Lantheus Holdings, Inc.
Form 10-Q
August 01, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-36569

LANTHEUS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**35-2318913**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
331 Treble Cove Road, North Billerica, MA	**01862**
(Address of principal executive offices)	**(Zip Code)**

(978) 671-8001

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 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 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 for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	(Do not check if a smaller reporting company)	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 by Rule 12b-2 of the Act) Yes No

The registrant had 37,350,751 shares of common stock, $0.01 par value, outstanding as of July 28, 2017.

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LANTHEUS HOLDINGS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Lantheus Holdings, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except par value)

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 57,154	$ 51,178
Accounts receivable, net	43,246	36,818
Inventory	21,151	17,640
Other current assets	4,072	5,183
Total current assets	125,623	110,819
Property, plant & equipment, net	91,863	94,187
Intangibles, net	13,456	15,118
Goodwill	15,714	15,714
Other long-term assets	21,222	20,060
Total assets	$ 267,878	$ 255,898
Liabilities and Stockholders Deficit		
Current liabilities		
Current portion of long-term debt	$ 2,750	$ 3,650
Revolving line of credit		
Accounts payable	17,674	18,940
Accrued expenses and other liabilities	22,640	21,249
Total current liabilities	43,064	43,839
Asset retirement obligations	9,891	9,370
Long-term debt, net	265,929	274,460
Other long-term liabilities	36,174	34,745
Total liabilities	355,058	362,414
Commitments and contingencies (See Note 12)		
Stockholders deficit		

Preferred stock ($0.01 par value, 25,000 shares authorized; no shares issued and outstanding)		
Common stock ($0.01 par value, 250,000 shares authorized; 37,348 and 36,756 shares issued and outstanding, respectively)	373	367
Additional paid-in capital	228,083	226,462
Accumulated deficit	(314,665)	(332,398)
Accumulated other comprehensive loss	(971)	(947)
Total stockholders deficit	(87,180)	(106,516)
Total liabilities and stockholders deficit	$ 267,878	$ 255,898

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

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Lantheus Holdings, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	$ 88,837	$ 77,966	$ 170,196	$ 154,440
Cost of goods sold	42,890	42,215	84,487	84,988
Gross profit	45,947	35,751	85,709	69,452
Operating expenses				
Sales and marketing	11,603	9,843	21,817	19,150
General and administrative	11,203	9,238	23,473	18,751
Research and development	5,244	2,608	10,595	5,644
Total operating expenses	28,050	21,689	55,885	43,545
Gain on sale of assets		(117)		(5,945)
Operating income	17,897	14,179	29,824	31,852
Interest expense	4,285	6,983	9,705	14,008
Loss on extinguishment of debt			2,161	
Other income	(552)	(401)	(1,129)	(466)
Income before income taxes	14,164	7,597	19,087	18,310
Provision for income taxes	569	247	1,354	637
Net income	$ 13,595	$ 7,350	$ 17,733	$ 17,673
Net income per common share outstanding:				
Basic	$ 0.37	$ 0.24	$ 0.48	$ 0.58
Diluted	$ 0.35	$ 0.24	$ 0.46	$ 0.58
Weighted-average common shares outstanding:				
Basic	37,235	30,378	37,063	30,373
Diluted	38,900	30,543	38,726	30,454

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

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Lantheus Holdings, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$ 13,595	$ 7,350	$ 17,733	$ 17,673
Other comprehensive income (loss):				
Foreign currency translation	(20)	(84)	(24)	256
Total other comprehensive income (loss)	(20)	(84)	(24)	256
Total comprehensive income	$ 13,575	$ 7,266	$ 17,709	$ 17,929

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

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Lantheus Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

	Six Months Ended June 30,	
	2017	**2016**
Operating activities		
Net income	$ 17,733	$ 17,673
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation, amortization and accretion	11,271	8,423
Amortization of debt related costs	696	935
Provision for excess and obsolete inventory	730	818
Stock-based compensation	2,107	992
Gain on sale of assets		(5,945)
Loss on extinguishment of debt	2,161	
Other	781	118
Increases (decreases) in cash from operating assets and liabilities:		
Accounts receivable	(6,368)	(2,009)
Inventory	(4,232)	525
Other current assets	(249)	393
Accounts payable	767	1,474
Accrued expenses and other liabilities	694	(1,982)
Net cash provided by operating activities	26,091	21,415
Investing activities		
Proceeds from sale of assets	1,234	9,000
Capital expenditures	(8,301)	(2,388)
Other		74
Net cash (used in) provided by investing activities	(7,067)	6,686
Financing activities		
Payments on long-term debt	(285,265)	(1,861)
Proceeds from issuance of long-term debt	274,313	
Proceeds from stock option exercises	1,078	
Payments for minimum statutory tax withholding related to net share settlement of equity awards	(1,557)	
Deferred financing costs	(1,576)	
Other	(74)	(11)

Net cash used in financing activities	(13,081)	(1,872)
Effect of foreign exchange rates on cash and cash equivalents	33	26
Net increase in cash and cash equivalents	5,976	26,255
Cash and cash equivalents, beginning of period	51,178	28,596
Cash and cash equivalents, end of period	$ 57,154	$ 54,851

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

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Lantheus Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note Regarding Company References and Trademarks

Unless the context otherwise requires, references to the Company and Lantheus refer to Lantheus Holdings, Inc. and its direct and indirect wholly-owned subsidiaries, references to Holdings refer to Lantheus Holdings, Inc. and not to any of its subsidiaries, and references to LMI refer to Lantheus Medical Imaging, Inc., the direct subsidiary of Holdings. Solely for convenience, the Company refers to trademarks, service marks and trade names without the ™, ℠ and ® symbols. Those references are not intended to indicate, in any way, that the Company will not assert, to the fullest extent permitted under applicable law, its rights to its trademarks, service marks and trade names.

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Lantheus Holdings, Inc. and its direct and indirect wholly-owned subsidiaries and have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America (U.S. GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair statement have been included. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ended December 31, 2017 or any future period.

