radiation oncology market. Accordingly, we could find it difficult to hire or retain skilled individuals to sell our product. Failure to retain our direct sales force could adversely affect our growth and our ability to meet our revenue goals. There can be no assurance that our direct sales and marketing efforts will be successful. If we are not successful in our direct sales and marketing, our sales revenue and results of operations are likely to be materially adversely affected. We may not be able to continue to attract and retain qualified personnel.

*Our Ability To Operate In Foreign Markets Is Uncertain.* Our future growth will depend in part on our ability and the ability of our distributors to establish, grow and maintain product sales in foreign markets, particularly in Russia and the European Union (EU). However, we have limited experience in marketing and distributing our product in other countries. Foreign operations subject us to additional risks and uncertainties, including our customers' ability to obtain reimbursement for procedures using our product in foreign markets; the burden of complying with complex and changing foreign regulatory requirements; time-sensitive delivery requirements due to the short half-life of our product; language barriers and other difficulties in providing long-distance customer service; potentially increased time to collect accounts receivable; significant currency fluctuations, which could cause third-party distributors to reduce the amount of our product they purchase from us because the cost of our product to them could fluctuate relative to the price they can charge their customers; reduced protection of intellectual property rights in some foreign countries; and the possibility that contractual provisions governed by foreign laws would be interpreted differently than intended in the event of a contract dispute. In addition, the significant appreciation of the U.S. dollar during the past year has made our product much more expensive in overseas markets. Any future foreign sales of our product could also be adversely affected by export license requirements, the imposition of governmental controls, political and economic instability, trade restrictions, changes in tariffs, and difficulties in staffing and managing foreign operations. Many of these factors may also affect our ability to import Cesium-131 from Russia under our contract with JSC INM. Sanctions placed on financial transactions with Russian banking institutions may interfere with the Company's ability to transact business in Russia on a temporary or other basis resulting in an interruption of the Cesium-131 supply which could have a temporary material adverse effect on the Company's business, operating results and financial condition.

*Our Ability To Expand Operations And Manage Growth Is Uncertain.* Our efforts to expand our operations will result in new and increased responsibilities for management personnel and will place a strain upon the entire company. To compete effectively and to accommodate growth, if any, we may be required to continue to implement and to improve our management, manufacturing, sales and marketing, operating and financial systems, procedures and controls on a timely basis and to expand, train, motivate and manage our employees. There can be no assurance that our personnel, systems, procedures, and controls will be adequate to support our future operations. If the Cesium-131 seed were to rapidly become the "seed of choice," it is unlikely that we could immediately meet demand. This could cause customer discontent and invite competition. There can be no assurance that our personnel, systems, procedures, and controls



will be adequate to immediately react to that growth.

*We Rely On The Performance Of Our Information Technology Systems And Those of Third Parties, The Failure Of Which Could Have An Adverse Effect On Our Business And Performance.* Our business requires the continued operation of sophisticated information technology systems and network infrastructure. These systems are vulnerable to interruption by fire, power loss, system malfunction, computer viruses, cyber-attacks and other events, which may be beyond our control. Systems interruptions could reduce our ability to accept customer orders, manufacture our product, or provide service for our customers, and could have an adverse effect on our operations and financial performance. The level of protection and disaster-recovery capability varies from site to site, and there can be no guarantee that any such plans, to the extent they are in place, will be totally effective. In addition, security breaches of our information technology systems could result in the misappropriation or unauthorized disclosure of confidential information belonging to us, our employees, partners, customers, or our suppliers, which may result in significant costs and potential government sanctions. In particular, if we are unable to adequately safeguard individually identifiable health information, we may be subject to additional liability under domestic and international laws respecting the privacy and security of health information.

We also rely on third party vendors to supply and/or support certain aspects of our information technology systems. Third party systems may contain defects in design or manufacture or other problems that could result in system disruption or unexpectedly compromise the information security of our own systems, and we are dependent on these third parties to provide reliable systems and software and to deploy appropriate security programs to protect their systems.

If we are unable to maintain reliable information technology systems and prevent disruptions, outages, or data breaches, we may suffer regulatory consequences in addition to business consequences. We have programs to ensure compliance with such laws and regulations. However, there is no guarantee that we will avoid enforcement actions by governmental bodies. Enforcement actions may be costly and interrupt regular operations of our business. In addition, there has been a developing trend of civil lawsuits and class actions relating to breaches of consumer data held by large companies or incidents arising from other cyberattacks.

Our information technology systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving legal and regulatory standards, the increasing need to protect patient and customer information, and the information technology needs associated with our changing products and services. There can be no assurance that our process of consolidating, protecting, upgrading and expanding our systems and capabilities, continuing to build security into the design of our products, and developing new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future. Any significant breakdown, intrusion, interruption, corruption, or destruction of these systems, as well as any data breaches, could have a material adverse effect on our business. If our information technology systems, products or services or sensitive data are compromised, patients or employees could be exposed to financial or medical identity theft, and we could lose existing customers, have difficulty attracting new customers, have difficulty preventing, detecting, and controlling fraud, be exposed to the loss or misuse of confidential information, have disputes with customers, physicians, and other health care professionals, suffer regulatory sanctions or penalties under federal laws, state laws, or the laws of other jurisdictions, experience increases in operating expenses or an impairment in our

ability to conduct our operations, incur expenses or lose revenues as a result of a data privacy breach, product failure, information technology outages or disruptions, or suffer other adverse consequences including lawsuits or other legal action and damage to our reputation.

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*Fluctuations In Insurance Cost And Availability Could Adversely Affect Our Profitability Or Our Risk Management Profile.* We hold a number of insurance policies, including product liability insurance, directors' and officers' liability insurance, and workers' compensation insurance. If the costs of maintaining adequate insurance coverage increase significantly in the future, our operating results could be materially adversely affected. Likewise, if any of our current insurance coverage should become unavailable to us or become economically impractical, we would be required to operate our business without indemnity from commercial insurance providers. If we operate our business without insurance, we could be responsible for paying claims or judgments against us that would have otherwise been covered by insurance, which could adversely affect our results of operations or financial condition.

*We Have Incurred Significant Losses To Date, And There Is No Guarantee That We Will Ever Become Profitable.* We incurred net losses of \$6,658,821 and \$6,161,798 in the fiscal years ended 2018 and 2017, respectively. In addition, we have accumulated deficit from the inception of business through June 30, 2018 of \$79,262,913. The costs for research and product development of our product formats along with marketing and selling expenses and general and administrative expenses have been the principal causes of our losses. We may not ever become profitable.

*Risks Related to Our Stock and Reporting Requirements*

*Our Reporting Obligations As A Public Company Are Costly.* Reporting requirements of a public company change depending on the reporting classification in which the Company falls as of the end of its second quarter of each fiscal year. The Company is currently a "smaller reporting company" which falls in the non-accelerated filer category of filer with a public float less than \$250 million. We will remain a smaller reporting company for so long as the market value of the Company's common stock held by non-affiliates as of the end of its most recently completed second fiscal quarter is less than \$250 million. Even if we remain a smaller reporting company, if our public float exceeds \$75 million, we will become subject to the provisions of Section 404(b) of the Sarbanes-Oxley Act, making the public reporting process more costly.

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*Our Stock Price Is Likely To Be Volatile.* The market price of our common stock has experienced fluctuations and is likely to fluctuate significantly in the future. For example, during fiscal 2018 the closing price of one share of our common stock reached a high of \$0.62 and a low of \$0.39. There is generally significant volatility in the market prices and limited liquidity of securities of early stage companies, and particularly of early stage medical product companies. Contributing to this volatility are various events that can affect our stock price in a positive or negative manner. These events include, but are not limited to: governmental approvals or refusals to approve of regulations or actions; market acceptance and sales growth of our product; litigation involving the Company or our industry; developments or disputes concerning our patents or other proprietary rights; changes in the structure of healthcare payment systems; departure of key personnel; future sales of our securities; fluctuations in our financial results or those of companies that are perceived to be similar to us; swings in seasonal demands of purchasers; investors' general perception of us; and general economic, industry and market conditions. In addition, the securities of many medical device companies, including us, have historically been subject to extensive price and volume fluctuations that may affect the market price of their common stock. If any of these events occur, it could cause our stock price to fall.

*The Price Of Our Common Stock May Be Adversely Affected By The Future Issuance And Sale Of Shares Of Our Common Stock Or Other Equity Securities.* We cannot predict the size of future issuances or sales of our common stock or other equity securities for future acquisitions or capital raising activities, or the effect, if any, that such issuances or sales may have on the market price of our common stock. The issuance and sale of substantial amounts of common stock or other equity securities or announcement that such issuances and sales may occur, could adversely affect the market price of our common stock.

*We Do Not Expect To Pay Any Dividends For The Foreseeable Future.* We do not anticipate paying any dividends to our shareholders for the foreseeable future except for dividends on the Series B Preferred Stock, which we intend to pay on or before December 31, 2018. Shareholders must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Any determination to pay dividends in the future will be made at the discretion of our Board of Directors and will depend on our results of operations, financial conditions, contractual restrictions, restrictions imposed by applicable laws and other factors that our Board deems relevant.

*Certain Provisions of Minnesota Law and Our Charter Documents Have An Anti-Takeover Effect.* There exist certain mechanisms under Minnesota law and our charter documents that may delay, defer or prevent a change of control. Anti-takeover provisions of our articles of incorporation, bylaws and Minnesota law could diminish the opportunity for shareholders to participate in acquisition proposals at a price above the then-current market price of our common stock. For example, while we have no present plans to issue any preferred stock, our Board of Directors, without further shareholder approval, may issue shares of undesignated preferred stock and fix the powers, preferences, rights and limitations of such class or series, which could adversely affect the voting power of the common shares. In addition, our bylaws provide for an advance notice procedure for nomination of candidates to our Board of Directors that could have the effect of delaying, deterring or preventing a change in control. Further, as a Minnesota corporation, we are subject to provisions of the Minnesota Business Corporation Act (MBCA) regarding "business combinations," which can deter attempted takeovers in certain situations. Pursuant to the terms of a shareholder rights plan adopted in February 2007 and renewed in February 2017, each outstanding share of common stock has one attached right. The rights will cause substantial dilution of the ownership of a person or group that attempts to acquire the Company on

terms not approved by the Board of Directors and may have the effect of deterring hostile takeover attempts. The effect of these anti-takeover provisions may be to deter business combination transactions not approved by our Board of Directors, including acquisitions that may offer a premium over the market price to some or all shareholders. We may, in the future, consider adopting additional anti-takeover measures. The authority of our Board to issue undesignated preferred or other capital stock and the anti-takeover provisions of the MBCA, as well as other current and any future anti-takeover measures adopted by us, may, in certain circumstances, delay, deter or prevent takeover attempts and other changes in control of the Company not approved by our Board of Directors.

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**ITEM 1B – UNRESOLVED STAFF COMMENTS**

We have no unresolved written comments from the SEC staff regarding our filings under the Exchange Act.

**ITEM 2 – PROPERTIES**

The Company's executive offices are located at 350 Hills Street, Suite 106, Richland, WA 99354, where it leases approximately 15,300 square feet of office and laboratory space for approximately \$23,700 per month plus janitorial expenses of approximately \$440 per month from Energy Northwest, the owner of the Applied Process Engineering Laboratory (the APEL facility). The Company is not affiliated with this lessor. The monthly rent is subject to annual increases based on the Consumer Price Index. The current lease was entered into May 2, 2007, and, as extended, expires on April 30, 2021.

The Company executed a modification to the existing lease in October 2015 that stipulates the tenant improvements, machinery, equipment and fixtures (TIs) are permitted to be abandoned at lease termination provided the facility is released by the Washington Department of Health. The modification also reduces the required notice to terminate early from twelve months to six months. Subject to obtaining acceptable debt financing, this lease modification provides the flexibility to consider in the future a newly designed production facility on adjacent property described below which management believes will reduce operational cashflow requirements and provide for long-term security of production capabilities for the Company.

In the spring of 2017, the Company purchased an adjacent property of approximately 4.2 acres in anticipation of constructing a facility to meet its requirements for production, laboratory, and administrative offices. The new facility is anticipated to be a similar size to the current facility but the final design is dependent on anticipated future requirements. The property also provides for additional future building(s) as needed or subdivision, if required and is located within the Technology and Business Campus of the Port of Benton. While the Company has completed the design of the facility as of the date of this Report, the construction of the facility is subject to acceptable financing and other unanticipated factors which may influence such an operational decision.

The Company's management believes that the facilities currently occupied by the Company are adequate for present requirements, and that the Company's current equipment is in good condition and is suitable for the operations involved.

**ITEM 3 – LEGAL PROCEEDINGS**

Nothing to disclose.

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**ITEM 4 –MINE SAFETY DISCLOSURES**

Not applicable

**PART II**

**ITEM 5 – MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information**

The Company’s common stock is listed on the NYSE American under the symbol “ISR” and as of September 24, 2018 there were 67,331,147 shares outstanding.

The high and low sale prices as reported on the NYSE American for each quarter during the last two fiscal years are as follows:

| <b>Fiscal 2018</b> | <b>Q1</b> | <b>Q2</b> | <b>Q3</b> | <b>Q4</b> |
|--------------------|-----------|-----------|-----------|-----------|
| High               | \$0.62    | \$0.55    | \$0.49    | \$0.55    |
| Low                | \$0.51    | \$0.39    | \$0.40    | \$0.39    |

| <b>Fiscal 2017</b> | <b>Q1</b> | <b>Q2</b> | <b>Q3</b> | <b>Q4</b> |
|--------------------|-----------|-----------|-----------|-----------|
| High               | \$0.87    | \$0.72    | \$0.69    | \$0.63    |
| Low                | \$0.70    | \$0.54    | \$0.52    | \$0.51    |

**Holders**

As of September 24, 2018, there were approximately 230 common stockholders of record. The number of common stockholders was determined from the records of our stock transfer agent and does not reflect persons or entities that hold their shares in nominee or “street” name through various brokerage firms.



## **Dividends**

The Company has never paid cash dividends on its common stock and does not plan to pay cash dividends on its common stock in the foreseeable future. Our Board of Directors anticipates that any earnings that might be available to pay dividends will be retained to finance operations.

Table of Contents**Securities Authorized for Issuance Under Equity Compensation Plans**

On June 15, 2017, the Shareholders approved the 2017 Equity Incentive Plan (2017 Incentive Plan). The 2017 Incentive Plan allows the Board of Directors to grant up to 4,000,000 shares of common stock to directors, officers, employees and consultants in a combination of equity incentive forms including incentive stock options (ISO), non-qualified stock options (NQSO), stock appreciation rights (SAR) or restricted shares (RSU) of common stock. Options granted under all of the Plans have a ten year maximum term, an exercise price equal to at least the fair market value of the Company's common stock (based on the trading price on the NYSE American) on the date of the grant, and varying vesting periods as determined by the Board.

As of June 30, 2018 the following options had been granted under the 2017 Incentive Plan and under prior stock option plans that have now expired, but continue to have certain options outstanding.

| <b>Plan Category</b>                                   | <b>Number of securities to be issued on exercise of outstanding options, warrants, and rights (a)</b> | <b>Weighted-average exercise price of outstanding options, warrants, and rights (b)</b> | <b>Number of securities remaining available for future issuance under equity compensation Plans (excluding securities in columns (a) and (b))</b> |
|--|---|---|---|
| Equity compensation plans approved by shareholders     | 2,695,315   | \$ 0.55   | 1,221,875   |
| Equity compensation plans not approved by shareholders | 1,064,525   | \$ 1.05   | -   |
| <b>Total</b>   | <b>3,759,840</b>  | <b>\$ 0.69</b>  | <b>1,221,875</b>  |

**Performance Graph**

As a smaller reporting company, the Company is not required to provide a performance graph.

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Sales of Unregistered Securities

On October 3, 2017, the Company issued warrants to purchase 250,000 shares of common stock to Al & J Media Inc. (“Al & J”) in accordance with a Media Advertising Agreement entered into by Al & J and the Company, which vested immediately, entitling Al & J to purchase shares of Company common stock, exercisable on or before October 3, 2020, at an exercise price of \$0.54 per share. The warrants were issued as partial consideration for Al & J’s services under the Media Advertising Agreement, which was subsequently terminated by the Company. Al & J’s services included introducing the Company to potential sources of media, marketing agreements, and/or strategic alliances. The warrants were issued in reliance on Section 4(a)(2) of the Securities Act. This exemption was available due to Al & J being a sophisticated party and the limited nature of the issuance.

On May 20, 2018, the Company issued warrants to purchase 250,000 shares of common stock to World Wide Holdings, LLC DBA Invictus Resources (“Invictus”) in accordance with a Master Service Agreement entered into by Invictus and the Company, which vested immediately, entitling Invictus to purchase shares of Company common stock, exercisable on or before May 20, 2020, at an exercise price of \$0.01 per share. The warrants were issued as partial consideration for Invictus’ services under the Master Service Agreement. Invictus’ services included advising and assisting the Company in developing and implementing plans and materials for presenting the Company and its business to the general public. This contract was terminated on July 9, 2018 but the warrants vested immediately. The warrants were exercised in June 2018. The warrants and underlying shares were issued in reliance on Section 4(a)(2) of the Securities Act. This exemption was available due to Invictus being a sophisticated party and the limited nature of the issuance.

Issuer Purchases of Equity Securities

None.

**ITEM 6 – SELECTED FINANCIAL DATA**

As a smaller reporting company, the Company is not required to provide Item 6 disclosure in this Annual Report.

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**ITEM 7 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Critical Accounting Policies and Estimates**

Management’s discussion and analysis of the Company’s financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent liabilities. On an on-going basis, management evaluates past estimates and judgments, including those related to bad debts, inventories, accrued liabilities, derivative liabilities, and contingencies. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

**Revenue Recognition**

Revenue is generally realized or realizable and earned when there is persuasive evidence an arrangement exists, delivery has occurred or services rendered, the price is fixed and determinable, and collection is reasonably assured. The Company records revenue from its product sales when the price is fixed and determinable at the date of sale, title and risk of ownership have been transferred to the customer, and returns can be reasonably estimated.

**Stock-Based Compensation**

The Company measures and recognizes expense for all share-based payments at fair value. The Company uses the Black-Scholes option valuation model to estimate fair value for all stock options on the date of grant. For stock options that vest over time, the Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award.

Research and Development Costs

Research and development costs, including salaries, benefits, and share-based compensation, research materials, facility overhead, lab supplies, depreciation, administrative expenses and contractor fees, are charged to operations as incurred.

Legal Contingencies

The Company may, in the ordinary course of business, be involved in legal proceedings involving securities, contractual and employment relationships, product liability claims, patent rights, environmental matters, and a variety of other matters, the outcomes of which are not within the Company's complete control and may not be known for extended periods of time. Legal costs associated with defending these matters are expensed as incurred.

