

Morning Note – August 15, 2011

- **World's First CS-131 Brachytherapy Seed Implant for Gynecological Cancer**
- **Media Attention for CS-131 in Lung Cancer using da Vinci® Robotic System**
- **GliaSite® / Iotrex™ U.S. Launch in August – Europe Soon**

Please See Last 2 Pages For Important Disclosures And Analyst Certification

Company	Ticker	Price	Mkt. Cap.	Daily Volume	Rating	Target	Analysts
IsoRay	ISR	\$1.17	\$31M	3-month 127,058 10-day 108,000	Strong Speculative Buy	\$3.00	Stephen M. Dunn Sr. Managing Director Research sdunn@LifeTechCapital.com (954) 240-9968

Summary

IsoRay announced the world's first treatment using Cesium-131 brachytherapy seeds for gynecological cancer at the University of Kentucky's Markey Cancer Center on a patient whose cancer had reoccurred following previous radiation treatment. The procedure was performed by Dr. Marcus E. Randall who is the Markey Foundation Endowed Chair of the Department of Radiation Medicine. Treatment options for these patients have been historically limited to surgical removal of organs and tissue or palliative chemotherapy (non-cure), Dr. Randall stated that permanent seed implants “are very safe and quite effective with good long term control and survival.”

More on Dr. Randall can be found at: <http://www.mc.uky.edu/radiationmedicine/faculty/randall.asp>

Investors should note that IsoRay continues to be successful in expanding the use and adoption of their FDA-approved Cesium-131 brachytherapy seed products in new cancer-types and new surgical modalities, including robotic surgery.

Recent News

In July 2011, IsoRay announced a milestone as their Cesium-131 brachytherapy seeds in mesh were implanted in an early stage lung cancer patient using Intuitive Surgical's (Nasdaq:ISRG) da Vinci® robotic surgical system. The procedure was performed by Dr. Deepak Khuntia (one of the nation's leading thought leaders in lung and brain tumors) and the surgical team at El Camino Hospital in California.

Stage 1 lung cancer patients are typically treated by performing extensive surgery to remove the entire lung or one of five lobes of the lung. For patients with restricted breathing conditions, this surgery is not an option and only a limited surgical procedure to remove the tumor mass from a lobe is possible. This leaves these patients with 20% to 40% cancer recurring along the surgical repair line.

In addition, the procedure has also been used at Archbold Memorial Hospital in Thomasville Georgia. Below are TV broadcasts regarding the Cs-131 Robotic Surgery procedure on a lung cancer patient from WALB and WCTV:

<http://www.walb.com/story/15238595/new-procedure-may>

http://www.wctv.tv/georgianews/headlines/Archbold_Memorial_Hospital_First_in_Georgia_with_Lung_Cancer_Treatment_127337133.html



Source: Intuitive Surgical Inc.

Intuitive Surgical's da Vinci® Surgical System enables surgeons to perform delicate and complex operations through a few tiny incisions with increased vision, precision, dexterity and control. The da Vinci Surgical System consists of several key components, including: an ergonomically designed console where the surgeon sits while operating, a patient-side cart where the patient lays during surgery, four interactive robotic arms, a high-definition 3D vision system, and proprietary EndoWrist® instruments.

Investment Summary

- 1.) **CS-131 & IMRT in Prostate Cancer:** IsoRay is initiating a new dual therapy study using Cesium-131 brachytherapy with external beam radiation. Multiple sites have now received Institutional Review Board approval combining intensity modulated radiation (IMRT) with Cesium-131 brachytherapy to treat intermediate and high risk early stage prostate cancer. (*see Proxcelan™ Brachytherapy for Prostate Cancer*)
- 2.) **Iotrex™ Acquisition Complete:** On June 7, 2011 IsoRay completed a license agreement with Dr. Reddy's Laboratories (NYSE: RDY) for exclusive worldwide licensing rights to Iotrex®, for use with the GliaSite system in brain cancer treatment. Investors should also note that IsoRay continues to develop liquid Cesium-131 for use with the GliaSite® therapy system.
- 3.) **Preparing for U.S. Launch of GliaSite®/Iotrex™:** IsoRay has begun ordering inventory to construct and manufacture the GliaSite® radiation therapy system and has guided to a late-July or August launch in the U.S. Investors should note that GliaSite® is only FDA-approved balloon catheter for brachytherapy treatment of brain cancer. IsoRay is negotiating distribution agreements with the previous European distributor of GliaSite®
- 4.) **Prostate Brachytherapy Preferred over IMRT:** Recent studies at both Memorial Sloan-Kettering Cancer Center and Mount Sinai School of Medicine found brachytherapy to be the treatment of choice for a majority of men diagnosed with low-risk prostate cancer citing superior results, side effect profiles and cost savings to robotic prostatectomy, cryotherapy and IMRT. (*see Proxcelan™ Brachytherapy for Prostate Cancer*)
- 5.) **Cesium-131 Awareness Growing:** With additional data on Prostate and Lung cancers plus initiatives in breast, ocular and other solid tumors, we expect IsoRay to have a significant presence at ASTRO in early-October.
- 6.) **European CE Mark Received:** IsoRay received European CE mark certification for stranded and mesh Cesium-131 seeds configuration for cancer applications throughout the body including head and neck, lung, brain, colon, and prostate cancers. IsoRay is currently seeking distributors throughout Europe.