The condensed consolidated balance sheet at December 31, 2016 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto included in Item 8 of the Company s most recent Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities Exchange Commission (SEC) on February 23, 2017. Certain immaterial amounts in the prior period have been reclassified to conform to the current period financial statement presentation.

Manufacturing Concentrations

The Company currently relies on Jubilant HollisterStier (JHS) as its sole source manufacturer of DEFINITY, Neurolite, Cardiolite and evacuation vials for TechneLite. The Company currently has on-going development and technology transfer activities for its next generation DEFINITY product with Samsung BioLogics (SBL) located in South Korea but can give no assurances as to when those technology transfer activities will be completed and when the Company will begin to receive supply of its next generation DEFINITY product from SBL.

2. Summary of Significant Accounting Policies

Collaboration and License Agreement with GE Healthcare Limited

On April 25, 2017, the Company announced that it entered into a definitive, exclusive Collaboration and License Agreement (the License Agreement) with GE Healthcare Limited (GE Healthcare) for the continued Phase III development and worldwide commercialization of flurpiridaz F 18, an investigational positron emission tomography myocardial perfusion imaging agent that may improve the diagnosis of coronary artery disease. Under the License Agreement, GE Healthcare will complete the worldwide development of flurpiridaz F 18, pursue worldwide regulatory approvals and, if successful, lead a worldwide launch and commercialization of the agent, with LMI collaborating on both development and commercialization through a joint steering committee. LMI has an option to co-promote the agent in the U.S. GE Healthcare s development plan will initially focus on obtaining regulatory approval for flurpiridaz F 18 in the U.S., Japan, Europe and Canada.

Under the terms of the License Agreement, the Company received an up-front payment of $5.0 million. In addition, the Company is eligible to receive, from GE Healthcare, up to $60.0 million in regulatory and sales-based milestones and tiered double-digit royalties on U.S. sales and mid-single digit royalties on sales outside the U.S. Because the Company concluded there was only one significant deliverable under the License Agreement, consisting of the license of the product which occurred upon the signing of the License Agreement, the Company recognized approximately $5.0 million associated with entering into the license as revenue in the three and six months ended June 30, 2017. In addition, because the Company concluded that the regulatory and sales-based milestones are solely dependent on GE Healthcare s performance and there are no continuing performance obligations from the Company, all development and sales milestones under the License Agreement are considered non-substantive. As of June 30, 2017, the Company has not recognized those milestones as revenue under the License Agreement and will recognize such revenue in the

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periods the milestones are achieved. Similarly, the Company will recognize royalty revenues in the periods of the sale of the related products, provided that the reported sales are reliably measureable, collectability is reasonably assured and the Company has no further performance obligations.

Recent Accounting Pronouncements

The following table provides a description of recent accounting pronouncements that may have a material effect on the Company s condensed consolidated financial statements:

Standard	Description	Effective Date for Company	Effect on the Condensed Consolidated Financial Statements
Recently Issued Accounting Standards Not Yet Adopted			
ASU 2017-09, *Compensation Stock Compensation (Topic 718): Scope of Modification Accounting*	This ASU clarifies when to account for a change to the terms or conditions of a share based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The new guidance will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 31, 2017 for all entities. Early adoption is permitted, including adoption in any interim period for	January 1, 2018	The Company does not expect that the adoption of this standard will have a material impact on the Company s condensed consolidated financial statements.

	which financial statements have not yet been issued or made available for issuance.		
ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and related additional amendments ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, ASU 2016-20	This ASU and related amendments affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance in this ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a set of disclosure requirements that will provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a reporting organization s contracts with customers. In August 2015, the Financial Accounting Standards Board issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 by one year.	January 1, 2018	The Company has established an implementation team which includes third-party specialists to assist in the evaluation and implementation of the new standard. The Company is currently in the process of performing an assessment of the impact of the standards on its contract portfolio by reviewing the Company s current accounting policies and practices and to identify potential differences that would result from applying the requirements of the new standard to its revenue contracts. The Company has categorized its customers into multiple customer types and assessed significant customer arrangements within those customer types. At this time, the Company does not anticipate a significant impact to its financial statements upon adoption of the new standard. However, the assessment is ongoing and further analysis of contracts may identify a more significant impact. The Company currently expects, in part due to the limited anticipated impact, it will utilize the modified retrospective approach of adopting the ASU. In addition, during 2017 the Company plans to identify and implement, if necessary, appropriate changes to its business processes, systems and controls to support recognition and disclosure under the new standard.
	The standard is effective for annual reporting periods beginning after December 15,		

2017, and interim periods therein, using either of the following transition methods:

A full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or

A modified retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).

Accounting Standards Adopted During the Six Months Ended June 30, 2017

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Standard	Description	Effective Date for Company	Effect on the Condensed Consolidated Financial Statements
ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*	ASU 2016-09 simplifies several aspects of the stock compensation guidance in Topic 718 and other related guidance providing the following amendments:	January 1, 2017	The adoption of this standard did not have a material impact on the Company s condensed consolidated financial statements.
	Accounting for income taxes upon vesting or exercise of share-based payments and related EPS effects		
	Classification of excess tax benefits on the statement of cash flows		
	Accounting for forfeitures		
	Liability classification exception for statutory tax withholding requirements		
	Cash flow presentation of employee taxes paid when an employer withholds shares for tax-withholding purposes		
	Elimination of the indefinite deferral in Topic 718		

For public business entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods.

3. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, financial instruments are categorized based on a hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.) and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 Unobservable inputs that reflect a Company s estimates about the assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available, including its own data.

At June 30, 2017 and December 31, 2016, the Company s financial assets measured at fair value on a recurring basis consist of money market funds. The Company invests excess cash from its operating cash accounts in overnight investments and reflects these amounts in cash and cash equivalents in the condensed consolidated balance sheets at fair value using quoted prices in active markets for identical assets.