The Company records a liability in its consolidated financial statements for damages and/or costs related to claims, settlements, and judgments where the Company has assessed that the loss is probable and an amount can be reasonably estimated.

Table of Contents**Results of Operations**Financial presentation

The following sets forth a discussion and analysis of the Company's financial condition and results of operations for the fiscal years 2018, 2017 and 2016. This discussion and analysis should be read in conjunction with our consolidated financial statements appearing elsewhere in this Report. The following discussion contains forward-looking statements. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Item 1A — Risk Factors," beginning on page 24 of this Report. (In thousands)

|  | <b>2018</b> | <b>% of<br/>Rev</b> | <b>2017</b> | <b>% of<br/>Rev</b> | <b>% of<br/>Change</b> | <b>2016</b> | <b>% of<br/>Rev</b> | <b>% of<br/>Change</b> |  |  |  |
|--|-------------|---------------------|-------------|---------------------|------------------------|-------------|---------------------|------------------------|--|--|--|
| Product sales, net   | \$5,923     | 100 %               | \$4,761     | 100 %               | 24 %                   | \$4,769     | 100 %               | 0 %                    |  |  |  |
| Cost of Product sales                                      | 4,081       | 69 %                | 3,923       | 82 %                | 4 %                    | 4,640       | 97 %                | -15 %                  |  |  |  |
| Gross profit (loss)  | 1,842       | 31 %                | 838         | 18 %                | 120 %                  | 129         | 3 %                 | 550 %                  |  |  |  |
| Operating expenses:  |             |                     |             |                     |                        |             |                     |                        |  |  |  |
| Research and development                                   | 1,351       | 23 %                | 771         | 16 %                | 75 %                   | 528         | 11 %                | 46 %                   |  |  |  |
| Collaboration arrangement, net of reimbursement            | 395         | 7 %                 | 194         | 4 %                 | 104 %                  | -           |                     |                        |  |  |  |
| Sales and marketing  | 2,660       | 45 %                | 2,310       | 49 %                | 15 %                   | 1,353       | 23 %                | 71 %                   |  |  |  |
| General and administrative                                 | 4,165       | 70 %                | 3,918       | 82 %                | 6 %                    | 3,786       | 79 %                | 4 %                    |  |  |  |
| Change in estimate of asset retirement obligation (Note 9) | -           | - %                 | (48 )       | -1 %                |                        | (456 )      | -10 %               |                        |  |  |  |
| Total operating expenses                                   | 8,571       | 145 %               | 7,145       | 150 %               | 20 %                   | 5,211       | 109 %               | 37 %                   |  |  |  |
| Operating loss   | (6,729)     | -114 %              | (6,307)     | -132 %              | 6 %                    | (5,082)     | -107 %              | 24 %                   |  |  |  |

Product sales

Fiscal 2018 product sales, net increased 24% compared to fiscal 2017. Changes in sales personnel and implementation of a revitalized sales and marketing strategy has resulted in positive sales growth in fiscal 2018 when compared to the prior fiscal year. Ongoing training and support of new sales personnel has led to not only new accounts but also reconnecting with and receiving orders from prior accounts.

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Fiscal 2017 product sales, net remained flat compared to fiscal 2016. Flat sales in fiscal 2017 are attributed to the transition in our sales and marketing team during the second half of fiscal 2016 and continuing into early fiscal 2017 as well as revamping our entire marketing strategy with a renewed focus on marketing.

| <b>Treatment</b>       | <b>2018</b> | <b>%<br/>of<br/>Rev</b> | <b>2017</b> | <b>%<br/>of<br/>Rev</b> | <b>% of<br/>Change</b> | <b>2016</b> | <b>%<br/>of<br/>Rev</b> | <b>% of<br/>Change</b> |
|------------------------|-------------|-------------------------|-------------|-------------------------|------------------------|-------------|-------------------------|------------------------|
| Prostate Brachytherapy | \$5,097     | 86 %                    | \$4,173     | 88 %                    | 22                     | \$4,094     | 86 %                    | 2 %                    |
| Other Brachytherapy    | 826         | 14 %                    | 588         | 12 %                    | 41                     | 658         | 14 %                    | -11 %                  |
| GliaSite® RTS          | -           | 0 %                     | -           | 0 %                     | 0                      | 17          | 0 %                     | -100 %                 |
|                        | \$5,923     |                         | \$4,761     |                         | 24                     | \$4,769     |                         | 0 %                    |

*Prostate Brachytherapy.*

Prostate sales growth of approximately 22% in fiscal 2018 was achieved due to ongoing training and support of new sales personnel. Also, website improvements and significant investments in product support literature, social media and public relations are increasing the awareness of the Company in the prostate brachytherapy treatment markets providing the Company opportunities to develop new customers and reconnect with past customers.

Management believes continued growth in prostate brachytherapy revenues will be the result of physicians, payors, and patients increasingly considering overall treatment advantages including costs compared with non-brachytherapy treatments, better treatment outcomes and improvement in the quality of life for patients but there is no assurance as to the timing of a recovery in use of brachytherapy as a whole.

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Management believes increased pressure to deliver effective healthcare in both terms of outcome and cost drove treatment options in fiscal 2018 with prostate brachytherapy receiving more consideration than in previous years.

*Other Brachytherapy.*

Other brachytherapy includes but is not limited to brain, lung, head/neck, gynecological, and pelvic treatments. Other brachytherapy treatments experienced sales increase of 41% in fiscal 2018 primarily related to an increase in revenue from brain and pelvic cancers due to increased interest from clinicians. Initial applications for these other brachytherapy treatments are primarily used in recurrent cancer treatments or salvage cases that are generally difficult to treat aggressive cancers where other treatment options are either ineffective or unavailable.

Other brachytherapy treatments are subject to the influence of a small pool of innovative physicians who are the early adopters of the technology who also tend to be faculty at teaching hospitals training the next generation of physicians. This causes the revenue created by these types of treatment applications to be more volatile and varies significantly from year to year. Additionally, with other brachytherapy surgical procedures there remains inconsistency and uncertainty regarding reimbursement for the procedures. This unreliable reimbursement for these new procedures will remain until specific coding and coverage policies are established, which could take years. Individual centers weigh the value of the procedure with their other treatment priorities on a patient by patient basis. IsoRay believes that additional clinical data will begin to build a compelling argument to support reimbursement and increased adoption of the procedures; however, any growth will be inconsistent in the near term.

*GammaTile™*

For several years the Company has focused on many different applications of its Cesium-131 brachytherapy seeds in the cranial cavity to target many forms of brain cancer. In 2011, the Company purchased certain intellectual property rights to the GliaSite™ RTS, a proprietary brain delivery system for brachytherapy seeds. In March 2016 it discontinued sale and distribution of the GliaSite™ RTS system. With this discontinuation, the Company then focused on using braided strand configurations and on a potential collaboration with GammaTile, LLC, now known as “GT Medical Technologies, Inc”, which has a technology which use biodegradable “tiles” to deliver the Cesium-131 brachytherapy seeds into contact with cancerous tumors in the brain. The Company has a manufacture and supply agreement to exclusively manufacture and supply the GammaTile™ product for end users designated by GT Med Tech. Additionally, Medical will supply loose or braided Cesium-131 seeds for brachytherapy brain cancer treatment to GT Med Tech on a non-exclusive basis.

On July 6, 2018, the Company received clearance for its 510(k) application required to commercialize the GammaTile™ system. The Company continues to work with GT Med Tech in preparation of a commercial launch of GammaTile™ by



GT Med Tech, who is the sole commercial agent of the GammaTile™ Therapy.

#### Cost of product sales

Cost of product sales consisted primarily of the costs of manufacturing and distributing the Company's products. The fiscal 2018 increase over fiscal 2017 is primarily the result of increased isotope orders to meet production demand due to improved sales. These cost increases were partially offset by decreases to payroll, benefits, and share-based compensation resulting from a reduction in the number of full time employees as well as a re-allocation of resources to assist in research and development activities.

The fiscal 2017 decrease from fiscal 2016 is primarily the result of reduction in the number of full time employees as well as a re-allocation of resources to assist in research and development activities.

During both fiscal 2017 and 2018, the Company purchased isotope in excess of known customer orders to provide enough isotope to fill anticipated orders which may or may not materialize. The excess isotope is utilized in the production of upcoming orders where possible considering the decay rates of Cesium-131. Any loss of isotope to decay is also included as a cost of production during the current period.

#### Research and development expenses

Research and development consisted primarily of the costs related to employee and third-party research and development activities. Contributing to the fiscal 2018 increase were re-allocating resources from cost of product sales to assist with research and development projects, payroll, benefits, and share-based compensation expense, costs associated with the development of Blu-Build™ delivery system for real-time prostate brachytherapy, protocol expense, as well as an increase related to the collaborative agreement with GT Med Tech. The fiscal 2017 increase was caused by re-allocating resources from cost of product sales to assist with research and development projects, an increase in share-based compensation expense, as well as an increase related to the collaborative agreement with GT Med Tech.

#### Sales and marketing expenses

Sales and marketing expenses consist primarily of the costs related to the internal and external activities of the Company's sales, marketing and customer service division. The fiscal 2018 increase is primarily due to increased payroll, benefits, and share-based compensation and travel for sales activities. The fiscal 2017 increase relates to management's focus on expanding the marketing message, and changes to the branding message coupled with hiring to fill key positions.



Table of ContentsGeneral and administrative expenses

General and administrative expenses consist primarily of the costs related to the executive, quality assurance and regulatory affairs (QA/RA), finance, human resources and information technology functions of the Company. The fiscal 2018 increase is due primarily to investor relations expenses, severance, and payroll, benefits, and share-based compensation partially offset by decreased legal fees. Fiscal 2017 increased primarily due to a full year of expense for filling positions in QA/RA and HR and were offset by non-recurring legal fees related to securities litigation and discontinuation of the GliaSite® RTS product in fiscal 2016.

Gross Profit and Net Loss

Revenue for the full year ended June 30, 2018 increased 24% to \$5.92 million compared to \$4.76 million for the prior year. Gross profit as a percentage of revenues was 31.1% for the fiscal year ended June 30, 2018 compared to 17.6% during the same period last year. The improvement was driven by leveraging the manufacturing facility, personnel, and better utilization of the isotope. The Company had a net loss of \$6.70 million for the fiscal year ended June 30, 2018. This compares to a net loss of \$6.16 million in fiscal year 2017.

Liquidity and capital resources

The Company assesses its liquidity in terms of its ability to generate cash to fund its operating, investing and financing activities. The Company has historically financed its operations through selling equity to investors. During fiscal 2018, 2017, and 2016 the Company used existing cash reserves from prior capital raises to fund its operations and capital expenditures.

Our cash flows for fiscal 2018, 2017, and 2016 respectively, are summarized as follows (in thousands):

|   | <b>For the years ended June<br/>30,</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2018</b>                             | <b>2017</b> | <b>2016</b> |
| Net cash used by operating activities                 | \$(5,712)                               | \$(5,712)   | \$(3,884)   |
| Net cash provided by investing activities             | 1,859                                   | 1,514       | 8,757       |
| Net cash provided by financing activities             | 521                                     | (9)         | 39          |
| Net increase (decreases) in cash and cash equivalents | \$(3,332)                               | \$(4,207)   | \$4,912     |

**As of June 30,**  
**2018    2017    2016**

|                 |         |         |          |
|-----------------|---------|---------|----------|
| Working Capital | \$3,611 | \$9,185 | \$12,536 |
| Current Ratio   | 2.97    | 9.30    | 12.47    |

Cash flows from operating activities

Net cash used by operating activities in fiscal 2018 was primarily due to a net loss of \$6.70 million net of approximately \$767,000 in adjustments for non-cash activity such as depreciation and amortization expense, the accretion of asset retirement obligation, and share-based compensation. Changes in operating assets and liabilities contributed approximately \$221,000 in the cash used by operating activities.

Net cash used by operating activities in fiscal 2017 was primarily due to a net loss of \$6.16 million net of approximately \$433,000 in adjustments for non-cash activity such as depreciation and amortization expense, the change in estimate of asset retirement obligation, the change in fair value of the warrant derivative liability, and share-based compensation. Changes in operating assets and liabilities contributed approximately \$17,000 in the cash used by operating activities.

Also included in operating activities in fiscal 2017 is the one-time payment of \$195,000 for settlement of litigation that was not covered by insurance.

Net cash used by operating activities in fiscal 2016 was primarily due to a net loss of \$4.71 million net of approximately \$426,000 in adjustments for non-cash activity such as depreciation and amortization expense, the change in estimate of asset retirement obligation, the change in fair value of the warrant derivative liability, share-based compensation and a write-off of inventory associated with GliaSite® RTS. Changes in operating assets and liabilities contributed approximately \$401,000 to the cash provided by operating activities.

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Cash flows from investing activities

Investing activities for all years are presented by primary transaction category. Investing activities consisted of transactions related to the purchase of fixed assets as well as the purchase and subsequent maturity of certificates of deposit. Management will continue to invest in technology and machinery that improves and streamlines production processes and to invest and reinvest maturing certificates of deposit in low-risk investment opportunities that safeguard assets and provide greater assurance those resources will be liquid and available for business needs as they arise.

Included in investing activities in fiscal 2017 is a payment of \$197,900 for the default of the development plan for the land purchased from the Port of Benton. See Property Transaction between Medical and The Port of Benton of Note 15 to the consolidated financial statements contained in this Form 10-K.

Cash flows from financing activities

Financing activities for all years are presented by primary transaction category. Financing activities in fiscal 2018, 2017 and 2016 were primarily due to sales of common stock through an at the market offering, net, and warrant and option exercises net of preferred dividends paid. Financing activities were significantly increased in fiscal 2018 compared to 2017 and 2016 due to the at the market offering, net.

Projected 2019 Liquidity and Capital Resources

*Operating activities*

Management forecasts that fiscal 2019 cash requirements will be similar to previous years and that current cash and cash equivalents along with certificates of deposit (current and non-current) will be sufficient to meet projected operating cash needs for several years. While monthly operating expenses are budgeted to increase for sales and marketing and decrease for general and administrative expenses, management believes the total monthly expense amount will not substantially change. Assuming no extraordinary expenses occur (whether operating or capital), if management is successful at implementing its strategy to focus on renewed emphasis to drive the consumer to the prostate market and meets or exceeds its growth targets of twenty percent increase in revenue in fiscal 2019 and this annual growth continues, the Company anticipates reaching cashflow break-even in three to five years. These assumptions do not incorporate any significant growth in the non-prostate application as they generate nominal revenues today but if they show significant improvement, cashflow break-even could occur sooner. There is no

assurance that the targeted sales growth will materialize but management is encouraged by the depth and experience of its restructured sales team.

*Capital expenditures*

Management has completed the design of a future production and administration facility. If the facility is constructed, it is believed that the new facility will have non-cash depreciation cost equal to or greater than the monthly rental cost of the current facility.

Management is reviewing all aspects of production operations (including process automation), research and development, sales and marketing, and general and administrative functions to evaluate the most efficient deployment of capital to ensure that the appropriate materials, systems, and personnel are available to support and drive product sales.

During fiscal 2018, the Company invested approximately \$248,000 in the automation of production processes, resulting in the completion of four pieces of equipment. Each have been received, tested and evaluated, and were placed in service in fiscal 2018. Beginning in fiscal 2017 and continuing through fiscal 2018, the Company has invested approximately \$549,000 in these automation projects and management is expecting to invest approximately \$310,000 more over the next 12 months on the remaining projects. This investment is designed to allow the Company to significantly increase the output of Cesium-131 brachytherapy seeds, while allowing the Company to decrease the labor costs related to seed production and also improving the overall safety of our operations.

*Financing activities*

There was no material change in the use of proceeds from our public offering as described in our final prospectus supplement filed with the SEC pursuant to Rule 424(b) on March 24, 2014. Through June 30, 2018, the Company had used the net proceeds raised through the March 2014 offering as described in the public offering. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates.

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On August 25, 2015, the Company filed a registration statement on Form S-3 to register securities up to \$20 million in value for future issuance in our capital raising activities. The registration statement became effective on November 23, 2015, and the SEC file number assigned to the registration statement is 333-206559.

On May 8, 2018, the Company entered into a Sales Agreement with H.C. Wainwright & Co., LLC (“Wainwright”). The common stock sold in the Sales Agreement was distributed at the market prices prevailing at the time of sale. As of June 30, 2018, the Company sold an aggregate of 980,918 shares under the Sales Agreement at an average price of approximately \$0.515 per common share for gross proceeds of approximately \$505,000, pursuant to the registration statement on Form S-3 that became effective on November 23, 2015. Net proceeds from this raise totaled approximately \$478,000. This offering was suspended on July 9, 2018.

On July 11, 2018, the Company sold 11,000,000 shares of its common stock at a price of \$0.75 per share, for aggregate gross proceeds of \$8.25 million, pursuant to the registration statement on Form S-3 that became effective on November 23, 2015. The Company intends to use the net proceeds from this offering, estimated at approximately \$7,600,000, for working capital and general corporate purposes, with particular focus on marketing the brain applications and Blu Build delivery system. Additionally, the Company issued to the purchasers unregistered warrants to purchase up to 5,500,000 shares of common stock. The warrants have an exercise price of \$0.75 per share common stock, are exercisable commencing six months following the issuance date, and expire five and one-half years from the issuance date. Future exercises of these warrants will provide additional capital to the Company. As a result of this recent capital raise, the Company does not anticipate the need to finance its operations for the next fiscal year from additional capital raises.

When it does require capital in the future, the Company expects to finance its cash needs through sales of equity, possible strategic collaborations, debt financing or through other sources that may be dilutive to existing shareholders. Management anticipates that if it raises additional financing that it will be at a discount to the market price and it will be dilutive to shareholders.

**Other Commitments and Contingencies**

The Company’s purchase commitments and obligations include all open purchase orders and contractual obligations entered into in the ordinary course of business, including commitments with contract manufacturers and suppliers, for which we have not received the goods or services and acquisition and licensing of intellectual property. Although open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule, and/or adjust our requirements based on our business needs prior to the delivery of goods or performance of services. Non-cancellable purchase commitments and obligations that will exist beyond fiscal 2018 and that are not separately presented as a liability on the balance sheet are listed below (in thousands):

|                                |              | <b>Less<br/>than</b> | <b>1 – 3</b> | <b>3 – 5</b> | <b>More<br/>than<br/>5</b> |
|--------------------------------|--------------|----------------------|--------------|--------------|----------------------------|
| <b>Contractual obligations</b> | <b>Total</b> |                      | <b>years</b> | <b>years</b> | <b>years</b>               |

|                               | <b>1</b>    |       |         |      |      |
|-------------------------------|-------------|-------|---------|------|------|
|                               | <b>year</b> |       |         |      |      |
| Operating lease obligations   | \$821       | \$290 | \$531   | \$ - | \$ - |
| Seed core purchase obligation | 319         | 155   | 164     | -    | -    |
| Asset retirement obligation   | 682         | -     | 682     | -    | -    |
| Total                         | \$1,822     | \$445 | \$1,377 | \$ - | \$ - |

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Impact of Inflation**

Inflation had no impact on our net sales and revenues or on income from continuing operations.

