

IsoRay, Inc.
Form 10-Q
May 15, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☐ QUARTERLY Report PURSUANT TO Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2015

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 or other jurisdiction of incorporation or organization)	41-1458152 (I.R.S. Employer Identification No.)
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350 Hills St., Suite 106, Richland, Washington (Address of principal executive offices)	99354 (Zip Code)
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Registrant's telephone number, including area code: (509) 375-1202

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes x No "

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

Large accelerated filer " Accelerated filer " Non-accelerated filer "

Smaller reporting company x

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

Number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date:

Class	Outstanding as of May 8, 2015
Common stock, \$0.001 par value	54,907,185

ISORAY, INC.

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PART I – FINANCIAL INFORMATION**IsoRay, Inc. and Subsidiaries****Consolidated Balance Sheets**

	(Unaudited) March 31, 2015	June 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$1,077,526	\$7,680,073
Certificates of deposit (Note 3)	9,081,827	10,002,912
Accounts receivable, net of allowance for doubtful accounts of \$30,000 and \$38,607, respectively	1,038,473	913,049
Inventory	464,555	359,737
Other receivables	9,928	53,082
Prepaid expenses and other current assets	215,218	206,047
Total current assets	11,887,527	19,214,900
Fixed assets, net of accumulated depreciation		
Certificates of deposit, non-current (Note 3)	656,655	1,017,915
Restricted cash	10,145,978	5,401,398
Inventory, non-current	181,248	181,208
Other assets, net of accumulated amortization	469,758	469,758
	243,169	264,076
Total assets	\$23,584,335	\$26,549,255
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$439,657	\$574,855
Accrued protocol expense	118,464	80,433
Accrued radioactive waste disposal	118,123	141,592
Accrued payroll and related taxes	89,536	236,282
Accrued vacation	115,132	120,765
Total current liabilities	880,912	1,153,927
Warrant derivative liability	180,000	573,000
Asset retirement obligation	926,838	866,560

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Total liabilities	1,987,750	2,593,487
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock, \$0.001 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	59	59
Series C: 1,000,000 shares allocated; no shares issued and outstanding	-	-
Series D: 1,671 shares allocated, no shares issued and outstanding	-	-
Common stock, \$.001 par value; 192,998,329 shares authorized; 54,883,845 and 54,701,708 shares issued and outstanding	54,884	54,702
Treasury stock, at cost, 13,200 shares	(8,390)	(8,390)
Additional paid-in capital	82,246,857	81,959,853
Accumulated deficit	(60,696,825)	(58,050,456)
Total shareholders' equity	21,596,585	23,955,768
Total liabilities and shareholders' equity	\$23,584,335	\$26,549,255

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

IsoRay, Inc. and Subsidiaries**Consolidated Statement of Operations****(Unaudited)**

	Three months ended March 31,		Nine months ended March 31,	
	2015	2014	2015	2014
Product sales, net	1,158,109	1,134,319	3,265,795	3,269,642
Cost of product sales	1,102,912	1,083,413	3,303,364	3,329,950
Gross profit / (loss)	55,197	50,906	(37,569)	(60,308)
Operating expenses:				
Research and development expenses	141,399	153,611	458,636	470,631
Sales and marketing expenses	374,876	245,558	1,032,402	931,210
General and administrative expenses	589,934	640,732	1,703,825	1,805,732
Total operating expenses	1,106,209	1,039,901	3,194,863	3,207,573
Operating loss	(1,051,012)	(988,995)	(3,232,432)	(3,267,881)
Non-operating income (expense):				
Interest income	68,954	556	214,009	1,391
Change in fair value of warrant derivative liability	28,605	(1,095,000)	375,605	(1,014,000)
Financing and interest expense	(100)	-	(3,551)	(827)
Non-operating income (expense), net	97,459	(1,094,444)	586,063	(1,013,436)
Net loss	(953,553)	(2,083,439)	(2,646,369)	(4,281,317)
Preferred stock deemed dividends (Note 10)	-	-	-	(726,378)
Preferred stock dividends	2,658	(2,658)	(2,658)	(7,974)
Net loss applicable to common shareholders	\$ (950,895)	\$ (2,086,097)	\$ (2,649,027)	\$ (5,015,669)
Basic and diluted loss per share	\$ (0.02)	\$ (0.05)	\$ (0.05)	\$ (0.13)
Weighted average shares used in computing net loss per share:				
Basic and diluted	54,883,551	42,506,077	54,878,297	38,852,980