The table below presents information about the Company s assets and liabilities measured at fair value on a recurring basis:

	Total Fair Value	Level 1	Level 2	Level 3
June 30, 2017		**(in thousands)**		
Money market funds	$ 5,416	$ 5,416	$	$
	$ 5,416	$ 5,416	$	$
December 31, 2016				
Money market funds	$ 3,565	$ 3,565	$	$

	$ 3,565	$ 3,565	$	$

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4. Income Taxes

The Company provides for income taxes at the end of each interim period based on the estimated effective tax rate for the full year in addition to discrete events which impact the interim period. The Company s effective tax rate differs from the U.S. statutory rate principally due to the change in valuation allowance and the rate impact of uncertain tax positions. Cumulative adjustments to the tax provision are recorded in the interim period in which a change in the estimated annual effective tax rate is determined. The Company s tax provision was $0.6 million and $0.2 million for the three months ended June 30, 2017 and 2016, respectively, and $1.4 million and $0.6 million for the six months ended June 30, 2017 and 2016, respectively.

The Company regularly assesses its ability to realize its deferred tax assets. Assessing the realizability of deferred tax assets requires significant management judgment. In determining whether its deferred tax assets are more-likely-than-not realizable, the Company evaluated all available positive and negative evidence, and weighed the objective evidence and expected impact. Evidence the Company considered included its history of net operating losses, which resulted in the Company recording a full valuation allowance against its domestic net deferred tax assets beginning in 2011, and in each year thereafter. The Company was profitable on a cumulative basis for the three-year period ended June 30, 2017, but substantially all of that profitability was achieved during 2016 and the six months ended June 30, 2017.

The Company continues to evaluate other negative evidence including customer concentration and contractual risk, DEFINITY supplier risk, the risk of Moly supply availability and cost, and certain product development risks, all of which provide for uncertainties around the Company s future level of profitability. Based on its review of all available evidence, the Company determined that it has not yet attained a sustained level of profitability sufficient to outweigh the objectively verifiable negative evidence, and has recorded a full valuation allowance against its domestic net deferred tax assets at June 30, 2017. The Company will continue to assess the level of the valuation allowance required. If a sufficient weight of positive evidence exists in future periods to support a release of some or all of the valuation allowance recorded against domestic deferred tax assets, such a release would likely have a material impact on the Company s results of operations in that future period.

In connection with the Company s acquisition of the medical imaging business from Bristol-Myers Squibb (BMS) in 2008, the Company entered into a tax indemnification agreement with BMS related to certain tax obligations arising prior to the acquisition of the Company, for which the Company has the primary legal obligation. The tax indemnification receivable is recognized within other long-term assets. The changes in the tax indemnification asset are recognized within other income in the condensed consolidated statement of operations. In accordance with the Company s accounting policy, the change in the contingent tax liability, and penalties and interest associated with these obligations (net of any offsetting federal or state benefit) is recognized within the tax provision. Accordingly, as these reserves change, adjustments are included in the tax provision while the offsetting adjustment is included in other income. Assuming that the receivable from BMS continues to be considered recoverable by the Company, there is no net effect on earnings related to these liabilities and no net cash outflows.

5. Inventory

Inventory consisted of the following:

(in thousands)	June 30, 2017	December 31, 2016

Raw materials	$ 9,261	$ 9,658
Work in process	5,932	3,965
Finished goods	5,958	4,017
Total inventory	$ 21,151	$ 17,640

As of June 30, 2017 and December 31, 2016, the Company had $1.2 million of inventory classified within other long-term assets, which represent raw materials not expected to be used by the Company during the next twelve months.

6. Property, Plant & Equipment, Net

Property, plant & equipment, net, consisted of the following:

(in thousands)	June 30, 2017	December 31, 2016
Land	$ 14,950	$ 14,950
Buildings	70,934	70,628
Machinery, equipment and fixtures	67,135	65,407
Computer software	18,488	18,482
Construction in progress	11,603	7,224
	183,110	176,691
Less: accumulated depreciation and amortization	(91,247)	(82,504)
Total property, plant & equipment, net	$ 91,863	$ 94,187

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Depreciation and amortization expense related to property, plant & equipment, net, was $4.0 million and $2.8 million for the three months ended June 30, 2017 and 2016, respectively, and $9.1 million and $5.3 million for the six months ended June 30, 2017 and 2016, respectively.

Property, plant & equipment dedicated to research and development (R&D) activities had a carrying value of $2.0 million as of June 30, 2017. The Company believes these assets will be utilized for either internally funded ongoing R&D activities or R&D activities funded by a strategic partner.

7. Asset Retirement Obligations

The Company considers its legal obligation to remediate its facilities upon a decommissioning of its radioactive-related operations as an asset retirement obligation. The Company has radioactive production facilities at its North Billerica, Massachusetts and San Juan, Puerto Rico sites.

The Company is required to provide the U.S. Nuclear Regulatory Commission and Massachusetts Department of Public Health financial assurance demonstrating the Company s ability to fund the decommissioning of its North Billerica, Massachusetts production facility upon closure, although the Company does not intend to close the facility. The Company has provided this financial assurance in the form of a $28.2 million surety bond.

The fair value of a liability for asset retirement obligations is recognized in the period in which the liability is incurred. As of June 30, 2017, the liability is measured at the present value of the obligation expected to be incurred, of approximately $26.9 million, and is adjusted in subsequent periods as accretion expense is recorded. The corresponding asset retirement costs are capitalized as part of the carrying values of the related long-lived assets and depreciated over the assets useful lives.

The following table provides a summary of the changes in the Company s asset retirement obligations:

(in thousands)	Amount
Balance at January 1, 2017	$ 9,370
Accretion expense	521
Balance at June 30, 2017	$ 9,891

8. Financing Arrangements

On March 30, 2017, the Company refinanced its previous $365.0 million seven-year term loan agreement (the facility thereunder, the 2015 Term Facility) with a new five-year $275.0 million term loan facility (the 2017 Term Facility and the loans thereunder, the Term Loans). In addition, the Company replaced its previous $50.0 million five-year asset based loan facility (the ABL Facility) with a new $75.0 million five-year revolving credit facility (the 2017 Revolving Facility and, together with the 2017 Term Facility, the 2017 Facility). The terms of the 2017 Facility are set forth in that certain Amended and Restated Credit Agreement, dated as of March 30, 2017 (the Credit Agreement), by and among Holdings, the Company, the lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent. The 2017 Term Facility was issued net of a $0.7 million discount. The Company has the right to request an increase to the 2017 Term Facility or request the establishment of one or more new incremental term loan facilities, in an aggregate principal amount of up to $75.0 million, plus additional amounts, in certain circumstances.