### **New Accounting Standards**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 Revenue Recognition, replacing guidance currently codified in Subtopic 605-10 Revenue Recognition-Overall with various SEC Staff Accounting Bulletins providing interpretive guidance. The guidance establishes a new five step principle-based framework in an effort to significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The standard will be effective for the Company in the first quarter of its fiscal year 2019, but early adoption is permitted starting in the first quarter of fiscal year 2018. The Company intends to adopt the new standard in the first quarter of fiscal year 2019 and expects to use the modified retrospective method. The Company has evaluated the impact of the future adoption of ASU 2014-09 on its consolidated financial statements and does not currently expect significant changes in the timing of revenue recognition compared to the existing methodology.

In February 2016, the FASB issued ASU 2016-02 Leases (Subtopic 842), which will require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by most leases. The update is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. The ASU will be effective for the Company on July 1, 2019. We are currently evaluating the impact of the guidance on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting. ASU 2016-09 simplifies how several aspects of share-based



payments are accounted for and presented in the financial statements. ASU 2016-09 is effective for public companies for annual reporting periods beginning after December 15, 2016. The Company adopted this ASU in the first quarter of fiscal 2018. Upon adoption, the Company no longer uses an estimated forfeiture rate in the calculation of stock based compensation expense. Forfeitures are now accounted for as they occur. Upon adoption, effective July 1, 2017, the company applied the modified retrospective transition method resulting in a cumulative effect reclassification of \$44,000 to Additional paid-in capital and Accumulated deficit. There was no impact on total equity. During the year ended June 30, 2018, the Company recognized an additional \$16,000 in stock based compensation as a result of this new accounting principle.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update provides guidance on classification for cash receipts and payments related to eight specific issues. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of implementing this update on the consolidated financial statements.

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In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash”. ASU 2016-18 is intended to clarify how entities present restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash and cash equivalents and restricted cash in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. When cash and cash equivalents and restricted cash are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and is to be applied retrospectively. Early adoption is permitted, including adoption in an interim period. The Company will adopt ASU 2016-18 in the first quarter of fiscal 2019. This update is not expected to have a material impact on the Company’s consolidated financial statements upon adoption.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

**ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company, the Company is not required to provide Item 7A disclosure in this Annual Report.

**ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Information required by this Item 8 is incorporated by reference to our Consolidated Financial Statements and the Report of Independent Registered Public Accounting Firm beginning at page 68 of this Report.

**ITEM 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There were no disagreements or reportable events with DeCoria, Maichel & Teague, P.S.

**ITEM 9A – CONTROLS AND PROCEDURES**

## **Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the design and operation of our disclosure controls and procedures, as such term is defined under Rules 13a-14(c) and 15d-14(c) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of June 30, 2017. Based on that evaluation, our principal executive officer and our principal financial officer concluded that the design and operation of our disclosure controls and procedures were effective. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, management believes that our system of disclosure controls and procedures are designed to provide a reasonable level of assurance that the objectives of the system will be met.

## **Management's Annual Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance concerning both the reliability of our financial reporting and the preparation of our financial statements in accordance with generally accepted accounting principles. This control includes policies and procedures that obligate us to maintain reasonably detailed records that accurately and fairly reflect our transactions and the disposition of our assets, provide assurance that our transactions are properly recorded, ensure that our receipts and expenditures are authorized by management and, where applicable, our board of directors, and prevent or allow us to timely detect material unauthorized acquisitions, uses or dispositions of our assets.

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We have evaluated the effectiveness of our internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework (2013). This evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and our principal financial and accounting officer, both of whom concluded that our internal control over financial reporting was effective as of June 30, 2018. Our evaluation of the effectiveness of our internal control over financial reporting in future periods may differ due to changing conditions or non-compliance with the policies and procedures we have established.

Table of Contents**Changes in Internal Control over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) during the most recent fiscal quarter that have materially effected, or are reasonably likely to materially effect, our internal control over financial reporting.

**ITEM 9B – OTHER INFORMATION**

Not applicable

**PART III****ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***Board Membership and Board Committees*

The directors serving the Company as of June 30, 2018 were as follows:

| <b>Name</b>                                 | <b>Type</b> | <b>Age</b> | <b>Audit Committee</b> | <b>Compensation Committee</b> | <b>Nominations Committee</b> | <b>Litigation Committee</b> |
|---|-------------|------------|------------------------|-------------------------------|------------------------------|-----------------------------|
| Lori Woods, Interim Chief Executive Officer | Employee    | 55         | N/A                    | N/A                           | N/A                          | N/A                         |
| Philip Vitale, MD                           | Independent | 72         | Member                 | Chairman                      | Member                       | N/A                         |
| Alan Hoffmann                               | Independent | 57         | Chairman               | Member                        | Member                       | Chairman                    |
| Michael McCormick, Chairman                 | Independent | 55         | Member                 | Member                        | Chairman                     | Member                      |

Each member of the Board of Directors serves a one-year term and is subject to reelection at the Company's Annual Meeting of Shareholders held each year. A special litigation committee was formed on September 14, 2017.

The Company's directors, as named above, will serve until the next annual meeting of the Company's shareholders or until their successors are duly elected and have qualified. Directors will be elected for one-year terms at the annual shareholders meeting. There is no arrangement or understanding between any of the directors or officers of the Company and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management shareholders will exercise their voting rights to continue to elect the current directors to the Company's board. There are also no arrangements, agreements or understandings between non-management shareholders that may directly or indirectly participate in or influence the management of the Company's affairs.

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Lori Woods – Ms. Woods brings more than 30 years of experience in the healthcare industry and is particularly well-known and respected in the brachytherapy community. Ms. Woods returns to IsoRay after previously serving as Vice President from 2006 to February 2008 at which time she was appointed Acting Chief Operating Officer before her appointment to Chief Operating Officer in February 2009, a position she held until January 2010. Beginning in February 2016, and continuing until her appointment as Interim CEO, Ms. Woods served as a senior consultant to IsoRay. From February 16, 2016 to June 3, 2018, Ms. Woods was a founder and owner of Medvio, LLC, a medical device consulting company focused on the urology and oncology space. During her time at Medvio she worked with large public and international medical device companies, supporting the approval process and distribution of products in diverse international markets. Further, she worked with various partners to develop proprietary technologies for the colo-rectal and liver treatment markets. Previously from January 2002 to July 2006, Ms. Woods served as Chief Executive Officer of Pro-Qura, Inc., a privately-owned cancer treatment management company focused on the quality delivery of brachytherapy treatments for prostate cancer. She has also served as the Director of Business Development for the Tumor Institute Radiation Oncology Group and the Seattle Prostate Institute (SPI) in Seattle, WA. SPI was an early innovator in prostate brachytherapy treatments and assisted in the training of more than 2,000 physicians in the use of prostate brachytherapy. Ms. Woods served as a board member of the Northwest division of the Juvenile Diabetes Research Foundation, focusing on their digital awareness programs, including their website and SEO strategy, and their public relations efforts. Ms. Woods earned a Bachelor of Science degree in Business Administration – Marketing and Communications from Loma Linda University, CA. Ms. Woods brings to the Board extensive experience and credibility in the brachytherapy industry and strong relationships with suppliers and distributors of brachytherapy products.

Philip Vitale, MD – Dr. Vitale has been a Director of the Company since 2014 and 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 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 B.A. 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.

Alan Hoffmann – Mr. Hoffmann has been a Director of the Company since January 2016. He is the owner of Alan Hoffmann, CPA, PC, a certified public accounting firm he founded in 1996. The firm performs audits and reviews of private companies. In addition, Mr. Hoffmann currently serves as CFO for Cognitive Research Corporation, a privately-held, full-service contract research organization that specializes in central nervous system product development for pharmaceutical, nutraceutical, biotechnology and medical device companies. In 2011, he served as CFO for an international manufacturing company, Kinematics Manufacturing, Inc. His prior employment included Price Waterhouse from 1985-1989, where he held multiple positions including Senior Tax Analyst, and Tax Manager

from 1989-1996 in public accounting. After receiving his undergraduate accounting degree with honors from the University of Wisconsin-Milwaukee in 1985, he became a Certified Public Accountant in 1989. He also served in the United States Marine Corps and was honorably discharged in 1985. He brings over 30 years of public accounting experience to the Company and the Board. Mr. Hoffmann brings to the Board his experience as a public accountant and understanding of oversight and review of financial statements prepared by the Controller.

Michael McCormick – Mr. McCormick has been a Director of the Company since June 2015 and brings over 25 years of senior executive positions in global management, sales, and marketing to the Company. He was appointed chairman of the board effective as of June 4, 2018. He serves as a founder and partner of GO Intellectual Capital, which offers marketing services with a focus on the medical and aviation industries, as well as financial services. Previous to his service with GO, Mr. McCormick served as Executive Vice President of Global Sales and Marketing for Columbia Sportswear from 2006-2012, where his team successfully launched several new patented technologies, including Omni-Heat® Reflective and Omni-Freeze® Zero. During Mr. McCormick's tenure, Columbia built an intellectual property portfolio with over 200 patents. Mr. McCormick started his career with Nike, working in several senior management roles and ultimately becoming the Director of National Sales, U.S., prior to his departure in 1999. He also served as Chief Marketing Officer of Golf Galaxy from 2003-2006 and Executive Vice President of Global Sales and Marketing of Callaway Golf from 2000-2003. Mr. McCormick brings over 26 years of marketing experience in a diverse group of industries to his service on the Company's Board.



Table of Contents*Executive Officers*

The executive officers serving the Company as of June 30, 2018 were as follows:

| <b>Name</b>             | <b>Age</b> | <b>Position Held</b>                                   |
|-------------------------|------------|--|
| Lori Woods <sup>1</sup> | 55         | Interim Chief Executive Officer, Director              |
| Mark Austin             | 31         | Controller, Principal Financial and Accounting Officer |
| William Cavanagh III    | 51         | Chief Operating Officer, Chief Scientific Officer      |
| Michael Krachon         | 46         | Vice President, Sales and Marketing                    |
| Jennifer Streeter       | 47         | Vice President, Human Resources                        |

Former CEO Thomas LaVoy resigned from the Company on June 4, 2018. Following Mr. LaVoy's departure, the Board of Directors appointed Lori Woods as Interim Chief Executive Officer and Director on June 4, 2018. Ms. Woods' biographical information is incorporated by reference in the board membership section of Part III, Item 10.

Mark Austin – Mr. Austin has served as Controller, Principal Financial and Accounting Officer, since July 2017. Prior to joining the Company, Mr. Austin practiced as a Certified Public Accountant with the accounting firm KPMG where he worked from October 2009 to July 2017. At KPMG, Mr. Austin served as a Senior Manager and before that, as a Manager and Senior Associate in Portland, Oregon, where he served as lead for financial statement and internal control audits within the technology industry, including for software and manufacturing companies. While at KPMG, Mr. Austin served as lead manager for a global public company; supervised, coached, and lead teams and team members; and researched technical accounting issues relevant to the technology industry. Mr. Austin holds a Bachelor of Science in Commerce degree in Accounting, from Santa Clara University, in Santa Clara, California.

William Cavanagh III – Mr. Cavanagh joined IsoRay Medical, Inc. in January 2010 and served as Vice President, Research and Development until March 3, 2016, other than serving as interim Chief Executive Officer for IsoRay from January 7, 2016 to February 14, 2016. He was appointed Chief Operating Officer of IsoRay effective March 3, 2016 and Chief Scientific Officer effective August 15, 2016. 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 attended two years of medical school before beginning his career in research management.



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Michael Krachon – Mr. Krachon brings more than 20 years’ experience of progressive growth in sales and marketing in the medical industry to the Company. He joined IsoRay in March 2016 as Vice President, Sales and Marketing. Prior to joining IsoRay, Mr. Krachon was employed by C.R. Bard Inc. since 2001, and was a key member of the Bard Urological and Medical Division which developed brachytherapy devices and delivery systems for the U.S. and international markets. He was the leader of the brachytherapy commercial team, which grew to be the global brachytherapy market leader. Mr. Krachon assisted in the business unit’s strategic planning, development of the international business segment and creating and delivering the international product launches which resulted in market leadership across Europe, Japan and Africa. His responsibilities included: the development of strategic brachytherapy sales and marketing programs; the implementation of industry leading national and international training programs; and supporting the product development process. Finally, Mr. Krachon has been instrumental in successfully supporting the industry through congressional lobbying efforts to establish and maintain reimbursement codes for brachytherapy. He served as Chairman of the Coalition for Advancement of Brachytherapy from 2009 to 2016 and has been recognized as a national speaker for brachytherapy by the industry. Mr. Krachon received a B.S.E. in biomedical engineering from Duke University and his M.B.A. from the Goizueta Business School at Emory University.

Jennifer Streeter – Mrs. Streeter brings more than 10 years’ experience of progressive growth in the Human Resources field. She joined IsoRay in July 2016 as Vice President of Training. In September 2016, she accepted responsibility as Vice President of Human Resources. Prior to joining IsoRay, Mrs. Streeter was employed by Supershuttle International as the Vice President of Learning Development, where she lead a team of training managers providing overall training and organizational development activities. Previously Mrs. Streeter has facilitated both on ground and online courses at the undergraduate and graduate levels for universities including Grand Canyon University, Ottawa University and Western International University. The courses focused on Human Resource and Organizational Development. Mrs. Streeter received her Bachelor’s Degree in Management/Marketing and her Master’s Degree in Leadership Studies.

There are no agreements or understandings for any officer or director to resign at the request of another person, and none of the officers or directors is acting on behalf of, or will act at the direction of, any other person. There are no family relationships among our executive officers and directors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of 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 SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of our Common Stock. The rules promulgated by the SEC under Section 16(a) of the Exchange Act require those persons to furnish us with copies of all reports filed with the SEC 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, 2018, except as follows – Michael Krachon (one Form 4 with one transaction). This Form 4 was filed late.

### 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 that 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/investors/>. 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. Any amendments to or waivers of the Codes will be promptly posted on our website at [www.isoray.com](http://www.isoray.com) or in a Report on Form 8-K, as required by applicable laws.

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Nominating Procedures

There have been no material changes to the procedures by which our shareholders may recommend nominees to the Board of Directors during our last fiscal year.

Audit Committee

The Audit Committee was established on December 8, 2006, the date on which its Charter was adopted. The Audit Committee Charter lists the purposes of the Audit Committee as overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company and providing assistance to the Board of Directors in monitoring (1) the integrity of the Company’s financial statements, (2) the Company’s compliance with legal and regulatory requirements, (3) the independent auditor’s qualifications and independence, and (4) the performance of the Company’s internal audit function, if any, and independent auditor.

The Board of Directors has determined that Mr. Hoffmann is an “audit committee financial expert” as defined in Item 407(d)(5) of Regulation S-K promulgated by the SEC, and each Audit Committee member is independent under applicable NYSE American standards. The Board’s conclusions regarding the qualifications of Mr. Hoffmann as an audit committee financial expert were based on his service as a chief financial officer, his experience as a certified public accountant and his degree in accounting.

**ITEM 11 – 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.

**Summary Compensation Table**

| Name and | Stock Option | Non-equity<br>Non-qualified<br>deferred<br>compensation | Nonqualified<br>deferred<br>compensation<br>and other |
|----------|--------------|---|---|
|----------|--------------|---|---|

| <b>principal position</b>                         | <b>Year</b> | <b>Salary (\$)</b> | <b>Bonus (\$)</b> | <b>awards (\$)</b> | <b>awards (\$)<sup>1</sup></b> | <b>incentive plan compensation (\$)</b> | <b>earnings (\$)</b> | <b>compensation (\$)</b> | <b>Total (\$)</b> |
|---|-------------|--------------------|-------------------|--------------------|--------------------------------|---|----------------------|--------------------------|-------------------|
| Lori Woods, Interim CEO and Director <sup>2</sup> | 2018        | 23,064             | -                 | -                  | 83,875                         | 971                                     | -                    | -                        | 107,911           |
| Thomas LaVoy                                      | 2018        | 291,739            | -                 | -                  | -                              | 25,250                                  | -                    | 360,745                  | 677,733           |
| Former Chairman and CEO <sup>2</sup>              | 2017        | 300,583            | -                 | -                  | 329,901                        | 12,023                                  | -                    | -                        | 642,507           |
| William Cavanagh                                  | 2018        | 211,785            | -                 | -                  | 50,325                         | 25,414                                  | -                    | -                        | 287,524           |
| COO/CSO   | 2017        | 201,700            | -                 | -                  | 103,815                        | 8,068                                   | -                    | -                        | 313,583           |
| Michael Krachon                                   | 2018        | 236,250            | -                 | -                  | 50,325                         | 28,350                                  | -                    | -                        | 314,925           |
| VP – S&M  | 2017        | 225,000            | -                 | -                  | 103,815                        | 9,000                                   | -                    | -                        | 337,815           |

Amounts represent the ASC 718, *Compensation – Stock Compensation* valuation for the fiscal years 2018, 2017, respectively. 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.

Following Mr. LaVoy's departure on June 4, 2018, the Board of Directors appointed Lori Woods as Interim Chief Executive Officer and a Director. Ms. Woods took office on June 4, 2018.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End****Option awards****Equity Incentive Plan awards:**

| <b>Name</b>                             | <b>Number of securities underlying unexercised options (#) exercisable</b> | <b>Number of securities underlying unexercised options (#) unexercisable</b> | <b>Number of securities underlying unexercised unearned options (#)</b> | <b>Option exercise price (\$)</b> | <b>Option expiration date</b> |
|---|--|--|---|-----------------------------------|-------------------------------|
| Lori Woods<br>Interim CEO and Director  | -  | 250,000  | 4   | 0.46                              | 06/13/2028                    |
| Thomas Lavoy<br>Former CEO and Chairman | 50,000   | 1 50,000   | 1   | 0.605                             | 06/27/2027                    |
| William Cavanagh<br>COO/CSO             | 274,690  | 1 -  | -   | 0.605                             | 06/27/2027                    |
|   | 37,500   | 5 112,500  | 5   | 0.46                              | 06/13/2028                    |
|   | 112,500  | 1 112,500  | 1   | 0.605                             | 06/27/2027                    |
|   | 6,660  | 2 -  | -   | 0.98                              | 06/27/2022                    |
|   | 20,000   | 3 -  | -   | 2.46                              | 06/17/2024                    |
| Michael Krachon<br>VP – S&M             | 37,500   | 5 112,500  | 5   | 0.46                              | 06/13/2028                    |
|   | 112,500  | 1 112,500  | 1   | 0.605                             | 06/27/2027                    |

Represents a June 27, 2017, grant, one-fourth of which became exercisable on June 27, 2017, one-fourth of which will become exercisable on June 27, 2018, one-fourth of which will become exercisable on June 27, 2019, and the final fourth will become exercisable on June 27, 2020.