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

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

	Nine months ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(2,646,369)	\$(4,281,317)
Adjustment to reconcile net loss to net cash used by operating activities:		
Allowance for doubtful accounts	(8,607)	18,779
Depreciation of fixed assets	439,223	517,548
Amortization of other assets	34,923	23,056
Change in fair value of warrant derivative liability	(375,605)	1,014,000
Accretion of asset retirement obligation	60,278	55,109
Share-based compensation	64,360	65,217
Changes in operating activities and liabilities:		
Accounts receivable, gross	(116,817)	99,675
Inventory	(104,818)	18,551
Other receivables	43,154	4,516
Prepaid expenses and other current assets	(9,171)	(2,213)
Accounts payable and accrued expenses	(135,198)	177,195
Accrued protocol expense	38,031	49,752
Accrued radioactive waste disposal	(23,469)	30,301
Accrued payroll and related tax	(146,746)	(39,759)
Accrued vacation	(5,633)	10,393
Net cash used by operating activities	(2,892,464)	(2,239,197)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(77,963)	(16,333)
Additions to licenses and other assets	(14,016)	(5,168)
Change in restricted cash	(40)	(45)
Proceeds from the maturity of certificates of deposit	10,031,758	-
Purchases of certificates of deposit	(9,110,673)	-
Purchases of certificates of deposit - non-current	(4,744,580)	-
Net cash used by investing activities	(3,915,514)	(21,546)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Preferred dividends paid	(10,632)	(10,632)
Proceeds from the sale of preferred stock, pursuant to underwritten offering, net	-	1,478,703
Proceeds from the sale of common stock, pursuant to underwritten offering, net	-	1,800,589

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Proceeds from the sale of common stock, pursuant to registered direct offering, net	-	13,818,927
Proceeds from the sale of common stock, pursuant to the exercise of warrants	70,789	5,961,001
Proceeds from the sale of common stock, pursuant to the exercise of options	145,274	15,129
Net cash provided by financing activities	205,431	23,063,717
Net increase (decrease) in cash and cash equivalents	(6,602,547)	20,802,974
Cash and cash equivalents, beginning of period	7,680,073	2,899,927
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$1,077,526	\$23,702,901
Non-cash investing and financing activities:		
Reclassification of warrant derivative liability to equity upon exercise	\$17,395	\$(440,000)
Reclassification of convertible preferred stock to common stock upon conversion	-	(1,478,703)

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

IsoRay, Inc.

Notes to the Unaudited Consolidated Financial Statements

For the three and nine months ended March 31, 2015 and 2014

1. Basis of Presentation

The accompanying consolidated financial statements are those of IsoRay, Inc., and its wholly-owned subsidiaries (IsoRay or the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in the prior-year financial statements have been reclassified to conform to the current year presentation.

In the opinion of management, the accompanying unaudited interim consolidated financial statements and notes to the interim consolidated financial statements contain all adjustments, consisting of normal recurring items, necessary to present fairly, in all material respects, the financial position of IsoRay, Inc. and its wholly-owned subsidiaries. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related footnotes as set forth in the Company's annual report filed on Form 10-K for the year ended June 30, 2014, as it may be amended from time to time.

The results of operations for the periods presented may not be indicative of those which may be expected for a full year. The unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures are adequate for the information not to be misleading.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosures of contingent liabilities. Accordingly, ultimate results could differ materially from those estimates.

2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09), which supersedes the revenue recognition

requirements in FASB Accounting Standards Codification (ASC) Topic 605, "Revenue Recognition". The guidance requires that an entity recognize revenue in a way that depicts the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. The guidance will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. The Company is currently evaluating the new standard and its impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15—Presentation of Financial Statements—Going Concern. The guidance requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). If conditions or events exist that raise substantial doubt about an entity's ability to continue as a going concern, the guidance requires disclosure in the financial statements. The guidance will be effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is currently evaluating the new standard and its impact on the Company's consolidated financial statements.

3. Certificates of Deposit

Remaining time to maturity	Under 90 days	91 days to six months	Six months to 1 year	1 to 3 years
Certificates of Deposit ¹	\$5,563,126	\$3,518,701	\$ -	\$10,145,978

¹ - Certificate of Deposit Account Registry Service (CDARS), which is a system method by which the Company may access multi-million-dollar Certificates of Deposit (CDs) deposits in principal and interest amounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC) with original maturities that were greater than three months and up to three years at the time of purchase.

4. Loss per 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. At March 31, 2015 and 2014, the calculation of diluted weighted average shares did not include 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 not considered in the calculation of diluted weighted average shares, but that could be dilutive in the future, as of March 31, 2015 and 2014, were as follows:

	March 31,	
	2015	2014
Series B preferred stock	59,065	59,065
Common stock warrants	396,174	646,811
Common stock options	2,057,620	2,324,072
Total potential dilutive securities	2,512,859	3,029,948

5. Inventory

Inventory consisted of the following at March 31, 2015 and June 30, 2014:

March 31, June 30,

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	2015	2014
Raw materials	\$ 240,247	\$ 173,417
Work in process	196,976	151,321
Finished goods	27,332	34,999
	\$ 464,555	\$ 359,737

6. Share-Based Compensation

The following table presents the share-based compensation expense recognized during the three and nine months ended March 31, 20