The net proceeds of the 2017 Term Facility, together with approximately $15.3 million of cash on hand, were used to refinance in full the aggregate remaining principal amount of the loans outstanding under the 2015 Term Facility and pay related interest, transaction fees and expenses. No amounts were outstanding under the ABL Facility at that time. The Company accounted for the refinancing as both a debt extinguishment and debt modification by evaluating the refinancing on a creditor by creditor basis. The Company recorded a loss on extinguishment of debt of $2.2 million related to the write-off of unamortized debt issuance costs and incurred general and administrative expenses of $1.7 million related to third-party costs associated with the modified debt. In addition, the Company incurred and capitalized $1.6 million of new debt issuance costs related to the refinancing.

2017 Term Facility

The Term Loans under the 2017 Term Facility bear interest, with pricing based from time to time at the Company s election at (i) LIBOR plus a spread of 4.50% or (ii) the Base Rate (as defined in the Credit Agreement) plus a spread of 3.50%. Interest is payable (i) with respect to LIBOR Term Loans, at the end of each Interest Period (as defined in the Credit Agreement) and (ii) with respect to Base Rate Term Loans, at the end of each quarter. At June 30, 2017, the Company s interest rate under the 2017 Term Facility was 5.5%.

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The Company is permitted to voluntarily prepay the Term Loans, in whole or in part, subject to a 1.00% prepayment premium applicable if, during the first 6 months of the 2017 Term Facility, the Company makes any prepayment of the Term Loans in connection with a repricing transaction (as defined in the Credit Agreement). The 2017 Term Facility requires the Company to make mandatory prepayments of the outstanding Term Loans in certain circumstances. The 2017 Term Facility amortizes at 1.00% per year until its June 30, 2022 maturity date.

The Company s maturities of principal obligations under the 2017 Term Facility are as follows as of June 30, 2017:

(in thousands)	Amount
Remainder of 2017	$ 1,375
2018	2,750
2019	2,750
2020	2,750
2021	2,750
2022	261,937
Total principal outstanding	274,312
Unamortized debt discount	(2,392)
Unamortized debt issuance costs	(3,241)
Total	268,679
Less: current portion	(2,750)
Total long-term debt	$ 265,929

2017 Revolving Facility

Under the terms of the 2017 Revolving Facility, the lenders thereunder agreed to extend credit to the Company from time to time until March 30, 2022 (the Revolving Termination Date) consisting of revolving loans (the Revolving Loans and, together with the Term Loans, the Loans) in an aggregate principal amount not to exceed $75.0 million (the Revolving Commitment) at any time outstanding. The 2017 Revolving Facility includes a $20.0 million sub-facility for the issuance of letters of credit (the Letters of Credit). The Letters of Credit and the borrowings under the 2017 Revolving Facility are expected to be used for working capital and other general corporate purposes.

The Revolving Loans under the 2017 Revolving Facility bear interest, with pricing based from time to time at the Company s election at (i) LIBOR plus a spread of 3.50% or (ii) the Base Rate (as defined in the Credit Agreement) plus a spread of 2.50%. The 2017 Revolving Facility also includes an unused line fee, which is set at 0.375% while the Company s secured leverage ratio (as defined in the Credit Agreement) is greater than 3.00 to 1.00 and 0.25% when the Company s secured leverage ratio is less than or equal to 3.00 to 1.00.

The Company is permitted to voluntarily prepay the Revolving Loans, in whole or in part, or reduce or terminate the Revolving Commitment, in each case, without premium or penalty. On any business day on which the total amount of outstanding Revolving Loans and Letters of Credit exceeds the total Revolving Commitment, the Company must prepay the Revolving Loans in an amount equal to such excess. As of June 30, 2017, there were no outstanding borrowings under the 2017 Revolving Facility.

2017 Facility Covenants

The 2017 Facility contains a number of affirmative, negative, reporting and financial covenants, in each case subject to certain exceptions and materiality thresholds. The 2017 Facility requires the Company to be in quarterly compliance, measured on a trailing four quarter basis, with a financial covenant. The maximum consolidated leverage ratio permitted by the financial covenant is displayed in the table below:

2017 Facility Financial Covenant

Period	Consolidated Leverage Ratio
Q2 2017 through Q1 2018	5.00 to 1.00
Q2 2018 through Q1 2019	4.75 to 1.00
Thereafter	4.50 to 1.00

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The 2017 Facility contains usual and customary restrictions on the ability of the Company and its subsidiaries to: (i) incur additional indebtedness (ii) create liens; (iii) consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; (iv) sell certain assets; (v) pay dividends on, repurchase or make distributions in respect of capital stock or make other restricted payments; (vi) make certain investments; (vii) repay subordinated indebtedness prior to stated maturity; and (viii) enter into certain transactions with its affiliates.

Upon an event of default, the administrative agent under the Credit Agreement will have the right to declare the Loans and other obligations outstanding immediately due and payable and all commitments immediately terminated or reduced.

The 2017 Facility is guaranteed by Holdings and Lantheus MI Real Estate, LLC (LMI-RE), and obligations under the 2017 Facility are generally secured by first priority liens over substantially all of the assets of each of LMI, Holdings and LMI-RE (subject to customary exclusions set forth in the transaction documents) owned as of March 30, 2017 or thereafter acquired.

9. Stock-Based Compensation

The following table presents stock-based compensation expense recognized in the Company s accompanying condensed consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2017**	**2016**	**2017**	**2016**
Cost of goods sold	$ 177	$ 73	$ 316	$ 139
Sales and marketing	167	80	291	128
General and administrative	675	345	1,226	578
Research and development	143	87	274	147
Total stock-based compensation expense	$ 1,162	$ 585	$ 2,107	$ 992

Increase in Shares Reserved Under the 2015 Equity Incentive Plan

At the Company s annual meeting of stockholders, held on April 27, 2017 (the Annual Meeting), the Company s stockholders approved an amendment to the 2015 Equity Incentive Plan to increase the number of shares of common stock reserved for issuance thereunder by 1,200,000 shares, to an aggregate of 5,755,277 shares.