2. Represents a June 27, 2012, grant, all of which were exercisable as of June 27, 2015.

3. Represents a June 17, 2014, grant, all of which were exercisable as of June 17, 2017.

Represents a June 13, 2018, grant, one-fourth of which will become exercisable on December 13, 2018, one-fourth of which will become exercisable on June 13, 2019, one-fourth of which will become exercisable on June 13, 2020, and the final fourth will become exercisable on June 13, 2021.

Represents a June 13, 2018, grant, one-fourth of which became exercisable on June 13, 2018, one-fourth of which will become exercisable on June 13, 2019, one-fourth of which will become exercisable on June 13, 2020, and the final fourth will become exercisable on June 13, 2021.

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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.

**Fiscal Year 2018 Director Compensation**

| <b>Name</b>       | <b>Fees earned or paid in cash (\$)</b> | <b>Stock awards (\$)</b> | <b>Option awards (\$)</b> | <b>Non-equity</b>                       | <b>Non-qualified</b>              | <b>All other compensation (\$)</b> | <b>Total (\$)</b> |
|-------------------|---|--------------------------|---------------------------|---|-----------------------------------|------------------------------------|-------------------|
|                   |   |                          |                           | <b>incentive plan compensation (\$)</b> | <b>deferred compensation (\$)</b> |                                    |                   |
| Alan Hoffmann     | 56,000                                  | -                        | 1,645                     | -                                       | -                                 | -                                  | 57,645            |
| Michael McCormick | 54,000                                  | -                        | 1,645                     | -                                       | -                                 | -                                  | 55,645            |
| Philip Vitale MD  | 44,000                                  | -                        | 1,645                     | -                                       | -                                 | -                                  | 45,645            |

Each non-employee director had stock options to purchase shares of the Company's common stock outstanding as of June 30, 2018 as follows – Mr. Hoffmann had stock options to purchase 60,000 shares of common stock, Mr. McCormick had stock options to purchase 60,000 shares of common stock, and Dr. Vitale had stock options to purchase 60,000 shares of common stock.



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During the fiscal year 2018, the independent directors received \$3,000 per month for their service. In addition, each non-employee director received \$1,000 per Board meeting attended in person or \$500 per Board meeting attended via telephone and \$500 per committee meeting attended. Mr. Hoffman and Mr. McCormick also participated in the Company's Special Litigation Committee and were compensated \$12,500 and \$10,000, respectively, for their services. Employee directors do not receive any compensation for their service on the Board. On July 18, 2018, Mr. McCormick, Dr. Vitale, and Mr. Hoffmann were each granted options to purchase 25,000 shares of the Company's common stock pursuant to the Company's 2017 Equity Incentive Plan. Each grant has an exercise price equal to the fair market value of the stock on the date of the grant. 25% of each grant vested and became exercisable immediately and the remaining 75% vests over the next three years, commencing on the one-year anniversary of the date of the grant.

Role of the Compensation Consultant

Pursuant to its Charter, the Compensation Committee has the authority to engage independent compensation consultants and other professionals to assist in the design, formulation, analysis, and implementation of compensation programs for our executive officers. During fiscal 2018 the Committee engaged Pearl Meyer to review various elements of the Company's overall compensation program, including performing reviews of the Company's 2018 executive compensation plans.

Role of Benchmarking and Peer Groups

As part of our pay philosophy, our executive compensation program is designed to attract, motivate and retain our executives in an increasingly competitive market. To this end, during fiscal 2018 we evaluated industry-specific and general market compensation practices and trends to ensure that our program features and NEO pay opportunities remain appropriately competitive. When determining salaries, target bonus opportunities and long-term incentive grants for NEOs, the Committee considers the performance of the Company and the individual, the nature of an individual's role within the Company, experience in the officer's current role, as well as input from its independent compensation consultant, among other variables.

In fiscal 2018, to facilitate its review and determination of executive compensation, the Committee engaged Pearl Meyer to conduct a comprehensive competitive review of our executive compensation program. In connection with this review and in consultation with Pearl Meyer and senior management of the Company, the Committee identified a peer group comprised of healthcare equipment, pharmaceutical and biotechnology companies roughly similar to the Company in revenue size or market capitalization, and focused on cancer treatments to the extent possible; the peer group consists of the 16 companies listed below:

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|                             |                                 |                                  |
|-----------------------------|---------------------------------|----------------------------------|
| Achieve Life Sciences, Inc. | Cyclacel Pharmaceuticals, Inc.  | Pieris<br>Pharmaceuticals, Inc.  |
| Apricus Biosciences, Inc.   | Cytori Therapeutics, Inc.       | Sunesis<br>Pharmaceuticals, Inc. |
| ArQule Inc.                 | Fate Therapeutics, Inc.         | TRACON<br>Pharmaceuticals, Inc.  |
| Cancer Genetics, Inc.       | Fortress Biotech, Inc.          | ViewRay, Inc.                    |
| Capricor Therapeutics, Inc. | Northwest Biotherapeutics, Inc. |                                  |
| Cleveland BioLabs, Inc.     | Onconova Therapeutics, Inc.     |                                  |

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The median (50<sup>th</sup> percentile) revenue size of the peer group was approximately \$2 million, while the median market capitalization was \$55 million; IsoRay's revenue of \$5 million and market capitalization of \$22 million were roughly at the 64<sup>th</sup> and 21<sup>st</sup> percentiles of the peer group, respectively.

In addition to peer group data, four published or private compensation surveys were also utilized in Pearl Meyer's 2018 report and comparisons to survey benchmark positions were made based on the Company's size. Pearl Meyer completed its review in May 2018 and presented its analysis of the Company's executive compensation program relative to peer and survey 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentile levels. Overall, the study suggested that total direct compensation was below the 25<sup>th</sup> percentile market levels.

In June 2018, we set the annual base salary for fiscal 2019 for Lori Woods, our Interim Chief Executive Officer and Director, at \$315,612, for William Cavanagh, Chief Operating Officer and Chief Scientific Officer, at \$220,256 (4% increase) and for Michael Krachon, our Vice President Sales and Marketing, at \$243,337 (3% increase).

Table of Contents**Performance-Based Annual Bonus**

We provide for an annual cash incentive that reinforces our pay-for-performance approach. This incentive compensation is a short-term incentive program that rewards achievement. Annual incentive awards are awarded at the sole determination of the Compensation Committee (on behalf of the Board) based on the actual and measurable performance of the Company based on a set of corporate objectives for the previous year.

For fiscal year 2017, the bonus plan was such that each named officer has an opportunity to earn a bonus of four percent (4%) of his annual base salary for a twenty percent (20%) or greater increase in revenue from the prior fiscal year's comparable quarter. Also, effective for the year ending June 30, 2017, each named officer has an opportunity to earn a bonus of four percent (4%) of his annual base salary for a twenty percent (20%) or greater increase in revenue over the prior fiscal year. For fiscal 2017, the Company achieved 20% revenue growth in one of four fiscal quarters. As a result, the following bonuses were paid to our NEOs who were serving as officers during that quarter and are reported in the non-equity incentive compensation column of the *Summary Compensation Table* of this Form 10-K.

For fiscal 2018, the Company achieved 20% revenue growth in two of four fiscal quarters, as well as for the fiscal year. As a result, the following bonuses were paid to our NEOs who were serving as officers during that quarter and are reported in the non-equity incentive compensation column of the *Summary Compensation Table* of this Form 10-K.

| <b>NEO</b>   | <b>2018<br/>Bonus<br/>(\$)</b> |
|--|--------------------------------|
| Thomas LaVoy – Former Chairman and CEO               | 25,250                         |
| Lori Woods – Interim CEO and Director                | 971                            |
| William Cavanagh – COO, CSO                          | 25,414                         |
| Michael Krachon – Vice President Sales and Marketing | 28,350                         |

For fiscal year 2019, the bonus plan was revised such that each named officer has an opportunity to earn a bonus of five percent (5%) of his or her annual base salary for a twenty-five percent (25%) or greater increase in revenue from the prior fiscal year's comparable quarter. Also, effective for the year ending June 30, 2019, each named officer has an opportunity to earn a bonus of five percent (5%) of his or her annual base salary for a twenty-five percent (25%) or greater increase in revenue over the prior fiscal year.

On June 13, 2018, the Committee approved stock option grants to our named executive officers outlined in the table below, at an exercise price of \$0.46, our closing stock price on June 13, 2018.

| <b>NEO</b>   | <b>Option<br/>grant (#<br/>of<br/>shares)</b> |
|--|---|
| Lori Woods – Interim CEO and Director                | 250,000                                       |
| William Cavanagh – COO, CSO                          | 150,000                                       |
| Michael Krachon – Vice President Sales and Marketing | 150,000                                       |

***Risks Related to Compensation Policies and Practices***

The Compensation Committee has considered whether our overall compensation program for employees in 2018 creates incentives for employees to take excessive or unreasonable risks that could materially harm our Company. We believe that several features of our compensation policies for management employees appropriately mitigate such risks, including a mix of long- and short-term compensation incentives that we believe is properly weighted, our Executive Compensation Clawback Policy and the uniformity of compensation practices across our Company, which the Compensation Committee regards as setting an appropriate level of risk taking for us. We also believe our internal legal and financial controls appropriately mitigate the probability and potential impact of an individual employee committing us to a harmful long-term business transaction in exchange for short-term compensation benefits.

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***Recoupment Policy***

In order to align further management's interests with the interests of our shareholders and to support good corporate governance practices, the Board has adopted a recoupment policy. Subject to rules of the SEC and NYSE American, in the event that we are required to prepare an accounting restatement due to the material noncompliance with any financial reporting requirement under the federal securities laws, we will form a committee of the independent directors to determine whether we will recover from any of our current or former executive officers, as determined in accordance with such rules, who received performance-based compensation (including stock options awarded as compensation) during the period for which we are required to prepare an accounting restatement, based on the erroneous data, in excess of what would have been paid to the executive officer under the accounting restatement. The committee may also take any other actions authorized by our Executive Compensation Clawback Policy.

Table of Contents**ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following tables set forth certain information regarding the beneficial ownership of the Company's common stock and preferred stock as of September 21, 2018 for (a) each person known by the Company to be a beneficial owner of five percent or more of the outstanding common or 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 September 21, 2018, the Company had 67,331,147 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**

| <b>Name of Beneficial Owner</b>             | <b>Common Shares Owned</b> | <b>Common Stock Options<sup>1</sup></b> | <b>Percent of Class<sup>2</sup></b> |   |
|---|----------------------------|---|-------------------------------------|---|
| Lori Woods                                  | -                          | 50,000                                  | 0.07                                | % |
| Alan Hoffmann                               | 20,000                     | 53,750                                  | 0.11                                | % |
| Michael McCormick                           | 22,000                     | 53,750                                  | 0.11                                | % |
| Philip Vitale M.D.                          | 80,000                     | 53,750                                  | 0.20                                | % |
| William Cavanagh III                        | -                          | 176,660                                 | 0.26                                | % |
| Michael Krachon                             | 55,000                     | 150,000                                 | 0.30                                | % |
| Directors and Executive Officers as a group | 177,000                    | 537850                                  | 1.06                                | % |

<sup>1.</sup> Only includes those common stock options that could be exercised for common stock within 60 days after September 26, 2018.

Percentage ownership is based on 67,331,147 shares of Common Stock outstanding on September 21, 2018. Shares of Common Stock subject to stock options which are currently exercisable or will become exercisable within 60 days after September 26, 2018 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.

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**Series B Preferred Stock Share Ownership**

| <b>Name of Beneficial Owner</b>               | <b>Series B Preferred</b> |                                     |
|---|---------------------------|-------------------------------------|
|   | <b>Shares Owned</b>       | <b>Percent of Class<sup>1</sup></b> |
| Aissata Sidibe <sup>2</sup>                   | 20,000                    | 33.86 %                             |
| William and Karen Thompson Trust <sup>3</sup> | 14,218                    | 24.07 %                             |
| Jamie Granger <sup>4</sup>                    | 10,529                    | 17.83 %                             |
| Hostetler Living Trust <sup>5</sup>           | 9,479                     | 16.05 %                             |
| Leslie Fernandez <sup>6</sup>                 | 3,688                     | 6.24 %                              |

1. Percentage ownership is based on 59,065 shares of Series B Preferred Stock outstanding on September 8, 2016.

2. The address of Aissata Sidibe is 99302 E Sidibe PR SE, Kennewick, WA 99338.

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 9327 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.

The “Securities Authorized for Issuance Under Equity Compensation Plans” contained in Item 5 of this Form 10-K is hereby incorporated by reference into this Item 12.

**ITEM 13 – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Transactions with Related Persons

None requiring disclosure under Reg. S-K Item 404.

Review, Approval or Ratification of Transactions with Related Persons



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 or their immediate family members, 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 or their immediate family members 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.

As required under SEC rules, transactions that are determined to be directly or indirectly material to the Company or a related party would be disclosed in our Annual Report; however, during our fiscal year ended June 30, 2018, we did not have any related party transactions requiring disclosure under Reg. S-K Item 404.

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Director Independence

Using the standards of the NYSE American, the Company's Board has determined that Mr. Hoffmann, Mr. McCormick and Dr. Vitale each qualify under such standards as an independent director. Mr. Hoffmann, Mr. McCormick and Dr. Vitale each meet the NYSE American 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.

None of our existing directors were disqualified from independent status under the objective standards of the NYSE American other than Ms. Woods and Mr. LaVoy, who did not qualify as she is an employee director. In reviewing the subjective criteria of "any relationship that would interfere with the exercise of independent judgment" in carrying out the responsibilities of a director, the Board determined that all directors other than Ms. Woods and Mr. LaVoy met this criteria as well.

With respect to Audit Committee independence, the Board determined each member of the Committee qualified as independent for Committee service. In particular, the Board considered the marketing services provided to the Company by a company of which Mr. McCormick is a minority owner. As the services involved solely marketing services and not financial advisory services, accounting services, legal services, investment banking services or consulting services, and were for a deliverable work product, the Board determined that Mr. McCormick met the relevant standards for service on the Audit Committee.

The Company did not consider any other relationship or transaction between itself and these independent directors not already disclosed in this Report in making this independence determination.

**ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The Company paid or accrued the following fees in each of the prior two fiscal years to its principal accountant, DeCoria, Maichel & Teague, P.S. (in thousands):

**For the  
Year  
Ended  
June 30,  
2018 2017**

|                       |      |      |
|-----------------------|------|------|
| 1. Audit fees         | \$73 | \$75 |
| 2. Audit-related fees | -    | -    |
| 3. Tax fees           | 3    | 10   |
| 4. All other fees     | -    | 5    |
| Totals                | \$76 | \$90 |

Audit fees include fees for the audit of our annual financial statements, reviews of our quarterly financial statements, and related consents for documents filed with the SEC. Tax fees include fees for the preparation of our federal and state income tax returns. All other fees are from consulting costs created by the review of documents related to equity offerings.

As part of its responsibility for oversight of the independent registered public accountants, the Audit Committee has established a pre-approval policy for engaging audit and permitted non-audit services provided by our independent registered public accountants, DeCoria, Maichel & Teague, P.S. In accordance with this policy, each type of audit, audit-related, tax and other permitted service to be provided by the independent auditors is specifically described and each such service, together with a fee level or budgeted amount for such service, is pre-approved by the Audit Committee. The Audit Committee has delegated authority to its Chairman to pre-approve additional non-audit services (provided such services are not prohibited by applicable law) up to a pre-established aggregate dollar limit. All services pre-approved by the Chairman of the Audit Committee must be presented at the next Audit Committee meeting for review and ratification. All of the services provided by DeCoria, Maichel & Teague, P.S. described above were approved by our Audit Committee.

The Company's principal accountant, DeCoria, Maichel & Teague, P.S., did not engage any other persons or firms other than the principal accountant's full-time, permanent employees.

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**Part IV**

**ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**EXHIBIT INDEX**

(Except as otherwise indicated (a) all exhibits were previously filed, (b) all omitted exhibits are intentionally omitted, and (c) all Reports referenced below were filed under SEC file number 001-33407.)

**Exhibit # Description**

- 3.2 Certificate of Designation of Rights, Preferences and Privileges of Series A and B Convertible Preferred Stock, filed with the Minnesota Secretary of State on June 29, 2005, incorporated by reference to Exhibit 3.1 of the Form 8-K filed on August 3, 2005 (File No. 000-14247).
- 3.3 Restated and Amended Articles of Incorporation, incorporated by reference to Exhibit 3.3 of the Form 10-KSB filed on October 11, 2005 (File No. 000-14247).
- 3.4 Certificate of Designation of Rights, Preferences and Privileges of Series C Junior Participating Preferred Stock, incorporated by reference to Exhibit 2 of the Company’s Registration Statement on Form 8-A filed on February 7, 2007 (File No. 000-14247).
- 3.5 Amended and Restated By-Laws of the Company dated as of January 8, 2008, incorporated by reference to Exhibit 3.5 of the Form 8-K filed on January 14, 2008.
- 3.6 Certificate of Designation and Preferences, Rights and Limitations of Series D Convertible Preferred Stock dated August 29, 2013 of IsoRay, Inc., incorporated by reference to Exhibit 3.1 of the Form 8-K filed on August 29, 2013.
- 4.16\*\*\* Amended and Restated 2006 Director Stock Option Plan, incorporated by reference to Exhibit 4.13 of the Form S-8/A1 filed on December 18, 2006 (Reg. No. 333-136728).
- 4.19 Rights Agreement, dated as of February 1, 2007, between the Computershare Trust Company N.A., as Rights Agent, incorporated by reference to Exhibit 1 of the Company’s Registration Statement on Form 8-A filed on February 7, 2007 (File No. 000-14247).
- 4.20 Certificate of Designation of Rights, Preferences and Privileges of Series C Junior Participating Preferred Stock, incorporated by reference to Exhibit 1 to Exhibit 2 of the Company’s Registration Statement on Form 8-A filed on February 7, 2007 (File No. 000-14247).
- 4.26 Form of Common Stock Purchase Warrant, incorporated by reference to Exhibit 4.26 of the Form 8-K filed on October 13, 2011.
- 10.3 Royalty Agreement of Invention and Patent Application, dated July 12, 1999 between Lane A. Bray and IsoRay LLC, incorporated by reference to Exhibit 10.3 of the Form SB-2 filed on November 10, 2005 (Reg. No. 333-129646).
- 10.5 Section 510(k) Clearance from the Food and Drug Administration to market Lawrence CSERION Model CS-1, dated March 28, 2003, incorporated by reference to Exhibit 10.5 of the Form SB-2 filed on November 10, 2005 (Reg. No. 333-129646).