7.) **E-Clinical Data Collection System Launched:** IsoRay recently launched a real-time, E-clinical data collection system providing patient data for various new studies providing an independent source for clinical analysis and publication. The online web data collection registry is currently being used by physicians in the multi-institutional lung study examining the efficacy of brachytherapy over other techniques and treatments. The study has expanded with a growing number of institutions recruiting patients. The ease and accuracy of data submission through the new system offers physicians important benefits and features, while lowering the cost of acquiring empirical data.

8.) **We are maintaining IsoRay with a Strong Speculative Buy rating and a 12-18 month price target of \$3.00. We believe that IsoRay remains “under the radar” on Wall Street as management begins executing on multiple growth strategies.** Our valuation is based on a 35x multiple on projected fiscal year 2015 EPS and discounted 25% for cumulative risk.

IsoRay FDA 510(k) Clearances

IsoRay products have already received U.S. FDA 510(k) medical device clearance for use broad use by healthcare professionals. Specifically, the IsoRay Cesium-131 implant devices are indicated for the treatment of malignant disease (e.g., head and neck, brain, breast, prostate, etc.), and may be used in surface, interstitial, and intracavitary applications for tumors with known radiosensitivity. These devices may be used as a primary treatment or in conjunction with other treatment modalities, such as external beam radiation therapy, chemotherapy or as treatment for residual disease after excision of primary tumors.

Product	510(k) Ref #	Decision Date	References Documents for FDA 510(k) Clearance
Proxcelan Cs-131 preloaded Strands, Model PI-1, Proxcelan Cs-131 Preloaded Strands In 18 Gauge Needles, Model PI-2	K092458	08/28/2009	http://www.accessdata.fda.gov/cdrh_docs/pdf9/K092458.pdf
Proxcelan Cs-131 Preloaded Braided Strands, Model: PI-5	K092136	08/07/2009	http://www.accessdata.fda.gov/cdrh_docs/pdf9/K092136.pdf
Cesium-131 Strand, Strand Preload, Preload, S-Cartridge	K062384	11/09/2006	http://www.accessdata.fda.gov/cdrh_docs/pdf6/K062384.pdf
Lawrence CSERION, Model Cs-1	K030162	03/28/2003	http://www.accessdata.fda.gov/cdrh_docs/pdf3/K030162.pdf

Source: United States Food & Drug Administration

Company Description

Richland, Washington-based IsoRay began production and sales of its initial FDA-cleared product, the IsoRay Proxcelan™ Cesium-131 brachytherapy seed in October 2004 for the treatment of prostate cancer. The more clinically beneficial characteristics of the Cesium-131 isotope are expected to decrease off-target radiation exposure to the patient and reduce the severity and duration of side effects, while treating cancer cells as effectively, if not more so, than Iodine-125 or Palladium-103. Cesium-131 offers a combination of patient benefits that IsoRay believes are superior to other currently available brachytherapy isotopes.



In December 2007, IsoRay began selling its Proxcelan™ Cs-131 seeds for the treatment of ocular melanoma and in June 2009 began selling Proxcelan™ Cs-131 seeds for treatment of head and neck tumors. IsoRay continued to expand the number of areas of the body in which the Proxcelan™ Cs-131 seeds were being utilized by adding lung cancer in August 2009, colorectal cancer in October 2009, and chest wall cancer in December 2009.

IsoRay is also launching the GliaSite® radiation therapy system. It the only FDA-approved balloon catheter device used in the brachytherapy treatment of brain cancer. IsoRay has acquired an exclusive worldwide licence for Iotrex™ (liquid Iodine-125) which already has FDA approval for use in the GliaSite® therapy system and is developing liquid Cesium-131 also for use in the GliaSite® therapy system.

Calendar Quarter	MILESTONES & EVENTS					
	Prostate	Lung	Brain	Solid Tumors	Breast	Ocular
Q4 2010		✓Initiate Post-Marketing Trial		Various Publications	✓DATA Feasibility Trial	Various Publications
Q1 2011						
Q2 2011	✓Initiate CS-131 + IMRT Post-Marketing Trial		✓Obtain Iotrex Rights		Continued Development Accelerated Partial Breast Irradiation (APBI)	
Q3 2011			GliaSite/Iotrex Launch			
ASTRO (Oct 2-6) Q4 2011	DATA 5-Year Trial Publication	DATA Post-Marketing Trial	Continued Development of Liquid CS-131			
Q1 2012						

Source: Isoray and LifeTech Capital Estimates

DISCLOSURES



Ratings and Price Target Changes over Past 3 Years
Initiated February 16, 2011 – Strong Speculative Buy - Price Target \$3.00

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Has the Firm or affiliates received investment banking services compensation in previous 12 months?	YES
Has the Firm or affiliates received non-investment banking securities-related services compensation in previous 12 months?	NO
Does the Firm or affiliates expect to receive or intend to seek investment banking compensation in next 3 months?	YES
Has the Firm or affiliates received non-securities services compensation in previous 12 months?	NO
Does the Firm or affiliates make a market in the Company’s securities?	NO

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LifeTech Capital Research	Research Coverage	Investment Banking	FINRA RULE 2711	Research Coverage	Investment Banking
Ratings Distribution	% of Total	% of Total	Ratings Distribution	% of Total	% of Total
Strong Buy	17%	50%	Buy	83%	50%
Strong Speculative Buy	67%	50%	Hold/Neutral	8%	100%
Buy	0%	0%	Sell	8%	100%
Speculative Buy	0%	0%	Total	100%	58%
Neutral	8%	100%			
Avoid/Sell	8%	100%			
Under Review	0%	0%			
Not Rated	0%	0%			
Restricted	0%	0%			
Total	100%	58%			

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