Employee Stock Purchase Plan

At the Annual Meeting, the Company s stockholders also approved the 2017 Employee Stock Purchase Plan (2017 ESPP), which authorized the issuance of up to 250,000 shares of common stock thereunder. Under the terms of the 2017 ESPP, eligible U.S. employees can elect to acquire shares of the Company s common stock through periodic payroll deductions during a series of six-month offering periods, which will generally begin in March and September of each year. The purchases under the 2017 ESPP will be effected on the last business day of the each offering period at a 15% discount to the closing price on that day. The 2017 ESPP was implemented, subject to stockholder approval, on March 10, 2017, and the first purchases thereunder will be on September 13, 2017. During the three and six months

ended June 30, 2017, participant contributions made through payroll deductions toward the future purchase of shares under the plan were not material.

10. Net Income Per Common Share

Basic net income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period, plus the potential dilutive effect of other securities if those securities were converted or exercised. During periods in which the Company incurs net losses, both basic and diluted loss per share is calculated by dividing the net loss by the weighted-average shares outstanding and potentially dilutive securities are excluded from the calculation because their effect would be antidilutive.

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(in thousands, except per share amounts)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net income	$ 13,595	$ 7,350	$ 17,733	$ 17,673
Basic weighted-average common shares outstanding	37,235	30,378	37,063	30,373
Effect of dilutive stock options	324	165	347	81
Effect of dilutive restricted stock awards	1,341		1,316	
Diluted weighted-average common shares outstanding	38,900	30,543	38,726	30,454
Basic income per common share outstanding	$ 0.37	$ 0.24	$ 0.48	$ 0.58
Diluted income per common share outstanding	$ 0.35	$ 0.24	$ 0.46	$ 0.58
Antidilutive securities excluded from diluted income per common share				
Stock options and nonvested restricted stock	339	2,183	379	2,183

11. Other Income

Other income consisted of the following:

(in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Foreign currency gains	$ 55	$ 256	$ 140	$ 19
Tax indemnification income	490	140	980	436
Other income	7	5	9	11
Total other income	$ 552	$ 401	$ 1,129	$ 466

12. Legal Proceedings and Contingencies

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. In addition, the Company has in the past been, and may in the future be, subject to investigations by governmental and regulatory authorities, which expose it to greater risks associated with litigation, regulatory or other proceedings, as a result of which the Company could be required to pay significant fines or penalties. The outcome of litigation, regulatory or other proceedings cannot be predicted with certainty, and some lawsuits, claims, actions or proceedings may be disposed of unfavorably to the Company. In addition, intellectual property disputes often have a risk of injunctive relief which, if imposed against the Company, could materially and adversely affect its financial condition or results of operations.

As of June 30, 2017, the Company has no material ongoing litigation in which the Company was a party or any material ongoing regulatory or other proceedings and had no knowledge of any investigations by government or

regulatory authorities in which the Company is a target that could have a material adverse effect on its current business.

13. Related Party Transactions

The Company s largest stockholder, Avista Capital Partners, L.P. and its affiliates (Avista), has an ownership interest in certain of the Company s vendors. Related party expenses consisted of the following:

(in thousands)	Transaction Type	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Avista	Offering costs paid on behalf of Avista pursuant to registration rights agreement	$ 177	$	$ 326	$
INC Research Holdings, Inc. (INC)*	Pharmacovigilance services		332		456
VWR Scientific	Inventory supplies	89	86	297	189
Total related party expenses		$ 266	$ 418	$ 623	$ 645

* During the year ended December 31, 2016, Avista s relationship with INC changed and Avista was no longer considered a principal owner of that Company. Related party expenses included in this table represent expenses incurred during the period under which the Company and INC were under common ownership by Avista.

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Amounts billed and unbilled for related parties included in accounts payable and accrued expenses are immaterial at both June 30, 2017 and December 31, 2016.

14. Segment Information

The Company reports two operating segments, U.S. and International, based on geographic customer base. The results of these operating segments are regularly reviewed by the Company s chief operating decision maker, the President and Chief Executive Officer. The Company s segments derive revenues through the manufacture, marketing, selling and distribution of medical imaging products, focused primarily on cardiovascular diagnostic imaging. All goodwill has been allocated to the U.S. operating segment. The Company does not identify or allocate assets to its segments.

Selected information for each operating segment is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2017**	**2016**	**2017**	**2016**
Revenues from external customers				
U.S.	$ 78,100	$ 65,134	$ 149,127	$ 130,067
International	10,737	12,832	21,069	24,373
Total revenues from external customers	$ 88,837	$ 77,966	$ 170,196	$ 154,440
Operating income				
U.S.	$ 16,895	$ 12,895	$ 28,063	$ 24,293
International	1,002	1,284	1,761	7,559
Operating income	17,897	14,179	29,824	31,852
Interest expense	4,285	6,983	9,705	14,008
Loss on extinguishment of debt			2,161	
Other income	(552)	(401)	(1,129)	(466)
Income before income taxes	$ 14,164	$ 7,597	$ 19,087	$ 18,310

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Regarding Forward-Looking Statements

Some of the statements contained in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements, including, in particular, statements about our plans, strategies, prospects and industry estimates are subject to risks and uncertainties. These statements identify prospective information and include words such as anticipates, intends, plans, seeks, believes, estimates, ex should, could, predicts, hopes and similar expressions. Examples of forward-looking statements include, but are no limited to, statements we make regarding: (i) our outlook and expectations including, without limitation, in connection with continued market expansion and penetration for our commercial products, particularly DEFINITY in the face of increased competition and future patent and regulatory exclusivity expirations; (ii) our outlook and expectations in connection with future performance of Xenon in the face of increased competition; (iii) our outlook and expectations related to our ability to maintain and profitably renew our key customer contracts; and (iv) our outlook and expectations related to products manufactured at Jubilant HollisterStier (JHS) and global isotope supply. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, such statements are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. Such statements are neither statements of historical fact nor guarantees or assurances of future performance. The matters referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q may not in fact occur. We caution you therefore, against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