- 10.10 Registry of Radioactive Sealed Sources and Devices Safety Evaluation of Sealed Source, dated September 17, 2004, incorporated by reference to Exhibit 10.10 of the Form SB-2/A2 filed on April 27, 2006 (Reg. No. 333-129646).
- 10.18 State of Washington Radioactive Materials License dated October 6, 2005, incorporated by reference to Exhibit 10.18 of the Form SB-2 filed on November 10, 2005 (Reg. No. 333-129646).
- 10.35\*\*\* Form of Officer and Director Indemnification Agreement, incorporated by reference to Exhibit 10.35 of the Form SB-2 Post-Effective Amendment No. 2 filed on October 13, 2006 (Reg. No. 333-129646).
- 10.85 Contract, dated December 15, 2015 and effective as of December 7, 2015, by and between IsoRay Medical, Inc. and The Open Joint Stock Company << Isotope >> (confidential treatment granted for redacted portions), incorporated by reference to Exhibit 10.85 of the Form 8-K filed on December 21, 2015.

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- 10.93\*\*\* Employment Agreement by and between Michael Krachon and IsoRay, Inc. dated effective March 7, 2016, incorporated by references to Exhibit 10.93 of the Form 10-K filed on September 9, 2016.
- 10.94 Stipulation of Settlement, dated September 23, 2016, by and between IsoRay, Inc., Dwight Babcock, and the settlement class, incorporated by reference to Exhibit 10.1 of the Form 10-Q filed on November 9, 2016.
- 10.95 Addendum No. 1 to contract with The Open Joint Stock Company « Isotope », dated December 22, 2016 and effective as of December 9, 2016, by and between IsoRay Medical, Inc. and The Open Joint Stock Company « Isotope » (confidential treatment granted for redacted portions), incorporated by reference to Exhibit 10.1 of the Form 8-K filed on December 28, 2016.
- 10.96 Amendment to Share Rights Agreement by and between Computershare Trust Company, N.A. and IsoRay, Inc., incorporated by reference to Exhibit 4.1 of the Form 8-K filed on February 3, 2017.
- 10.97 Irradiation Services Agreement, dated November 29, 2016, between The Curators of the University of Missouri and IsoRay Medical, Inc. (confidential treatment requested for redacted portions), incorporated by reference to Exhibit 10. 1 of the Form 10-Q filed on February 9, 2017.
- 10.98 Contract Modification, entered into on November 15, 2016 with an effective date of November 1, 2016, to Contract No. X-40403 between Energy Northwest and IsoRay Medical, Inc., incorporated by reference to Exhibit 10.2 of the Form 10-Q filed on February 9, 2017.
- 10.99 \*\*\* Separation Agreement, dated February 28, 2017, between Brien Ragle and IsoRay, Inc., incorporated by reference to Exhibit 10.1 of the Form 8-K filed on March 3, 2017.
- 10.100 IsoRay, Inc. 2017 Equity Incentive Plan (incorporated by reference to Appendix B to IsoRay, Inc.'s  
\*\*\* Definitive Proxy Statement on Schedule 14A, filed on May 17, 2017).
- 10.101 Rescission and Release Agreement, dated May 2, 2017, between IsoRay Medical, Inc., and the Port of Benton, incorporated by reference to Exhibit 10.1 of the Form 8-K filed on June 8, 2017.
- 10.102 Separation Agreement, dated May 1, 2017, between Matthew Branson and IsoRay, Inc., incorporated by  
\*\*\* reference to Exhibit 10.1 of the Form 8-K filed on June 23, 2017.
- 10.103 Form of IsoRay, Inc. Stock Option Agreement and Notice of Grant of Stock Option, by and between each  
\*\*\* grantee thereunder and IsoRay, Inc., incorporated by reference to Exhibit 10.1 of the Form 8-K filed on June 30, 2017.
- 10.104 Employment Agreement, dated June 30, 2017, between Mark Austin and IsoRay, Inc., incorporated by  
\*\*\* reference to Exhibit 10.1 of the Form 8-K filed on July 7, 2017.
- 10.105 Consignment Agreement, dated August 25, 2017, between IsoRay Medical, Inc. and MedikorPharma-Ural LLC, incorporated by reference to Exhibit 10.1 of the Form 8-K filed on August 31, 2017.
- 10.106 Service Agreement, dated August 25, 2017, between IsoRay Medical, Inc. and MedikorPharma-Ural LLC, incorporated by reference to Exhibit 10.2 of the Form 8-K filed on August 31, 2017.
- 10.107 Media Advertising Agreement, dated October 3, 2017, between IsoRay, Inc. and AI & J Media Inc., incorporated by reference to Exhibit 10.1 of the Form 8-K filed on October 10, 2017.
- 10.108 Warrant to Purchase Common Stock, dated October 3, 2017, incorporated by reference to Exhibit 10.2 of the Form 8-K filed on October 10, 2017.
- 10.109 Addendum No. 2 to supply contract by and between IsoRay Medical, Inc. and The Open Joint Stock Company «Isotope» (confidential treatment requested for redacted portions), incorporated by reference to Exhibit 10.1 of the Form 8-K filed on October 27, 2017.
- 10.110 Manufacturing and Supply Agreement, dated January 3, 2018, between IsoRay Medical, Inc. and GT Medical Technologies, Inc., incorporated by reference to Exhibit 10.1 of the Form 8-K filed on January 8, 2018.
- 10.111 Collaborative Development Agreement, dated effective as of March 13, 2017, between IsoRay Medical, Inc. and GammaTile, LLC, incorporated by reference to Exhibit 10.2 of the Form 8-K filed on January 8, 2018.
- 10.112

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Sales Agreement between IsoRay, Inc. and H.C. Wainwright & Co., LLC, dated May 8, 2018, incorporated by reference to Exhibit 10.1 of the Form 8-K filed on May 8, 2018.

10.113 Master Service Agreement, dated May 20, 2018, between IsoRay, Inc. and World Wide Holdings, LLC dba Invictus Resources, incorporated by reference to Exhibit 10.1 of the Form 8-K filed on May 21, 2018.

10.114 Warrant to Purchase Common Stock, dated May 20, 2018, incorporated by reference to Exhibit 10.2 of the Form 8-K filed on May 21, 2018.

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10.115\*\*\* Employment Agreement, dated effective June 13, 2018, between Lori A. Woods and IsoRay, Inc., incorporated by reference to Exhibit 10.1 of the Form 8-K filed on June 19, 2018.

10.116\*\*\* IsoRay, Inc. Stock Option Agreement and Notice of Grant of Stock Option to Lori A. Woods, dated June 13, 2018, incorporated by reference to Exhibit 10.2 of the Form 8-K filed on June 19, 2018.

10.117\*\*\* Separation Agreement, dated June 25, 2018, between Thomas C. LaVoy and IsoRay, Inc., incorporated by reference to Exhibit 10.1 of the Form 8-K filed on June 29, 2018.

14.1 Code of Conduct and Ethics, incorporated by reference to Exhibit 14.1 of the Form 10-KSB filed on October 11, 2005. (File No. 000-14247)

14.2 Code of Ethics for Chief Executive Officer & Senior Financial Officers, incorporated by reference to Exhibit 14.2 of the Form 10-KSB filed on October 11, 2005. (File No. 000-14247)

21.1\* Subsidiaries of the Company.

23.1\* Consent of DeCoria, Maichel & Teague, P.S.

31.1\* Rule 13a-14(a)/15d-14(a) Certification – Chief Executive Officer.

31.2\* Rule 13a-14(a)/15d-14(a) Certification – Principal Financial Officer.

32\*\* Section 1350 Certifications.

101.INS\* XBRL Instance Document.

101.SCH\* XBRL Taxonomy Extension Schema Document.

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document.

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed Herewith

\*\* Furnished Herewith

\*\*\* Denotes Management Contract or Compensatory Plan or Arrangement



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Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of IsoRay, Inc. and Subsidiaries

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of IsoRay, Inc. and Subsidiaries (the “Company”) as of June 30, 2018 and 2017, the related consolidated statements of operations, changes in stockholders’ equity and cash flows for each of the three years in the period ended June 30, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DeCoria, Maichel & Teague, P.S.

We have served as the Company's independent auditor since 2005.

Spokane, Washington

September 26, 2018

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**IsoRay, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**(In thousands, except shares)**

|  | <b>June 30,<br/>2018</b> | <b>June 30,<br/>2017</b> |
|--|--------------------------|--------------------------|
| <b>ASSETS</b>  |                          |                          |
| Current assets:  |                          |                          |
| Cash and cash equivalents  | \$2,600                  | \$5,932                  |
| Certificates of deposit (Note 3)   | 825                      | 3,039                    |
| Accounts receivable, net   | 1,192                    | 726                      |
| Inventory  | 494                      | 323                      |
| Prepaid expenses and other current assets                                  | 335                      | 271                      |
| <br>Total current assets   | <br>5,446                | <br>10,291               |
| <br>Property and equipment, net  | <br>1,311                | <br>1,054                |
| Restricted cash  | 181                      | 181                      |
| Inventory, non-current   | 319                      | 513                      |
| Other assets, net  | 198                      | 230                      |
| <br>Total assets   | <br>\$7,455              | <br>\$12,269             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                |                          |                          |
| Current liabilities:   |                          |                          |
| Accounts payable and accrued expenses                                      | \$1,391                  | \$630                    |
| Accrued protocol expense   | 77                       | 75                       |
| Accrued radioactive waste disposal   | 37                       | 125                      |
| Accrued payroll and related taxes  | 155                      | 138                      |
| Accrued vacation   | 175                      | 138                      |
| <br>Total current liabilities  | <br>1,835                | <br>1,106                |
| Long-term liabilities:   |                          |                          |
| Asset retirement obligation  | 590                      | 561                      |
| <br>Total liabilities  | <br>2,425                | <br>1,667                |
| Commitments and contingencies (Note 15)                                    |                          |                          |
| Shareholders' equity:  |                          |                          |
| Preferred stock, \$.001 par value; 7,001,671 shares authorized:            |                          |                          |
| Series A: 1,000,000 shares allocated; no shares issued and outstanding     | -                        | -                        |
| Series B: 5,000,000 shares allocated; 59,065 shares issued and outstanding | -                        | -                        |
| Series C: 1,000,000 shares allocated; no shares issued and outstanding     | -                        | -                        |
| Series D: 1,671 shares allocated; no shares issued and outstanding         | -                        | -                        |
|  | 56                       | 55                       |

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|  |          |          |
|--|----------|----------|
| Common stock, \$.001 par value; 192,998,329 shares authorized; 56,331,147 and 55,017,419 shares issued and outstanding |          |          |
| Additional paid-in capital   | 84,322   | 83,151   |
| Accumulated deficit  | (79,348) | (72,604) |
| Total shareholders' equity   | 5,030    | 10,602   |
| Total liabilities and shareholders' equity   | \$7,455  | \$12,269 |

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

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**IsoRay, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
(Dollars and shares in thousands, except for per-share amounts)

|   | <b>Year Ended June 30</b> |             |             |
|---|---------------------------|-------------|-------------|
|   | <b>2018</b>               | <b>2017</b> | <b>2016</b> |
| Product sales, net  | \$5,923                   | \$4,761     | \$4,769     |
| Cost of product sales   | 4,081                     | 3,923       | 4,640       |
| Gross profit  | 1,842                     | 838         | 129         |
| Operating expenses:   |                           |             |             |
| Research and development                                      |                           |             |             |
| Proprietary research and development                          | 1,351                     | 771         | 528         |
| Collaboration arrangement, net of reimbursement (Note 15)     | 395                       | 194         | -           |
| Total research and development                                | 1,746                     | 965         | 528         |
| Sales and marketing   | 2,660                     | 2,310       | 1,353       |
| General and administrative                                    | 4,165                     | 3,918       | 3,786       |
| Change in estimate of asset retirement obligation (Note 9)    | -                         | (48 )       | (456 )      |
| Total operating expenses                                      | 8,571                     | 7,145       | 5,211       |
| Operating loss  | (6,729 )                  | (6,307 )    | (5,082 )    |
| Non-operating income:   |                           |             |             |
| Interest income   | 29                        | 118         | 218         |
| Change in fair value of warrant derivative liability          | -                         | 27          | 154         |
| Financing and interest expense                                | -                         | -           | (1 )        |
| Non-operating income, net                                     | 29                        | 145         | 371         |
| Net loss  | (6,700 )                  | (6,162 )    | (4,711 )    |
| Preferred stock dividends                                     | (11 )                     | (11 )       | (11 )       |
| Net loss applicable to common shareholders                    | \$(6,711 )                | \$(6,173 )  | \$(4,722 )  |
| Basic and diluted loss per share                              | \$(0.12 )                 | \$(0.11 )   | \$(0.09 )   |
| Weighted average shares used in computing net loss per share: |                           |             |             |
| Basic and diluted   | 55,159                    | 55,016      | 55,015      |

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

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**IsoRay, Inc. and Subsidiaries**  
**Consolidated Statement of Changes in Shareholders' Equity**  
(In thousands, except shares)

|  | Series B Preferred Stock |        | Series D Preferred Stock |        | Common Stock |        | Treasury Stock |         | Additional Paid-in Capital | Accumulated Deficit | Total     |
|--|--------------------------|--------|--------------------------|--------|--------------|--------|----------------|---------|----------------------------|---------------------|-----------|
|  | Shares                   | Amount | Shares                   | Amount | Shares       | Amount | Shares         | Amount  |                            |                     |           |
| Balances at June 30, 2015                                | 59,065                   | \$ -   | -                        | \$ -   | 54,967,559   | \$ 55  | 13,200         | \$ (8 ) | \$ 82,466                  | \$(61,731 )         | \$ 20,782 |
| Issuance of common stock pursuant to exercise of options |                          |        |                          |        | 56,260       | -      |                |         | 50                         |                     | 50        |
| Retirement of treasury stock                             |                          |        |                          |        | (13,200 )    |        | (13,200)       | 8       | (8 )                       |                     | -         |
| Payment of dividend to preferred shareholders            |                          |        |                          |        |              |        |                |         | (11 )                      |                     | (11 )     |
| Share-based compensation                                 |                          |        |                          |        |              |        |                |         | 291                        |                     | 291       |
| Net loss   | -                        | -      | -                        | -      | -            | -      | -              | -       | -                          | (4,711 )            | (4,711 )  |
| Balances at June 30, 2016                                | 59,065                   | -      | -                        | -      | 55,010,619   | 55     | -              | -       | 82,788                     | (66,442 )           | 16,401    |
| Issuance of common stock pursuant to exercise of options |                          |        |                          |        | 6,800        | -      |                |         | 2                          |                     | 2         |
| Payment of dividend to preferred shareholders            |                          |        |                          |        |              |        |                |         | (11 )                      |                     | (11 )     |
| Share-based compensation                                 |                          |        |                          |        |              |        |                |         | 372                        |                     | 372       |
| Net loss   | -                        | -      | -                        | -      | -            | -      | -              | -       | -                          | (6,162 )            | (6,162 )  |

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|   |        |      |   |      |            |       |   |      |           |             |          |
|---|--------|------|---|------|------------|-------|---|------|-----------|-------------|----------|
| Balances at June 30, 2017   | 59,065 | -    | - | -    | 55,017,419 | 55    | - | -    | 83,151    | (72,604 )   | 10,602   |
| Adoption of new accounting principle for stock based compensation |        |      |   |      |            |       |   |      | 44        | (44 )       | -        |
| Issuance of common stock pursuant to exercise of options          |        |      |   |      | 82,810     | -     |   |      | 50        |             | 50       |
| Issuance of common stock pursuant to at the market offering, net  |        |      |   |      | 980,918    | 1     |   |      | 478       |             | 479      |
| Issuance of common stock pursuant to exercise of warrants         |        |      |   |      | 250,000    | -     |   |      | 3         |             | 3        |
| Payment of dividend to preferred shareholders                     |        |      |   |      |            |       |   |      | (11 )     |             | (11 )    |
| Share-based compensation  |        |      |   |      |            |       |   |      | 404       |             | 404      |
| Share-based compensation for third party services                 |        |      |   |      |            |       |   |      | 203       |             | 203      |
| Net loss  | -      | -    | - | -    | -          | -     | - | -    | -         | (6,700 )    | (6,700 ) |
| Balances at June 30, 2018   | 59,065 | \$ - | - | \$ - | 56,331,147 | \$ 56 | - | \$ - | \$ 84,322 | \$(79,348 ) | \$ 5,030 |

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

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**IsoRay, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**(In thousands)**

|  | <b>Year Ended June 30,</b> |             |             |
|--|----------------------------|-------------|-------------|
|  | <b>2018</b>                | <b>2017</b> | <b>2016</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                 |                            |             |             |
| Net loss   | \$(6,700)                  | \$(6,162)   | \$(4,711)   |
| Adjustments to reconcile net loss to net cash used by operating activities:  |                            |             |             |
| Allowance for doubtful accounts  | -                          | (4)         | -           |
| Depreciation expense   | 80                         | 68          | 471         |
| (Gain) loss on equipment disposals   | -                          | (2)         | 7           |
| Write-off of inventory associated with discontinued product                  | -                          | -           | 72          |
| Amortization of other assets   | 50                         | 45          | 107         |
| Change in fair value of warrant derivative liability                         | -                          | (27)        | (154)       |
| Accretion of asset retirement obligation                                     | 29                         | 29          | 89          |
| Change in estimate of asset retirement obligation                            | -                          | (48)        | (456)       |
| Share-based compensation   | 404                        | 372         | 290         |
| Share-based compensation for third party services                            | 203                        | -           | -           |
| Changes in operating assets and liabilities:                                 |                            |             |             |
| Accounts receivable  | (466)                      | (184)       | 444         |
| Inventory  | 23                         | 89          | (23)        |
| Prepaid expenses and other current assets                                    | (64)                       | 100         | (21)        |
| Accounts payable and accrued expenses  | 761                        | 18          | 112         |
| Accrued protocol expense   | 2                          | (47)        | (2)         |
| Accrued radioactive waste disposal   | (88)                       | (52)        | 48          |
| Accrued payroll and related taxes  | 17                         | 66          | (141)       |
| Accrued vacation   | 37                         | 27          | (16)        |
| Net cash used by operating activities  | (5,712)                    | (5,712)     | (3,884)     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                 |                            |             |             |
| Additions to property and equipment  | (337)                      | (549)       | (479)       |
| Additions to other assets  | (18)                       | (124)       | (13)        |
| Proceeds from sale of equipment  | -                          | 6           | -           |
| Proceeds from maturity of certificates of deposit                            | 6,268                      | 2,296       | 15,492      |
| Purchases of and interest from certificates of deposit                       | (4,054)                    | (115)       | (6,243)     |
| Net cash provided by investing activities                                    | 1,859                      | 1,514       | 8,757       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                 |                            |             |             |
| Preferred dividends paid   | (11)                       | (11)        | (11)        |
| Proceeds from sales of common stock, pursuant to at the market offering, net | 479                        | -           | -           |
| Proceeds from sales of common stock, pursuant to exercise of warrants, net   | 3                          | -           | -           |
| Proceeds from sales of common stock, pursuant to exercise of options         | 50                         | 2           | 50          |



|  |                |                |   |                 |
|--|----------------|----------------|---|-----------------|
| Net cash provided by (used in) financing activities  | 521            | (9             | ) | 39              |
| Net increase (decrease) in cash and cash equivalents | (3,332)        | (4,207)        |   | 4,912           |
| Cash and cash equivalents, beginning of year         | 5,932          | 10,139         |   | 5,227           |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>        | <b>\$2,600</b> | <b>\$5,932</b> |   | <b>\$10,139</b> |
| Supplemental disclosures of cash flow information:   |                |                |   |                 |
| Cash paid for interest                               | -              | -              |   | 1               |
| Non-cash investing and financing activities:         |                |                |   |                 |
| Retirement of treasury stock                         | -              | -              |   | 8               |

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

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**IsoRay, Inc.**

**Notes to Consolidated Financial Statements**

**For the years ended June 30, 2018, 2017 and 2016**

**1. Organization**

IsoRay, Inc. was incorporated in Minnesota in 1983. On July 28, 2005, IsoRay Medical, Inc. (Medical) became a wholly-owned subsidiary of IsoRay, Inc. (formerly known as Century Park Pictures Corporation) pursuant to a merger. Medical was formed under Delaware law on June 15, 2004 and on October 1, 2004 acquired two affiliated predecessor companies which began operations in 1998. Medical, a Delaware corporation, develops, manufactures and sells isotope-based medical products and devices for the treatment of cancer and other malignant diseases. Medical is headquartered in Richland, Washington.

IsoRay International LLC (International), a Washington limited liability company, was formed on November 27, 2007 and is a wholly-owned subsidiary of IsoRay, Inc. International has entered into various international distribution agreements.

**2. Summary of Significant Accounting Policies**

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries (collectively the Company). All significant inter-company transactions and balances have been eliminated in consolidation.

Cash Equivalents

The Company considers currency on hand, demand deposits, time deposits, and all highly liquid investments with an original maturity of *three* months or less at the date of purchase to be cash and cash equivalents. Cash and cash equivalents are held in various financial institutions in the United States.

### Certificates of Deposit

Certificates of deposit with original maturities greater than *three* months and remaining maturities less than *one* year are classified as “Certificates of deposit” and included in current assets. Certificates of deposit with remaining maturities greater than *one* year are classified as “Certificates of deposit, non-current” and are included in noncurrent assets.

### Accounts Receivable

Accounts receivable are stated at the amount that management of the Company expects to collect from outstanding balances. Management provides for probable uncollectible amounts through an allowance for doubtful accounts. Additions to the allowance for doubtful accounts are based on management’s judgment, considering historical experience with write-offs, collections and current credit conditions. Balances which remain outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to the applicable accounts receivable. Payments received subsequent to the time that an account is written off are treated as bad debt recoveries.

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Inventory

Inventory is reported at the lower of cost or net realizable value. Cost of raw materials is determined using the weighted average method. Cost of work in process and finished goods is computed using standard cost, which approximates actual cost, on a *first-in, first-out* basis.

The cost of materials and production costs contained in inventory that are *not* useable due to the passage of time, and resulting loss of bio-effectiveness, are written off to cost of product sales at the time it is determined that the product is *no* longer useable. Materials contained in inventory that are components of a discontinued product are classified as a non-recurring charge to general and administrative expense.

Property and Equipment

Fixed assets are capitalized and carried at cost less accumulated depreciation. Normal maintenance and repairs are charged to expense as incurred. When any assets are sold or otherwise disposed of, the cost and accumulated depreciation are reversed with any resulting gain or loss being recognized on the consolidated statement of operations.

Depreciation is computed using the straight-line method over the following estimated useful lives:

|                                   |               |
|-----------------------------------|---------------|
| Production equipment (in years)   | <i>3 to 7</i> |
| Office equipment (in years)       | <i>2 to 5</i> |
| Furniture and fixtures (in years) | <i>2 to 5</i> |

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset.

Management periodically reviews the net carrying value of all of its long-lived assets on an asset by asset basis. An impairment loss is recognized if the carrying amount of a defined asset group is *not* recoverable and exceeds its fair value.

Although management has made its best estimate of the factors that affect the carrying value based on current conditions, it is reasonably possible that changes could occur which could adversely affect management's estimate of

net cash flows expected to be generated from its assets that could result in an impairment adjustment.

#### Prepaid Expenses and Other Assets

Prepaid expenses and other assets, which include website development costs, trademarks, patents and licenses, are stated at cost, less accumulated amortization. For website development, costs incurred in the planning stage are expensed as incurred whereas costs associated with the application and infrastructure development, graphics development, and content development are capitalized. Amortization of website development costs is computed using the straight-line method over the estimated economic useful lives of the asset. Trademarks and patents include costs, primarily legal, incurred in obtaining them. Amortization of trademarks and patents is computed using the straight-line method over the estimated economic useful lives of the assets. Licenses include costs related to licenses pertaining to the use of technology or operational licenses. These licenses are recorded at stated cost, less accumulated amortization. Amortization of licenses is computed using the straight-line method over the estimated economic useful lives of the assets. The Company periodically reviews the carrying values of other assets and evaluates the recorded basis for any impairment. Any impairment is recognized when the expected future operating cash flows to be derived from the licenses are less than their carrying value.

#### Asset Retirement Obligation

The estimated fair value of the future retirement costs of the Company's leased assets and the costs for the decontamination and reclamation of equipment located within the footprint leased asset are recorded as a liability on a discounted basis when a contractual obligation exists; an equivalent amount is capitalized to property and equipment. The initial recorded obligation is discounted using the Company's credit-adjusted risk-free rate and is reviewed periodically for changes in the estimated future costs underlying the obligation. The Company amortizes the initial amount capitalized to property and equipment and recognizes accretion expense in connection with the discounted liability over the estimated remaining useful life of the leased assets.

Table of ContentsFinancial Instruments

The Company discloses the fair value of financial instruments, both assets and liabilities, recognized and *not* recognized in the balance sheet, for which it is practicable to estimate the fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced liquidation sale. At *June 30, 2018* and *2017*, the carrying value of financial instruments which include certificates of deposit and restricted cash, approximated fair value.

Fair Value Measurement

When required to measure assets or liabilities at fair value, the Company uses a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used. The Company determines the level within the fair value hierarchy in which the fair value measurements in their entirety fall. The categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Level 1 uses quoted prices in active markets for identical assets or liabilities, Level 2 uses significant other observable inputs, and Level 3 uses significant unobservable inputs. The amount of the total gains or losses for the period are included in earnings that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date. The Company has *no* financial assets or liabilities that are adjusted to fair value on a recurring basis.

At *June 30, 2018* and *2017*, there were *no* assets or liabilities measured at fair-value on a recurring basis which were measured using Level 3 inputs. Certain assets and liabilities are measured at fair value on a non-recurring basis; that is, the instruments are *not* measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). With the exception of the asset retirement obligation (Note 9), the Company had *no* assets or liabilities measured at fair value on a nonrecurring basis during the *three* years ended *June 30, 2018*.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. (In thousands)

|                           | <b>Fair value at June 30, 2018</b> |                |                |      |
|---------------------------|------------------------------------|----------------|----------------|------|
| <b>Total</b>              | <b>Level 1</b>                     | <b>Level 2</b> | <b>Level 3</b> |      |
| Cash and cash equivalents | \$2,600                            | \$2,600        | \$ -           | \$ - |

**Fair value at June 30, 2017**

|                           | <b>Total</b> | <b>Level<br/>1</b> | <b>Level<br/>2</b> | <b>Level<br/>3</b> |
|---------------------------|--------------|--------------------|--------------------|--------------------|
| Cash and cash equivalents | \$5,932      | \$5,932            | \$ -               | \$ -               |

The Company's cash and cash equivalent instruments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

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### Revenue Recognition

The Company recognizes revenue related to product sales when (i) persuasive evidence of an arrangement exists, (ii) shipment has occurred, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured.

The Company recognizes revenue once the product has been shipped to the customer. Prepayments, if any, received from customers prior to the time that products are shipped are recorded as deferred revenue. In these cases, when the related products are shipped, the amount recorded as deferred revenue is then recognized as revenue. The Company accrues for sales returns and other allowances at the time of shipment.

### Shipping and Handling Costs

Shipping and handling costs include charges associated with delivery of goods from the Company's facilities to its customers and are reflected in cost of product sales. Shipping and handling costs paid to the Company by its customers are classified as product sales.

### Share-Based Compensation

The Company measures and recognizes expense for all share-based payments at fair value. The Company uses the Black-Scholes option valuation model to estimate fair value for all stock options on the date of grant. For stock options that vest over time, the Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award.

### Research and Development Costs

#### *Research and Development - Proprietary*

Research and development costs, including salaries, research materials, administrative expenses and contractor fees, are charged to operations as incurred. The cost of equipment used in research and development activities which has alternative uses is capitalized as part of fixed assets and *not* treated as an expense in the period acquired. Depreciation



of capitalized equipment used to perform research and development is classified as research and development expense in the year recognized.

#### *Research and Development - Collaborative Arrangement*

Research and development costs incurred and shared in connection with a collaborative research and development project are separately stated in the consolidated statement of operation under “Research and development: Collaboration arrangements, net of reimbursement.”

#### Advertising and Marketing Costs

Advertising costs are expensed as incurred except for the cost of tradeshow and related marketing materials which are deferred until the tradeshow occurs. (In thousands)

|  | <b>For the Years<br/>Ended June 30,</b> |             |             |
|--|---|-------------|-------------|
|  | <b>2018</b>                             | <b>2017</b> | <b>2016</b> |
| Advertising and marketing costs expensed (including tradeshow) | \$329                                   | \$323       | \$157       |

|  | <b>At June<br/>30,</b> |             |
|--|------------------------|-------------|
|  | <b>2018</b>            | <b>2017</b> |
| Prepaid marketing expenses deferred until event occurs | \$9                    | \$11        |

#### Legal Contingencies

The Company records contingent liabilities resulting from asserted and unasserted claims against it, when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Estimating probable losses requires analysis of multiple factors, in some cases including judgments about the potential actions of *third*-party claimants and courts. Therefore, actual losses in any future period are inherently uncertain. Currently, the Company does *not* believe any probable legal proceedings or claims will have a material adverse effect on its financial position or results of operations. However, if actual or estimated probable future losses exceed the Company’s recorded liability for such claims, it would record additional charges as other expense during the period in which the actual loss or change in estimate occurred.



Table of ContentsIncome Taxes

Income taxes are accounted for under the liability method. Under this method, the Company provides deferred income taxes for temporary differences that will result in taxable or deductible amounts in future years based on the reporting of certain costs in different periods for financial statement and income tax purposes. This method also requires the recognition of future tax benefits such as net operating loss carry-forwards, to the extent that realization of such benefits is more likely than *not*. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment of the change. In the event that the Company is assessed penalties and or interest, penalties will be charged to other operating expense and interest will be charged to interest expense in the period that they are assessed.

Income (Loss) Per Common Share

Basic earnings per share is calculated by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding, and does *not* include the impact of any potentially dilutive common stock equivalents, including preferred stock, common stock warrants or options that are potentially convertible into common stock, as those would be antidilutive due to the Company's net loss position.

Securities that could be dilutive in the future are as follows:

|                                     | <b>June 30,</b> |             |             |
|-------------------------------------|-----------------|-------------|-------------|
|                                     | <b>2018</b>     | <b>2017</b> | <b>2016</b> |
| Preferred stock                     | 59,065          | 59,065      | 59,065      |
| Common stock warrants               | 250,000         | -           | 230,087     |
| Common stock options                | 3,759,840       | 3,379,191   | 2,925,059   |
| Total potential dilutive securities | 4,068,905       | 3,438,256   | 3,214,211   |

Use of Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles in the United States of America requires management of the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes of the Company including the allowance for doubtful accounts receivable; net realizable value of the enriched barium inventory; the estimated useful

lives used in calculating depreciation and amortization on the Company's fixed assets, patents, trademarks and other assets; estimated amount and fair value of the asset retirement obligation related to the Company's production facilities; and inputs to the Black-Scholes calculation used in determining the expense related to share-based compensation including volatility, estimated lives and forfeiture rates of options granted. Accordingly, actual results could differ from those estimates and affect the amounts reported in the financial statements.

#### Recent Accounting Pronouncements

In *May 2014*, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") *No. 2014-09 Revenue Recognition*, replacing guidance currently codified in Subtopic *605-10 Revenue Recognition-Overall* with various SEC Staff Accounting Bulletins providing interpretive guidance. The guidance establishes a new *five* step principle-based framework in an effort to significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The standard will be effective for the Company in the *first* quarter of its fiscal year *2019*, but early adoption is permitted starting in the *first* quarter of fiscal year *2018*. The Company intends to adopt the new standard in the *first* quarter of fiscal year *2019* and expects to use the modified retrospective method. The Company has evaluated the impact of the future adoption of ASU *2014-09* on its consolidated financial statements and does *not* expect significant changes in the timing of revenue recognition compared to the existing methodology.

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In *February 2016*, the FASB issued ASU 2016-02 Leases (Subtopic 842), which will require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by most leases. The update is effective for annual and interim reporting periods beginning after *December 15, 2018*. Early adoption is permitted. The ASU will be effective for the Company on *July 1, 2019*. We are currently evaluating the impact of the guidance on the Company's consolidated financial statements.

In *March 2016*, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting. ASU 2016-09 simplifies how several aspects of share-based payments are accounted for and presented in the financial statements. ASU 2016-09 is effective for public companies for annual reporting periods beginning after *December 15, 2016*. The Company adopted this ASU in the *first* quarter of fiscal 2018. Upon adoption, the Company *no* longer uses an estimated forfeiture rate in the calculation of stock based compensation expense. Forfeitures are now accounted for as they occur. Upon adoption, effective *July 1, 2017*, the company applied the modified retrospective transition method resulting in a cumulative effect reclassification of *\$44,000* to Additional paid-in capital and Accumulated deficit. There was *no* impact on total equity. During the year ended *June 30, 2018*, the Company recognized an additional *\$16,000* in stock based compensation as a result of this new accounting principle.

In *August 2016*, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update provides guidance on classification for cash receipts and payments related to *eight* specific issues. The update is effective for fiscal years beginning after *December 15, 2017*, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of implementing this update on the consolidated financial statements.

In *November 2016*, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash". ASU 2016-18 is intended to clarify how entities present restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash and cash equivalents and restricted cash in the statement of cash flows. As a result, entities will *no* longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. When cash and cash equivalents and restricted cash are presented in more than *one* line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. ASU 2016-18 is effective for fiscal years beginning after *December 15, 2017* and is to be applied retrospectively. Early adoption is permitted, including adoption in an interim period. The Company will adopt ASU 2016-18 in the *first* quarter of fiscal 2019. This update is *not* expected to have a material impact on the Company's consolidated financial statements upon adoption.

Other accounting standards that have been issued or proposed by FASB that do *not* require adoption until a future date are *not* expected to have a material impact on the consolidated financial statements upon adoption. The Company does *not* discuss recent pronouncements that are *not* anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

### 3. Certificates of deposit

Certificate of Deposit Account Registry Service (CDARS) is a system that allows the Company to invest in certificates of deposit through a single financial institution that exceed the \$250,000 limit to be fully insured by the Federal Deposit Insurance Corporation (FDIC). That institution utilizes the CDARS system to purchase certificates of deposit at other financial Institutions while keeping the investment at each institution fully insured by the Federal Deposit Insurance Corporation (FDIC).

CDARs held by the Company at *June 30, 2018* and *2017* are as follows (in thousands):

|                            | <b>Under<br/>90<br/>days</b> | <b>91 days<br/>to<br/>six<br/>months</b> | <b>Six<br/>months<br/>to<br/>1 year</b> | <b>Greater<br/>than 1<br/>year</b> |
|----------------------------|------------------------------|--|---|------------------------------------|
| CDARS, as of June 30, 2018 | \$825                        | \$ -                                     | \$ -                                    | \$ -                               |
| CDARS, as of June 30, 2017 | \$3,039                      | \$ -                                     | \$ -                                    | \$ -                               |

### 4. Inventory

Inventory consisted of the following (in thousands):

|                 | <b>June 30,</b> |             |
|-----------------|-----------------|-------------|
|                 | <b>2018</b>     | <b>2017</b> |
| Raw materials   | \$371           | \$191       |
| Work in process | 96              | 121         |
| Finished goods  | 27              | 11          |
| Total inventory | \$494           | \$323       |

|                              | <b>June 30,</b> |             |
|------------------------------|-----------------|-------------|
|                              | <b>2018</b>     | <b>2017</b> |
| Enriched barium, non-current | \$276           | \$470       |
| Raw materials, non-current   | 43              | 43          |
| Total inventory, non-current | \$319           | \$513       |



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Inventory, non-current represents raw materials that were ordered in quantities to obtain volume cost discounts which based on current and anticipated sales volumes will *not* be consumed within an operating cycle and enriched barium. On *August 25, 2017*, the Company entered into a Consignment Agreement and related Services Agreement with MedikorPharma-Ural LLC to begin utilizing our enriched barium-130 carbonate inventory. The Company anticipates obtaining enough Cesium-131 under this arrangement to obtain over *4,000* curies of Cesium-131. During the year ended *June 30, 2018* the Company obtained *721* curies under this agreement which has been used in production. At *June 30, 2018*, the Company estimates that the remaining enriched barium will result in *2,629* curies; *660* of which will be obtained in the year ended *June 30, 2019* and *1,969* will be obtained after *June 30, 2019*. There is *no* assurance as to whether the agreement will be terminated before this full amount is obtained and other supply sources are used, nor is there assurance that the agreements with the *third-party* Cesium-131 suppliers will be executed.