Our ability to continue to increase segment penetration for DEFINITY in suboptimal echocardiograms in the face of increased segment competition from other echocardiography contrast agents, including Optison from GE Healthcare Limited (GE Healthcare) and Lumason from Bracco Diagnostics Inc. (Bracco) and future patent and regulatory exclusivity expirations;

Risks associated with revenues and unit volumes for Xenon in pulmonary studies and the potential competition in this generic segment from Curium (formerly known as Mallinckrodt Nuclear Imaging; purchased by IBA Molecular in January 2017 and renamed Curium in April 2017);

Our dependence on key customers for our medical imaging products, and our ability to maintain and profitably renew our contracts with those key customers, including Cardinal Health (Cardinal), United Pharmacy Partners (UPPI), GE Healthcare and Triad Isotopes (Triad);

Our dependence upon third parties for the manufacture and supply of a substantial portion of our products, including DEFINITY at JHS;

Risks associated with the technology transfer programs to secure production of our products at alternate contract manufacturer sites, including our next generation DEFINITY product at Samsung BioLogics (SBL) located in South Korea;

Risks associated with the manufacturing and distribution of our products and the regulatory requirements related thereto;

The instability of the global Molybdenum-99 (Moly) supply;

The dependence of certain of our customers upon third party healthcare payors and the uncertainty of third party coverage and reimbursement rates;

Uncertainties regarding the impact of on-going U.S. healthcare reform proposals on our business, including related reimbursements for our current and potential future products;

Our being subject to extensive government regulation and our potential inability to comply with those regulations;

Potential liability associated with our marketing and sales practices;

The occurrence of any serious or unanticipated side effects with our products;

Our exposure to potential product liability claims and environmental liability;

Risks associated with our lead agent in development, flurpiridaz F 18, including:

The ability of GE Healthcare to successfully complete the Phase III development program;

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The ability to obtain Food and Drug Administration (FDA) approval; and

The ability to gain post-approval market acceptance and adequate reimbursement;

The extensive costs, time and uncertainty associated with new product development, including further product development potentially relying on external development partners;

Our inability to introduce new products and adapt to an evolving technology and diagnostic landscape;

Our inability to identify and in-license or acquire additional products to grow our business;

Our inability to protect our intellectual property and the risk of claims that we have infringed on the intellectual property of others;

Risks associated with prevailing economic or political conditions and events and financial, business and other factors beyond our control;

Risks associated with our international operations;

Our inability to adequately protect our facilities, equipment and technology infrastructure;

Our inability to hire or retain skilled employees and key personnel;

Risks related to our outstanding indebtedness and our ability to satisfy those obligations;

Costs and other risks associated with the Sarbanes-Oxley Act and the Dodd-Frank Act;

Our inability to utilize or limitations in our ability to utilize net operating loss carryforwards to reduce our future tax liability;

Risks related to the ownership of our common stock; and

Other factors that are described in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016.

Factors that could cause or contribute to such differences include, but are not limited to, those that are discussed in other documents we file with the SEC. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Investor Information

We routinely make available important information, including copies of our annual, periodic and current reports filed or furnished with the SEC under the Exchange Act, free of charge on our website at http://www.investor.lantheus.com. We recognize our website as a key channel of distribution to reach public investors and as a means of disclosing material non-public information to comply with our disclosure obligations under SEC Regulation FD. Information contained on our website shall not be deemed incorporated into, or to be part of, this Quarterly Report on Form 10-Q, and any website references are not intended to be made through active hyperlinks.

The following discussion and analysis of our financial condition and results of operations should be read together with the condensed consolidated financial statements and the related notes included in Item 1 of this Quarterly Report on Form 10-Q as well as the other factors described in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016.

Overview

Our Business

We are a global leader in the development, manufacture and commercialization of innovative diagnostic medical imaging agents and products that assist clinicians in the diagnosis and treatment of cardiovascular and other diseases. Clinicians use our imaging agents and products across a range of imaging modalities, including echocardiography and nuclear imaging. We believe that the resulting improved diagnostic information enables healthcare providers to better detect and characterize, or rule out, disease, potentially achieving improved patient outcomes, reducing patient risk and limiting overall costs for payers and the entire healthcare system.

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Our commercial products are used by cardiologists, nuclear physicians, radiologists, internal medicine physicians, technologists and sonographers working in a variety of clinical settings. We sell our products to radiopharmacies, integrated delivery networks, hospitals, clinics and group practices.

We sell our products globally and have operations in the U.S., Puerto Rico and Canada and third-party distribution relationships in Europe, Canada, Australia, Asia Pacific and Latin America.

Our Product Portfolio

Our product portfolio includes an ultrasound contrast agent and nuclear imaging products. Our principal products include the following:

DEFINITY is an ultrasound contrast agent used in ultrasound exams of the heart, also known as echocardiography exams. DEFINITY contains perflutren-containing lipid microspheres and is indicated in the U.S. for use in patients with suboptimal echocardiograms to assist in imaging the left ventricular chamber and left endocardial border of the heart in ultrasound procedures. We launched DEFINITY in 2001, and in the U.S., its composition of matter patent will expire in 2019 and its manufacturing patent will expire in 2021. In numerous foreign jurisdictions, patent protection or regulatory exclusivity will expire in 2019. We also have an active next generation development program for this agent including in connection with a new formulation and expanded indication, but we can give no assurance that the program will be successful.

TechneLite is a technetium generator which provides the essential nuclear material used by radiopharmacies to radiolabel Cardiolite, Neurolite and other technetium-based radiopharmaceuticals used in nuclear medicine procedures. TechneLite uses Moly as its active ingredient.

Xenon is a radiopharmaceutical gas that is inhaled and used to assess pulmonary function and also for imaging cerebral blood flow. Xenon is manufactured by a third party and is processed and finished by us.