**5. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consisted of the following (in thousands):

|   | <b>June 30,</b> |             |
|---|-----------------|-------------|
|   | <b>2018</b>     | <b>2017</b> |
| Prepaid insurance                         | \$24            | \$52        |
| Other prepaid expenses                    | 241             | 122         |
| Other current assets                      | 29              | 30          |
| Other receivables                         | 41              | 67          |
| Prepaid expenses and other current assets | \$335           | \$271       |

**6. Property & Equipment**

Property & equipment consisted of the following (in thousands):

|                               | <b>June 30,</b> |             |
|-------------------------------|-----------------|-------------|
|                               | <b>2018</b>     | <b>2017</b> |
| Land                          | \$366           | \$366       |
| Equipment                     | 4,152           | 3,776       |
| Leasehold improvements        | 4,136           | 4,130       |
| Other <sup>1</sup>            | 328             | 373         |
| Property and equipment        | 8,982           | 8,645       |
| Less accumulated depreciation | (7,671)         | (7,591)     |
| Property and equipment, net   | \$1,311         | \$1,054     |



Plant and equipment, *not* placed in service are items that meet the capitalization threshold or which management believes will meet the threshold at the time of completion and which have yet to be placed into service as of the *I.* date of the balance sheet, and therefore, *no* depreciation expense has been recognized. Also included at *June 30, 2018* and *2017* are costs associated with advance planning and design work on the Company's new production facility of *\$207,000*.

## **7. Restricted Cash**

The Washington Department of Health requires the Company to provide collateral for the decommissioning of its facility. To satisfy this requirement, the Company has a certificate of deposit (CD) with a balance of *\$181,000*. The CD has an original maturity of *twelve* months but is termed restricted cash and classified as a long-term asset as the Company does *not* anticipate decommissioning the facility until the end of the current lease. The current lease expires *April 30, 2021*. Interest earned on the CD is rolled-over at the maturity of the CD and becomes part of the restricted cash balance. The cash will become unrestricted following the decommissioning of the facility and the release of the facility by the Washington Department of Health back to the landlord.

Table of Contents**8. Other Assets, net**

Other assets, net of accumulated amortization consisted of the following (in thousands):

|                                | <b>June 30,</b> |             |
|--------------------------------|-----------------|-------------|
|                                | <b>2018</b>     | <b>2017</b> |
| Website development            | \$90            | \$90        |
| Licenses                       | 520             | 552         |
| Patents and trademarks         | 366             | 366         |
| Total Other Assets             | 976             | 1,008       |
| Less: Accumulated Amortization | (778)           | (778)       |
| Other assets, net              | \$198           | \$230       |

|   | <b>Year Ended</b> |             |             |
|---|-------------------|-------------|-------------|
|   | <b>June 30,</b>   |             |             |
|   | <b>2018</b>       | <b>2017</b> | <b>2016</b> |
| Amortization expense on website development               | \$14              | \$12        | \$-         |
| Amortization expense on licenses                          | 18                | 16          | 16          |
| Amortization expense on patents and trademarks            | 18                | 17          | 18          |
| Change in estimate on patents and trademarks <sup>1</sup> | -                 | -           | 73          |
| Total amortization expense                                | \$50              | \$45        | \$107       |

<sup>1</sup> The change in estimate is the result of the review of information contained in the amortization assumptions which is based on new information resulted in a non-recurring change in the amortization expense.

Future amortization is expected to be as follows (in thousands):

|                          |       |
|--------------------------|-------|
| Year ended June 30, 2019 | \$50  |
| 2020                     | 24    |
| 2021                     | 23    |
| 2022                     | 23    |
| 2023                     | 23    |
| Thereafter               | 55    |
|                          | \$198 |

**9. Asset Retirement Obligation**

The Company has an asset retirement obligation (ARO) associated with the facility it currently leases. The ARO changed as follows (in thousands):

|                                | <b>Year<br/>Ended<br/>June 30,</b> |             |
|--------------------------------|------------------------------------|-------------|
|                                | <b>2018</b>                        | <b>2017</b> |
| Beginning balance              | \$561                              | \$580       |
| Accretion of discount          | 29                                 | 29          |
| Gain on change in ARO estimate | -                                  | (48)        |
| Ending balance                 | \$590                              | \$561       |

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The original facility lease was scheduled to expire in the *fourth* quarter 2016. Upon the end of the original lease term, the initial asset retirement estimate was fully accreted and the related ARO asset was fully amortized. During the year ended *June 30, 2016*, the Company extended the lease term an additional *three* years thus extending the time before asset retirement costs would be incurred. In addition, management determined that the estimated cost to retire the facility was less than the original estimate. Both of these factors resulted in a decrease in the ARO balance to a fair value of *\$580,000* and the Company recognized a gain on change in the estimate of *\$456,000* for the year ended *June 30, 2016*. The fair value was calculated using the expected present value valuation method with the following Level 3 inputs: estimated retirement cost of *\$650,000*, an inflation factor of *1.1%*, and a credit-adjusted risk free rate of *5.1%*. Additionally, during the year ended *June 30, 2017* the lease was extended another *two* years thus extending the time before asset retirement costs would be incurred. Using the same Level 3 inputs as in the fiscal year ended *June 30, 2016*, a gain on change in estimate of *\$48,000* was recognized.

### **10. Share-Based Compensation**

The Company currently provides share-based compensation under the 2017 Equity Incentive Plan (2017 Incentive Plan) which was approved by the Board of Directors and the shareholders in *June 2017*.

Grants listed below made prior to fiscal 2017 were made pursuant to plans that have expired or were terminated.

The Company previously provided share-based compensation under the 2014 Employee Stock Option Plan (“2014 Plan”) and 2016 Equity Incentive Plan (“2016 Plan”). On *January 31, 2017*, a putative class action complaint was filed against the Company and certain current and former directors in the Superior Court of the State of Washington in and for Benton County under the case caption Griffith v. IsoRay, Inc., Case No. 17-2-00194-2. The complaint alleged that the Company board permitted certain employee compensation plans to be implemented without receiving the requisite percentage of votes by IsoRay shareholders.

In order to correct mistakes, if any, the Company agreed to seek approval of the 2014 Plan and approval of prior grants under the 2014 Plan, and cancel the 2016 Plan altogether. The Company held a Special Meeting of the Shareholders on *June 15, 2017*, primarily to seek approval of the 2014 Plan and related grants, as well as approval of a new equity incentive plan to replace the cancelled 2016 Plan. Neither the 2014 plan nor related grants were approved during the Special Meeting of the Shareholders. As a result, all options previously granted under the 2014 Plan were cancelled. *No* options had been granted under the 2016 Plan.

The Company’s shareholders approved the 2017 Incentive Plan (“2017 Plan”) in *June 2017*. The 2017 Plan allows the Board of Directors to grant up to *4,000,000* shares of common stock to directors, officers, employees and consultants in a combination of equity incentive forms including incentive stock options (ISO), non-qualified stock options

(NQSO), stock appreciation right (SAR) or restricted shares (RSU) of common stock. Options granted under all of the Plans have a *ten* year maximum term, an exercise price equal to at least the fair market value of the Company's common stock (based on the trading price on the NYSE American) on the date of the grant, and with varying vesting periods as determined by the Board.

A total of 1,179,164 options that were granted under the 2014 Plan were voided. A portion of the new options granted under the 2017 have been accounted for as modifications of these voided options. The unrecognized compensation costs associated with the unvested portion of the voided grants plus the incremental fair value between the 2017 Plan options and the voided 2014 Plan options is being recognized over the vesting terms of the new grants. Total compensation costs for the replacement options were \$494,000 of which \$51,000 was recognized in the year ended June 30, 2017.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have *no* vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The Company uses the Black-Scholes option valuation model because management believes the model is appropriate for the Company. However, management understands that because changes in the subjective input assumptions can materially affect the fair value estimate, this valuation model does *not* necessarily provide a reliable single measure of the fair value of its stock options. The risk-free interest rate is based on the U.S. treasury security rate with an equivalent term in effect as of the date of grant. The expected option lives and volatility assumptions are based on historical data of the Company.

The weighted average fair value of stock option awards granted and the key assumptions used in the Black-Scholes valuation model to calculate the fair value are as follows:

|                             | For the Year Ended June 30, |        |           |        |           |        |
|-----------------------------|-----------------------------|--------|-----------|--------|-----------|--------|
|                             | 2018                        |        | 2017      |        | 2016      |        |
| Weighted average fair value | \$0.34                      |        | \$0.45    |        | \$0.60    |        |
| Options issued              | 1,125,000                   |        | 2,150,000 |        | 1,185,500 |        |
| Exercise price              | \$0.44 to                   | \$0.58 | \$0.55 to | \$0.84 | \$0.64 to | \$1.53 |
| Expected term (in years)    | 5                           |        | 4 to      | 5      | 1 to      | 5      |
| Risk-free rate              | 1.83% to                    | 2.85%  | 1.62% to  | 1.83%  | 0.51% to  | 1.62%  |
| Volatility                  | 94% -                       | 101%   | 101% -    | 103%   | 106% -    | 118%   |

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The following table presents the share-based compensation expense (in thousands):

|                                    | <b>For the Year<br/>Ended June 30,</b> |             |             |
|------------------------------------|--|-------------|-------------|
|                                    | <b>2018</b>                            | <b>2017</b> | <b>2016</b> |
| Cost of product sales              | \$62                                   | \$86        | \$71        |
| Research and development expense   | 92                                     | 60          | 14          |
| Sales and marketing expense        | 92                                     | 86          | 23          |
| General and administrative expense | 158                                    | 140         | 182         |
| Total share-based compensation     | \$404                                  | \$372       | \$290       |

The total value of the stock options awards is expensed ratably over the vesting period of the employees receiving the awards. As of *June 30, 2018*, total unrecognized compensation cost related to stock-based options and awards was \$691,000 and the weighted-average period over which it is expected to be recognized is approximately 1.21 years.

A summary of stock option information within the Company's share-based compensation plans during the fiscal years is presented below:

|  | <b>Options</b>     |                      |                     |                      |
|--|--------------------|----------------------|---------------------|----------------------|
|  | <b>Outstanding</b> | <b>Price<br/>(a)</b> | <b>Life<br/>(b)</b> | <b>Value<br/>(c)</b> |
| Balance at June 30, 2015                     | 2,418,282          | \$1.91               | 4.71                | \$ 692               |
| Granted (d)                                  | 1,185,500          | .87                  |                     |                      |
| Expired                                      | (459,594)          | ) 3.48               |                     |                      |
| Forfeited                                    | (162,869)          | ) 1.67               |                     |                      |
| Exercised                                    | (56,260)           | ) .89                |                     |                      |
| Balance at June 30, 2016                     | 2,925,059          | \$1.21               | 6.93                | \$ 263               |
| Granted (d)                                  | 2,150,000          | .61                  |                     |                      |
| Expired/Forfeited                            | (509,904)          | ) 2.55               |                     |                      |
| Voided                                       | (1,179,164)        | ) .94                |                     |                      |
| Exercised                                    | (6,800)            | ) .26                |                     |                      |
| Balance at June 30, 2017                     | 3,379,191          | \$0.78               | 7.86                | \$ 151               |
| Granted (d)                                  | 1,125,000          | .47                  |                     |                      |
| Expired                                      | (100,000)          | ) .75                |                     |                      |
| Forfeited                                    | (561,541)          | ) .77                |                     |                      |
| Exercised                                    | (82,810)           | ) .61                |                     |                      |
| Balance at June 30, 2018                     | 3,759,840          | .69                  | 7.75                | 49                   |
| Vested and expected to vest at June 30, 2018 | 3,751,440          | \$0.68               | 7.76                | \$ 49                |
| Exercisable at June 30, 2018                 | 2,068,432          | \$0.82               | 6.34                | \$ 49                |

- (a) Weighted average exercise price per share.
- (b) Weighted average remaining contractual life.
- (c) Aggregate intrinsic value (in thousands).

All options granted had exercise prices equal to or greater than the ending closing market price of the Company's common stock on the grant date. The options were granted to employees and management by the Compensation Committee and had vesting periods from immediate to *five* years.

**For the Year  
Ended June  
30,  
2017 2016**

Aggregate intrinsic value of options exercised (in thousands)    \$-    \$ 3    \$ 28

The Company's current policy is to issue new shares to satisfy option exercises.

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**II. Shareholders' Equity**

The authorized capital structure of the Company consists of \$.001 par value preferred stock and \$.001 par value common stock.

Common Stock

On *May 8, 2018*, the Company entered into a Sales Agreement (the "Agreement") with H.C. Wainwright & Co., LLC ("Wainwright"). The common stock sold in the Agreement will be distributed at the market prices prevailing at the time of sale. The Agreement provides that Wainwright will be entitled to compensation for its services at a commission rate of 3.0% of the gross sales price per share of common stock sold plus reimbursement of certain expenses. As of *June 30, 2018*, the Company sold an aggregate of 980,918 shares under the Agreement at an average price of approximately \$0.515 per common share for gross proceeds of approximately \$505,000. The Company paid 3.0% cash commission on the gross proceeds, plus reimbursement of expenses of the placement agent and legal fees in the aggregate amount of approximately \$68,000.

Preferred Stock

The Company's Articles of Incorporation authorize 7,001,671 shares of \$.001 par value preferred stock available for issuance with such rights and preferences, including liquidation, dividend, conversion, and voting rights, as described below.

Series A

At *June 30, 2018* and *2017*, there were 1,000,000 Series A preferred stock shares allocated with *no* shares issued and outstanding.

Series B



Series B preferred shares are entitled to a cumulative *15%* dividend annually on the stated par value per share. These shares are convertible into shares of common stock at the rate of *one* share of common stock for each share of Series B preferred stock, and are subject to automatic conversion into common stock upon the closing of an underwritten public offering pursuant to an effective registration statement under the Securities Act of *1933* covering the offer and sale of common stock in which the gross proceeds to the Company are at least *\$4,000,000*. Series B preferred shareholders have voting rights equal to the voting rights of common stock, except that the vote or written consent of a majority of the outstanding preferred shares is required for any changes to the Company's Articles of Incorporation, Bylaws or Certificate of Designation, or for any bankruptcy, insolvency, dissolution or liquidation of the Company. Upon liquidation of the Company, the Company's assets are *first* distributed ratably to the Series A preferred shareholders, second, to the Series B preferred shareholders, third, to the Series C preferred shareholders, and fourth, to the Series D Convertible preferred shareholders on an "as converted" basis on parity with the holders of the Common Stock.

On *December 14, 2017*, the Board of Directors declared a dividend on the Series B Preferred Stock of all outstanding and cumulative dividends through *December 31, 2017*. The total dividends of *\$11,000* were paid as of *December 31, 2017*. At *June 30, 2018*, there were *59,065* Series B preferred shares outstanding and cumulative dividends in arrears were *\$5,000* and upon any liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, the assets of the Company legally available for distribution, if any, shall be distributed ratably first, to the holders of the Series A Preferred Stock, second, to the holders of the Series B Preferred Stock, third, to the Series C preferred shareholders, and fourth, to the Series D preferred shareholders on an "as converted" basis on parity with the holders of the Common Stock.

### Series C

At *June 30, 2018* and *2017*, there *1,000,000* Series C preferred stock shares allocated with *no* shares issued and outstanding.

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Series D

Established in *August 2013*, Series D preferred shares are entitled to dividends in the same form as dividends actually paid on shares of common stock. Additionally, the Company shall *not* pay any dividends on shares of common stock (other than dividends in the form of common stock) unless the holders of Series D Convertible Preferred Stock shall *first* receive dividends on shares of Series D Convertible Preferred Stock held by them (on an as-if-converted-to-common-stock-basis) in an amount equal to and in the same form as any such dividends (other than dividends in the form of common stock) to be paid on shares of common stock. Except as required by law, shares of Series D Convertible Preferred Stock shall *not* have the right to vote on any matter other than those set forth in the Certificate of Designation with the potential to specifically adversely affect the Series D Convertible Preferred Stock. Series D Convertible Preferred shares are convertible into shares of common stock at the rate of *1,869.15* shares of common stock for each share of Series D Convertible Preferred Stock at any time at the option of the holder, provided that the holder will be prohibited from converting shares of Series D Convertible Preferred Stock into shares of our common stock if, as a result of the conversion, the holder, together with its affiliates, would beneficially own more than *9.99%* of the total number of shares of our common stock then issued and outstanding, which is referred to herein as the “Beneficial Ownership Limitation.” At *June 30, 2018* and *2017*, respectively, there were *no* shares of Series D Convertible Preferred Stock outstanding.

Warrants

*Warrant derivative liability*

In prior years, management concluded that the warrants issued in the *2011* offering required derivative accounting resulting in a warrant liability being adjusted to fair value at the end of each reporting period. These warrants all expired during the year ended *June 30, 2017*.

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Change in fair value of the warrant derivative liability is as follows (in thousands):

|  | <b>For the Year<br/>Ended June 30,<br/>2018</b> |             |        |
|--|---|-------------|--------|
|  | <b>2017</b>                                     | <b>2016</b> |        |
| Change in fair value of the warrant derivative liability | \$-   | \$ 27       | \$ 154 |

During the year ended *June 30, 2018*, the Company issued warrants as share-based compensation for *third* party services, principally for marketing. The weighted average fair value of warrants issued and the key assumptions used in the Black-Scholes valuation model to calculate the fair value, are as follows:

|                             |           |       |
|-----------------------------|-----------|-------|
| Weighted average fair value | \$0.41    |       |
| Warrants issued             | 500,000   |       |
| Exercise price              | \$0.01 to | 0.54  |
| Expected term (in years)    | 2 to      | 3     |
| Risk-free rate              | 1.62% to  | 2.55% |
| Volatility                  | 60% -     | 82%   |

The following table summarizes the activity of all stock warrants and weighted average exercise prices.

|                          | <b>Warrants</b> | <b>Price<br/>(a)</b> |
|--------------------------|-----------------|----------------------|
| Balance at June 30, 2015 | 385,800         | 1.22                 |
| Warrants expired         | (155,713 )      | 1.63                 |
| Balance at June 30, 2016 | 230,087         | \$0.94               |
| Warrants expired         | (230,087 )      | 0.94                 |
| Balance at June 30, 2017 | -               | -                    |
| Warrants issued          | 500,000         | 0.28                 |
| Warrants exercised       | (250,000 )      | 0.01                 |
| Balance at June 30, 2018 | 250,000         | \$0.54               |

(a) Weighted average exercise price per share.

As of *June 30, 2018*, the Company had *250,000* common warrants outstanding exercisable on or before *October 3, 2020*.

Table of Contents**12. Income Taxes**

Due to net losses, the Company did *not* record an income tax provision or benefit for the years ending *June 30, 2018, 2017* and *2016*.