Sales of our contrast agent, DEFINITY, are made in the U.S. and Canada through our direct sales team of approximately 80 employees. In the U.S., our nuclear imaging products, including TechneLite, Xenon, Neurolite and Cardiolite, are primarily distributed through commercial radiopharmacies, the majority of which are controlled by or associated with Cardinal, UPPI, GE Healthcare and Triad. A small portion of our nuclear imaging product sales in the U.S. are made through our direct sales force to hospitals and clinics that maintain their own in-house radiopharmaceutical capabilities. Outside the U.S., we own one radiopharmacy in Puerto Rico, where we sell our own products as well as products of third parties to end-users.

In January 2016, we sold our Canadian radiopharmacies to Isologic Innovative Radiopharmaceuticals Ltd. (Isologic) and entered into a supply agreement under which we supply Isologic with certain of our products on commercial terms, including certain product purchase commitments by Isologic. In August 2016, we sold our Australian radiopharmacy servicing business to Global Medical Solutions (GMS), and entered into a supply agreement under which we supply GMS with certain of our products on commercial terms, including certain minimum product purchase commitments by GMS. We also maintain our own direct sales force in Canada so that we can control the importation, marketing, distribution and sale of our imaging agents in Canada. In Europe, Australia, Asia Pacific and Latin America, we rely on third party distributors to market, sell and distribute our nuclear imaging and contrast agent products, either on a country-by-country basis or on a multi-country regional basis.

The following table sets forth our revenues derived from our principal products:

	Three Months Ended June 30,				Six Months Ended June 30,			
(in thousands)	2017	% of Revenues	2016	% of Revenues	2017	% of Revenues	2016	% of Revenues
DEFINITY	$ 40,128	45.2%	$ 33,474	42.9%	$ 77,840	45.7%	$ 64,896	42.0%
TechneLite	26,718	30.1%	25,252	32.4%	53,544	31.5%	50,088	32.4%
Xenon	7,927	8.9%	6,774	8.7%	15,987	9.4%	14,948	9.7%
Other	14,064	15.8%	12,466	16.0%	22,825	13.4%	24,508	15.9%
Total revenues	$ 88,837	100.0%	$ 77,966	100.0%	$ 170,196	100.0%	$ 154,440	100.0%

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Key Factors Affecting Our Results

Our business and financial performance have been, and continue to be, affected by the following:

Growth of DEFINITY

We believe the market opportunity for our contrast agent, DEFINITY, remains significant. DEFINITY is currently our fastest growing and highest margin commercial product. We believe that DEFINITY sales will continue to grow and that DEFINITY will constitute a greater share of our overall product mix. As we better educate the physician and healthcare provider community about the benefits and risks of this product, we believe we will experience further penetration of suboptimal echocardiograms.

The future growth of our DEFINITY sales will be dependent on our ability to continue to increase segment penetration for DEFINITY in suboptimal echocardiograms and, as discussed below in Inventory Supply, on the ability of JHS to continue to manufacture and release DEFINITY on a timely and consistent basis. See Part II Item 1A. Risk Factors The growth of our business is substantially dependent on increased market penetration for the appropriate use of DEFINITY in suboptimal echocardiograms.

There are three echocardiography contrast agents approved by the FDA for sale in the U.S. DEFINITY, which we estimated as having approximately 80% of the U.S. market for contrast agents in echocardiography procedures as of December 31, 2016, Optison from GE Healthcare and Lumason from Bracco.

Competition for Xenon

Xenon gas for lung ventilation diagnosis is our third largest product by revenues. In order to increase the predictability of our Xenon business, we have entered into Xenon supply agreements with customers at committed volumes and reduced prices. These steps have resulted in more predictable Xenon unit volumes. Historically, several companies, including Mallinckrodt Nuclear Imaging (now known as Curium), sold packaged Xenon as a pulmonary imaging agent in the U.S., but from 2010 through the first quarter of 2016, we were the only supplier of this imaging agent in the U.S. In March 2016, Mallinckrodt Nuclear Imaging received regulatory approval from the FDA to again sell packaged Xenon in the U.S. and has begun to do so. Depending upon the pricing, extent of availability and market penetration of such offering, we believe we are at risk for volume loss and price erosion for those customers which are not subject to price or volume commitments with us. See Part I, Item 1A. Risk Factors We face potential supply and demand challenges for Xenon of our Annual Report on Form 10-K for the year ended December 31, 2016.

Inventory Supply

We obtain a substantial portion of our imaging agents from third party suppliers. JHS is currently our sole source manufacturer of DEFINITY, Neurolite, Cardiolite and evacuation vials, the latter being an ancillary component for our TechneLite generators. We are currently seeking approval from certain foreign regulatory authorities for JHS to manufacture certain of our products. Until we receive these approvals, we will face continued limitations on where we can sell those products outside of the U.S.

In addition to JHS, we are also currently working to secure additional alternative suppliers for our key products as part of our ongoing supply chain diversification strategy. We currently have on-going development and technology transfer activities for our next generation DEFINITY product with SBL, which is located in South Korea, but we cannot give any assurances as to if and when those technology transfer activities will be completed and when we will begin to receive supply of our next generation DEFINITY product from SBL. See Part I, Item 1A. Risk Factors Our

dependence upon third parties for the manufacture and supply of a substantial portion of our products could prevent us from delivering our products to our customers in the required quantities, within the required timeframes, or at all, which could result in order cancellations and decreased revenues of our Annual Report on Form 10-K for the year ended December 31, 2016.

Radiopharmaceuticals are decaying radioisotopes with half-lives ranging from a few hours to several days. These products cannot be kept in inventory because of their limited shelf lives and are subject to just-in-time manufacturing, processing and distribution, which takes place at our North Billerica, Massachusetts facility.

Global Isotope Supply

We currently have Moly supply agreements with NTP Radioisotopes (NTP) of South Africa and ANSTO of Australia, and with Institute for Radioelements (IRE) of Belgium, each running through December 31, 2017, and a Xenon supply agreement with IRE which runs through June 30, 2019, subject to extensions.