The significant deferred tax components using a federal income tax rate of *21%* and *35%* for the years ended *June 30, 2018* and *2017*, respectively, are as follows (in thousands):

|                                  | <b>As of June 30,</b> |             |
|----------------------------------|-----------------------|-------------|
|                                  | <b>2018</b>           | <b>2017</b> |
| Fixed assets                     | \$ 197                | \$ 519      |
| Share-based compensation         | 480                   | 664         |
| Other accruals                   | 38                    | 33          |
| Asset retirement obligation      | 124                   | 196         |
| Other                            | 10                    | 9           |
| Net operating loss carryforwards | 14,171                | 21,302      |
| Total deferred tax assets        | 15,020                | 22,723      |
| Valuation allowance              | (15,020)              | (22,723)    |
| Total                            | \$ -                  | \$ -        |

As management of the Company cannot determine that it is more likely than *not* that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to *100%* of the net deferred tax asset has been recorded at both *June 30, 2018* and *2017*.

The Company has federal net operating loss carryforwards of approximately \$67 million on *June 30, 2018* that can be used to offset future regular taxable income. These net operating loss carryforwards expire at various times through the years *2028* to *2039*.

On *December 22, 2017*, the United States enacted the Tax Cuts and Jobs Act (the "Act") resulting in significant modifications to existing law. The Company did *not* incur any income tax benefit or provision for the year ended *June 30, 2018* as a result of the changes to tax laws and tax rates under the Act. The Company's net deferred tax asset was reduced by approximately \$9.5 million during the year ended *June 30, 2018*, which consisted primarily of the remeasurement of federal deferred tax assets and liabilities from *35%* to *21%*.

The Company's statutory rate reconciliation is as follows (in thousands):

|   | <b>For the year ended June<br/>30,</b> |             |             |
|---|--|-------------|-------------|
|   | <b>2018</b>                            | <b>2017</b> | <b>2016</b> |
| U.S. federal blended income tax rate    | 28%                                    | 35%         | 35%         |
| Expected income tax benefit             | \$(1,878)                              | \$(2,157)   | \$(1,649)   |
| Meals and entertainment                 | 21                                     | 17          | 7           |
| Non-deductible penalties                | 4                                      | 16          | 21          |
| Warrant derivative liability            | -                                      | (9 )        | (54 )       |
| Share-based compensation                | -                                      | 10          | -           |
| Impact on the change in income tax rate | 9,556                                  | -           | -           |
| Change in valuation allowance           | (7,703)                                | 2,123       | 1,675       |
| Income tax expense (benefit)            | \$-                                    | \$-         | \$-         |

The Company has reviewed the tax positions taken and concluded that it does *not* have to book a liability for uncertain tax positions.

Currently, tax years 2016 to 2018 remain open for examination by United States taxing authorities. Net operating losses prior to 2016 could be adjusted during an examination of open years.

### **13. 401(k) and Profit Sharing Plan**

The Company has a 401(k) plan, which commenced in fiscal year 2007, covering all eligible full-time employees of the Company. Contributions to the 401(k) plan are made by the participants to their individual accounts through payroll withholding. The 401(k) plan also allows the Company to make contributions at the discretion of management. To date, the Company has *not* made any contributions to the 401(k) plan.

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**14. Distribution Agreements**

On July 14, 2017, the Company entered into an agreement with a distributor in Russia that provides for the ability to sell the entire product line in the Russian Federation. The agreement has a *one*-year initial term with *two* additional *one*-year terms which automatically renew unless either party invoke their right to terminate earlier under the provisions of the agreement. The Company has been actively supporting a potential distributor through the regulatory clearance process in its distribution markets which include Italy and Switzerland. The Company and the distributor executed the distribution agreement on August 1, 2016. The agreement has a *one*-year initial term with *two* additional *one*-year terms which automatically renew unless either party invoke their right to terminate earlier under the provisions of the agreement.

**15. Commitments and Contingencies**

Royalty Agreement for Invention and Patent Application

A former employee and shareholder of the Company previously assigned his rights, title and interest in an invention to IsoRay Products LLC (a predecessor company) in exchange for a royalty equal to 1% of the Gross Profit, as defined, from the sale of “seeds” incorporating the technology. The patent and associated royalty obligations were transferred to the Company in connection with the merger transaction.

The Company must also pay a royalty of 2% of Gross Sales, as defined, for any sub-assignments of the aforesaid patented process to any *third* parties. The royalty agreement will remain in force until the expiration of the patents on the assigned technology, unless earlier terminated in accordance with the terms of the underlying agreement.

During fiscal years 2018, 2017 and 2016, the Company recorded royalty expenses of \$27,000, \$21,000, and \$18,000, respectively.

Patent and Know-How Royalty License Agreement

The Company is the holder of an exclusive license to use certain “know-how” developed by *one* of the founders of a predecessor to the Company and licensed to the Company by the Lawrence Family Trust, a Company shareholder. The terms of this 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 in the agreement, remains applicable. To date, management believes that there have been *no* product sales incorporating the "know-how" and therefore *no* royalty is due pursuant to the terms of the agreement. Management believes that the possibility of a negative outcome in this matter is remote.

The licensor of the "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 failed to reach a settlement. The parties *may* demand binding arbitration at any time.

#### Irradiation Services Agreement

On *November 29, 2016*, Medical, a wholly owned subsidiary of IsoRay, entered into an Irradiation Services Agreement (MURR Agreement) with the Curators of the University of Missouri, a public corporation of the State of Missouri, on behalf of its University of Missouri Research Reactor (MURR). The MURR Agreement provides Medical with access to reactor space for the irradiation of natural or enriched barium to produce Ba-131, which is used by Medical to produce Cesium-131 for use in its product. The MURR Agreement has a term of *five* years concluding *November 29, 2021* and will automatically renew for successive *twelve*-month periods unless terminated by either party, and can be terminated by either party upon *three* months written notice. The MURR Agreement does *not* require minimum orders or obligate Medical to future minimum payments.

#### Isotope Purchase Agreement

In *December 2015*, the Company completed negotiations with The Open Joint Stock Company (located in Russia) for the purchase of Cesium-131 manufactured by the Institute of Nuclear Materials. The purchase agreement provided the Company with *one* year's supply of Cesium-131. The original agreement was due to expire on *March 31, 2017*, but in *December 2016* an addendum was signed extending it until *December 31, 2017*. On *October 23, 2017*, the Company, together with The Open Joint Stock Company signed an addendum to the contract to include Cesium-131 manufactured at the Research Institute of Atomic Reactors ("SSC RIAR") and extended it until *December 31, 2018*. This addendum brought the total sum of the contract to approximately \$2,328,000. The addendum also includes SCC RIAR as a manufacturer of Cesium-131 under the contract. Approximately \$504,000 in future payments remain at *June 30, 2018*.



Table of ContentsOperating Lease Agreements

The Company leases office and laboratory space under an operating lease. The lease *may* be terminated by either party with a *six* month written notice. The Company agreed to a modification which became effective *November 1, 2016* to extend the lease termination date to *April 30, 2021*. The lease terms require monthly lease payments and include a contractually permitted annual rent increase based on changes in the CPI index. Future minimum lease payments under this operating lease are as follows (in thousands):

| <b>Year ending June 30,</b>         | <b>Amount</b> |
|-------------------------------------|---------------|
| 2019                                | 290           |
| 2020                                | 290           |
| 2021                                | 241           |
| Total future minimum lease payments | \$ 821        |

|                | <b>For the Year</b>   |             |             |
|----------------|-----------------------|-------------|-------------|
|                | <b>Ended June 30,</b> |             |             |
|                | <b>2018</b>           | <b>2017</b> | <b>2016</b> |
| Rental expense | \$285                 | \$288       | \$292       |

Royalty Agreements for Licensed Intellectual Property related to the GliaSite® RTS

In *June 2011*, the Company entered into a license agreement with Dr. Reddy's Laboratory Ltd for the exclusive use of its intellectual property related to the GliaSite® Radiation Therapy System (GliaSite® RTS). In *April 2016*, the Company provided to Dr. Reddy's Laboratory Ltd notice of intent to terminate the license agreement. The license agreement termination was effective *June 30, 2016*. A final prorated royalty payment of *\$15,000* was paid as of *June 30, 2016*. There were *no* payments made in fiscal years *2018* or *2017*.

The Company recorded royalty expenses related to the licensed intellectual property utilized in the manufacture and sale of the GliaSite® RTS (in thousands):

|                 | <b>For the Year</b> |             |             |
|-----------------|---------------------|-------------|-------------|
|                 | <b>Ended June</b>   |             |             |
|                 | <b>2018</b>         | <b>2017</b> | <b>2016</b> |
| Royalty expense | \$-                 | \$ -        | \$ 28       |

Research and Development - Collaborative Arrangement

On *March 13, 2017*, Medical entered into a Collaborative Development Agreement (CDA) with GammaTile, LLC to further develop a brachytherapy medical device for the treatment of cancerous tumors in the brain and to seek regulatory approval for the new product. As the project manager, Medical incurs all costs in connection with the collaboration project which will be shared equally by both parties as of *November 8, 2016* when they informally began the collaboration. The arrangement is accounted for as a collaborative arrangement and related costs are incurred, shared, and separately stated in connection with a collaborative research and development project. These costs are reported on the financial statements under “Research and development: Collaboration arrangements, net of reimbursement.”

Costs incurred in connection with the collaboration agreement during fiscal years *2018* and *2017* were *\$769,000* and *\$387,000*, respectively, of which GammaTile LLC has been invoiced a total of *\$568,000* and paid *\$546,000*. As of *June 30, 2018* and *2017*, the Company had a receivable balance of *\$22,000* and *\$66,000*, respectively.

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Class Action Lawsuit re Equity Plans

On *January 31, 2017*, a putative class action complaint was filed against IsoRay and certain current and former directors in the Superior Court of the State of Washington in and for Benton County under the case caption Griffith v. IsoRay, Inc., Case No. 17-2-00194-2. The complaint alleged that IsoRay's board permitted certain employee compensation plans to be implemented without receiving the requisite percentage of votes by IsoRay shareholders. On *May 16, 2017*, the parties executed a settlement for \$195,000 of the individual Plaintiffs' claims. The action was dismissed on *July 10, 2017*. See Note 10.

Property Transaction between Medical and The Port of Benton

On *September 10, 2015*, the Company's operating subsidiary, Medical, entered into a Real Estate Purchase and Sale Agreement with The Port of Benton (Port), a municipal corporation of the State of Washington. The Agreement is for the Company's purchase of undeveloped real property of approximately 4.2 acres located adjacent to the Company's existing manufacturing facility and corporate offices. The initial purchase price was \$168,000.

Medical failed to comply with a provision to begin construction by *January 31, 2017*. As a result, Medical was required to pay the Port the difference in the initial purchase price of \$168,000 and the appraised value of the property of \$365,900. Medical paid the Port \$197,900 in *May 2017*. Medical is *no* longer subject to the Development Plan but solely to the covenants that are attached to the property itself.

**16. Concentrations of Credit and Other Risks**

The Company's financial instruments that were exposed to concentrations of credit risk consist primarily of cash and cash equivalents, certificates of deposit, and accounts receivable.

The Company's certificates of deposit are maintained in the Certificate of Deposit Account Registry Service (CDARS®) Columbia State Bank at *June 30, 2018*. The CDARS system provides the Company access to Federal Deposit Insurance Corporation (FDIC) guarantees on multi-million dollar CD deposits through a single financial institution.

The Company's cash and cash equivalents were maintained with high-quality financial institutions at *June 30, 2018* and *2017*, respectively. The accounts are guaranteed by the (FDIC) up to \$250,000. At *June 30, 2018* and *2017*, respectively, all cash balances were guaranteed by the FDIC.

One group of customers, facilities or physician practices has revenues that aggregate to greater than *10%* of total Company product sales. This group of facilities individually do *not* aggregate to more than *10%* of total Company product sales. They are serviced by the same physician group, *one* of whom is our Medical Director:

| Facility                                 | Year ended June 30, |         |         |
|--|---------------------|---------|---------|
|  | 2018                | 2017    | 2016    |
|  | % of                | % of    | % of    |
|  | total               | total   | total   |
|  | revenue             | revenue | revenue |
| El Camino, Los Gatos, & other facilities | 24.2%               | 22.9%   | 24.2%   |

The Company routinely assesses the financial strength of its customers and provides an allowance for doubtful accounts as necessary. At both *June 30, 2018* and *2017*, the allowance was approximately \$26,000.

Table of ContentsInventories

Most components used in the Company's product are purchased from outside sources. Certain components are purchased from single suppliers. The failure of any such supplier to meet its commitment on schedule could have a material adverse effect on the Company's business, operating results and financial condition. If a sole-source supplier, a supplier of Cesium-131 or a supplier of irradiated barium were to go out of business or otherwise become unable to meet its supply commitments, the process of locating and qualifying alternate sources could require up to several months, during which time the Company's production could be delayed. Such delays could have a material adverse effect on the Company's business, operating results and financial condition. Sanctions placed on financial transactions with Russian banking institutions *may* interfere with the Company's ability to transact business in Russia on a temporary or other basis resulting in an interruption of the Cesium-131 supply which could have a temporary material adverse effect on the Company's business, operating results and financial condition.

**17. Related Party Transactions**

During the fiscal year 2016, the Company engaged the services of APEX Data Systems, Inc. (APEX), owned by Dwight Babcock, former Chairman and Chief Executive Officer. During the year ended *June 30, 2016*, the Company incurred costs attributed to APEX for website modifications and maintenance of \$6,000; and maintenance support for a CRM system of \$6,000. An alternative vendor began providing these services beginning *January 2016*.

During fiscal year 2017, the Company engaged GO Intellectual Capital, LLC (GO) for marketing services in support of the Company's rebranding effort. Michael McCormick, a member of the Company Board of Directors, is a 1/3 owner of GO. A statement of work was developed defining the scope of the effort and the deliverables to the Company including a new logo with brand messaging and communication tools including a website, sales presentation tools and a public relations strategy. For the fiscal year 2017, the Company paid GO \$20,374 (2016: \$105,659) for its performance of work related to the agreed upon statement of work. During fiscal year 2018 the Company incurred *no* costs attributed to GO for any services.

**18. Quarterly Financial Data (Unaudited)**

The following table provides the selected quarterly financial data for fiscal years 2018 and 2017 (dollars and shares in thousands, except for per share amounts):

**Quarters ended**

|  | <b>September<br/>30,<br/>2017</b> | <b>December<br/>31,<br/>2017</b> | <b>March<br/>31,<br/>2018</b> | <b>June<br/>30,<br/>2018</b> |
|--|-----------------------------------|----------------------------------|-------------------------------|------------------------------|
| Net revenue  | \$1,211                           | \$ 1,536                         | \$1,573                       | \$1,603                      |
| Gross profit   | \$265                             | \$ 531                           | \$609                         | \$437                        |
| Net loss   | \$(1,546 )                        | \$(1,463 )                       | \$(1,332 )                    | \$(2,359 )                   |
| Net loss per share – basic and diluted                 | \$(0.03 )                         | \$(0.03 )                        | \$(0.02 )                     | \$(0.04 )                    |
| Shares used in basic and diluted per share calculation | 55,017                            | 55,056                           | 55,100                        | 55,463                       |

|  | <b>Quarters ended</b>             |                                  |                               |                              |
|--|-----------------------------------|----------------------------------|-------------------------------|------------------------------|
|  | <b>September<br/>30,<br/>2016</b> | <b>December<br/>31,<br/>2016</b> | <b>March<br/>31,<br/>2017</b> | <b>June<br/>30,<br/>2017</b> |
| Net revenue  | \$1,081                           | \$ 1,028                         | \$1,282                       | \$1,370                      |
| Gross profit/(loss)                                    | \$48                              | \$ (1 )                          | \$293                         | \$498                        |
| Net loss   | \$(1,498 )                        | \$(1,450 )                       | \$(1,360 )                    | \$(1,854 )                   |
| Net loss per share – basic and diluted                 | \$(0.03 )                         | \$(0.03 )                        | \$(0.02 )                     | \$(0.03 )                    |
| Shares used in basic and diluted per share calculation | 55,011                            | 55,017                           | 55,017                        | 55,017                       |

<sup>1</sup> Due to rounding, the total of the individual quarters and the year-end calculation on the Consolidated Statement of Operations *may* be different.

## 19. Subsequent Events

On *July 9, 2018*, the Company suspended its Sales Agreement with H.C. Wainwright & Co., LLC to sell common stock at the market prices prevailing at the time of sale.

On *July 11, 2018*, the Company closed on the sale of *11,000,000* shares of its common stock at a price of *\$0.75* per share, for aggregate gross proceeds of *\$8.25* million, pursuant to the registration statement on Form S-3 that became effective on *November 23, 2015*. The Company intends to use the net proceeds from this offering, estimated at approximately *\$7,600,000*, for working capital and general corporate purposes, with particular focus on marketing the brain applications and Blu Build delivery system. Additionally, the Company issued to the purchasers unregistered warrants to purchase up to *5,500,000* shares of common stock. The warrants have an exercise price of *\$0.75* per share common stock, are exercisable commencing *six* months following the issuance date, and expire *five* and *one-half* years from the issuance date. Future exercises of these warrants will provide additional capital to the Company. As a result of this recent capital raise, the Company does *not* anticipate the need to finance its operations for the next fiscal year from additional capital raises.

On *September 24, 2018*, the Company notified University of Missouri Research Reactor ("MURR") of its decision to terminate its supply agreement effective in *December 2018*.



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**ITEM 16 – FORM 10-K SUMMARY**

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: September 26, 2018

ISORAY, INC., a Minnesota corporation

By /s/ Lori A. Woods  
Lori A. Woods, Interim Chief Executive Officer, Director

By /s/ Mark J. Austin  
Mark J. Austin, Controller,  
Principal Financial and Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: September 26, 2018

/s/ Lori A. Woods  
Lori A. Woods, Interim Chief Executive Officer, Director

/s/ Mark J. Austin  
Mark J. Austin, Controller,  
Principal Financial and Accounting Officer

/s/ Alan Hoffmann  
Alan Hoffmann, Director

/s/ Michael McCormick  
Michael McCormick, Chairman

/s/ Philip Vitale

Philip Vitale, Director

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Schedule 1

LIST OF PRIOR INVENTIONS  
AND ORIGINAL WORKS OF AUTHORSHIP

| <b>Title</b>                                     | <b>Date</b> | <b>Identifying Number or Brief Description</b> |
|--|-------------|--|
| Brachytherapy Seed Insertion and Fixation System |             | WO 2014/189604                                 |
| Bendable, shielding brachytherapy needle holder  |             | US 2014/0323795 A1                             |