We believe we are well-positioned with ANSTO, IRE and NTP to have a secure supply of Moly, including low-enriched Moly produced from targets containing less than 20% of Uranium-235 (LEU Moly). From November 2016, the NRU reactor transitioned from providing regular supply of medical isotopes to providing only emergency back-up supply of HEU based Moly through March 2018. ANSTO has already significantly increased its Moly production capacity from its existing facility in August 2016 and has under construction, in cooperation with NTP, a new Moly processing facility that ANSTO believes will expand its production capacity, which is expected to be in commercial operation in the first half of 2018. In addition, IRE received approval from its regulator to expand its production capability by up to 50% of its former capacity. The new ANSTO and IRE production capacity is expected to replace and exceed what was the NRU s most recent routine production.

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We are receiving bulk unprocessed Xenon from IRE, which we are processing and finishing for our customers. We believe we are well-positioned to supply Xenon to our customers. See Part I, Item 1A. Risk Factors We face potential supply and demand challenges for Xenon of our Annual Report on Form 10-K for the year ended December 31, 2016.

Demand for TechneLite

We believe that due to industry-wide cost containment initiatives that have resulted in a transition of where imaging procedures are performed, from free-standing imaging centers to the hospital setting, the total MPI market has been essentially flat since 2011. Our 2016 sales of TechneLite generators exceeded our expectations because of opportunistic sales when customers could not obtain sufficient generators from other suppliers. We can give no assurances that such opportunistic sales will be replicated in 2017.

In November 2016, CMS announced the 2017 final Medicare payment rules for hospital outpatient settings. Under the final rules, each technetium dose produced from a generator for a diagnostic procedure in a hospital outpatient setting is reimbursed by Medicare at a higher rate if that technetium dose is produced from a generator containing at least 95% LEU Moly. In January 2013, we began to offer a TechneLite generator which contains at least 95% LEU Moly and which satisfies the requirements for reimbursement under this incentive program. Although demand for LEU generators appears to be growing, we do not know when, or if, this incremental reimbursement for LEU Moly generators will result in a material increase in our generator sales.

Research and Development Expenses

To remain a leader in the marketplace, we have historically made substantial investments in new product development. As a result, the positive contributions of those internally funded R&D programs have been a key factor in our historical results and success. On April 25, 2017, we announced entering into a definitive, exclusive Collaboration and License Agreement with GE Healthcare for the continued Phase III development and worldwide commercialization of flurpiridaz F 18. In the future, we may also seek to engage strategic partners for our 18F LMI 1195 and LMI 1174 programs. See Part I, Item 1. Business Research and Development Proposed GE Healthcare Transaction and Part I, Item 1A. Risk Factors We may not be able to further develop or commercialize our agents in development without successful strategic partners of our Annual Report on Form 10-K for the year ended December 31, 2016.

Segments

We report our results of operations in two operating segments: U.S. and International. We generate a greater proportion of our revenues and net income in the U.S. segment, which consists of all regions of the U.S. with the exception of Puerto Rico.

Executive Overview

Our results for the three and six months ended June 30, 2017 as compared to the corresponding periods in 2016 reflect the following:

- increased revenues and segment penetration for DEFINITY in the suboptimal echocardiogram segment as a result of our continued focused sales efforts;

increased revenues for TechneLite, mainly the result of higher contracted volumes from certain customers;

increased revenues of approximately $5.0 million from GE Healthcare for the continued Phase III development and worldwide commercialization of flurpiridaz F 18;

lower international revenues and cost of goods sold as a result of the sales of our Canadian and Australian radiopharmacies in 2016;

increased depreciation expense as a result of the scheduled decommissioning of certain long-lived assets;

general and administrative expense of $1.7 million incurred in connection with the refinancing of our debt as well as a related $2.2 million loss on the extinguishment of debt; and

decreased interest expense due to the refinancing of long-term debt and a lower principal balance on our long-term debt.

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Results of Operations

The following is a summary of our consolidated results of operations:

(in thousands)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Revenues	$ 88,837	$ 77,966	$ 170,196	$ 154,440
Cost of goods sold	42,890	42,215	84,487	84,988
Gross profit	45,947	35,751	85,709	69,452
Operating expenses				
Sales and marketing	11,603	9,843	21,817	19,150
General and administrative	11,203	9,238	23,473	18,751
Research and development	5,244	2,608	10,595	5,644
Total operating expenses	28,050	21,689	55,885	43,545
Gain on sale of assets		(117)		(5,945)
Operating income	17,897	14,179	29,824	31,852
Interest expense	4,285	6,983	9,705	14,008
Loss on extinguishment of debt			2,161	
Other income	(552)	(401)	(1,129)	(466)
Income before income taxes	14,164	7,597	19,087	18,310
Provision for income taxes	569	247	1,354	637
Net income	$ 13,595	$ 7,350	$ 17,733	$ 17,673

Comparison of the Periods Ended June 30, 2017 and 2016

Revenues

Segment revenues are summarized by product as follows:

(in thousands)	Three Months Ended June 30, 2017	2016	Change $	Change %	Six Months Ended June 30, 2017	2016	Change $	Change %
U.S.								
DEFINITY	$ 39,211	$ 32,698	$ 6,513	19.9%	$ 76,134	$ 63,491	$ 12,643	19.9%
TechneLite	23,220	21,643	1,577	7.3%	46,529	43,376	3,153	7.3%

Xenon	7,925	6,773	1,152	17.0%	15,983	14,945	1,038	6.9%
Other	7,744	4,020	3,724	92.6%	10,481	8,255	2,226	27.0%
Total U.S. revenues	78,100	65,134	12,966	19.9%	149,127	130,067	19,060	14.7%
International								
DEFINITY	917	776	141	18.2%	1,706	1,405	301	21.4%
TechneLite	3,498	3,609	(111)	(3.1)%	7,015	6,712	303	4.5%
Xenon	2	1	1	100.0%	4	3	1	33.3%
Other	6,320	8,446	(2,126)	(25.2)%	12,344	16,253	(3,909)	(24.1)%